Manx Financial Group PLC

ANNUAL REPORT 2022

Welcome to Manx Financial Group PLC
Integrity through independence and service

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

Manx Financial Group

Manx Financial Group PLC ("Company" or "MFG") is an AIM-listed company (LSE: MFX.L) which has subsidiaries (together referred to as "Group") offering a suite of financial services to retail and commercial customers, both in the Isle of Man and the UK. MFG's strategy is to combine organic growth with strategic acquisition to further augment the range of services it offers and to gain greater market share in its preferred markets.

The Group's subsidiaries are:

- Conister Bank Limited
- Conister Finance & Leasing Ltd
- MFX Limited
- Payment Assist Limited
- Blue Star Business Solutions Limited
- Edgewater Associates Limited
- Ninkasi Rentals & Finance Limited
- The Business Lending Exchange Limited

Conister Bank

Conister Bank Limited ("Bank") is a licensed independent bank, regulated by the Isle of Man Financial Services Authority ("FSA"), the UK's Financial Conduct Authority ("FCA") and is a full 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.

Conister

Conister Finance & Leasing Ltd ("CFL") is a subsidiary of the Bank. It is a credit broker providing hire purchase ("HP") and leasing finance facilities in the UK.

CFL is regulated by the FCA in the UK and registered as a designated business by the FSA in the Isle of Man.

MFX

MFX Limited ("MFX") provides access to competitive foreign exchange and international payment processing facilities.

MFX's target customers are corporates and private clients who have a foreign exchange and international payment requirement via their UK foreign exchange providers.

paymentassist

Payment Assist Limited ("PAL") is the UK's leading automotive repair point-of-sale finance provider and offers diversified lending including insured products and retail.

PAL was acquired as part of the Group's strategy to increase its access to underserved UK credit markets.

bluestar leasing

Blue Star Business Solutions Limited ("BBSL") is a finance broker providing asset finance and commercial loans in the UK to the small and medium sized enterprises market.

BBSL was acquired as part of the Group's strategy to increase its distribution in the UK broker credit market.

Edgewater

Edgewater Associates Limited ("EAL") is the largest firm of Independent Financial Advisors ("IFA") in the Isle of Man and is regulated by the FSA.

EAL provides a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers and advises on assets in excess of £319 million (2021: £368 million).

Ninkasi Rentals & Finance

Ninkasi Rentals & Finance Limited ("NRFL") was acquired as part of the Group's strategy to increase its access to underserved UK credit markets.

NRFL provides equipment finance and rental products to UK based craft and micro-breweries.

blx. Changing the face of business lending

The Business Lending Exchange ("BLX") was acquired as part of the Group's strategy to increase its access to underserved UK credit markets.

BLX is regulated by the FCA in the UK and primarily lends to start-up companies and small businesses which require asset backed finance.

2022: The year at a glance

Remaining focused on investing in resilient profitable sectors with high potential for growth MFG PLC reported a record performance in 2022, while making significant strides on its strategic journey, including applying for a UK deposit taking licence.

Profit Before Tax

£5.2m
+71.2%

2021 - £3.0m

Balance Sheet Growth

£379.3m
+22.8%

2021 - £308.8m

Advances

£231.4m
+8.8%

2021 - £212.6m

Continuing trend of improved operational efficiencies:

Profit Before Tax Margin

17.0%
+3.7%

2021 - 13.3%

Loan to Deposit Ratio

95.8%
+5.4%

2021 - 90.4%

Profit After Tax Margin

15.2%
+3.0%

2021 - 12.2%

CHAIRMAN'S STATEMENT

Dear Shareholders

Introduction

In my report last year, I discussed the negative economic environment and how it would result in higher interest rates and higher inflation despite a tight employment market. With the Isle of Man and UK economy now proving more resilient, with inflation falling faster than expected, and the labour market remaining robust, it appears likely that the Bank of England will avoid declaring a further interest rate rise. Indeed, it now looks as if the UK will avoid a recession altogether. Notwithstanding, I also predicted that excellent acquisition opportunities would arise in this environment, and I still believe this to be the case, and that our strengthened balance sheet positions us well to take advantage of them.

Our principal operating subsidiaries' strategy of growth through gaining market share in recession-proof markets, both organically and through acquisition, has allowed us this year to take advantage of opportunities in a prudent and compliant manner. In our Interims, I was pleased to report our strongest profit before tax payable in more than a decade and now I am equally pleased to report a record full-year profit before tax payable of £5.2 million (2021: £3.0 million) - an increase of 71.2%.

These record results have improved our balance sheet by £70.5 million to £379.3 million (2021: 308.8 million) and our shareholder equity by £4.8 million to £29.8 million (2021: £25.0 million). This further underpins the Board's commitment to return 10.0% of the Group's profit available to shareholders each year in the form of cash and shares. This year, the total dividend available for payment is £0.433 million (2021: £0.279 million). Thus, the amount recommended for shareholder approval will be 0.3764 pence per share (2021: 0.2443 pence per share), a 54.1% uplift, as we continue to reward our loyal shareholders.

Financial Performance

This year's financial performance is a record year despite the continued economic uncertainty in the Isle of Man and the UK. Profit before tax payable increased by £2.2 million to £5.2 million (2021: £3.0 million), a growth of over 70%. For the second year running, Conister Bank Limited set a new lending milestone of £231.4 million (2021: £212.6 million), an increase of 8.8%. Whilst the cost of deposits increased in the second half of the year as the Bank of England increased interest rates to dampen inflationary pressures, the Group improved its Net Interest Margin by £6.4 million to £24.4 million (2021: £18.0 million). With other subsidiaries making a positive contribution, notably Conister Finance & Leasing Limited, MFX Limited and Payment Assist Limited, this resulted in Operating Income of £26.1 million (2021: £20.0 million), despite last year benefitting from a £0.7 million revaluation credit.

Operating Expenses, excluding provisions, increased by £4.3 million to £16.9 million (2021: £12.6 million), with £2.6 million relating to incremental personnel expenses, driven by acquisitions and further investment in our UK headcount, in readiness of receiving our recently applied for UK Branch deposit taking licence. The balance, £1.7 million, relates to further IT investment; increased travel costs post the pandemic; general overheads; and the impairment of a portion of the goodwill carried in respect of our Isle of Man based IFA. Impairments reduced by £0.4 million to £4.0 million (2021: £4.4 million) and total overheads, including operating expenses and impairments, increased by £3.9 million to £20.9 million (2021: £17.0 million). Our Profit Before Tax ratio, measured as profit before tax as a percentage of total income, improved by 3.7% to 17.0% (2021: 13.3%). Another key operational efficiency measure, our Loan to Deposit ratio, also improved, this time by 5.4% to 95.8% (2021: 90.4%).

Turning to our balance sheet, our Total Assets increased by £70.5 million to £379.3 million (2021: £308.8 million), a growth of 22.8%. This was driven mostly by a £62.2 million increase in our loan book. As part of our prudent approach to maintaining our balance sheet, we continue to value any government backed assets monthly on a mark-to-market basis so that their carrying value always reflects their true current market value. Our Isle of Man depositors continued to support the business, with deposits increasing by £50.7 million to £304.2 million (2021: £253.5 million). Total Liabilities stood at £349.5 million (2021: £283.8 million), leading to an increase in total equity of £4.8 million to £29.8 million (2021: £25.0 million). A measure of the Company's financial wellbeing, our Debt to Asset ratio, which we measure on a conservative basis as being total debt as a percentage of total tangible assets (discounting goodwill and intangibles) remains robust at 91.7% (2021: 92.4%), meaning our liabilities are covered by assets 1.1 times (2021: 1.1 times).

Key Objectives

Whilst the drivers of economic uncertainty have shifted over the last four years, our key objective of safely growing shareholder value has remained unchanged. Thus, our strategic focus has continued to be as previously reported, namely to:

- Provide the highest quality of service throughout our operations to all customers, ensuring that their treatment is both fair and appropriate;
- Adopt a pro-active strategy to managing risk within a structured and compliant manner;
- Concentrate on developing our core business by considered acquisitions, increasing prudential lending, and augmenting the range of financial services we offer;
- Prudently progress the implementation of 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 and other associated operational costs;
- Continue to develop our Treasury management to improve the return on the liability side of our balance sheet; and
- Manage our balance sheet to exceed the regulatory requirements for capital adequacy.

Our Strategic Report is set out in greater detail on page 7 of these accounts. Our approach to Risk Management is set out on page 10 of these accounts.

Environmental, Social and Corporate Governance

Climate change presents financial and reputational risks for the financial services industry. The Board consider climate change a material risk as per the Board-approved risk appetite framework, which provides a structured approach to risk-taking within agreed boundaries. The assessment framework is proportional at present, but it will develop over time as the

Group generates further resources, and industry consensus emerges. Whilst it is difficult to assess how climate change will unfold, the Group is continually assessing various risk exposures. Both Isle of Man and the UK have committed to cut their greenhouse gas emissions to "net-zero" by 2050. There is growing consensus that an orderly transition to a low-carbon economy will bring substantial adjustments to the global economy, which will have financial implications while bringing risks and opportunities. The risk assessment process has been integrated into our existing risk frameworks and will be governed through the various risk governance structures, including review and recommendations by the Group's Risk Committee.

The Group is continuously developing a suitable strategic approach to climate change and the unique challenges it poses. In addition to the modelling of various scenarios and various governance reviews, the Group will continue to monitor requirements through its relationship with UK Finance and the equivalent Isle of Man forums.

Our Corporate Governance Report and a review of our compliance with the principles of the Quoted Companies Alliance Code is set out in greater detail on page 15 of these accounts. A more detailed review of our ESG compliance is set out on page 9 of these accounts.

Conister Bank Limited and Conister Finance and Leasing Limited

Both the Bank and CF&L continued to progress with prudent lending strategies, with the loan book increasing by £57.7 million to £292.1 million (2021: £234.4 million). We recorded growth in both of our markets, namely, our home market, the Isle of Man, and the UK.

The Isle of Man market's demand for loan finance has virtually returned to its pre-pandemic levels, and the Bank has improved its market share through flexible online offerings. On Island, the Bank lent a record £50.5 million (2021: £42.9 million) to consumers and Small and Medium Sized Enterprises ("SMEs"), with over 65.0% (2021: 60.0%) of this originating from our online portal.

In the UK, the Bank lent £150.0 million (2021: £114.1 million) in its Structured Finance division, which has been identified as a future key area of growth for the Bank. These products are designed in such a manner as to provide the Bank with additional collateral enhancements. This allows the Bank to hold lower loss provisions, supporting its demonstrable history of safe lending in this market.

With Government guarantee support schemes tapering off, it is encouraging to see our UK SME Broker division return to pre-Covid levels of lending of £30.9 million (2021: £11.1 million). These guarantee schemes were an important lending stream for the Bank.

The Bank continues to seek acquisitions that provide access to niche lending markets in the UK. By owning the customer, the Bank continued its strategy to reduce its reliance on other introducers and their expensive commissions. In the last year, I am pleased to say that whilst interest income increased by £3.3 million to £25.3 million (2021: £22.0 million), commissions decreased by 6.6%, or £0.3 million, to £3.2 million (2021: £3.5 million).

The Bank's Isle of Man depositor base remains very loyal, with a retention rate in excess of 78.0% (2021: 70.0%). Whilst we continue to introduce new products for this market, it remains our intention to reduce our on-Island reliance. As such, we have embarked on an application to the PRA to raise UK deposits through a UK Branch licence.

During the year, the Bank continued to attract deposits to fund lending, with deposits from customers increasing to £304.2 million (2021: £253.5 million), improving the Loan-to-Deposit ratio efficiency to 96.0% (2021: 92.5%). This helped to offset the rising interest rates, driven by the Bank of England base rate increases in its attempt to curb inflation. The Bank's average cost of funds at the end of the year had increased to 2.4% (2021: 1.5%). The Bank continues to hold significant cash reserves and debt securities totalling £57.9 million (2021: £58.5 million).

Turning to overheads, personnel expenses increased by £1.0 million, reflecting the additional staff costs associated with our UK growth strategy, but overall, overheads decreased to £8.0 million (2021: £8.3 million). Despite loan book growth of £57.7 million, provisioning decreased by £0.9 million to £3.4 million (2021: £4.3 million), reflecting the emergence from Covid related stresses in the credit book. Depreciation and amortisation narrowly fell by £0.1 million to £0.5 million (2021: £0.6 million). In total, the Bank's cost base increased by £0.6 million to £13.8 million (2021: £13.2 million), but driven by the increase in Net Interest Margin, the Bank's profit before tax margin increased by 3.4% to 8.2% (2021: 4.8%).

Total assets grew by £57.9 million to £354.7 million (2021: £296.8 million), a growth of 19.5%. Shareholder funds increased by £3.4 million to £34.6 million (2021: £31.2 million). The CET1 ratio reduced by 2.8% to 12.4% (2021: 15.2%), in line with loan book growth - a figure which is a prudent 3.9% above the Bank's regulatory minimum of 8.5%.

Edgewater Associates Limited

We have re-focused and resourced this business to meet the demands of legislation relating to the provision of regulated financial advice on the Isle of Man. In addition, through a project to improve our technology, our customer segmentation will allow an improved customer focused journey, which will also deliver operational efficiencies. In light of these two projects, revenue and profitability has remained fairly consistent year-on-year.

Manx FX Limited

Our foreign exchange advisory continued to perform positively and recorded a record profit for the year of £1.4 million (2021: £1.2 million), with a marginal reduction in its Cost-to-Income ratio to 18.5% (2020: 18.8%). This is a highly cash-generative business which contributed £1.8 million (2021: £1.0 million) to the Group's treasury.

Blue Star Business Solutions Limited

Despite the challenging economic environment, Blue Star grew its brokered lending in the year by £0.7 million to £15.0 million (2021: £14.3 million). Of the total advanced, the Bank wrote £7.6 million (2021: £8.8 million), with the balance being passed to other funders - this business model will be developed in 2023 as a safe haven for growth for the Group.

CHAIRMAN'S STATEMENT

The business was profitable in its own right and contributed £0.7 million (2021: £0.5 million) to the Group's operating income this year.

Ninkasi Rentals & Finance Limited
The business continued to be the largest fermentation tank lessor in the UK brewing market with a fleet size of 278 (2021: 261), providing 1.3 million litres of brewing capacity (2021: 1.2 million litres).

A key measure of performance is the deployment of its fleet, which is currently 81.0% (2021: 88.0%). The business, in addition to being profitable in its own right, generated £1.7 million (2021: £1.4 million) to the Group's income this year.

The Business Lending Exchange Limited
This is the first year in consolidating the full-year results of the Business Lending Exchange. Its loan book grew to £8.3 million (2021: £5.0 million) and its Group contribution of profit before tax increased to £0.5 million (2021: £0.1 million). When eliminating the impact of intra-group funding, the business contributed £1.1 million to Group profitability.

This business specialises in prudent lending through its experienced management team to the profitable sub-prime SME market, a sector to which the Bank lacked meaningful access.

Payment Assist Limited
On 21 September 2022, the Group announced its acquisition of 50.1% of Payment Assist's shares. Payment Assist ("PAL") was incorporated in 2013 to capitalise on the opportunity in the automotive sector to improve garage customer retention rates by providing a user-friendly method of enabling customers to spread their payments over a small period of time.

Since the acquisition, PAL has contributed £0.7 million of profit before tax. The PAL acquisition shows every sign that this will be a significantly profitable operation and an important contributor to the Group's profitability in the coming years.

Outlook
The set of results within this report demonstrates the value of the Group's diversified portfolio.

For our banking and lending subsidiaries, we will continue our strategy of investing in resilient and profitable growth sectors, which will allow us to protect our Net Interest Margin. By broadening our access to liquidity through our UK branch deposit-taking licence application, we will be able to arbitrage deposit rates to maximise this margin for the future. On the asset side of our balance sheet, demand for our products in both the Isle of Man and UK remains strong, and as a result, I would expect our 2023 Interim lending to be in excess of that reported in 2022's equivalent period. With the economic outlook suggesting a shallower, shorter recession than predicted in 2022, provisioning going forward should not be in excess of our historical norm.

In summary, our various business streams are well-positioned to support the growth in profitability for this year. Our Executive team will continue to safeguard each of these and to maximise suitable opportunities as they arise, whether they be through organic growth or accretive acquisitions.

Our Executive team will continue to protect our business and to maximise opportunities as they arise, whether they be through organic growth or accretive acquisitions.

Board changes
Whilst there has been no changes to your Board of Directors since the announcement of our Interim results, I would like again to put on record my sincere thanks to David Gibson, who retired after thirteen years serving this Board and five years acting as Chairman of our banking subsidiary.

Conclusion
Finally, I would like to thank each of our staff for their hard work and dedication in making this splendid result possible. I would also like to thank my fellow shareholders and other stakeholders for their enduring loyalty and support.

Jim Mellon
Executive Chairman
20 March 2023

BUSINESS MODEL AND STRATEGY

MFG 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 and gain market share in sectors in which it has proven experience. A summary of the strategic objectives for each principal subsidiary is set out below.

Conister Bank Limited ("Bank") and Conister ("CFL")
The Bank's Board of Directors ("Bank's Board") has set strategic objectives, aligned to its strategic plan. These objectives provide the framework for setting risk appetite statements and tolerances for all material risks. The strategic objectives set are:

- Maintain capital adequacy;
- Deliver stable earnings growth;
- Secure stable and efficient access to funding and liquidity;
- Treat customers fairly with the highest service standard possible
- Maintain stakeholder confidence; and
- Progress its Environmental Social and Governance ("ESG") strategy.

These strategic objectives provide the link between the Bank's strategic planning and its risk management framework, using risk appetite statements, measures and tolerances, to control risk on a day-to-day basis and are reviewed at-least annually and approved by the Bank's Board. Key in considering the Bank's judgement of appetites is its assessment of its regulatory environment both in the Isle of Man ("IOM") and the UK; the IOM deposit market; access to regulatory capital; the IOM and UK credit markets; the suitability of its product range; concentrations of advances and historic arrears. The aim is to deliver controlled growth, by providing adequate returns with strong credit profiles.

Having considered the above in light of the residual economic impacts of COVID-19 pandemic, Brexit and the war in Europe, drawing on both internal and external resources, the Bank continues to believe the credit markets in which it operates will deliver growth with liquidity sourced from both its Balance Sheet and the IOM's substantial deposit base. This growth will be achieved through the organic expansion of existing products, including participating in IOM and UK government business support schemes, and through acquisition. This strategy can be analysed by the geographical area the Bank operates within, namely the IOM and the UK.

The Bank is proud of its heritage and remains heavily IOM centric but recognises that, as its UK loan book grows, it will need to create a more substantial UK presence to manage and grow this aspect of its business.

Sourcing reliable funding underpins the Bank's growth objectives. The Bank's strategy in this area is to secure a diversified, low-cost suite of liquidity alternatives to draw upon in order to support its lending strategy. The IOM deposit market remains a key source of liquidity which the Bank accesses through its fixed-term deposit and notice account products. The Bank has applied to be a UK deposit taker through a Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") Branch licence.

The Bank recognises that it has an opportunity to increase its market share because of the reduction in competition experienced in this market and / or by increasing interest rates. As such, the Bank believes that it has sufficient reliable alternatives to be confident that it can raise the necessary deposits when required.

The Bank's acquisition strategy is to increase market share in sectors within which it already operates or to gain access to a desirable market through an existing reputable, profitable operator.

Regarding the former, the Bank continues to enjoy a positive lending experience within the structured finance and UK credit broker market and currently has circa £220 million of net loans outstanding.

The Bank's decision in 2022 to include Environmental, Social, and Corporate Governance ("ESG") within its strategic objectives has seen great progress being made in the year. The Bank published its first Sustainability Report setting out its material ESG issues and objectives, work completed and ESG performance. This report can be found on the Bank's website, www.conisterbank.co.im.

The Bank's programme of ESG integration and its ESG stewardship in its external relationships has seen the Bank:

- Adopt and champion five United Nations Sustainable Development Goals:
    - Good Health & Well Being;
    - Affordable & Clean Energy;
    - Decent Work and Economic Growth;
    - Sustainable Cities & Communities; and
    - Climate Action.
- Adopt a green finance strategy in the provision of its services;
- Recognise the UN principles for Responsible Banking;
- Become a supporter of the Task Force on Climate Related Financial Disclosures;
- Undertake and continue with annual carbon footprint and greenhouse gas emissions assessments; and
- Implement an ESG integration plan and programme of work across the Bank including regular engagement with staff, customers, and other stakeholders on ESG.

MFX Limited ("MFX")
The strategic objectives of MFX are:

- To be the first choice for international payments and foreign exchange of corporations in the IOM;
- To maintain, develop and strengthen existing relationships;
- To increase the number of referrals to their foreign exchange business partners with a view of onboarding new accounts.

MFX target customers are corporates and private clients who have a foreign exchange and international payment requirement via its UK foreign exchange providers.

BUSINESS MODEL AND STRATEGY

The IOM offers a diversified range of industries and sectors. For the next 12 months MFX will concentrate its efforts in developing new business opportunities both on IOM and in other jurisdictions.

MFX can negotiate upfront agreed foreign exchange margins and ensure price transparency, underpinning the professional relationship it provides. The international payment fees offer competitive value compared with local high street banks.

Payment Assist Limited ("PAL")
PAL provides the option for customers to spread the cost of ad-hoc expenses over monthly instalments through a range of fee free, interest free or interest-bearing products. The Group acquired an initial 50.1% of PAL in May 2022.

The strategy is to build and develop the business by continuing to be the largest finance provider in the UK automotive aftermarket whilst diversifying into alternative markets offering both short term and longer-term finance. This expansion will be executed on a selective basis with business partners who share our values for the highest level of customer service.

Blue Star Business Solutions Limited ("BBSL")
The strategic objectives of BBSL are to continue to grow its direct model to niche suppliers through the distribution of government guaranteed schemes whilst growing its traditional pipeline to allow it to migrate to its ordinary course of business as these schemes conclude.

BBSL will expand its panel of alternative funders, apart from the Bank, to place loans to further maximise its sources of revenue.

Finally, BBSL will continue to develop its sales force to allow greater market penetration.

Edgewater Associates Limited ("EAL")
EAL is regulated by the Isle of Man Financial Services Authority ("FSA"). Its strategic objectives are to:

- Provide superior service to its client base;
- Increase assets under advice; and
- Grow and develop its staff skill set.

EAL is a full-service IFA practice with a diverse mix of clients requiring a broad range of products and solutions covering:

- First time buyers - mortgages;
- Newly qualified professionals - protection, savings, school fees;
- Established clients - wealth management, retirement planning; and
- General insurance clients - home, travel, commercial and specialist.

EAL has an active client base of approximately 7,000 with associated assets under advice of £319 million (2021: £368 million).

Whilst EAL will continue to grow and develop its standard business model, it is always open to new opportunities. It remains nimble and ready to move in line with economic and regulatory changes as they arise. Its team remains current with industry standards and trends. It retains an appetite for growth, either through additional acquisition opportunities that may arise, or via organic growth from existing clients and business partners with whom it has built strong relationships.

Diversification opportunities are encouraged and pursued, including the successful programme to develop bespoke Employee Benefit Group Schemes. These incorporate staff pensions (including pension freedom), protection, private medical, and death in service cover.

EAL trains talented people to progress into rounded, professionally qualified advisers who can fit within succession planning opportunities. To supplement this, it also recruits quality experienced advisers and para-planners who can further enhance its team.

Ninkasi Rentals & Finance Limited ("Ninkasi")
This business remains well positioned to gain additional market share through its unique equipment leasing options for the brewing industry.

In addition, Ninkasi is considering expanding its coverage to include Europe, either by a direct distribution strategy, or in partnership with a complementary business.

Further, Ninkasi will manage its utilisation demand through the acquisition of additional fermentation tanks.

The Business Lending Exchange Limited ("BLX")
BLX will continue to grow their loan book prudently in existing markets through the UK credit broker network, utilising existing market to offer attractive asset-backed products in a customer focused way to ensure the best possible customer outcome.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) REPORT

The Group
The Group, through its subsidiary the Bank, has published its first ESG and Sustainability Report, demonstrating its commitment to ensuring its business activities have a positive impact not just for clients and shareholders, but also for employees, society, and the environment. Two of its key business objectives, stable growth and service, rely on a recognition of its own responsibility to make a positive societal impact. The world is in the middle of a profound transition when it comes to sustainability, and the Group recognises the role it must play in that transition. This means operating with a strong emphasis on its environmental and social impact, and on its governance procedures. The Group has a solid system of corporate governance in place, endorsing the principles of openness, integrity and accountability which underlie best practice. The Group operates to high standards of corporate accountability with an effective Board and Board committees. Taking a long-term view, the Group recognises that, as a business, its carbon footprint must move towards net-zero over time. This reduction is not just an environmental imperative, but a business one as well. It is committed to having net zero carbon emissions by 2030.

The Group started its ESG project in 2019 through its principal subsidiary, the Bank, both by measuring its carbon footprint and approving its ESG strategy. The former provides a base year to measure performance against as 2020 was not considered to provide a representative comparison year due to the impact of the pandemic on office working and travel. The latter, having consulted with advisors, provides an agreed pathway based upon internationally accepted principles to achieving the Bank’s ambition of being net zero by 2030.

With the Bank having proven the concept, the Group will widen the ESG policy to include all wholly owned operational subsidiaries by the end of 2023.

The Bank
The Bank’s employees and culture set it apart from others in our industry. As a small bank, employees are at the centre of its consideration. Along with a range of structured internal wellbeing programmes, it has also introduced flexible working where appropriate, recognising that there are substantial benefits from balancing office working with working from home. The Flexible Working Policy was introduced to enable the business and its employees to benefit from a practical combination of office and remote working. The Bank has revised the dress code to reflect both the changing nature of the workplace and its broad and diverse client base. It engaged a third party to undertake an annual gender review which is presented to the Bank’s board and it undertakes an annual employee engagement survey to instruct its employee policies and benefits which helps it to attract the best talent.

The Bank’s Credit Policy sets out its limited appetite for financial and reputational risk emanating from climate change, which includes physical risk, such as extreme weather, flooding, and transitional risk, such as changes to law, policy, regulation, and culture. The Bank adopts a favourable stance towards a low carbon economy and lending propositions that have a neutral or positive impact on the environment / climate. The Bank will also consider the impact on public perception and potential impact on ongoing demand for clients’ products and services, as well as any impact on its underlying security.

The Bank supports philanthropy. It gives back to its local communities and to causes it believes in both as a Group and locally it has supported young entrepreneurs, sports people, charities and it promotes fundraising throughout the Group.

Since the commencement of its ESG strategy, for scopes 1 and 2 of the GHG Protocol, the Bank’s carbon footprint has decreased by 73% to 37.3 tonnes of CO_2 compared to its 2019 baseline. The Group works with ESG external consultants to assist the Group in monitoring its progress independently.

This saving is the equivalent of the annual energy consumption of 13 UK homes. Whilst this is encouraging, there are still areas where the Bank can improve.

The Bank’s approach has been measured using Scientific Based Targets (“SBT”). Whilst the SBT approach provides three broad climate change scenarios, the Bank’s strategy is aligned to its most stringent, that of, global warming of no more than 1.5 degrees. To achieve this goal, the Bank will need to focus on three key areas:

- A reduction in its energy consumption and engage with energy suppliers to reduce their reliance on fossil fuels;
- Using proven technology, the Bank can reduce its business travel emissions and its electricity consumption in relation to its IT hardware; and
- The Bank will fund forestry planting on Island for the provision of future carbon credits for both itself and other local businesses.

The Bank’s ESG and Sustainability report is available online at conisterbank.co.im.

RISK MANAGEMENT

Risk management overview
Effective risk management is crucial to MFG's sustainability. The MFG Board of Directors ("Board") is ultimately accountable for the effective governance of risk management. The Board maintains its oversight and responsibilities in terms of the three lines of defence risk governance model as set out below.

Determining the Group's risk tolerance and appetite through enterprise risk management is a key element of MFG's corporate governance framework. It is primarily designed to assist the Group in enhancing its corporate governance and intended to reinforce the key elements of Quoted Companies Alliance ("QCA Code") corporate governance principles, adopted by the Group.

A fundamental principle contained in the Code, is for effective risk management: MFG has in place a Risk Management Framework ("RMF") to support the implementation of some of the principles of the MFG Governance Framework at the subsidiary level. The RMF supports the Board and senior management in fulfilling their respective duties in relation to the sustainable operation of the business. This includes the integration of ESG in the business. The risk management system is supported by policies, processes and activities relating to the taking, management and reporting of risk.

Management and accountability
The Audit, Risk and Compliance Committee ("ARCC") is operated at a Group and Bank level and currently comprises of three experienced Independent Non-executive Directors, two of which are qualified accountants. Only members of the ARCC have the right to attend ARCC meetings to allow for independence. However, other individuals representing Executive Management, Risk, Compliance and Internal and External Audit are invited by the Chairman of the ARCC to attend all or part of any meeting as and when appropriate.

The main objectives of the ARCC are to review operations and ensure that they are conducted to the highest possible standards. This is accomplished by providing an independent objective assurance function specifically for, but not limited to: Internal Controls and Risk Management Systems; Whistleblowing and Fraud; Risk and Compliance; Internal Audit and External Audit.

It provides oversight of compliance with all legislation, regulation, and applicable codes of practice in the jurisdictions that MFG conducts business; and reviews policies, procedures and processes to effectively identify, quantify and manage all material risks and to advise on best practice.

RMF
The following overview of the key governance components that make up the MFG system of governance illustrates the crucial role of the RMF:

RMF - Culture
The risk culture, which forms part of MFG's overall culture, encompasses the tone at the top of the organisation and a set of shared attitudes, values, behaviours, and practices that characterise how individuals at MFG consider risk in their day-to-day business activities. Analysis of previous incidents and ongoing assessment ensure continuous improvement in the management of risk.

All individuals are trained to understand the importance of effective risk management and ensure that risks associated with their role are appropriately understood, managed and reported. Individuals at all levels communicate risk related insights in a timely, transparent, and honest manner.

This culture is driven from the top by the Board and Executive Management through how they communicate, make decisions, and motivate the business. Managers and leaders ensure that in all their actions and behaviours they continually reinforce the culture that the effective management of risk is critical to MFG's success and that every individual plays a role in the management of risk.

RMF - Appetite
Risk appetites are currently only set at subsidiary level and determine the maximum amount of risk that it is prepared to accept in the pursuit of delivering business objectives. The risk appetite considers all the risks detailed under "Principal risks"- on page 12 and is reviewed annually, and, as the operating environment changes, it is constantly measured against stated appetite to take appropriate action.

RMF - Risk identification, measurement, and control
Having a robust understanding of the risks to which the business is exposed is crucial to ensure that all material risks are appropriately monitored, managed, and reported on. An understanding of risk is developed through the identification, assessment and, where appropriate, measurement of risks to which the business is exposed.

These processes are performed as part of strategy setting, strategy execution and day-to-day operations and are referred to as risk and control assessments. The Risk team provides tools to aid managers and individuals in developing an understanding of risk within their respective business responsibilities.

The risk and control assessment process of understanding risk and reviewing the adequacy and effectiveness of related controls and risk mitigation approaches is performed on a regular basis, as a minimum annually, and is reported to and governed by:

- A high-level assessment to identify the principal risks enabling work to progress in a focused manner in completing risk and control assessments, to build a key control monitoring programme;
- Management Committees, including a review of roles and responsibilities, ensure that all material risks are captured and formally considered prior to presentation to the ARCC and the Board;
- Procedures within the framework ensure that the relevant Management Committee is accountable for the policies that support their risk, and to reduce the workload for the ARCC and the Board, enabling them to focus on overseeing and challenging the RMF; and
- Board approved risk appetite statements, and the design of an underlying risk appetite measures framework, to be owned and monitored by the relevant Management Committee.

RISK MANAGEMENT

RMF - Three lines of defence and key assurance functions

As part of its overall RMF, MFG has adopted best practice monitoring and control mechanisms by implementing the three lines of defence governance and combined assurance model. Thus the responsibility for governance and oversight is allocated throughout the organisation according to the three lines of defence principles.

This governance model is regarded as international best practice for ensuring good governance (including governance within risk and capital management) across an organisation. The emphasis is placed on ownership, responsibility, independence, assurance, communication, oversight, and transparency across MFG's governance.

The term 'key assurance function' refers to a properly authorised function, whether in the form of a person, unit, or department, serving as a control or 'checks and balances' function from a governance perspective, and which carries out such activities. These functions typically are second and third line of defence functions.

First line of defence

The first line of defence e.g., business management is primarily accountable for the day-to-day risk origination and management in accordance with risk policy and strategy. This includes identifying, assessing risks, and implementing responses.

Second line of defence

The second line of defence is responsible for the development and maintenance of the frameworks and policies. The second line provides oversight of, and challenge to, the first line of defence and drives the implementation of the frameworks and policies.

Third line of defence

The third line of defence is the independent assurance function providing overall assurance to the Board on governance, risk management, and internal controls. The third line of defence comprises of internal audit, external audit, and other independent assurance providers. The third line of defence is completely independent from the management of the day-to-day business activities.

RMF - MFG assurance functions

MFG has effective systems of risk management and internal control. The tasks, processes and obligations of the key assurance functions are transparent and clearly defined, with regular exchange of information between the functions. Each of the functions is structured to ensure that it has the necessary authority, independence, resources, expertise and access to the Board and all relevant employees and information to exercise its authority. The minimum assurance departments within MFG include:

- Risk management function;
- Compliance function; and
- Internal Audit function.

The departmental head of each of these key functions possesses the necessary skills, experience and knowledge required for the specific positions they exercise and meet all suitability and 'fit and proper' requirements. Written guidelines for these functions are in place, and compliance with them is assured on a regular basis. All of the key independent functions within MFG have a direct reporting line to the ARCC and the Board.

RMF - Internal Capital Adequacy Assessment Process ("ICAAP")

Overview

ICAAP is a key strategic and risk management tool for the Bank. It is a key component of the Bank's planning process during the short and medium-term. The Bank's lead regulator, the FSA, requires the Bank to establish and maintain an ongoing internal adequacy assessment process which is appropriate to the nature and scale of its business and reviews that process annually and evidences that review.

Methodology

The Bank's ICAAP process is as follows:

Formulation of the Bank's strategy and budget

Strategic plans are prepared annually for the forthcoming year, which consider the Bank's risk appetite, key market sectors to target, products to leverage / introduce, headcount, operational and capital investment required.

Risk assessment

The Executive Team will liaise with the Risk and Compliance department to determine the material risks in the Bank based on incidents and breaches, Internal Audit reports, Risk and Compliance report findings and issues raised at the Board and Committee meetings.

Stress testing and reverse stress testing

The Finance department uses Bank of England market assumptions for stress testing and stress the five-year forecasts to identify any capital deficiencies. Reverse stress testing is also used based on the assumption that the Bank ceases to trade, coupled with a run-off scenario to determine the capital distribution.

Reverse stress testing is used to explore the vulnerabilities to extreme adverse events in the Bank's strategy and plans that might cause the business to fail, in order to facilitate contingency planning.

Calculation of capital requirement and buffers

Following the setting of strategy, risk assessment and stress tests, the Bank will then calculate its capital requirements by considering the following areas:

- Pillar I – The calculation is based on the minimum regulatory requirement under Pillar I of 10.0% of risk weighted assets for material risks;

- Pillar II – Assessment of any additional business risks not covered by the minimum Pillar I requirement, plus an assessment of Pillar II risks based upon the current material risk assessment and stress tests, to determine whether any additional capital buffers are deemed appropriate;

- Pillar III – Pillar III establishes measures to make better use of market discipline. Pillar III applies only at the top consolidated level of a banking group and is therefore generally not considered to be applicable to IOM incorporated banks as per FSA ICAAP guidance; and

- Buffers – The Bank assesses its position against industry standards for regulatory buffers and calculates its position based on its overall exposures to different jurisdictions.

Review, challenge and adoption of the ICAAP
The ICAAP is prepared by the Finance department in conjunction with the Risk and Compliance department, and reviewed by the Bank's Executive Team, Risk Management Committee, ARCC, Internal Audit and the External Auditor. It is used to measure and benchmark the Bank's risk appetite and to forecast capital usage under both stressed and normal conditions. The ICAAP is challenged at all stages of the review process and presented to the Bank's Board by ARCC for approval prior to being submitted to the FSA. The ICAAP is regularly reviewed and updated throughout the year by management and referred to the ARCC and the Bank's Board.

ICAAP Results
The Bank has completed its ICAAP testing for 2022 in compliance with regulatory requirements. Despite the severity of the risk scenarios modelled, the Bank satisfied the capital and leverage requirements for the purpose of the stress test.

Principal risks
As a result of the RMF, identified on pages 10 to 11, the Group has exposure to the following key risks:

- Strategic;
- Credit risk including counterparty credit;
- Operational risk including regulatory;
- Conduct;
- Liquidity;
- Interest rate;
- Regulatory; and
- Reputation.

The Group has considered the above key risks that it faces and the mitigating controls against those risks:

Strategic risk
Strategic risk is the risk to the Group's revenue and operational costs as set within the budget and the medium-term plans arising through sub-optimal implementation of the strategic plan due to either internal or external factors faced by its subsidiaries.

Controls and mitigation
The Group controls and mitigates this risk via a number of measures:

- Subsidiaries generally commence their formal planning process in September for the forthcoming year, to inform the budget submitted to the boards throughout the Group for approval. In reality, the planning process is continuous and responsive to change in the internal and external environment;

- Barriers to delivering the strategic plan, and changes to planned activity are captured in the various subsidiary 'Managing Directors' Reports' which are submitted to their respective boards and then ultimately reported to the Group Board at each Board meeting. The reports take account of input from the Group Executive Directors and current financial performance versus budget and seek to highlight strategic responses for the relevant subsidiary;

- Key strategic projects are managed under formal project governance with progress of key projects tracked, and communicated and discussed at regular project meetings; and

- The impact of limited capital, liquidity, operational capacity, and regulator restriction on the achievement of strategy is captured by the planning process, with exceptional items dealt with under the relevant risk category, where the impact on risk appetite and mitigating actions will be formally recorded.

Credit risk including counterparty credit risk
Credit risk is defined as the risk that counterparties fail to fulfil their contractual obligations. A material decline in credit quality, or the failure of a counterparty, could result in higher levels of arrears and ultimately in increased provisions and write-offs, which impacts upon profitability, potentially eroding the capital position for the Group's subsidiaries.

Controls and mitigations applied

- Delegated authorities: The Group operates to a schedule of delegated lending authorisation limits linked to an individual underwriter's knowledge and experience. This is bolstered by validations of all significant credit exposures over set limits and ongoing monitoring of credit positions of key suppliers and intermediary networks;

- Distribution strategy: The Group actively monitors and controls the credit risk of all business undertaken to ensure that it is treating customers fairly and as a safeguard against the failure of any business relationship. Mitigation of counterparty credit risk is supported through the maintenance, where appropriate, of cash reserves and loss pools to fund any buy-back indemnity. Comprehensive due diligence processes are also performed;

- Monitoring of credit quality exposure: The Group monitors its credit risk exposures via an internal credit risk grading methodology that assigns each individual exposure with one of three credit grades based upon the probability of default at product and distribution channel level. This allows for better monitoring of credit quality and impairment of its current book as well as forecasting and stress testing on a more accurate basis;

- Concentration risk: To protect against the unintentional build-up of exposures where deterioration could materially impact the Group's sustainability and profitability. The Group seeks to maintain a diverse portfolio of products across a variety of geographical regions, customers, sectors, and asset classes. This diversity protects the Group against any deterioration in a particular geographical region, the economic environment, commercial sector etc;

RISK MANAGEMENT

Operational risk including regulatory risks
Operational risk is the risk of loss resulting from human error, inadequate or failed internal processes or controls, system failure, improper conduct, fraud, or external events.

The principal operational risks for the Group arise from the following areas:

- Resilience of the IT environment: The IT environment is under constant review ensure operational continuity. The Group's IT Steering Committee ("ITSCO") identifies and implements efficiencies to enable enhanced customer service through the provision of additional facilities and products, and to automate manual tasks wherever possible to minimise the potential for human error. ITSCO also reviews and monitors current service standards, highlighting any deficiencies and mitigates accordingly. There are a number of exception reports and scheduled tasks on a daily basis to ensure that any controls within the IT systems are being reported on adequately; and

- Third Party administration services: The key operational controls ensure that partners are fulfilling their legal and regulatory obligations in accordance with their service-level agreement with the Group. The Group has an outsourcing policy to ensure obligations are monitored and met. Internal reviews and audits are conducted on counterparties to ensure terms agreed are being adhered to.

Controls and mitigation

- Adherence to internal limits and approval processes through:
    - Delegated authorities: The Group operates to a schedule of delegated credit authorisation limits and payment approval limits, linked to an individual's knowledge and experience;
    - Segregation of duties: There is appropriate segregation between those authorising transactions and those executing them, with four eyes principles in place where required;
    - Exception reporting: Daily reporting ensures that any regulatory and internal limits are reviewed regularly by the appropriate Management team; and
    - New Business approval policy: All material new business is approved in line with a formally approved policy, with ultimate decision making resting with the applicable Executive Committee.

- Change control: The Group ensures that both, changes to existing products and services and new products and services, are delivered in a controlled manner with the appropriate checks and controls in place;

- Onboarding: A comprehensive on-boarding process is in place for new outsourced partners in the IOM and UK;

- Due diligence checks: The operational risk from the Group's third-party administrators is mitigated by a comprehensive due diligence process which includes a comprehensive take-on appraisal and a full review of the partner's policies, procedures and financial stability;

- Key Operational Controls: Key controls are monitored through a combination of management oversight, Risk and Compliance monitoring and Internal Audit reviews;

- New Business Policy and Process: New business and material business change is outlined in a formal policy, which requires that a sequence of assessment and approval is followed. This ensures that all relevant input is included, and material risks considered; and

- Exception reports: Exception reporting allows the Group to identify weaknesses in processes and controls which in turn allows for adequate training and the bolstering of systems and processes.

Conduct risk
The Group is exposed to conduct risk through its operations and interactions with consumers, either directly or through third parties (brokers, or other counterparties).

Controls and mitigation
The Group has policies to ensure adherence to conduct related regulatory standards and to promote continual focus on good customer outcomes. Appropriate policies also govern where good conduct is contracted to third parties, either directly or through distribution chains. In all cases, compliance with standards is appropriately monitored through the collection and assessment of relevant data, partner attestation, and onsite audits where appropriate.

General conduct principles and Treating Customers Fairly (TCF) principles are well embedded across the Group's activities, and progress towards embedding the new Consumer Duty is on target.

Liquidity risk
Financial institutions are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk that the Group may not hold sufficient liquid funds meaning it would be unable to meet its contractual liabilities as they fall due.

Liquidity risk arises where the Group, through its subsidiaries, has contractual credit obligations that can be placed under stress during times of illiquidity. Should this ever occur, the Group would access the capital markets. In addition, it has built a core portfolio of liquid assets or buffers as additional sources of liquidity that can be utilised during such times.

Controls and mitigation
Overall, the Group's liquidity profile is resistant to stress as the Group:

- Has a positively matched funding profile and does not engage in maturity transformation. This means that on a cumulative mismatch position, the Group is forecast to be able to meet all liabilities as they fall due;

- Maintains an adequate liquidity buffer; and
- Has no exposure to the interbank lending market.

The Group's liquidity position is monitored daily against internal and external agreed limits. The Group also has a Liquidity Contingency Policy and Liquidity Contingency Committee should a liquidity crisis or potential liquidity disruption event ever occur.

Interest rate risk
Interest rate risk refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

The principal potential interest rate risk that the Group is exposed to is the risk that the Bank's fixed interest rate and term profile of its deposit base differs materially from the fixed interest rate and term profile of its asset base.

Controls and mitigation

- Funding profile: Interest rate risk for the Group is not deemed to be material currently due to the Bank's positively matched funding profile. In a rising interest rate environment, due to the nature of the Group's products and its matched funded profile, it should theoretically be able to change the Bank's lending rate to match any corresponding change in its cost of funds;
- The Bank matches its deposit taking to its funding requirements to the greatest extent possible;
- The maturity profile of the Bank's loan book through staged repayments means interest risk is difficult to hedge effectively so the Bank does not currently hedge against this risk, and is not exposed to any additional market interest rate risk in this respect; and
- Funding cost: The Group would be exposed to potential risk if the Bank's cost of funds, which is linked to the cost of retail deposits, and ultimately the UK banks' base rate, was to increase and it was unable, due to a competitive lending environment, to raise its lending rate correspondingly. The Group's three-year plan allows for an increase in its cost of funds, but the Group accepts that these assumptions may not reflect the timing of any interest rate rise or the quantum of any increase.

Regulatory risk
Regulatory risk is the risk of material breach of regulation.

The risk of regulatory breach arises through a failure to identify, assess, and apply applicable regulation; or a failure to adhere to the applicable regulation as applied.

The Group holds, via the Bank, a Class 1 (1) Banking Licence in the IOM and is accordingly regulated by the Financial Services Authority ("FSA"). The Bank also holds permissions with the UK's Financial Conduct Authority ("FCA") pertaining to regulated credit activities, and other specified regulated products and services in the UK.

The Bank is in the process of applying for a UK deposit taking licence with the Prudential Regulatory Authority.

The Group also holds, via EWA, an IOM Class 2 licence to conduct investment business and is licenced as a general insurance intermediary, both regulated by the FSA.

Other regulated entities in the Group are PAL, BLX and MCL principally for Consumer Credit and Debt Collection.

The risk of regulatory breach arises through a failure to identify, assess, and apply applicable regulation; or a failure to adhere to the applicable regulation as applied.

Monitoring and complying with the requirements of existing regulation across numerous regulatory bodies, along with the rapid pace and volume of regulatory change is a key risk. The risk is compounded due to the size of the Group.

Controls and mitigation
The Group remains well placed to meet the regulatory challenges that bring change to the macro environment.

Regulatory risks continue to be mitigated by themed and ad-hoc compliance monitoring reviews which are driven using a risk-based approach to ensure resource is directed to areas of potential material risk. The monitoring plan is approved annually by the ARCC. Monitoring reviews are supplemented by ongoing staff training and guidance.

Wherever possible, legislative, and regulatory requirements are built into relevant administration systems, with appropriate monitoring and exception reporting processes in place to monitor compliance.

The Group maintains a watching brief on the regulatory environment and, as active members of a number of IOM and UK trade bodies, it receives additional regulatory updates and guidance on proposed legislative and regulatory issues. Upstream regulatory changes are tracked and assessed for impact by the Compliance Department and material items reported to the ARCC.

Reputation risk
Reputation risk is the risk of loss resulting from damages to the Group's reputation, in lost revenue or increased costs, or destruction of Shareholder value.

Controls and mitigation
The Group mitigates this risk by ensuring that its key risks are identified and managed, with an impact assessment of any potential or actual issues considering the impact to the Group's reputation. The Group actively seeks to minimise the occurrence of events or issues which could give rise to loss or negative feedback, and actively manages the impact should issues occur.

CORPORATE GOVERNANCE REPORT

Corporate governance report
The Board is committed to best practice in corporate governance. Directors have agreed to comply with the provisions of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ("QCA Code") to the extent which is appropriate to its nature and scale of operations. This report illustrates how the Group complies with those principles.

QCA Principle 1: Establish a strategy and business model which promote long-term value for Shareholders
The immediate strategy and business operations of the Group are set out in the Strategic Report.

The Group's strategy and business model and amendments thereto, are developed by the Chief Executive Officer ("CEO") with his senior management team and approved by the Board. The management team, led by the CEO, is responsible for implementing the strategy and managing the business at an operational level.

The Group's overall strategic objective is to grow organically and through strategic acquisitions to further augment the range of services it offers and gain market share in markets in which it has proven experience.

The Group has a balanced portfolio of regulated and unregulated operations, all of which are managed on a risk-based and prudential approach. The principal activities include: deposit taking; lending to consumer and commercial markets in the IOM and the UK; the provision of dedicated financial advice, especially in the areas of pensions and general insurance; and foreign currency and payment services.

The Group has adopted a portfolio approach to its strategic assets and is not dependent on one particular platform technology. The Directors believe that this approach helps to mitigate any concentration risk.

The Group operates in some heavily regulated sectors, and this is reflected in the emphasis on compliance and the provision of excellent customer service.

In executing the Group's strategy and operational plans, management will typically confront a range of day-to-day challenges associated with risks and uncertainties and will seek to deploy the identified mitigation steps to manage these risks as they manifest themselves.

QCA Principle 2: Seek to understand and meet Shareholder needs and expectations
The Group, via the CEO, seeks to maintain a regular dialogue with both existing and potential new Shareholders to communicate the Group's strategy and to understand the needs and expectations of Shareholders.

Beyond the Annual General Meeting, the CEO and, where appropriate, other members of the senior management team will meet with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group.

The Group's investor relations activities encompass dialogue with both institutional and private investors. From time to time, MFG attends private investor events, providing an opportunity for those investors to meet with representatives from the Group in a more informal setting.

QCA Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success
The Group is aware of its corporate social responsibilities and the need to maintain effective working relationships across a range of stakeholder groups. These include not only the Group's employees, partners, suppliers, regulatory authorities, but also customers, be they depositors, borrowers or those seeking financial advice. The Group's operations and working methodologies take account of the requirement to balance the needs of all stakeholder groups while maintaining focus on the Board's primary responsibility to promote the success of the Group for the benefit of its members as a whole.

- Customers – are at the heart of the business, and the Group operates with a shared vision and set of values. These values instil a sense of how all staff form a part of the customer journey. Feedback is encouraged at all points of contact; it is proactively enacted upon as it aids the identification of process and system enhancements;

- Shareholders – where appropriate Shareholder feedback is discussed at the Board, with any actions agreed being tracked to completion by the Company Secretary. Shareholders have an opportunity to raise questions to the Board, in person, at the Annual General Meeting. In addition, the CEO meets with and addresses Shareholder concerns where appropriate;

- Employees – the Group collates employee feedback on an annual basis, engages employees via workshops, with all outputs analysed and visibly addressed by the Executives of the operational subsidiaries that form the Group; with the aim being to build an engaged, committed and enthusiastic workforce;

- Partners and suppliers – the Executive and Management regularly meet with our partners and suppliers to ensure the needs of all parties are understood to achieve continued excellent working relations; and

- Environment - The Group recognises the QCA Code recommendations on the integration of ESG and alignment with a reporting framework across organisations. This is a fast-moving agenda with the consolidation of voluntary frameworks and growth of international statutory reporting frameworks, and the Group continues to monitor this evolution and what it means with interest. Notwithstanding, integration of ESG across the Group is on-going as material ESG issues are identified. The Bank is now into its fourth year of responding to ESG integration and provides the model that other Group subsidiaries are following.

CORPORATE GOVERNANCE REPORT

QCA Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is responsible for the systems of risk management and internal control and for reviewing their effectiveness by a series of committees, overseen by the ARCC, and reviewed by Internal Audit. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. Through the activities of the ARCC, which meets at least six times per year, the effectiveness of these internal controls is formally reviewed four times per year.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, and comparison to budget, are reported to the Board monthly.

The Group maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed on at least an annual basis.

The senior executives meet weekly to consider new risks and opportunities for presentation to the Group, making recommendations to ARCC and / or the Board as appropriate.

The Directors consider they are provided with all necessary information to assess the Company's position, performance, business model and strategy.

QCA Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

The Board currently comprises four Non-executive Directors and four Executive Directors.

Each of the Directors are subject to election by Shareholders at the first Annual General Meeting after their appointment to the Board and will continue to seek re-election at least once every three years.

Directors' biographies are set out on pages 19 and 20.

The Board is responsible to the Shareholders for the proper management of the Group and meets at least four times a year to set the overall direction and strategy of the Group, to review operational and financial performance, and to advise on management appointments. All key operational and investment decisions are subject to Board approval.

The Board considers itself to be sufficiently independent. The QCA Code suggests that a board should have at least two independent non-executive directors. The Board considers three Non-executive Directors, namely Alan Clarke (Chairman of the ARCC), Gregory Jones and John Spellman, are independent under the QCA Code's guidance for determining such independence.

Non-executive Directors receive their fees in the form of a basic cash emolument. The CEO and Finance Director are the only Directors who hold Restricted Stock Units ("RSUs") or options over the Group's shares. The number and terms are found on page 27. The RSUs or option grant concerned are not deemed to be significant, either for the individual Executive Director or in aggregate. The current remuneration structure for the Board's Non-executive Directors is deemed to be proportionate.

QCA Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The Board considers that all the Non-executive Directors are of sufficient competence and calibre to add strength and objectivity to its activities, and bring considerable experience in regulatory, financial and operational development within the financial service sector in both the IOM and the UK.

The Directors' biographies are set out on pages 19 and 20.

The Board regularly reviews the composition of the Board to ensure that it has the necessary breadth and depth of skills to support the ongoing development of the Group.

The Chairman, in conjunction with the Company Secretary, ensures that the Directors' knowledge is kept up to date on key issues and developments pertaining to the Group, its operational environment and to the Directors' responsibilities as members of the Board. During the year, Directors receive updates from the Company Secretary and various external advisers on a number of corporate governance matters.

Directors' service contracts or appointment letters make provision for a Director to seek personal advice in furtherance of his or her duties and responsibilities, normally via the Company Secretary.

QCA Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Board has an internal process for evaluation of its own performance, that of its committees and individual Directors, including the Chairman. This process is conducted annually and last took place in November 2022, with no substantive issues arising.

The Board may utilise the results of the evaluation process when considering the adequacy of the composition of the Board and for succession planning.

QCA Principle 8: Promote a corporate culture that is based on ethical values and behaviours

The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Group's operations. These values are enshrined in the written policies and working practices adopted by all employees in the Group. An open culture is encouraged within the Group, with regular communications to staff regarding progress and staff feedback sought. The senior management team seeks to address any concerns that may arise, escalating these to Board level as necessary.

The Group is committed to providing a safe environment for its staff and all other parties for which the Group has a legal or moral responsibility in this area. This is enshrined in the Group's health and safety policy.

CORPORATE GOVERNANCE REPORT

QCA Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The role of the Board
The Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the Group within an effective control framework which enables risk to be assessed and managed. The Governance Framework is reviewed to ensure it remains fit for purpose on an annual basis and is approved by the Board.

The Board ensures that the necessary financial and human resources are in place for the Group to meet its objectives and that business and management performances are reviewed. Furthermore, the Board ensures that the Group operates within its constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented, and audited.

There are at least four formal Board meetings each year. All Board members have the benefit, at the Group's expense, of liability insurance in respect of their responsibilities as Directors and have access to independent legal or other professional advice if required. The Board has a formal schedule of matters which are reserved for its consideration, and it has established three committees to consider specific issues in greater detail, being the ARCC, the Remuneration Committee and the Nomination Committee. The Terms of Reference for each of these Committees are published on the Group's website www.mfg.im.

There is a clear separation of the roles of CEO and Executive Chairman.

Chairman
The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role, promoting a culture of openness of debate, and communicating with the Group's members on behalf of the Board. The Chairman sets the direction of the Board by facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors. The Chairman also ensures that Directors receive accurate, timely and clear information. This fosters a positive corporate governance culture throughout the Group.

CEO
The CEO is responsible for managing the Group's business and operations within the parameters set by the Board.

Non-executive Directors
The Non-executive Directors are responsible for bringing independent judgement to the discussions held by the Board, using their breadth of experience, and understanding of the business. Their key responsibilities are to constructively challenge and contribute to strategic proposals, and to monitor performance, resources, and standards of conduct, compliance, and control, whilst providing support to executive management in developing the Group.

Prior to appointment, Non-executive Directors are required to demonstrate that they are able to allocate sufficient time to undertake their duties.

The Board has established an ARCC, a Remuneration Committee and a Nomination Committee with formally delegated duties and responsibilities.

Group Audit, Risk and Compliance Committee ("ARCC")
The ARCC meets at least six times each year and comprises of three Independent Non-executive Directors, currently Alan Clarke (Chairman), Gregory Jones and John Spellman. Representatives from Compliance and Risk, the Internal and External Auditor and executive management attend by invitation. Its role is to be responsible for reviewing the integrity of the financial statements and the balance of information disclosed in the accompanying Directors' Report, to review the effectiveness of internal controls and risk management systems, to monitor and review the effectiveness of the Internal Audit function and to consider and recommend to the Board (for approval by the members) the appointment or re-appointment of the External Auditor. The ARCC reviews and monitors the External Auditor's objectivity, competence, effectiveness, and independence, ensuring that if it or its associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence.

Group Remuneration Committee ("REMCO")
The REMCO meets at least twice a year and currently comprises of two Independent Non-executive Directors, currently Alan Clarke (Chairman), and Gregory Jones, with the Executive Directors, Head of Human Resources and external advisers attending by invitation where appropriate. It is responsible, amongst other matters, for determining the remuneration of the Executive Directors, the Company Secretary, and other members of management. Committee members do not take part in discussions concerning their own remuneration. The Chairman and CEO determine Non-executive Director fees.

Group Nomination Committee ("NOMCO")
The NOMCO is comprised of the whole Board. It is chaired by the Chairman of the Board and is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Executive and Non-executive Director succession planning, the appointment of new Directors and re-election of existing Directors.

Appointments to the Board
The principal purpose of the Nomination Committee is to undertake the assessment of the balance of skills, experience, independence and knowledge on the Board and subsidiary boards against the requirements of the business, with a view to determining whether any shortages exist. Having completed the assessment, the Committee makes recommendations to the Board accordingly. Appointments to the Board are made on merit, with due regard to the benefits of diversity. Within this context, the paramount objective is the selection of the best candidate, irrespective of background, and it is the view of the Board that establishing quotas or targets for the diversity of the Board is not appropriate.

All Group Director appointments must be approved by the Company's Nominated Adviser, as required under the AIM Rules, before they are appointed to the Group Board.

Re-election
The Group's Rules require that all Directors are submitted for election at the AGM following their first appointment to the Board and one third of the Directors are subject to retirement by rotation on an annual basis to refresh the Board, irrespective of performance.

The Corporate Governance Manual also contains a schedule of matters specifically reserved for Board decision or approval and sets out the Company's share dealing code and its public interest disclosure ("whistle-blowing") policy and procedures.

Board and committee attendance
The number of formal scheduled Board and Committee meetings held and attended by Directors during the year was as follows:

	Board	ARCC	REMCO	NOMCO
Jim Mellon *	5/8	-	-	3/4
Denham Eke	8/8	-	-	4/4
Douglas Grant	8/8	-	-	4/4
James Smeed	7/8	-	-	4/4
Gregory Bailey*	3/8	-	-	4/4
Alan Clarke	5/8	8/8	18/18	4/4
David Gibson ^	2/2	2/2	5/5	1/1
Gregory Jones	6/8	7/8	13/13	4/4
John Spellman	8/8	8/8	-	4/4

^ David Gibson retired on 25 May 2022
* Jim Mellon and Gregory Bailey recused themselves from two Board meetings held where they held a conflict of interest

QCA Principle 10: Communicate how the company is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders
The Group places a high priority on regular communications with its various stakeholder groups and aims to ensure that all communications concerning the Group's activities are clear, fair, and accurate. The Group's website is regularly updated, and users can register to be alerted when announcements or details of presentations and events are posted onto the website.

Notices of General Meetings of the Company can be found on: https://www.mfg.im/investor-centre/regulatory-news.

The results of voting on all resolutions in future general meetings will be posted to the Group's website, including any actions to be taken because of resolutions for which votes against have been received from at least 20 per cent of independent Shareholders.

Approval
This report was approved by the Board on March 2023 and signed on its behalf by:

Jim Mellon
Executive Chairman
20 March 2023

DIRECTORS, OFFICERS AND ADVISERS

Executive Directors

Jim Mellon (66)‡
Executive Chairman

Jim Mellon is a well-known and successful entrepreneur, author and economic commentator, starting his career in fund management and now includes biopharma, property, mining and information technology amongst his many investments. He holds directorships in a number of companies, both quoted and unquoted, including the chairmanship of Juvenescence Limited and being an executive director of Agronomics Limited. He, together with Burnbrae Group Limited, of which he is the beneficial owner, hold a 18.83% shareholding of Manx Financial Group PLC. He is the founder, principal shareholder and chairman of the Endurance RP Limited, quoted on the Hong Kong Stock Exchange.

Appointment
Appointed to the Board on 2 November 2007 and Executive Chairman on 12 February 2009.

Denham Eke (71) ‡
Executive Vice Chairman

Denham Eke is the Managing Director of Burnbrae Group Limited, a private international asset management company. He began his career in stockbroking with Sheppards & Chase before moving into corporate planning for Hogg Robinson plc, a major multinational insurance broker. He is a director of many years standing of both public and private companies involved in the financial services, property, mining, and manufacturing sectors.

Appointment
Appointed to the Board on 2 November 2007 and Executive Vice Chairman on 3 November 2021.

Douglas Grant (58) ‡
Chief Executive Officer

Douglas Grant has over 40 years' experience working in finance, initially with Scottish Power, before moving to the industrial sector to work with ICI and then Allenwest. Prior to joining Manx Financial Group PLC, he was finance director of various UK and Isle of Man private sector companies and has extensive capital markets experience. He is a professionally qualified banker with an executive MBA.

Appointment
Appointed to the Board on 14 January 2010 and Chief Executive Officer on 3 November 2021.

James Smeed (38) ‡
Group Finance Director

James Smeed has over 15 years' financial services experience, having started his career with KPMG in audit and assisting in transaction services. He joined the Group in August 2012 as Group Head of Finance and was appointed to the Bank's Board as Finance Director in 2017. He is both a Chartered Accountant and a Chartered Tax Adviser and Treasurer of the Isle of Man Bankers Association.

Appointment
Appointed to the Board as Group Finance Director on 3 November 2021.

DIRECTORS, OFFICERS AND ADVISERS

Non-executive Directors

Alan Clarke (72)‡†*
Independent Non-executive Director

Alan Clarke is a chartered accountant and former senior partner of Ernst & Young during which time he worked closely with HSBC offshore operations in both the Channel Islands and the Isle of Man. Currently, he specialises in corporate finance and strategic consultancy, advising a variety of both listed and private companies. He holds several non-executive directorships and is a past President of ICAEW Manchester.

Appointment
Appointed to the Board on 2 November 2007. He is Chairman of the Audit, Risk and Compliance Committee and Chairman of the Remuneration Committee.

Gregory Bailey (67) ‡
Non-executive Director

Gregory Bailey, founded Palantir Group Inc which made successful investments in bio-tech company start-ups and financings, and is currently CEO of Juvenescence Ltd, chairman of Portage Biotech Inc, a CSE-traded drug development company and non-executive director of NYSE traded Biohaven Pharmaceuticals Holding Company. He is also founder and chairman of Chelsea Avondale, a property and causualty insurance and reinsurance group. Along with comprehensive experience in finance and healthcare, he has served on many public company boards and brings to the Group an extensive involvement in corporate governance.

Appointment
Appointed to the Board on 7 February 2018.

John Spellman (56) ‡*
Independent Non-executive Director

John Spellman is both a qualified accountant and banker. He spent his early years in banking, fund management and accountancy, specialising in the various parts of the offshore industry before being appointed managing director of Clerical Medical Offshore. He transferred to the UK as chief operating officer within Clerical Medical Financial Services before being appointed managing director of HBoS Financial Services. He has worked with and created a number of successful businesses and has wide experience liaising with government regulators. He has held approved status with the Isle of Man FSA in various roles and has acted as strategic advisor to the Isle of Man government, specialising in finance and foreign direct investment for over 11 years.

Appointment
Appointed to the Board on 4 May 2020. He is Chairman of Conister Bank Limited.

Gregory Jones (64) ‡†*
Independent Non-executive Director

Gregory Jones was called to the UK Bar in 1982 and subsequently joined KPMG Isle of Man where he spent 29 years before retiring in October 2019 as Head of Tax. He currently provides tax advice for a leading Isle of Man based firm of advocates and is a director of a local Corporate Service Provider. He is a member of the Chartered Institute of Taxation.

Appointment
Appointed to the Board 3 November 2021.

Legend

- * Member of the Audit, Risk and Compliance Committee
- † Member of the Remuneration Committee
- ‡ Member of the Nominations Committee

DIRECTORS, OFFICERS AND ADVISERS

Company Secretary

Lesley Crossley (55)
Company Secretary

Lesley Crossley is a Fellow of The Chartered Institute of Secretaries and Administrators and an Associate of the Chartered Insurance Institute. Lesley has over 30 years of wide-ranging experience in the financial services industry both in the UK and the Isle of Man and has held the position of Company Secretary with a number of Isle of Man and international companies.

Appointment
Re-appointed as the Company Secretary on 2 September 2019 after re-joining the Group. She also held the position from September 2009 to June 2018.

Advisers

Registered Office
Clarendon House
Victoria Street
Douglas
Isle of Man IM1 2LN

Registered Agent
CW Corporate Services Limited
Bank Chambers
15-19 Athol Street
Douglas
Isle of Man IM1 1LB

Legal Advisers
As to Isle of Man law
Long & Co Limited
Eyreton
Quarterbridge Road
Douglas
IM2 3RF

As to English law
Hill Dickinson LLP
The Broadgate Tower
20 Primrose Street
London EC21 2EW

Independent Auditor
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man IM1 1LA

Principal Banker
National Westminster Bank plc
250 Bishopsgate
London EC2M 4AA

Consulting Actuaries
Boal & Co Ltd
Marquis House
Isle of Man Business Park
Douglas
Isle of Man IM2 2QZ

Nominated Advisor and Broker
Beaumont Cornish
Building 3
Chiswick Park
566 Chiswick High Road
London W4 5YA

Registrar
Computershare Investor Services (Jersey) Limited
13 Castle Street
St Helier
Jersey JE1 1ES

Presentation of Annual Report and Accounts
Presented here are the Annual Report and Accounts of Manx Financial Group PLC.

Company Information
The Annual and Interim Reports, along with other supplementary information of interest to Shareholders, are included on its website. The address of the website is www.mfg.im which includes investor relations information and contact details.

AUDIT, RISK AND COMPLIANCE COMMITTEE

Dear Shareholders
I am pleased to set out below an account of the ARCC's role and activities during 2022 and up to the date of publication of this Annual Report.

Membership
Members of the ARCC are appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chairman of the Committee. The Committee shall be made up of at least 2 members. All members of the Committee shall be Non-executive Directors and at least one of whom shall have recent and relevant financial experience with a professional qualification from one of the professional accountancy bodies. The Chairman of the Board shall not be a member of the Committee.

Appointments to the Committee shall be for a period of up to 3-years, which may be extended by the Board for a further 3-year period (or, in exceptional circumstances, two further 3-year periods), provided the Director remains independent. The Board may approve annual extensions to any Director who has served 3 consecutive terms.

The Board shall appoint the Chairman of the Committee who shall be a Non-executive Director. In the absence of the Chairman of the Committee and / or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

The Committee shall meet at least six times a year. Of these, two will be held to review the annual and interim financial statements. Outside of the formal meeting programme, the Chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance.

Members	Appointed	Number of meetings attended
Alan Clarke (Chairman)	2 February 2007	8/8
David Gibson*	13 February 2009	2/2
Gregory Jones	3 November 2021	7/8
John Spellman	4 May 2020	8/8

*David Gibson retired on 25 May 2022

Only members of the Committee have the right to attend Committee meetings. However other individuals may be invited by the Chairman of the Committee to attend all or part of any meeting as and when appropriate.

The ARCC holds separate meetings with Internal Audit, Risk and Compliance and our External Auditor, KPMG Audit LLC.

The Chairman of the Board, the Executive Directors and management may be invited to meetings of the ARCC but are excluded from the separate meetings held between the ARCC and the External Auditor.

Execution of functions
The ARCC has executed its duties and responsibilities during the year in accordance with its terms of reference as it relates to auditor independence, assisting the Board in its evaluation of its control environment and internal controls including information systems and accounting practices.

Due to its adoption of the QCA Corporate Governance standard, the Committee reassessed the adequacy of its terms of reference and its function bearing in mind the requirements of this standard.

During the year under review, the Committee considered among other matters, the following:

Financial reporting and annual financial statements:
- Considered the annual financial statements with the External Auditor, Executive Directors and management and reviewed the appropriateness of significant judgements, estimates and accounting policies;
- Reviewed and recommended to the Board for adoption:
  - Unaudited condensed interim results for the period-ended 30 June 2022;
  - The Bank's ICAAP for 2022;
  - Audited MFG PLC Group and subsidiary annual financial statements for the year-ended 31 December 2022; and
- Discussed any significant and unusual accounting matters including key audit matters identified by the External Auditor.

External audit:
- Monitored and assessed the independence of the External Auditor based on reports received and inquiries made into work performed;
- Determined the nature and extent of non-audit services performed by the External Auditor;
- Reviewed and assessed the significance of non-audit fees compared to audit fees;
- Reviewed and agreed the external audit plan in advance for the year-end audit which set out the scope of audit, significant risks, areas of audit focus and audit timetable;
- Tendering process as part of the external audit process;
- Received a presentation from the External Auditor on the findings from their execution of the audit plan; and
- Satisfied itself as to the experience and independence of the engagement partner.

Internal audit:
- Reviewed and approved the Internal Audit plan;
- Reviewed Internal Audit's findings including the design and operating effectiveness of the internal control environment and control activities; and
- Reviewed Internal Audit's findings on the adequacy and reliability of management information.

Risk and compliance:
- Assessed the effectiveness of the Group Risk and Compliance function;
- Reviewed the Group Risk and Compliance department findings on the effectiveness of the Group's regulatory controls;
- Recommended a revision of the Risk and Compliance policies for Board approval; and
- Recommended a revision of the Internal Capital Adequacy Assessment Process for Board approval.

AUDIT, RISK AND COMPLIANCE COMMITTEE

External Auditor's independence
KPMG Audit LLC has been the Group's external auditor since 2007.

Consideration was given to the non-audit work performed by the External Auditor. The ratio of non-audit fees to audit fees for the year was 0.04 to 1 (2021: 0.01 to 1). Non-audit services related to tax advisory services. Services were performed by a separate team to the audit team to safeguard against the self-review threat to independence.

The ARCC obtained assurance from the External Auditor that internal governance processes within KPMG Audit LLC support and demonstrate its claim of independence. This assurance was provided through the receipt of an ISA (UK) 260 letter.

The ARCC is satisfied with the independence of KPMG Audit LLC and is recommending that KPMG Audit LLC be reappointed as the Group's auditor at the 2023 Annual General Meeting.

Key accounting matters
The ARCC considered key accounting matters in relation to the Group's financial statements and disclosures. The primary areas in relation to 2022 and how they were addressed are detailed below:

Key accounting matter	ARCC response
Loan impairment – wholesale funding and individual finance agreements The entity is required by the financial reporting framework to calculate impairment using the expected credit loss model. Impairment is measured on an instrument-by-instrument basis except where instruments are grouped, for impairment to be measured on a collective basis under the expected credit loss model. Loan impairment provisions reflect estimates of the amount and timing of future recoveries which require an assessment of matters such as future economic conditions and the value of collateral. Estimates, by their nature, give rise to a higher risk of material misstatement due to error or fraud. The effect of these matters is that, as part of the External Auditor's risk assessment, they determined that the impairment provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than their materiality for the financial statements as a whole, and possibly many times that amount.	The ARCC satisfied itself that the internal control environment and control activities are appropriately designed and implemented. This was supported by review of Internal and External Audit reports and findings. The ARCC reviewed reports from management on the continued implementation of IFRS 9 and key changes to internal processes and controls. The ARCC reviewed the key assumptions used by management such as Loss Given Default, Loss Rates, Probability of Default on a quarterly basis.
Impairment of goodwill and intangible assets Goodwill and intangible assets are significant and the estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows for the goodwill impairment test and in performing a review for indicators of impairment for intangible assets. The effect of these matters is that, as part of the External Auditor's risk assessment, they have determined that the value in use of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than their materiality for the financial statements as a whole.	The ARCC satisfied itself that the internal control environment and control activities are appropriately designed and implemented. This was supported by review of Internal and External Audit reports and findings. The ARCC reviewed management's assessment of Goodwill and Intangible Asset impairment and concluded that the recoverable amount is appropriate after the impairment of EAL Goodwill (See note 34).

AUDIT, RISK AND COMPLIANCE COMMITTEE

Key accounting matter	ARCC response
Carrying value of Company's subordinated loans and investment in subsidiaries The carrying value of the Company's subordinated loans to and investment in subsidiaries represents 94% (2021: 97%) of the Parent Company's total assets. The assessment of carrying value is not at a high risk of significant misstatement or subject to significant judgement as the carrying value is supported by the audited net asset value of the subsidiaries. However, due to its materiality in the context of the MFG financial statements, the External Auditor considered this to be the area that had the greatest effect on their audit of the Company.	The ARCC is satisfied that the going concern assessment over the Group provides sufficient assurance over the recoverability of the Company's subordinated loans and investment in subsidiaries.

The ARCC has complied with and discharged its responsibilities as set out in its Terms of Reference.

Alan Clarke
Chairman
20 March 2023

DIRECTORS' REMUNERATION REPORT

Dear Shareholders
On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022.

Membership
Members of the Remuneration Committee ("REMCO") are appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee. The Committee shall be made up of at least 2 members. All members of the Committee shall be Non-executive Directors. The Chairman of the Board shall not be a member of the Committee.

Appointments to the Committee shall be for a period of up to 3-years, which may be extended by the Board for a further 3-year period (or, in exceptional circumstances, two further 3-year periods), provided the Director remains independent. The Board may approve annual extensions to any Director who has served 3 consecutive terms.

The Board shall appoint the Chairman of the Committee who shall be a Non-executive Director. In the absence of the Chairman of the Committee and / or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

The Committee shall meet at least twice a year and at such other times as the Chairman of the Committee shall require.

Membership	Appointed	Number of meetings attended
Alan Clarke (Chairman)	13 February 2009	18/18
David Gibson*	12 December 2010	5/5
Greg Jones	25 May 2022	13/13

*David Gibson retired on 25 May 2022

Only members of the Committee have the right to attend Committee meetings. However, other individuals may be invited by the Chairman of the Committee to attend all or part of any meeting as and when appropriate.

Areas of focus for 2022
During the year, the Committee considered the following:

- Reviewed the overall pay of Executive Directors;
- Reviewed the non-contractual discretionary annual performance related pay scheme for Group staff;
- Reviewed and approved the provision of RSUs to Group staff;
- Reviewed and approved all new Group staff appointments where gross basic salary exceeded £75,000 (increased from £50,000 in May 2022); and
- Reviewed and approved all changes to terms and conditions of staff where gross basic salary exceeded £75,000 (increased from £50,000 in May 2022).

Remuneration policy
The Group's Remuneration Policy reflects the Group's business strategy and objectives as well as sustained and long-term value creation for Shareholders. In addition, the policy aims to be fair and provide equality of opportunity, ensuring that:

- the Group is able to attract, develop and retain high-performing and motivated employees in the competitive local IOM and wider UK markets;
- employees are offered a competitive remuneration package to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contribution to the success of the Group;
- it reflects the Group's culture and values; and
- there is full transparency of the Group's Remuneration Policy.

In line with the Board's approach, which reflects that adopted within other comparable organisations, the Group's Remuneration Policy provides for the reward of Executive Directors through salaries and other benefits.

Executive Directors' Emoluments
The remuneration for Executive Directors reflects their responsibilities. It comprises basic salary, performance related bonus when this is considered appropriate, and various benefits detailed below.

As with staff generally, whose salaries are subject to annual reviews, basic salaries payable to Executive Directors are reviewed each year with reference to jobs carrying similar responsibilities in comparable financial organisations, market conditions generally and local employment competition in view of the Group's geographical position.

The Group operates a non-contractual discretionary annual performance related pay scheme based on the trading performance of the Group and the individual employee's performance assessed for the period under review in a manner which promotes sound risk management and does not promote excessive risk taking.

The non-contractual discretionary annual performance related pay scheme may be paid in one year but that does not confer any entitlement in future years.

Performance assessments are conducted annually to determine the performance rating of each employee's achievements against a mix of targets set and agreed at the beginning of each year between the employee and their manager. No incentives are paid to employees or executives where the performance rating reflects below an agreed expected level for the role employed.

The non-contractual discretionary annual performance related pay scheme may be disbursed as a cash payment through payroll, share based instruments including RSUs and / or options. An element of deferment to align the interests of the employee to the longer term performance of the Group may also be included.

EAL's Financial Advisors are salaried and commission is calculated on a pre-agreed percentage over target which is typically set at between 2 to 3 times annual gross salary depending on the size of the Financial Advisor's client base and their historical performance. Each Financial Advisor is set objectives at the beginning of the year including a 100% pass in all compliance requirements. Where indemnified commission is paid and the underlying client policy lapses and the commission is clawed back then this is reviewed by an

DIRECTORS' REMUNERATION REPORT

Executive Director in order to monitor trends and is then clawed back from the relevant Financial Advisor.

Where the Group operates contractually guaranteed performance related pay, the contractual conditions must be approved by the REMCO.

Executive Directors' contractual terms
In keeping with current recommended practice, the standard term for Executive Director appointments, which have a contractual notice period, is 6 months.

Non-executive Directors' remuneration
Non-executive Directors do not receive any benefits other than their fees and travelling expenses for which they are reimbursed. The level of fees payable to Non-executive Directors is assessed using benchmarks from a group of comparable financial organisations.

The procedure for determining Director remuneration
The REMCO, comprising two Non-executive Directors, is responsible for setting the remuneration of the Executive Directors. Committee members do not take part in discussions concerning their own remuneration. The basic Non-executive Director fee is set by the Group Chairman and CEO. The Chairman of the Committee reports at the Board meeting following a committee meeting.

Implementation report
It is the view of the Committee that Directors' remuneration awarded across the Group for the year has been in accordance with the Group's stated Remuneration Policy and, on behalf of the Committee I recommend that you endorse this Group report. An analysis of Directors' emoluments is as follows:

Directors' emoluments

	Remuneration / Fees £	Performance Related Pay £	Pension £	**2022 Total £**	2021 Total £
Executives					
Jim Mellon	50,000	-	-	**50,000**	50,000
Denham Eke	60,000	-	-	**60,000**	50,000
Douglas Grant	252,175	50,000	25,218	**327,393**	281,378
James Smeed	154,375	18,000	15,438	**187,813**	143,992
	516,550	68,000	40,656	**625,206**	525,370
Non-executives					
Gregory Bailey	25,000	-	-	**25,000**	-
Alan Clarke	45,000	-	-	**45,000**	45,000
David Gibson ^	35,417	-	-	**35,417**	85,000
Gregory Jones	25,000	-	-	**25,000**	5,949
John Spellman	76,675	-	-	**76,675**	40,000
	207,092	-	-	**207,092**	175,949
Aggregate emoluments	723,642	68,000	40,656	**832,298**	701,319

^ David Gibson retired from the Board on 25 May 2022.

Approval
This report was approved by the Board of Directors on 20 March 2023 and signed on its behalf by:

Alan Clarke
Chairman of the Remuneration Committee
20 March 2023

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2022.

Principal regulated activities

The principal activities of the Group are the provision of asset and personal finance, investing activities, foreign exchange brokerage services and wealth management.

The Bank, a wholly owned subsidiary of the Company, holds a Class 1(1) deposit taking licence issued under Part 2 of the Isle of Man Financial Services Act 2008. Deposits made with the Bank are covered by the Isle of Man Depositors' Compensation Scheme contained in the Banking Business (Compensation of Depositors) Regulations 1991.

The Bank and CFL are authorised by the FCA to conduct brokerage services.

EAL is authorised by the FSA under section 7 of the Financial Services Act 2008 to conduct investment business as a Class 2, sub-classes (3), (6) and (7) licence holder.

Results and dividends

The Group profit before tax for the year was £5,211,000 (2021: £3,043,000).

On 25 May 2022, MFG declared a dividend of £279,200 (2021: £196,800) which could either be taken up in cash or new ordinary shares. 781,349 new shares (2021: 161,562 new shares) were admitted to the Alternative Investment Market ("AIM") at 8.0205 pence per share (2021: 7.0575 pence per share), at a total cost of £62,000 (2021: £12,000).

The proposed transfers to and from reserves are as set out in the Statement of Changes in Equity on page 41.

Going Concern

The Group has recognised a profit for the year after taxation of £4,674,000 (2021: £2,809,000). As at the year ended 31 December 2022, the Bank had a total capital ratio of 15.3% (2021: 19.1%) which exceeded the regulatory minimum requirement of 14.0% (2021: 14.0%). Based on these factors, management has a reasonable expectation that the Group has and will continue to have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Share capital

The authorised and issued share capital of the Company are set out in note 29 to the financial statements.

Significant shareholdings

The number of shares held and the percentage of the issued shares which that number represented as of 17 March 2023 are:

	Number	% of issued capital
Lynchwood Nominees Limited[1]	23,374,816	20.31
Jim Mellon[2]	21,669,314	18.83
Gregory Bailey[4]	17,957,290	15.61
Vidacos Nominees Limited[3]	6,507,771	5.66
Island Farms Limited	4,350,856	3.78
Interactive Investors Services Nominees Limited	4,216,456	3.66
Rock (Nominees) Limited	4,198,716	3.65
Chase Nominees Limited	3,483,526	3.03

Directors and Directors' share interests

The number of shares held by the current Directors is as follows:

	Number 17/03/23	**Number 31/12/22**	Number 31/12/21
Jim Mellon[2]	**21,669,314**	**21,669,314**	21,522,650
Gregory Bailey	**17,957,290**	**17,957,290**	17,835,750
Douglas Grant	**533,951**	**533,951**	518,177
Alan Clarke	**55,048**	**55,048**	53,422

[1] Lynchwood Nominees Limited holds 17,039,623 Ordinary Shares in trust for Aeternitas Imperium Privatstiftung.

[2] Burnbrae Limited holds 19,341,332 Ordinary Shares. Burnbrae Limited is 100% beneficially owned by Jim Mellon. Denham Eke, Executive Vice-Chairman of MFG is also a director of Burnbrae Limited. Vidacos Nominees Limited also holds 2,327,982 Ordinary Shares in trust for Jim Mellon.

[3] Vidacos Nominees Limited holds 4,966,000 Ordinary Shares in trust for Zeno Capital Limited.

[4] Vidacos Nominees Limited holds 17,957,290 Ordinary Shares in trust for Gregory Bailey.

The number of share options / RSUs held by the current Directors is as follows:

	Number 17/03/22	**Number 31/12/22**	Number 31/12/21
Douglas Grant	**1,775,000**	**1,775,000**	700,000
James Smeed	**175,000**	**175,000**	-

Directors' liability insurance

The Group maintains insurance cover for Directors' potential liability.

Fixed and intangible assets

The movement in fixed and intangible assets during the year are set out in notes 22 and 23 respectively to the financial statements.

Staff

At 31 December 2022, there were 168 members of staff (2021: 132), of whom 13 were part-time (2021: 12).

Investment in subsidiaries

Investments in the Company's subsidiaries are disclosed in note 31 to the financial statements.

Auditor

KPMG Audit LLC, being eligible, has expressed its willingness to continue in office.

On behalf of the Board

J Mellon
Executive Chairman
20 March 2023

ANNUAL FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

The Directors are required to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with international accounting standards in accordance with UK-adopted international accounting standards ("UK-adopted IFRS" or "IFRSs") as applicable to an Isle of Man Company and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and relevant;
- state whether they have been prepared in accordance with IFRSs;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Isle of Man Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT, TO THE MEMBERS OF MANX FINANCIAL GROUP PLC

Our opinion is unmodified
We have audited the Consolidated Financial Statements of Manx Financial Group PLC (the "Company") and its subsidiaries (together, the "Group"), which comprise the Consolidated and Parent Company Statements of Financial Position as at 31 December 2022, the Consolidated and Parent Company Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and parent company financial statements:
- give a true and fair view of the financial position of the Company and Group as at 31 December 2022, and of the Company and Group's financial performance and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Isle of Man Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key audit matters: our assessment of the risks of material misstatement
Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated and parent company financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters were as follows (unchanged from 2021).

Key audit matter	The risk	Our response
Loans and advances to customers – wholesale funding Loans and advances to customers £79,116,000 (2021: £33,587,000) Impairment Provision £nil (2021: £nil) Expense for the year £nil (2021: £365,000) Refer to page 23 the Audit, Risk and Compliance Committee ("ARCC") Report, note 4 (Use of Judgements and Estimates - Assumptions and Estimation Uncertainties), note 7(A) (Credit Risk), note 13 (Impairment on Loans and Advances to Customers), note 20 (Loans and Advances to Customers), note 42 (B) (Financial Risk Management – Credit risk) and note 44(G)(vii) (Accounting Policy for Impairment of Financial Instruments).	**Basis:** The entity is required by the financial reporting framework to calculate impairment using the expected credit loss model. Impairment is measured on an instrument by instrument basis except where instruments are grouped, for impairment to be measured on a collective basis under the expected credit loss model. Wholesale Funding comprises Block Finance, Wholesale Funding Agreements and Stocking Plans. These books comprise individually significant loan balances and are in the nature of a secured business loan. The security is principally an underlying pool of loans. Loan impairment provisions reflect estimates of the amount and timing of future recoveries which require an assessment of matters such as future economic conditions and the value of collateral. **Risk:** Estimates, by their nature, give rise to a higher risk of material misstatement due to error or fraud. The effect of these matters is that, as part of our risk assessment, we determined that the impairment provision has a high degree of estimation uncertainty, including increased uncertainty from the residual economic impacts of COVID19 as well as the financially volatile environment caused by rising inflation and interest rate pressure with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	*Our audit procedures included:* **Internal Controls:** Understanding the design and implementation of controls in respect of the origination of wholesale funding loans, including borrower due diligence. Understanding the design and implementation of controls in respect of the Group's loan impairment process such as the timely recognition of impairment provisions, the completeness and accuracy of reports used in the loan impairment process and management review processes over the calculation of collective and specific provisions. **Test of details:** We agreed the specific provisions included in the financial statements to Group's provisioning schedule and vouched that this schedule was correctly extracted from the loans and advances system, including the arrears information. We tested all specific provisions. This included challenging Group's assessment of the specific provision, taking account of such factors as: amount of arrears; compliance with covenant requirements, financial standing of the business – by inspecting latest available accounts and status of underlying security – by inspecting a sample of security documentation. **Use of KPMG Specialists:** We involved KPMG specialists to examine the methodology of the Group's expected credit loss model and its compliance with requirements of accounting standards. **Historical comparison:** We challenged the inputs used in collective impairment models by comparison to default and

Key audit matter	The risk	Our response
		recovery experience across each of the loan finance categories. **Assessing disclosures:** Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty involved at arriving at the provisions in accordance with the relevant financial reporting framework and specific circumstances of the Group.
Loans and advances to customers – individual finance agreements Loans and advances to customers £212,359,000 (2021: £195,664,000) Impairment provision £14,223,000 (2021: £8,719,000) Expense for the year £3,992,000 (2021: £4,360,000) Refer to page 23 of the ARCC Report, note 4 (Use of Judgements and Estimates - Assumptions and Estimation Uncertainties), note 7(A) (Credit Risk), note 13 (Impairment on Loans and Advances to Customers), note 20 (Loans and Advances to Customers), note 42 (B) (Financial Risk Management – Credit risk) and note 44(G)(vii) (Accounting Policy for Impairment of Financial Instruments).	**Basis:** The entity is required by the financial reporting framework to calculate impairment using the expected credit loss model. Impairment is measured on an instrument by instrument basis except where instruments are grouped, for impairment to be measured on a collective basis under the expected credit loss model. Individual finance agreements include hire purchase finance leases and unsecured loans to individuals and companies. Any security is typically the specific assets financed. Loan impairment provisions reflect estimates of the amount and timing of future recoveries which require an assessment of matters such as future economic conditions and the value of collateral. **Risk:** Estimates, by their nature, give rise to a higher risk of material misstatement due to error or fraud. The effect of these matters is that, as part of our risk assessment, we determined that the impairment provision has a high degree of estimation uncertainty, including increased uncertainty from the residual economic impacts of COVID19 as well as the financially volatile environment financially volatile environment caused by rising inflation and interest rate pressure with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	*Our audit procedures included:* **Internal Controls:** Understanding the design and implementation of controls in respect of the origination of individual finance loans, including borrower due diligence. Understanding the design and implementation of controls in respect of the Group's loan impairment process such as the timely recognition of impairment provisions, the completeness and accuracy of reports used in the loan impairment process and management review processes over the calculation of collective and specific provisions. **Use of KPMG Specialists:** We involved KPMG specialists to examine the methodology of the Group's expected credit loss model and its compliance with the requirements of accounting standards. **Challenging management assumptions and inputs:** We agreed the specific provisions included in the financial statements to management's provisioning schedule and vouched that this schedule was correctly extracted from the loans and advances system, including the arrears information. We tested a sample of specific provisions, weighted towards those against individually significant impaired loans. This included challenging management's assessment of the specific provision, taking into account such factors as: the number of repayments in arrears; the known whereabouts of the hirer / lessee and of the assets under finance; and the amounts received under agreed repayment plans, where scheduled repayments under the original agreement are no longer being met. **Historical comparison:** We challenged the inputs used in collective impairment models by comparison to default and recovery experience across each of the loan finance categories. **Assessing disclosures:** Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty involved at arriving at the provisions in accordance with the relevant financial reporting framework and specific circumstances of the Group.
Impairment of goodwill and intangible assets Goodwill £10,576,000 (2021: £6,320,000) and Intangibles Assets £2,703,000 (2021: £2,508,000).	**Basis** Goodwill and intangible assets are significant and the estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows for the goodwill impairment test and in performing a	*Our audit procedures included:* **Internal Controls:** Understanding the controls in respect of the Group's goodwill and intangibles assets impairment review process such as the timely recognition of impairment

INDEPENDENT AUDITOR'S REPORT, TO THE MEMBERS OF MANX FINANCIAL GROUP PLC

Key audit matter	The risk	Our response
Impairment loss on Goodwill £200,000 (2021: £nil) Refer to page 23 of the ARCC Report, note 4 (Use of Judgements and Estimates - Assumptions and Estimation Uncertainties), note 23 (Intangible Assets), note 35 (Investment in Group Undertakings), 44(A) (Basis for Consolidation of Subsidiaries and Separate Financial Statements of the Parent Company), note 44(K) (Intangible Assets and Goodwill) and note 44(L) (Impairment of Non-Financial Assets).	review for indicators of impairment for intangible assets. Goodwill and intangible assets have arisen on the Group's acquisition of businesses including lenders, independent financial advisers and finance brokers, each of which is identified by the Group as a Cash Generating Unit. Risk: The effect of these matters is that, as part of our risk assessment, we determined that the value in use of the Cash Generating Units containing goodwill and / or intangible assets has a high degree of estimation uncertainty, including increased uncertainty from the residual economic impacts of COVID19 as well as the financially volatile environment caused by rising inflation and interest rate pressure with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 34) disclose the sensitivity estimated by the Group.	provisions and the completeness and accuracy of reports used in the impairment review process. **Evaluating experts engaged by management:** We have evaluated the competence, capabilities and objectivity of the management's expert; obtained an understanding of the work of that expert and evaluated the appropriateness of that expert's work as audit evidence for the recognition of goodwill and intangible assets acquired. **Use of KPMG Specialists:** We involved our own valuation specialists who have tested reasonableness of the assumptions in particular those relating to each cash generating unit's forecast revenue growth, profit margins, discount rate and the valuation method used. **Benchmarking assumptions:** Comparing the Group's assumptions to externally derived data in relation to key inputs such as projected economic growth, competition and cost inflation. **Indicators of impairment for intangible assets:** Analysing latest financial data for the business related to the relevant goodwill and intangible asset to assess whether there are any indicators of impairment, such as losses being made or a downturn in sales. **Sensitivity analysis:** Performing headroom analysis on the assumptions noted above. **Assessing disclosures:** Assessing the adequacy of the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected in the risks inherent in the valuation of goodwill and intangible assets.
Recoverability of Parent Company's subordinated loans to and investment in subsidiaries Investment in subsidiaries £23,597,000 (2021: £22,597,000) Loans and amounts due from Group undertakings £17,635,000 (2021: £13,832,000). Refer to page 24 of the ARCC report, note 35 (Investment in Group Undertakings) and note 44(A)(vi) (Separate Financial Statements of the Company).	Basis: The carrying value of the Parent Company's investment in subsidiaries and loans and amounts due from Group undertakings represents 94% (2021: 97%) of the Parent Company's total assets. Risk: The assessment of carrying value is not at a high risk of significant misstatement or subject to significant judgement as the carrying value is supported by the audited net asset value of the subsidiaries. However, due to its materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	*Our audit procedures included:* **Tests of detail:** Comparing the carrying amount of 100% of the Parent Company's investments in subsidiaries and loans and amounts due from Group undertakings with the relevant subsidiaries' and Group undertaking's audited statement of financial position to identify whether their financial position supported the carrying amount of the Parent Company's investments in those subsidiaries and loans and amounts due from Group undertakings, assessing whether those subsidiaries and Group undertakings have historically been profit-making and evaluating budgeted forecasts in line with our knowledge of the respective subsidiaries and the current economic conditions in which those subsidiaries operate.

Our application of materiality and an overview of the scope of our audit
Materiality for the consolidated financial statements as a whole was set at £206,000 (2021: £120,000), determined with reference to a benchmark of Group profit before tax (forecasted) of £4,120,000 (2021: £2,400,000), of which it represents approximately 5.0% (2021: 5.0%).

Our application of materiality and an overview of the scope of our audit (continued)
Materiality for the Parent Company financial statements as a whole was set at £123,000 (2021: £120,000), determined with reference to a benchmark of Parent Company total assets, but reduced to align with materiality for the Group financial statements.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the consolidated financial statements as a whole. Performance materiality for the Group was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £154,000 (2021: £90,000) for the Group and £92,000 (2021: £54,000) for the Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £10,000 (2021: £6,000) for the Group and £6,150 (2021: 6,000) for the Company, in addition to other identified misstatements that warranted reporting on qualitative grounds.. Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group audit team audits all components of the group except Ninkasi Rentals & Finance Limited ("NRFL") which represents 2.0% (2021: 2.0%) of the Group's total assets. Group reporting is received for NRFL, subject to a materiality level set by the Group audit team.

Detailed audit instructions were sent to the auditor of NRFL. These instructions covered the significant audit areas that should be covered by this audit (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported to the group audit team.

Going concern
The Directors have prepared the consolidated and company financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the consolidated financial statements (the "going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and the Company's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Group and the Company's financial resources or ability to continue operations over this period were the recoverability of financial assets subject to credit risk as a result of economic downturn due to the residual impacts of COVID19 and the financially volatile environment caused by increased inflation and interest rates pressure.

We considered whether this risk could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from this risk against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in the Directors' Report gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the consolidated and company financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in the notes to the consolidated financial statements to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Group's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

Fraud and breaches of laws and regulations – ability to detect (continued)
As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Group's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the consolidated financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Group is subject to laws and regulations that directly affect the consolidated financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the consolidated financial statements, for instance through the imposition of fines or litigation or impacts on the Group and the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the consolidated financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the consolidated financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We have nothing to report on other matters on which we are required to report by exception.

Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 29, the Directors are responsible for: the preparation of the consolidated financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Respective responsibilities (continued)
Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members, as a body
This report is made solely to the Company's members, as a body, in accordance with section 80(C) of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM1 1LA

20 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2022 £000	2021 £000
Interest revenue calculated using the effective interest rate method		28,978	21,010
Other interest income		1,765	1,937
Interest expense		(6,391)	(4,967)
Net interest income	9	24,352	17,980
Fee and commission income	10	4,719	4,621
Fee and commission expense	10	(3,569)	(3,339)
Depreciation on leasing assets	22	(16)	(269)
Net trading income		25,486	18,993
Other operating income		314	365
(Loss) / gain on financial instruments	19	(19)	30
Realised gain / (loss) on debt securities	18	292	(1)
Revaluation on acquisition of subsidiary	32	-	660
Operating income		26,073	20,047
Personnel expenses	11	(9,764)	(7,156)
Other expenses	12	(5,806)	(4,500)
Provision for impairment on loans and advances to customers	13	(3,990)	(4,360)
Depreciation	22	(738)	(675)
Amortisation and impairment of intangibles	23	(582)	(458)
Share of profit of equity accounted investees, net of tax	30	18	32
VAT recovery	21	-	113
Profit before tax payable	14	5,211	3,043
Income tax expense	15	(537)	(234)
Profit for the year		4,674	2,809

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December	Notes	2022 £000	2021 £000
Profit for the year		**4,674**	2,809
Other comprehensive income:			
Items that will be reclassified to profit or loss			
Unrealised gain / (loss) on debt securities	18	**131**	(18)
Items that will never be reclassified to profit or loss			
Revaluation gain on property, plant and equipment	22	**-**	15
Actuarial gain on defined benefit pension scheme taken to equity	28	**407**	172
Recognition of deferred tax credit on defined benefit pension		**-**	67
Total comprehensive income for the period attributable to owners		**5,212**	3,045
Profit attributable to:			
Owners of the Company		**4,331**	2,793
Non-controlling interests	32	**343**	16
		4,674	2,809
Total comprehensive income attributable to:			
Owners of the Company		**4,869**	3,029
Non-controlling interests	32	**343**	16
		5,212	3,045
Earnings per share – Profit for the year			
Basic earnings per share (pence)	16	**4.07**	2.46
Diluted earnings per share (pence)	16	**3.15**	1.97
Earnings per share – Total comprehensive income for the year			
Basic earnings per share (pence)	16	**4.54**	2.66
Diluted earnings per share (pence)	16	**3.50**	2.13

The notes on pages 44 to 88 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2022 £000	2021 £000
Dividend income		1,575	1,259
Interest income		522	518
Other income		69	78
Operating income		2,166	1,855
Personnel expenses	11	(127)	(129)
Administration expenses		-	(59)
Depreciation expense	22	(65)	(91)
Amortisation expense		(2)	(2)
Impairment of intercompany receivable		-	(545)
Profit before tax payable		1,972	1,029
Tax payable		-	-
Profit for the year		1,972	1,029
Total comprehensive income for the year		1,972	1,029

The notes on pages 44 to 88 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2022 £000	2021 £000
Assets			
Cash and cash equivalents	17	**22,630**	20,279
Debt securities	18	**40,675**	40,987
Equity held at Fair Value Through Profit or Loss	33	**122**	68
Loans and advances to customers	20	**291,475**	229,251
Trade and other receivables	21	**4,211**	1,947
Property, plant and equipment	22	**6,714**	7,257
Intangible assets	23	**2,703**	2,508
Investment in associates	30	**155**	136
Goodwill	34	**10,576**	6,320
Total assets		**379,261**	308,753
Liabilities			
Deposits from customers	24	**304,199**	253,459
Creditors and accrued charges	25	**13,108**	4,745
Deferred consideration	26, 6(ii), 32	**262**	1,023
Loan notes	27	**31,332**	23,672
Pension liability	28	**237**	687
Deferred tax liability	15	**353**	182
Total liabilities		**349,491**	283,768
Equity			
Called up share capital	29	**19,195**	19,133
Profit and loss account		**10,371**	5,781
Revaluation reserve	22	**15**	15
Non-controlling interest	32	**189**	56
Total equity		**29,770**	24,985
Total liabilities and equity		**379,261**	308,753

The financial statements were approved by the Board of Directors on 20 March 2023 and signed on its behalf by:

Jim Mellon	**Denham Eke**	**Douglas Grant**
Executive Chairman	Executive Vice-Chairman	Chief Executive Officer

The notes on pages 44 to 88 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2022 £000	2021 £000
Assets			
Cash and cash equivalents	17	1,761	430
Trade and other receivables	21	562	472
Amounts due from Group undertakings	35	9,907	6,104
Property, plant and equipment	22	201	263
Intangible assets		25	20
Investment in subsidiaries	31	23,597	22,597
Subordinated loans	35	7,728	7,728
Total assets		43,781	37,614
Liabilities			
Creditors and accrued charges	25	440	501
Amounts due to Group undertakings	35	122	3,309
Loan notes	27	31,332	23,672
Total liabilities		31,894	27,482
Equity			
Called up share capital	29	19,195	19,133
Profit and loss account		(7,308)	(9,001)
Total equity		11,887	10,132
Total liabilities and equity		43,781	37,614

The notes on pages 44 to 88 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
Group	Share capital £000	Profit and loss account £000	Revaluation reserve £000	Total £000	Non-controlling interests £000	Total equity £000
Balance as at 1 January 2021	19,121	3,230	-	22,351	84	22,435
Profit for the year	-	2,793	-	2,793	16	2,809
Other comprehensive income	-	221	15	236	-	236
Transactions with owners						
Dividends declared	12	(197)	-	(185)	-	(185)
Acquisition of subsidiary with non-controlling interest	-	(266)	-	(266)	(44)	(310)
Balance as at 31 December 2021	19,133	5,781	15	24,929	56	24,985
Profit for the year	**-**	**4,331**	**-**	**4,331**	**343**	**4,674**
Other comprehensive income	**-**	**538**	**-**	**538**	**-**	**538**
Transactions with owners						
Dividend declared (see note 29)	**62**	**(279)**	**-**	**(217)**	**-**	**(217)**
Acquisition of subsidiary with non-controlling interest	**-**	**-**	**-**	**-**	**(210)**	**(210)**
Balance as at 31 December 2022	**19,195**	**10,371**	**15**	**29,581**	**189**	**29,770**

Company	Share capital £000	Profit and loss account £000	Total equity £000
Balance as at 1 January 2021	19,121	(9,833)	9,288
Profit for the year	-	1,029	1,029
Dividends declared (see note 29)	12	(197)	(185)
Balance as at 31 December 2021	19,133	(9,001)	10,132
Profit for the year	**-**	**1,972**	**1,972**
Transactions with owners **Dividend declared (see note 29)**	**62**	**(279)**	**(217)**
Balance as at 31 December 2022	**19,195**	**(7,308)**	**11,887**

The notes on pages 44 to 88 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2022 £000	2021 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax		5,211	3,043
Adjustments for:			
Depreciation	22	754	944
Amortisation of intangibles	23	582	458
Share of profit of equity accounted investees	30	(18)	(32)
Contingent consideration interest expense	6(ii)	102	114
Pension charge included in personnel expenses	28	14	13
Gain / (loss) on financial instruments	19	19	(30)
Revaluation on acquisition of subsidiary	32	-	(660)
		6,664	3,850
Changes in:			
Equity at FVTPL		-	4
Trade and other receivables		(2,228)	223
Creditors and accrued charges		1,436	(109)
Net cash flow from trading activities		5,872	3,968
Changes in:			
Loans and advances to customers		(83,066)	(53,816)
Deposits from customers		50,740	35,174
Pension contribution	28	(57)	(98)
Cash (outflow) / inflow from operating activities		(26,511)	(14,772)

CASH FLOW STATEMENT			
Cash from operating activities			
Cash (outflow) / inflow from operating activities		(26,511)	(14,772)
Interest received		30,136	22,624
Interest paid		(6,184)	(4,936)
Income taxes paid		(157)	(10)
Net cash (used in) / from operating activities		(2,716)	2,906
Cash flows from investing activities			
Purchase of property, plant and equipment, excluding right-of-use assets	22	(1,473)	(2,109)
Purchase of intangible assets	23	(504)	(481)
Sale of property, plant and equipment	22	2,083	961
Acquisition of subsidiary or associate, net of cash acquired	32	(1,785)	(555)
Sale / (purchase) of debt securities		442	(15,473)
Deferred consideration on acquisition of subsidiary	6(ii),26	(937)	(120)
Net cash used in investing activities		(2,174)	(17,777)
Cash flows from financing activities			
Receipt of loan notes	27	7,660	1,450
Payment of lease liabilities (capital)	37	(202)	(201)
Dividend paid	29	(217)	(152)
Net cash from financing activities		7,241	1,097
Net increase / (decrease) in cash and cash equivalents		2,351	(13,774)
Cash and cash equivalents at 1 January		20,279	34,053
Cash and cash equivalents at 31 December		22,630	20,279

The notes on pages 44 to 88 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2022 £000	2021 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax		1,972	1,029
Adjustments for:			
Depreciation	22	63	91
Amortisation		2	2
Dividend income		(1,575)	(1,259)
		462	(137)
Changes in:			
Amounts due from group undertakings		(2,228)	(2,910)
Trade and other receivables		(90)	(163)
Creditors and accrued charges		100	66
Amounts due to Group undertakings		(4,187)	1,012
Cash outflow from operating activities		(5,943)	(2,132)
CASH FLOW STATEMENT			
Cash from operating activities			
Cash outflow from operating activities		(5,943)	(2,132)
Net cash used in operating activities		(5,943)	(2,132)
Cash flows from investing activities			
Purchase of intangible assets		(8)	(15)
Net cash used in investing activities		(8)	(15)
Cash flows from financing activities			
Receipt of loan notes	27	7,660	1,450
Payment of finance lease liability		(99)	(99)
Dividend paid		(279)	(152)
Net cash from financing activities		7,282	1,199
Net increase / (decrease) in cash and cash equivalents		1,331	(948)
Cash and cash equivalents at 1 January		430	1,378
Cash and cash equivalents at 31 December		1,761	430

The notes on pages 44 to 88 form part of these financial statements.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2022

1. Reporting entity
Manx Financial Group PLC ("Company") is a company incorporated in the Isle of Man. The Company's registered office is at Clarendon House, Victoria Street, Douglas, Isle of Man, IM1 2LN. The consolidated financial statements of the Company for the year ended 31 December 2022 comprise the Company and its subsidiaries ("Group") including Conister Bank Limited (the "Bank"). The Group is primarily involved in the provision of financial services.

2. Basis of accounting
The consolidated and the separate financial statements of the Company have been prepared in accordance with international accounting standards in accordance with UK-adopted international accounting standards ("UK-adopted IFRS" or "IFRSs"), on a going concern basis as disclosed in the Directors' Report.

3. Functional and presentation currency
These financial statements are presented in pounds sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. All subsidiaries of the Group have pounds sterling as their functional currency.

4. Use of judgements and estimates
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties at year-end that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:
- Note 23 and 34 – impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts;
- Note 44(G)(vii) – measurement of Expected Credit Loss ("ECL") allowance for loans and advances to customers and assessment of impairment allowances where loans are in default or arrears: key assumptions in determining the weighted-average loss rate; and

5. Financial instruments – Classification
For description of how the Group classifies financial assets and liabilities, see note 44(G)(ii).

The following table provides reconciliation between line items in the statement of financial position and categories of financial instruments.

Group 31 December 2022	Mandatorily at FVTPL £000	Designated as at FVTPL £000	FVOCI – debt instruments £000	FVOCI – equity instruments £000	Amortised cost £000	Total carrying amount £000
Cash and cash equivalents	-	-	-	-	22,630	22,630
Debt securities	-	-	40,675	-	-	40,675
Equity held at Fair Value Through Profit or Loss	-	122	-	-	-	122
Loans and advances to customers	-	-	-	-	291,475	291,475
Trade and other receivables	-	-	-	-	4,211	4,211
Total financial assets	-	122	40,675	-	318,316	359,113
Deposits from customers	-	-	-	-	304,199	304,199
Creditor and accrued charges	-	-	-	-	13,108	13,108
Deferred consideration	-	262	-	-	-	262
Loan notes	-	-	-	-	31,332	31,332
Total financial liabilities	-	262	-	-	348,639	348,901

5. Financial instruments – Classification (continued)

Group 31 December 2021	Mandatorily at FVTPL £000	Designated as at FVTPL £000	FVOCI - debt instruments £000	FVOCI - equity instruments £000	Amortised cost £000	Total carrying amount £000
Cash and cash equivalents	-	-	-	-	20,279	20,279
Debt securities	-	-	-	40,987	-	40,987
Equity held at Fair Value Through Profit or Loss	-	68	-	-	-	68
Loans and advances to customers	-	-	-	-	229,251	229,251
Trade and other receivables	-	-	-	-	1,947	1,947
Total financial assets	-	68	-	40,987	251,477	292,532
Deposits from customers	-	-	-	-	253,459	253,459
Creditor and accrued charges	-	-	-	-	4,745	4,745
Deferred consideration	-	-	1,023	-	-	1,023
Loan notes	-	-	-	-	23,672	23,672
Total financial liabilities	-	-	1,023	-	281,876	282,899

Company 31 December 2022	Mandatorily at FVTPL £000	Designated as at FVTPL £000	FVOCI - debt instruments £000	FVOCI - equity instruments £000	Amortised cost £000	Total carrying amount £000
Cash and cash equivalents	-	-	-	-	1,761	1,761
Trade and other receivables	-	-	-	-	562	562
Amounts due from Group undertakings	-	-	-	-	9,907	9,907
Subordinated loans	-	-	-	-	7,728	7,728
Total financial assets	-	-	-	-	19,958	19,958
Creditor and accrued charges	-	-	-	-	440	440
Amounts due to Group undertakings	-	-	-	-	122	122
Loan notes	-	-	-	-	31,332	31,332
Total financial liabilities	-	-	-	-	31,894	31,894

Company 31 December 2021	Mandatorily at FVTPL £000	Designated as at FVTPL £000	FVOCI - debt instruments £000	FVOCI - equity instruments £000	Amortised cost £000	Total carrying amount £000
Cash and cash equivalents	-	-	-	-	430	430
Trade and other receivables	-	-	-	-	472	472
Amounts due from Group undertakings	-	-	-	-	6,104	6,104
Subordinated loans	-	-	-	-	7,728	7,728
Total financial assets	-	-	-	-	14,734	14,734
Creditor and accrued charges	-	-	-	-	501	501
Amounts due to Group undertakings	-	-	-	-	3,309	3,309
Loan notes	-	-	-	-	23,672	23,672
Total financial liabilities	-	-	-	-	27,482	27,482

6. Financial instruments – Fair values

For description of the Group's fair value measurement accounting policy, see note 44(G)(vi).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount	Fair value			
31 December 2022	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets measured at fair value					
Debt securities	40,675	-	40,675	-	40,675
Equity held at Fair Value Through Profit or Loss	122	-	-	122	122
	40,797	-	40,675	122	40,797
Financial assets not measured at fair value					
Cash and cash equivalents	22,630	-	-	-	-
Loans and advances to customers	291,475	-	-	-	-
Trade and other receivables	4,211	-	-	-	-
	318,316	-	-	-	-
Financial liabilities measured at fair value					
Deferred consideration	262	-	-	262	262
	262	-	-	262	262
Financial liabilities not measured at fair value					
Deposits from customers	304,199	-	-	-	-
Creditors and accrued charges	13,108	-	-	-	-
Loan notes	31,332	-	-	-	-
	348,639	-	-	-	-

	Carrying amount	Fair value			
31 December 2021	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets measured at fair value					
Debt securities	40,987	-	40,987	-	40,987
Equity held at Fair Value Through Profit or Loss	68	-	-	68	68
	41,055	-	40,987	68	41,055
Financial assets not measured at fair value					
Cash and cash equivalents	20,279	-	-	-	-
Loans and advances to customers	229,251	-	-	-	-
Trade and other receivables	1,947	-	-	-	-
	251,477	-	-	-	-
Financial liabilities measured at fair value					
Deferred consideration	1,023	-	-	1,023	1,023
	1,023	-	-	1,023	1,023
Financial liabilities not measured at fair value					
Deposits from customers	253,459	-	-	-	-
Creditors and accrued charges	4,745	-	-	-	-
Loan notes	23,672	-	-	-	-
	281,876	-	-	-	-

6. Financial instruments – Fair values (continued)

Measurement of fair values
i. Valuation techniques and significant unobservable inputs

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Debt securities	Market comparison / discounted cash flow: The fair value is estimated considering a net present value calculated using discount rates derived from quoted yields of securities with similar maturity and credit rating that are traded in active markets.	Not applicable.	Not applicable.
Equities at Fair Value Through Profit or Loss	Net asset value	Expected net cash flows derived from the entity	The estimated fair value would increase (decrease) if the expected cash flows were higher (lower).
Deferred consideration	Discounted cash flows: The valuation model considers the present value of the expected future payments, discounted using a risk-adjusted discount rate.	Expected cash flows £291,340 (2021: £1,133,820). Risk-adjusted discount rate 14% (2021: 14%).	The estimated fair value would increase (decrease) if: -the expected cash flows were higher (lower); or -the risk-adjusted discount rate was lower (higher).

ii. Level 3 recurring fair values
Reconciliation of Level 3 fair values
The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	2022 £000	2021 £000
Balance at 1 January	1,023	672
Assumed in a business combination (Note 32)	-	387
Finance costs	102	114
Net change in fair value (unrealised)	74	(30)
	176	84
Payment (note 26)	(937)	(120)
Balance at 31 December	**262**	1,023

Sensitivity analysis
For the fair value of contingent consideration, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant would have the following effects.

	Profit or loss	
31 December 2022	**Increase £000**	**Decrease £000**
Expected cash flows (10% movement)	29	(29)
Risk-adjusted discount rate (1% movement)	5	(3)

	Profit or loss	
31 December 2021	Increase £000	Decrease £000
Expected cash flows (10% movement)	113	66
Risk-adjusted discount rate (1% movement)	12	(8)

7. Financial risk review

Risk management

This note presents information about the Group's exposure to financial risks and the Group's management of capital. For information on the Group's financial risk management framework, see note 42.

A. Group Credit risk

For definition of credit risk and information on how credit risk is mitigated by the Group, see note 42.

The key assumptions used in determining the weighted-average loss rate are loss given default rate and probability of default. These metrics are calculated at individual product level (for example Hire Purchase, Lease). In determining probability of default, the Group considers market consensus estimates of the UK's forecast GDP, inflation and interest rate over the applicable loan term of the product. Over the next 3 years, the Group has forecast average GDP growth of -0.6%, inflation of 4.1% and BOE base rate of 2.6%.

i. Credit quality analysis

Loans and advances to customers

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 44(G)(vii).

An analysis of the credit risk on loans and advances to customers is as follows:

Group	2022				2021			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Grade A	273,332	-	-	273,332	213,102	-	-	213,102
Grade B	-	5,006	9,347	14,353	-	5,735	5,594	11,329
Grade C	391	-	17,622	18,013	342	541	12,656	13,539
Gross value	273,723	5,006	26,969	305,698	213,444	6,276	18,250	237,970
Allowance for impairment	(303)	(3)	(13,917)	(14,223)	(503)	(124)	(8,092)	(8,719)
Carrying value	273,420	5,003	13,052	291,475	212,941	6,152	10,158	229,251

Loans are graded A to C depending on the level of risk. Grade A relates to agreements with the lowest risk, Grade B with medium risk and Grade C relates to agreements with the highest of risk.

The following table sets out information about the overdue status of loans and advances to customers in Stage 1, 2 and 3:

Group	2022				2021			
31 December	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Current	269,130	-	-	269,130	210,491	-	-	210,491
Overdue < 30 days	4,593	604	-	5,197	2,953	-	-	2,953
Overdue > 30 days	-	4,402	26,969	31,371	-	6,276	18,250	24,526
	273,723	5,006	26,969	305,698	213,444	6,276	18,250	237,970

For Stage 3 loans and advances, the Bank holds collateral with a value of £12,927,000 (2021: £11,625,250) representing security cover of 48% (2021: 64%).

Debt securities, cash and cash equivalents

The following table sets out the credit quality of liquid assets:

Group	2022 £000	2021 £000
Government bonds and treasury bills		
Rated A to A+	40,675	40,987
Cash and cash equivalents		
Rated A to A+	22,630	20,279
Trade and other receivables		
Unrated	4,211	1,947
	67,516	63,213

The analysis has been based on Standard & Poor's ratings.

7. Financial risk review (continued)
Risk management (continued)
A. Credit risk (continued)
ii. Collateral and other credit enhancements
The Group holds collateral in the form of the underlying assets (typically private and commercial vehicles, plant and machinery) to loan arrangements as security for HP, finances leases, vehicle stocking plans, block discounting, wholesale funding arrangements, integrated wholesale funding arrangements and secured commercial loan balances, which are sub-categories of loans and advances to customers. In addition, the Group will take debentures, mortgages, personal and corporate guarantees, fixed and floating charges on specific assets such as cash and shares. The terms of enforcing such security can only occur on default, and when realised can only be used to settle the amount of debt and related collection fees. On occasion the Bank may realise a surplus if the defaulting party loses title to the underlying security as part of enforcement. In addition, the commission share schemes have an element of capital indemnified. During 2022, 61.0% of loans and advances had an element of capital indemnification (2021: 76.0%).

At the time of granting credit within the sub-categories listed above, the loan balances due are secured over the underlying assets held as collateral.

iii. Amounts arising from ECL
See accounting policy in note 44(G)(vii).

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.

After a detailed review, the Group devised and implemented an impairment methodology in light of the IFRS 9 requirements outlined above noting the following:

- A Significant Increase in Credit Risk (“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, individual voluntary arrangements, abscond or disappearance, fraudulent activity or other similar events.
- The ECL was derived by reviewing the Group’s loss rate and loss-given-default over the past 5 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.
- 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.

There have been no significant changes to ECL assumptions from the prior year.

iv. Concentration of credit risk

Geographical
Lending is restricted to individuals and entities with Isle of Man, UK or Channel Islands addresses.

Segmental
The Bank is exposed to credit risk with regard to customer loan accounts, comprising HP and finance lease balances, unsecured personal loans, secured commercial loans, block discounting, vehicle stocking plan loans and wholesale funding agreements. In addition, the Bank lends via significant introducers into the UK. There was no introducer that accounted for more than 20% of the Bank’s total lending portfolio at the end of 31 December 2022 (2021: none).

7. Financial risk review (continued)
Risk management (continued)
B. Group Liquidity risk
For the definition of liquidity risk and information on how liquidity risk is manged by the Group, see note 41.

i. Exposure to liquidity risk
The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers and short-term funding. For this purpose, net liquid assets includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market.

Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2022	2021
At 31 December	20%	24%
Average for the year	22%	25%
Maximum for the year	25%	28%
Minimum for the year	19%	20%

ii. Maturity analysis for financial liabilities and financial assets
The table below shows the Group's financial liabilities classified by their earliest possible contractual maturity, on an undiscounted basis including interest due at the end of the deposit term. Based on historical data, the Group's expected actual cash flow from these items vary from this analysis due to the expected re-investment of maturing customer deposits.

Residual contractual maturities of financial liabilities as at the reporting date (undiscounted):

31 December 2022	Sight- 8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months - 6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Deposits	10,878	6,838	27,346	65,153	104,662	81,670	14,557	-	311,104
Other liabilities	691	116	1,796	3,717	13,196	22,354	6,697	590	49,157
Total liabilities	11,569	6,954	29,142	68,870	117,858	104,024	21,254	590	360,261

31 December 2021	Sight- 8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months - 6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Deposits	6,864	4,743	18,359	63,733	61,891	88,036	16,738	-	260,364
Other liabilities	291	83	1,210	1,253	10,995	9,091	9,053	869	32,845
Total liabilities	7,155	4,826	19,569	64,986	72,886	97,127	25,791	869	293,209

Maturity of assets and liabilities at the reporting date:

31 December 2022	Sight- 8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months - 6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Assets									
Cash	22,630	-	-	-	-	-	-	-	22,630
Debt securities	3,986	7,987	20,785	7,917	-	-	-	-	40,675
Loans and advances	8,038	10,952	27,913	40,730	47,813	106,755	46,176	3,098	291,475
Other assets	122	-	-	-	5,786	-	5,140	13,433	24,481
Total assets	34,776	18,939	48,698	48,647	53,599	106,755	51,316	16,531	379,261
Liabilities									
Deposits	10,878	6,380	26,552	64,251	103,561	78,984	13,593	-	304,199
Other liabilities	650	-	1,500	3,286	12,399	20,627	6,240	590	45,292
Total liabilities	11,528	6,380	28,052	67,537	115,960	99,611	19,833	590	349,491

7. Financial risk review (continued)
Risk management (continued)
B. Liquidity risk (continued)
ii. Maturity analysis for financial liabilities and financial assets (continued)

Maturity of assets and liabilities at the reporting date (continued):

31 December 2021	Sight-8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months - 6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Assets									
Cash	20,279	-	-	-	-	-	-	-	20,279
Debt securities	-	5,001	20,994	14,992	-	-	-	-	40,987
Loans and advances	9,271	8,372	12,378	25,458	30,835	94,395	44,081	4,462	229,252
Other assets	68	-	-	-	3,186	-	6,018	8,964	18,236
Total assets	29,618	13,373	33,372	40,450	34,021	94,395	50,099	13,426	308,754
Liabilities									
Deposits	6,864	4,285	17,565	62,831	60,790	85,350	15,774	-	253,459
Other liabilities	238	-	1,000	946	10,512	7,967	8,777	869	30,309
Total liabilities	7,102	4,285	18,565	63,777	71,302	93,317	24,551	869	283,768

iii. Liquidity reserves
The following table sets out the components of the Group's liquidity reserves:

	2022 Carrying amount £000	**2022 Fair value £000**	2021 Carrying amount £000	2021 Fair value £000
Balances with other banks	**20,954**	**20,954**	20,279	20,279
Unencumbered debt securities	**40,675**	**40,675**	40,987	40,987
Total liquidity reserves	**61,629**	**61,629**	61,266	61,266

C. Group Market risk
For the definition of market risk and information on how the Group manages the market risks of trading and non-trading portfolios, see note 42.

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

		Market risk measure	
31 December 2022	**Carrying amount £000**	**Trading portfolios £000**	**Non-trading portfolios £000**
Assets subject to market risk			
Debt securities	**40,675**	**-**	**40,675**
Equity held at Fair Value Through Profit or Loss	**122**	**-**	**122**
Total	**40,797**	**-**	**40,797**

		Market risk measure	
31 December 2021	Carrying amount £000	Trading portfolios £000	Non-trading portfolios £000
Assets subject to market risk			
Debt securities	40,987	-	40,987
Equity held at Fair Value Through Profit or Loss	68	-	68
Total	41,055	-	41,055

7. Financial risk review (continued)
Risk management (continued)
C. Group Market risk (continued)
i. Exposure to interest rate risk

The following tables present the interest rate mismatch position between assets and liabilities over the respective maturity dates. The maturity dates are presented on a worst-case basis, with assets being recorded at their latest maturity and deposits from customers at their earliest.

31 December 2022	Sight- 1 month £000	>1month - 3months £000	>3months - 6months £000	>6months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non- Interest Bearing £000	Total £000
Assets									
Cash & cash equivalents	22,630	-	-	-	-	-	-	-	22,630
Debt securities	11,973	20,785	7,917	-	-	-	-	-	40,675
Loans and advances to customers	18,990	27,913	40,730	47,813	106,755	46,176	3,098	-	291,475
Other assets	-	-	-	-	-	-	-	24,481	24,481
Total assets	53,593	48,698	48,647	47,813	106,755	46,176	3,098	24,481	379,261
Liabilities and equity									
Deposits from customers	17,258	26,552	64,251	103,561	78,984	13,593	-	-	304,199
Other liabilities	650	1,500	3,286	905	20,627	6,240	237	11,847	45,292
Total equity	-	-	-	-	-	-	-	29,770	29,770
Total liabilities and equity	17,908	28,052	67,537	104,466	99,611	19,833	237	41,617	379,261
Interest rate sensitivity gap	35,685	20,646	(18,890)	(56,653)	7,144	26,343	2,861	(17,136)	-
Cumulative	35,685	56,331	37,441	(19,212)	(12,068)	14,275	17,136	-	-

31 December 2021	Sight- 1 month £000	>1month - 3months £000	>3months - 6months £000	>6months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non- Interest Bearing £000	Total £000
Assets									
Cash & cash equivalents	20,279	-	-	-	-	-	-	-	20,279
Debt securities	5,001	20,994	14,992	-	-	-	-	-	40,987
Loans and advances to customers	17,642	12,378	25,458	30,835	94,395	44,081	4,462	-	229,251
Other assets	-	-	-	-	-	-	-	18,236	18,236
Total assets	42,922	33,372	40,450	30,835	94,395	44,081	4,462	18,236	308,753
Liabilities and equity									
Deposits from customers	11,149	17,565	62,831	60,790	85,350	15,774	-	-	253,459
Other liabilities	238	1,000	946	7,050	7,967	8,777	687	3,644	30,309
Total equity	-	-	-	-	-	-	-	24,985	24,985
Total liabilities and equity	11,387	18,565	63,777	67,840	93,317	24,551	687	28,629	308,753
Interest rate sensitivity gap	31,535	14,807	(23,327)	(37,005)	1,078	19,530	3,775	(10,393)	-
Cumulative	31,535	46,342	23,015	(13,990)	(12,912)	6,618	10,393	-	-

The Bank monitors the impact of changes in interest rates on interest rate mismatch positions using a method consistent with the FSA required reporting standard. The methodology applies weightings to the net interest rate sensitivity gap in order to quantify the impact of an adverse change in interest rates of 2.0% per annum (2021: 2.0%). The following tables set out the estimated total impact of such a change based on the mismatch at the reporting date:

31 December 2022	Sight- 1 month	>1month -3months	>3months - 6months	>6months - 1 year	>1 year - 3 years	>3 years - 5 years	>5 years	Non- Interest Bearing	Total
Interest rate sensitivity gap £000	35,685	20,646	(18,890)	(56,653)	7,144	26,343	2,861	(17,136)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	-	-
£000	-	62	(132)	(793)	193	1,423	329	-	1,082

7. Financial risk review (continued)
Risk management (continued)
C. Group Market risk (continued)
i. Exposure to interest rate risk (continued)

31 December 2021	Sight- 1 month	>1month -3months	>3months - 6months	>6months - 1 year	>1 year - 3 years	>3 years - 5 years	>5 years	Non-Interest Bearing	Total
Interest rate sensitivity gap £000	31,535	14,807	(23,327)	(37,005)	1,078	19,530	3,775	(10,393)	-
Weighting	0	0.003	0.007	0.014	0.027	0.054	0.115	-	-
£000	-	44	(163)	(518)	29	1,055	434	-	881

D. Group Capital Management
i. Regulatory capital
MFG and its subsidiaries maintain sufficient capital stock to cover risks inherent in their principal operating activities. The lead regulator of the Group's wholly owned subsidiary, the Bank, is the FSA. The FSA sets and monitors capital requirements for the Bank. The Bank maintains a capital base to meet the capital adequacy requirements of the FSA. There have been no changes to its approach to capital management from the prior year.

The Bank's regulatory capital consists of the following elements.
- Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, retained earnings and reserves after adjustment for deductions for goodwill, intangible assets and intercompany receivable.
- Tier 2 capital, which includes qualifying subordinated liabilities and any excess of impairment over expected losses.

The Bank's Tier 1 and Total Capital regulatory ratios stood at 12.4% (2021: 15.2%) and 15.2% (2021: 19.1%) respectively as at 31 December 2022. The Bank complied with all capital requirements externally imposed on it in the year with minimum Tier 1 and Overall Capital ratio of 8.5% and 14% respectively.

The FSA's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. The FSA sets individual capital guidance ("ICG") for the Bank in excess of the minimum capital resources requirement. A key input to the ICG setting process is the Bank's internal capital adequacy assessment process ("ICAAP").

The Bank is also regulated by the FCA in the UK for credit and brokerage related activities.

Further details of the Bank's management of capital are described in the Risk Management Report on page 10.

ii. Capital allocation
Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements.

E. Company Financial Risk Review
i. Credit risk
The Company is exposed to credit risk primarily from deposits with banks and from its financing activities of Group entities. These balances include Trade and other receivables, Amounts due from Group undertakings, Investment in subsidiaries and Subordinated loans. Cash balances are held with institutions with a credit rating of A to A+. The Group's primary credit exposure is to the Bank. The Investment in subsidiary and subordinated loan balance counterparties are disclosed in Note 31 and 35 respectively. Amounts due from Group undertakings relate to balances advanced to the Group's subsidiary (MVL) for the acquisition of other subsidiaries including PAL, BBSL, BLX and NRF. The Group manages its credit risk by ensuring that sufficient resources are allocated to credit management and capital allocation and using reputable financial institutions to hold its cash balances.

ii. Liquidity risk
The value and term of short term assets are monitored against those of the Company's liabilities. The Company maintains sufficient liquid assets to meet liabilities as they fall due either by retaining Interest income from the Subordinated loan, Dividend income from subsidiary companies or raising funds through the issue of Loan notes. Amounts due to / from Group undertakings are unsecured, interest-free and repayable on demand.

iii. Market risk
The Company does not have exposure to foreign exchange risk as transactions are made in and balances held in Sterling. The Company has both interest-bearing assets and liabilities. In order to manage interest rate risk, the Companies Subordinated loans and Loan notes are charged exclusively at fixed rates.

8. Operating segments

Segmental information is presented in respect of the Group's business segments. The Directors consider that the Group currently operates in one geographic segment comprising of the Isle of Man, UK and Channel Islands. The primary format, business segments, is based on the Group's management and internal reporting structure. The Directors consider that the Group operates in three (2021: three) product orientated segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans, block discounting, vehicle stocking plans and wholesale funding agreements); Edgewater Associates Limited (provision of financial advice); and MFX Limited (provision of foreign currency transaction services).

For the year ended 31 December 2022	Asset and Personal Finance £000	Edgewater Associates £000	MFX Limited £000	Investing Activities £000	Total £000
Interest revenue calculated using the effective interest rate method	28,978	-	-	-	**28,978**
Other interest income	1,765	-	-	-	**1,765**
Interest expense	(6,391)	-	-	-	**(6,391)**
Net interest income	**24,352**	-	-	-	**24,352**
Components of Net Trading Income	(2,696)	2,096	1,734	-	**1,134**
Net trading income	**21,656**	**2,096**	**1,734**		**25,486**
Components of Operating Income	587	-	-	-	**587**
Operating Income	**22,243**	**2,096**	**1,734**	-	**26,073**
Depreciation	(640)	(31)	(2)	(65)	**(738)**
Amortisation and impairment of intangibles	(494)	(81)	(5)	(2)	**(582)**
Share of profit of equity accounted investees, net of tax	-	-	-	18	**18**
All other expenses	(17,226)	(1,943)	(314)	(77)	**(19,560)**
Profit / (loss) before tax payable	**3,883**	**41**	**1,413**	**(126)**	**5,211**
Capital expenditure	**1,794**	**55**	**3**	**1**	**1,853**
Total assets	**332,689**	**2,248**	**543**	**43,781**	**379,261**
Total liabilities	**316,921**	**513**	**163**	**31,894**	**349,491**

For the year ended 31 December 2021	Asset and Personal Finance £000	Edgewater Associates £000	MFX Limited £000	Investing Activities £000	Total £000
Interest revenue calculated using the effective interest rate method	21,010	-	-	-	21,010
Other interest income	1,937	-	-	-	1,937
Interest expense	(4,967)	-	-	-	(4,967)
Net interest income	17,980	-	-	-	17,980
Components of Net Trading Income	(2,783)	2,282	1,514	-	1,013
Net Trading Income	15,197	2,282	1,514	-	18,993
Components of Operating Income	1,054	-	-	-	1,054
Operating income	16,251	2,282	1,514	-	20,047
Depreciation	(560)	(22)	(2)	(91)	(675)
Amortisation and impairment of intangibles	(373)	(80)	(3)	(2)	(458)
Share of profit of equity accounted investees, net of tax	58	-	-	(26)	32
Intercompany write-off	-	-	-	(545)	(545)
All other expenses	(12,848)	(2,066)	(282)	(162)	(15,358)
Profit / (loss) before tax payable	2,528	114	1,227	(826)	3,043
Capital expenditure	3,083	13	1	5	3,102
Total assets	292,721	2,330	802	12,900	308,753
Total liabilities	265,751	638	61	17,318	283,768

9. Net interest income

	2022 £000	2021 £000
Interest income		
Loans and advances to customers	28,978	21,010
Total interest income calculated using the effective interest method	28,978	21,010
Operating lease income	1,765	1,937
Total interest income	30,743	22,947
Interest expense		
Deposits from customers	(4,601)	(3,512)
Loan note interest	(1,610)	(1,299)
Lease liability	(78)	(42)
Contingent consideration: interest expense	(102)	(114)
Total interest expense	(6,391)	(4,967)
Net interest income	24,352	17,980

10. Net fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 – Revenue from Contracts with Customers is disaggregated by major type of services. The table includes a reconciliation of the disaggregated fee and commission income with the Group's reportable segments. See note 44D regarding revenue recognition.

	2022 £000	2021 £000
Major service lines		
Independent financial advice income	2,096	2,282
Foreign exchange trading income	1,743	1,528
Asset and personal finance: Brokerage services income	590	510
Debt collection	290	301
Fee and commission income	4,719	4,621
Fee and commission expense	(3,569)	(3,339)
Net fee and commission income	1,150	1,282

Fee and commission expense relates to commission paid to Brokerages which introduce new business to the Bank.

11. Personnel expenses

	Group		Company	
	2022 £000	2021 £000	2022 £000	2021 £000
Staff gross salaries	(7,403)	(5,416)	-	-
Executive Directors' remuneration	(507)	(440)	-	-
Non-executive Directors' fees	(207)	(176)	(127)	(129)
Executive Directors' pensions	(41)	(34)	-	-
Executive Directors' performance related pay	(68)	(51)	-	-
Staff pension costs	(397)	(330)	-	-
National insurance and payroll taxes	(818)	(623)	-	-
Staff training and recruitment costs	(305)	(86)	-	-
Equity Settled Restricted Stock Units (Note 29)	(18)	-	-	-
	(9,764)	(7,156)	(127)	(129)

The Company's personnel expenses consist exclusively of Directors remuneration and fees for services rendered to the Company.

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. Other expenses

	2022 £000	2021 £000
Professional and legal fees	(1,427)	(1,367)
Marketing costs	(363)	(264)
IT costs	(1,210)	(1,001)
Establishment costs	(366)	(317)
Communication costs	(152)	(129)
Travel costs	(297)	(104)
Bank charges	(314)	(124)
Insurance	(333)	(344)
Irrecoverable VAT	(362)	(268)
Other costs	(782)	(582)
Impairment loss on goodwill (See Note 34)	(200)	-
	(5,806)	(4,500)

13. Impairment on loans and advances to customers

The charge in respect of allowances for impairment comprises, excluding loss allowances on financial assets managed on a collective basis.

	2022 £000	2021 £000
Impairment allowances made	(7,642)	(5,457)
Reversal of allowances previously made	3,612	1,055
Total charge for provision for impairment	(4,030)	(4,402)

The credit in respect of allowances for impairment on financial assets managed on a collective basis comprises:

	2022 £000	2021 £000
Collective impairment allowances made	(244)	(77)
Release of allowances previously made	284	119
Total credit for allowances for impairment on financial assets managed on a collective basis	40	42
Total charge for allowances for impairment	(3,990)	(4,360)

14. Profit before tax payable

The profit before tax payable for the year is stated after charging:

		Group		Company	
		2022 £000	2021 £000	2022 £000	2021 £000
Auditor's remuneration:	as Auditor current year	(255)	(232)	-	-
	non-audit services	(11)	(2)	-	-
Pension cost defined benefit scheme		(14)	(13)	-	-
Expenses relating to short-term leases and low value assets		(92)	(64)	-	-

15. Income tax expense

Group	2022 £000	2021 £000
Current tax expense		
Current year	(366)	(132)
Changes to estimates for prior years	-	(50)
	(366)	(182)
Deferred tax expense		
Origination and reversal of temporary differences	(171)	(52)
Tax expense	(537)	(234)

15. Income tax expense (continued)

Group	%	2022 £000	%	2021 £000
Reconciliation of effective tax rate				
Profit before tax		5,211		3,043
Tax using the Bank's domestic tax rate	(10.0)	(521)	(10.0)	(304)
Effect of tax rates in foreign jurisdictions	3.6	186	5.0	152
Tax exempt income	(2.4)	(127)	(1.2)	(36)
Changes to estimates for prior years	(0.8)	(43)	(4.7)	(144)
R&D claim	-	-	(1.4)	(42)
Tax expense	(10.3)	(537)	(7.7)	(234)

The main rate of corporation tax in the Isle of Man is 0.0% (2021: 0.0%). However, the profits of the Group's Isle of Man banking activities are taxed at 10.0% (2021: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 19.0% (2021: 19.0%). The Company is subject to 0.0% tax.

The value of tax losses carried forward reduced to nil and there is now a temporary difference related to accelerated capital allowances resulting in a £353,000 liability (2021: £182,000 liability). This resulted in an expense of £171,000 (2021: £52,000) to the Consolidated Income Statement offset by a deferred tax credit on the defined benefit pension through the OCI of £nil (2021: £67,000).

16. Earnings per share

	2022	2021
Profit for the year	£4,674,000	£2,809,000
Weighted average number of Ordinary Shares in issue (basic)	114,763,883	114,291,639
Basic earnings per share (pence)	4.07	2.46
Diluted earnings per share (pence)	3.15	1.97
Total comprehensive income for the year	£5,212,000	£3,045,000
Weighted average number of Ordinary Shares in issue (basic)	114,763,883	114,291,639
Basic earnings per share (pence)	4.54	2.66
Diluted earnings per share (pence)	3.50	2.13

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

As at:	2022	2021
Reconciliation of weighted average number of Ordinary Shares in issue between basic and diluted		
Weighted average number of Ordinary Shares (basic)	114,763,883	114,291,639
Number of shares issued if all convertible loan notes were exchanged for equity	38,225,772	36,555,556
Dilutive element of share options if exercised	830,035	-
Weighted average number of Ordinary Shares (diluted)	153,819,660	150,847,195
Reconciliation of profit for the year between basic and diluted		
Profit for the year (basic)	£4,674,000	£2,809,000
Interest expense saved if all convertible loan notes were exchanged for equity	£171,415	£166,250
Profit for the year (diluted)	£4,845,415	£2,975,250

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

16. Earnings per share (continued)

As at:	2022	2021
Reconciliation of total comprehensive income for the year between basic and diluted		
Total comprehensive income for the year (basic)	£5,212,000	£3,045,000
Interest expense saved if all convertible loan notes were exchanged for equity	£171,415	£166,250
Total comprehensive income for the year (diluted)	£5,383,415	£3,211,250

17. Cash and cash equivalents

	Group		Company	
	2022 £000	2021 £000	2022 £000	2021 £000
Cash at bank and in hand	20,651	18,278	1,761	430
Fixed deposit (less than 90 days)	1,979	2,001	-	-
	22,630	20,279	1,761	430

Cash at bank includes an amount of £24,000 (2021: £56,000) representing receipts which are in the course of transmission.

18. Debt securities

	Group		Company	
	2022 £000	2021 £000	2022 £000	2021 £000
Financial assets at fair value through other comprehensive income:				
UK Government treasury bills	40,675	40,987	-	-
	40,675	40,987	-	-

UK Government Treasury Bills are stated at fair value and unrealised changes in the fair value are reflected in other comprehensive income. There were realised gains of £292,000 (2021: realised losses of £1,000) and unrealised gains of £131,000 (2021: unrealised losses of £18,000) during the year.

19. Financial assets

	Group		Company	
	2022 £000	2021 £000	2022 £000	2021 £000
Financial assets at FVOCI:				
(Loss) / gain on Deferred consideration (see note 6(ii))	(74)	30	-	-
Gain on equity instrument	55	-	-	-
	(19)	30	-	-

The Bank acquired a new equity instrument in the previous financial year (See note 33).

20. Loans and advances to customers

Group	Gross Amount £000	2022 Impairment Allowance £000	Carrying Value £000	Gross Amount £000	2021 Impairment Allowance £000	Carrying Value £000
HP balances	87,142	(4,093)	83,049	71,789	(4,107)	67,682
Finance lease balances	21,513	(3,782)	17,731	28,131	(3,317)	24,814
Unsecured personal loans	47,735	(5,282)	42,453	31,267	(537)	30,730
Vehicle stocking plans	1,918	-	1,918	1,675	-	1,675
Wholesale funding arrangements	30,904	-	30,904	15,447	-	15,447
Block discounting	46,294	-	46,294	16,465	-	16,465
Secured commercial loans	12,753	(595)	12,158	11,099	(519)	10,580
Secured personal loans	1,867	(90)	1,777	1,739	-	1,739
Government backed loans	55,572	(381)	55,191	60,358	(239)	60,119
	305,698	(14,223)	291,475	237,970	(8,719)	229,251

20. Loans and advances to customers (continued)

Collateral is held in the form of underlying assets for HP, finance leases, vehicles stocking plans, block discounting, secured commercial and personal loans and wholesale funding arrangements.

Allowance for impairment	2022 £000	2021 £000
Balance at 1 January	8,464	6,824
Acquisition	4,620	-
Allowance for impairment made	7,642	5,457
Release of allowances previously made	(3,612)	(1,055)
Write-offs	(3,106)	(2,762)
Balance at 31 December	**14,008**	8,464

Collective allowance for impairment	2022 £000	2021 £000
Balance at 1 January	255	297
Collective allowance for impairment made	244	77
Release of allowances previously made	(284)	(119)
Balance at 31 December	**215**	255
Total allowances for impairment	**14,223**	8,719

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2022 £1,228,334 (2021: £945,625) had been lent on this basis. In the Group's ordinary course of business, advances may be made to Shareholders, but all such advances are made on normal commercial terms (see note 36).

At the end of the current financial year 13 loan exposures (2021: 5) exceeded 10.0% of the capital base of the Bank:

Exposure	Outstanding Balance 2022 £000	Outstanding Balance 2021 £000	Facility Limit £000
Block discounting facility	68,209	16,465	40,536
Wholesale funding agreement	34,975	25,645	28,819

HP and finance lease receivables
Loans and advances to customers include the following HP and finance lease receivables:

	2022 £000	2021 £000
Less than one year	51,368	34,833
Between one and five years	57,287	58,949
Gross investment in HP and finance lease receivables	**108,655**	93,782

The investment in HP and finance lease receivables net of unearned income comprises:

	2022 £000	2021 £000
Less than one year	47,646	32,495
Between one and five years	53,134	54,994
Net investment in HP and finance lease receivables	**100,780**	87,489

21. Trade and other receivables

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Other debtors	2,334	1,449	494	1
Prepayments	1,877	498	68	100
VAT claim	-	-	-	371
	4,211	1,947	562	472

After consultation with its professional advisors, the Bank made a notice of error correction ("NEC") to the Isle of Man Government Customs & Exercise Division in respect of a repayment for overpaid VAT to the amount of £534,000 exclusive of statutory interest. The NEC relates to bad debt relief that was not claimed during the period from 1 April 1989 to 18 March 1997. The Bank recognised a receivable and income of £534,000 during 2020. The VAT claim was settled in full and the Bank received £699,000 during 2021. An additional recovery of £113,000 over and above the carrying amount was recognised in the previous year's statement of profit or loss.

22. Property, plant and equipment and right-of-use assets

Group	Buildings and Leasehold Improvements £000	IT Equipment £000	Furniture and Equipment £000	Motor Vehicles[1] £000	Right-of-use assets £000	Total £000
Cost						
As at 1 January 2022	681	522	5,814	818	1,444	9,279
Acquisition of subsidiary	-	-	14	196	136	346
Additions	64	81	1,280	48	380	1,853
Disposals	-	-	(1,369)	(866)	-	(2,235)
As at 31 December 2022	745	603	5,739	196	1,960	9,243
Accumulated depreciation						
As at 1 January 2022	427	387	765	238	205	2,022
Acquisition of subsidiary	-	-	14	65	-	79
Charge for year	15	69	452	38	180	754
Disposals	-	-	(70)	(256)	-	(326)
As at 31 December 2022	442	456	1,161	85	385	2,529
Carrying value at 31 December 2022	303	147	4,578	111	1,575	6,714
Carrying value at 31 December 2021	254	124	5,120	520	1,239	7,257

[1]Included in motor vehicles are operating leases with the Group as lessor. Depreciation on leasing assets was £16,000 (2021: £269,000).

Buildings with an original cost of £160,000 were revalued by independent valuers Vospers Limited to £175,000 on the basis of market value as at 15 September 2021. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar properties. The Directors consider the valuation of the buildings as at 31 December 2022 remains £175,000. The carrying amount that would have been recognised had the building been carried under the cost model would be £160,000.

Company	Leasehold Improvements £000	IT Equipment £000	Furniture and Equipment £000	Right-of use-assets £000	Total £000
Cost					
As at 1 January 2022	234	18	17	424	693
Additions	-	2	1	-	3
As at 31 December 2022	234	20	18	424	696
Accumulated depreciation					
As at 1 January 2022	234	6	9	181	430
Charge for year	-	-	2	63	65
As at 31 December 2022	234	6	11	244	495
Carrying value at 31 December 2022	-	14	7	180	201
Carrying value at 31 December 2021	-	12	8	243	263

23. Intangible assets

Group	Customer Contracts £000	Intellectual Property Rights £000	IT Software and Website Development £000	Total £000
Cost				
As at 1 January 2022	2,657	749	2,541	5,947
Acquisition of subsidiary (see note 32)	273	-	-	273
Additions	-	496	8	504
As at 31 December 2022	2,930	1,245	2,549	6,724
Accumulated amortisation				
As at 1 January 2022	865	523	2,051	3,439
Charge for year	296	-	286	582
As at 31 December 2022	1,161	523	2,337	4,021
Carrying value at 31 December 2022	1,769	722	212	2,703
Carrying value at 31 December 2021	1,792	226	490	2,508

24. Deposits from customers

	2022 £000	2021 £000
Retail customers: term deposits	291,238	242,788
Corporate customers: term deposits	12,961	10,671
	304,199	253,459

25. Creditors and accrued charges

	Group		Company	
	2022 £000	2021 £000	2022 £000	2021 £000
Other creditors and accruals	10,096	1,380	232	182
Commission creditors	1,398	1,520	-	-
Lease liability	1,614	1,295	208	319
Taxation creditors	-	550	-	-
	13,108	4,745	440	501

26. Deferred consideration

Deferred consideration relates to contingent payments due to the sellers on the acquisition of BBSL and BLX respectively.

On acquisition of BBSL on 16 April 2019, the Group agreed to pay the selling shareholders:

- 50% of net profits in BBSL for 3 years post completion; and
- 50% of the incremental net profit that the Group benefits from as a result of taking up BBSL loan proposals post completion up until the third anniversary.

This was to be paid on each anniversary with a final payment in year 4 for the unrealised lending profit. The Group made final instalment and settlement of this contingent consideration when it made the final payment of £781,095 during the period.

On the acquisition of BLX on 11 October 2021, the Group agreed that a further conditional consideration of up to £483,663 is payable to the sellers in addition to the cash consideration paid. The total amount payable is contingent on the recovery of certain loans and advances found to be in default at acquisition. The fair value on acquisition date was determined to be £387,000. The Group made a payment of £156,093 to the sellers during the period.

	2022 £000	2021 £000
BBSL	-	636
BLX	262	387
	262	1,023

27. Loan notes

		Group		Company	
	Notes	2022 £000	2021 £000	2022 £000	2021 £000
Related parties					
J Mellon	JM	1,750	1,750	1,750	1,750
Burnbrae Limited	BL	3,200	3,200	3,200	3,200
Culminant Reinsurance Ltd	CR	1,000	1,000	1,000	1,000
		5,950	5,950	5,950	5,950
Unrelated parties	UP	25,382	17,722	25,382	17,722
		31,332	23,672	31,332	23,672

JM - Two loans, one of £1,250,000 maturing on 26 February 2025 with interest payable of 5.4% per annum, and one of £500,000 maturing on 31 July 2027, paying interest of 7.5% per annum. Both loans are convertible to ordinary shares of the Company at the rate of 7.5 pence.

On 22 July 2022, JM and BL agreed to extend outstanding unsecured convertible loans of £1,750,000, expiring on 31 July 2022, for a further five years to 31 July 2027. A loan of £1,250,000 million is from BL and the remaining loan of £0.5 million is from JM himself. The new annual interest rate will be 7.5% (previously 5.0%) and the new conversion price will be 8.0 pence per share (previously 7.5 pence). All other terms are unchanged, including the ability for the Company to repay the loans at any time during the period.

BL – Three loans, one of £1,200,000 maturing on 31 July 2027, paying interest of 7.5% per annum, one of £1,000,000 maturing 25 February 2025, paying interest of 5.4% per annum, and one of £1,000,000 maturing 28 February 2025 paying interest of 6% per annum. Jim Mellon is the beneficial owner of BL and Denham Eke is also a director. The £1,200,000 loan is convertible at a rate of 7.5 pence.

CR – One loan consisting of £1,000,000 maturing on 12 October 2025, paying interest of 6.0% per annum. Greg Bailey, a director, is the beneficial owner of CR.

UP – Forty loans (2021: Forty-three), the earliest maturity date is 5 January 2023 and the latest maturity is 1 September 2027.

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

28. Pension liability

The Conister Trust Pension and Life Assurance Scheme (“Scheme”) operated by the Bank is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary. The Scheme is closed to new entrants and the last active member of the Scheme left pensionable service in 2011.

The Scheme is approved in the Isle of Man by the Assessor of Income Tax under the Income Tax (Retirement Benefit Schemes) Act 1978 and must comply with the relevant legislation. In addition, it is registered as an authorised scheme with the FSA in the Isle of Man under the Retirement Benefits Scheme Act 2000. The Scheme is subject to regulation by the FSA but there is no minimum funding regime in the Isle of Man.

The Scheme is governed by two corporate trustees, Conister Bank Limited and Boal & Co (Pensions) Limited. The trustees are responsible for the Scheme’s investment policy and for the exercise of discretionary powers in respect of the Scheme’s benefits.

28. Pension liability (continued)

Exposure to risk

The Company is exposed to the risk that additional contributions will be required in order to fund the Scheme as a result of poor experience. Some of the key factors that could lead to shortfalls are:

- investment performance – the return achieved on the Scheme's assets may be lower than expected; and
- mortality – members could live longer than foreseen. This would mean that benefits are paid for longer than expected, increasing the value of the related liabilities.

In order to assess the sensitivity of the Scheme's pension liability to these risks, sensitivity analysis have been carried out. Each sensitivity analysis is based on changing one of the assumptions used in the calculations, with no change in the other assumptions. [The same method has been applied as was used to calculate the original pension liability and the results are presented in comparison to that liability]. It should be noted that in practice it is unlikely that one assumption will change without a movement in the other assumptions; there may also be some correlation between some of these assumptions. It should also be noted that the value placed on the liabilities does not change on a straight line basis when one of the assumptions is changed. For example, a 2.0% change in an assumption will not necessarily produce twice the effect on the liabilities of a 1.0% change.

No changes have been made to the method or to the assumptions stress-tested for these sensitivity analyses compared to the previous period. The investment strategy of the Scheme has been set with regard to the liability profile of the Scheme. However, there are no explicit asset-liability matching strategies in place.

Restriction of assets

No adjustments have been made to the statement of financial position items as a result of the requirements of IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued by IASB's International Financial Reporting Interpretations Committee.

Scheme amendments

There have not been any past service costs or settlements in the financial year ending 31 December 2022 (2021: none).

Funding policy

The funding method employed to calculate the value of previously accrued benefits is the Projected Unit Method. Following the cessation of accrual of benefits when the last active member left service in 2011, regular future service contributions to the Scheme are no longer required. However, additional contributions will still be required to cover any shortfalls that might arise following each funding valuation.

The most recent triennial full actuarial valuation was carried out at 31 March 2022, which showed that the market value of the Scheme's assets was £1,432,000 representing 65.2% of the benefits that had accrued to members, after allowing for expected future increases in earnings. As required by IAS 19: Employee Benefits, this valuation has been updated by the actuary as at 31 December 2022.

The amounts recognised in the Consolidated Statement of Financial Position are as follows:

Total underfunding in funded plans recognised as a liability	**2022 £000**	2021 £000
Fair value of plan assets	**1,289**	1,543
Present value of funded obligations	**(1,526)**	(2,230)
	(237)	(687)

Movement in the liability for defined benefit obligations	**2022 £000**	2021 £000
Opening defined benefit obligations at 1 January	**2,230**	2,350
Benefits paid by the plan	**(75)**	(74)
Interest on obligations	**44**	32
Actuarial gain	**(673)**	(78)
Liability for defined benefit obligations at 31 December	**1,526**	2,230

28. Pension liability (continued)
Funding policy (continued)

Movement in plan assets	2022 £000	2021 £000
Opening fair value of plan assets at 1 January	1,543	1,406
Expected return on assets	30	19
Contribution by employer	57	98
(Loss) / gain	(266)	94
Benefits paid	(75)	(74)
Closing fair value of plan assets at 31 December	1,289	1,543

Expense recognised in income statement	2022 £000	2021 £000
Interest on obligation	44	32
Expected return on plan assets	(30)	(19)
Total included in personnel costs	14	13
Actual (loss) / return on plan assets	(236)	113

Actuarial gain / (loss) recognised in other comprehensive income	2022 £000	2021 £000
(Loss) / gain on plan assets	(266)	94
Actuarial gain on defined benefit obligations	673	78
	407	172

Plan assets consist of the following	2022 %	2021 %
Equity securities	61	52
Corporate bonds	13	26
Government bonds	21	17
Cash	2	2
Other	3	3
	100	100

The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows:	2022 %	2021 %	2019 %
Rate of increase in pension in payment:			
Service up to 5 April 1997	-	-	-
Service from 6 April 1997 to 13 September 2005	3.1	3.4	2.9
Service from 14 September 2005	2.1	2.2	2.1
Rate of increase in deferred pensions	5.0	5.0	5.0
Discount rate applied to scheme liabilities	5.0	1.7	1.8
Inflation	3.2	3.5	3.0

The assumptions used by the actuary are best estimates chosen from a range of possible assumptions, which due to the timescale covered, may not necessarily be borne out in practice.

29. Called up share capital

Ordinary shares of no par value available for issue	Number
At 31 December 2022	**200,200,000**
At 31 December 2021	200,200,000

Issued and fully paid: Ordinary shares of no par value	Number	£000
At 31 December 2022	**115,072,988**	**19,195**
At 31 December 2021	114,291,639	19,133

A. Analysis of changes in financing during the year

	2022 £000	2021 £000
Balance at 1 January	**44,100**	41,846
Issue of loan notes	**7,659**	1,450
Issue of lease liability	**520**	993
Issue of shares via scrip dividend	**62**	12
Payment of lease liabilities	**(201)**	(201)
Balance at 31 December	**52,140**	44,100

The 2022 closing balance is represented by £19,195,000 share capital (2021: £19,133,000), £31,332,000 of loan notes (2021: £23,672,000) and £1,614,000 lease liability (2021: £1,295,000).

B. Dividends

On 25 May 2022, MFG declared a dividend of £279,200 (2021: £196,800) which could either be taken up in cash or new ordinary shares. 781,349 new shares (2021: 161,562 new shares) were admitted to the Alternative Investment Market ("AIM") at 8.0205 pence per share (2021: 7.0575 pence per share), at a total cost of £62,000 (2021: £12,000).

C. Convertible loans

There are three convertible loans totalling £2,950,000 (2021: £2,950,000) (refer to note 27).

D. Share options and Restricted Stock Units

i. Issued during the financial year ended 31 December 2022

On 5 July 2022 and 27 October 2022, MFG granted Restricted Stock Units ("RSUs") under its 2022 RSU Plan. The Group has issued, in total, RSUs over 2,435,000 ordinary shares representing 2.1% of the issued share capital of the Group, including 1,250,000 to certain directors and 1,185,000 to certain employees. The RSUs will have a 2-year term and are subject to certain vesting conditions based upon an overall growth in profitability. Any RSUs granted will fall away should the recipient leave employment before the 2-year term expires. Should the individual vesting conditions be satisfied at the end of the term, the stock will be exercised at nil cost.

The Group directors who received RSUs are as follows:

- Douglas Grant, Group Chief Executive Officer, who currently owns 533,951 ordinary shares in the Company representing a holding of 0.45% was issued 1,075,000 RSUs. Including 700,000 Share Options issued 24 June 2014, he would hold a total of 2,308,951 ordinary shares, being 1.98% of the issued share capital of the Company on a fully diluted basis; and
- James Smeed, Group Finance Director, was issued 175,000 RSUs. On the same basis, he would hold 0.15% of the new issued share capital of the Company.

29. Called up share capital (continued)
The terms and conditions of the grants are as follows: and will be settled by the physical delivery of shares.

Grant date / employees entitled	Number of Units	Contractual life of options
RSUs granted to key employees at 5 July 2022	1,020,000	2 years
RSUs granted to directors at 5 July 2022	1,100,000	2 years
RSUs granted to key employees at 27 October 2022	165,000	2 years
RSUs granted to directors at 27 October 2022	150,000	2 years
Total RSUs	2,435,000	

The fair value of employee services received in return for restricted stock units granted is based on the fair value of them measured using the Black-Scholes formula. Service related and non-market performance conditions were not taken into account in measuring fair value. The inputs used in measuring the fair values at the grant of the equity-settled restricted stock unit payment plans were as follows.

Fair value of restricted stock units and assumptions	Grant at 5 July 2022	Grant at 27 October 2022
Share price at grant date	8.5 pence	14.0 pence
Exercise price	nil	nil
Expected volatility * ^	55.14%	107.71%
Expected life (weighted average)	2 years	2 years
Risk-free interest rate (based on government bonds) * ^	1.65%	3.15%
Forfeiture rate	0.00%	0.00%
Fair value at grant date	8.5 pence	14.0 pence

^ Based on past 3 years
* Annual rates

The expected volatility is based on both historical average share price volatility and implied volatility derived from traded options over the group's ordnary shares of maturity similar to those of the employee options.

The fair value of the liability is remeasured at each reporting date and at settlement date.

The charge for the year for share options granted was £18,000 (2021: £nil).

ii. Issued during the financial year ended 31 December 2014
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 per share.

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, with the condition of three-years continuous employment being met.

Of the 1,750,000 share options issued, 1,050,000 (31 December 2021:1,050,000) remain outstanding.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial probability model with the following inputs for each award:

29. Called up share capital (continued)
ii. Issued during the financial year ended 31 December 2014 (continued)

	23 June 2014
Fair value at date of grant	£0.08
Share price at date of grant	£0.14
Exercise price	£0.14
Expected volatility	55.0%
Option life	3
Risk-free interest rate (based on government bonds)	0.5%
Forfeiture rate	33.3%

30. List of associates
Set out below is a list of associates of the Group:

	Group 2022 £000	Group 2021 £000
Payitmonthly Ltd ("PIML")	155	136
	155	136

In December 2017, 40.0% of the share capital of BLX was acquired for nil consideration. During 2021 financial year, the Group obtained control of the subsidiary. Prior to obtaining control, the share of the associate's total comprehensive income during the year was £nil (2021: £22,000).

In August 2018, 30% of the share capital of PIML was acquired for £90,000 consideration. The Group's resulting share of the associate's total comprehensive income during the year was £18,000 (2021: £10,000).

31. List of subsidiaries
Set out below is a list of direct subsidiaries of the Group:

Carrying value of investments	Nature of Business	31 December 2022 % Holding	Date of Incorporation	2022 £000	2021 £000
Conister Bank Limited	Asset and Personal Finance	100	05/12/1935	21,592	20,592
Edgewater Associates Limited	Wealth Management	100	24/12/1996	2,005	2,005
TransSend Holdings Limited	Holding Company	100	05/11/2007	-	-
Manx Ventures Limited	Holding Company	100	15/05/2009	-	-
				23,597	22,597

All subsidiaries are incorporated in the Isle of Man.

32. Subsidiaries and non-controlling interests
A. Acquisition of subsidiary
Payment Assist Limited ("PAL")

On 16 May 2022, the Group (through MVL) announced that it entered into an agreement to acquire 50.1% of the shares and voting interests in UK focused, point of sale lender PAL for a total consideration of £4.244 million payable in cash. The acquisition was completed in September 2022.

Payment Assist ("PAL"), the UK's leading automotive repair point-of-sale finance provider, works with premier national chains such as National Tyres, Halfords and Formula One. PAL has diversified into insured products and retail.

The agreement with PAL continues MFG's strategy of acquiring interests in high quality specialist lenders.

PAL has contributed revenue of £3,407,000 and profit of £701,000 to the Group's results. If the acquisition had occurred on 1 January 2022, management estimates that the impact on consolidated interest income would have been £9,190,000 and the impact on consolidated profit for the period would have been £1,473,000.

In addition to the acquisition, MVL has agreed an option to acquire the remaining 49.9% of Payment Assist for a variable cash consideration of 2 times the average net profit per share at the point of exercise, subject to a maximum of £5 million (the "Option"). The Option can be exercised by MVL at any time for the period until PAL has declared a dividend for the financial year ended 31 December 2026.

32. Subsidiaries and non-controlling interests (continued)
A. Acquisition of subsidiary (continued)
Payment Assist Limited ("PAL") (continued)

i. PAL - Consideration transferred

The following table summarises as at the acquisition date the fair value of each major class of consideration transferred:

	£000
Cash	4,244
Settlement of pre-existing relationship	23,490
	27,734

ii. PAL - Settlement of pre-existing relationship

The Bank and PAL were parties to a Integrated Wholesale Facility loan agreement and a Coronavirus Business Interruption Loan with the Bank as lender and PAL as borrower. This pre-existing relationship was £23,102,116 when the Group acquired PAL.

iii. PAL - Acquisition-related costs

The Group incurred acquisition-related costs of £101,229 relating to external legal fees and due diligence costs. These costs have been included in 'other costs' in the consolidated statement of profit or loss and other comprehensive income.

iv. PAL - Identifiable assets acquired, and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition:

	£000
Intangible assets – customer related	273
Property and equipment	269
Trade and other receivables	10
Loans and advances to customers	25,384
Cash and cash equivalents	1,875
Creditors and accrued charges	(4,744)
Total identifiable net assets acquired	23,067

v. PAL – Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Intangible assets	*Multi-period excess earnings method:* The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships.

vi. PAL - Goodwill

The goodwill arising from the acquisition has been recognised as follows:

	£'000
Total consideration transferred	27,734
Non-controlling interest, based on their proportionate interest in the recognised amounts	(211)
Fair value of identifiable net assets	(23,067)
Goodwill	4,456

32. Subsidiaries and non-controlling interests (continued)
The Business Lending Exchange ("BLX")

On 11 October 2021, the Group (through MVL) announced that it entered into an agreement to acquire 60% of the shares and voting interests in BLX. As a result, the Group's equity interest in BLX increased from 40% to 100%, thereby obtaining control of BLX.

Regulated by the FCA under Consumer Credit Authorisations, BLX primarily lends to start-up companies and small businesses which require asset backed finance.

The acquisition strengthens the Group's strategy of developing a network of niche loan brokers within the UK.

The consideration transferred was £6,524,000 and transaction costs of £25,000 were incurred. The net fair value of identifiable assets acquired and liabilities assumed was £5,488,000. Goodwill of £1,098,000 was recognised.

In 2021 the remeasurement to fair value of the Bank's existing 20% interest in BLX resulted in a gain of £660,000 (£872,000 less the £212,000 carrying amount of the equity accounted investee at the date of acquisition). This amount was included separately in prior year's statement of profit or loss and other comprehensive income.

Blue Star Business Solutions Limited ("BBSL")

On 16 April 2019, the Group (through MVL) acquired 100% of the shares and voting interest in BBSL, obtaining control of BBSL. The Group agreed to pay the selling shareholders:

- 50% of net profits in BBSL for 3 years post completion; and
- 50% of the incremental net profit that the Group benefits from as a result of taking up BBSL loan proposals post completion up until the third anniversary.

This is to be paid on each anniversary with a final payment in year 4 for the unrealised lending profit. The total consideration is to have a cap of £4,000,000 in total. The contingent consideration is calculated by forecasting 3 years of net profits discounted using an interest rate of 14.0% per annum. The range of contingent consideration payable is £nil to £2,500,000.

The remaining contingent consideration payable was remeasured during the period with an interest expense charge of £35,067 and remeasurement loss of £109,916. A final payment of £781,095 was paid during the period. There is no further consideration or amounts due to the sellers of BBSL.

B. NCI in subsidiaries
The following table summarises the information about the Group's subsidiaries that have material NCI, before any intra-group eliminations.

31 December 2022 **£'000**	**PAL**	**NRF**	**Total**
NCI percentage	**49.9%**	**10%**	
Cash and cash equivalents	2,584	219	
Loans and advances to customers	9,818	-	
Trade and other receivables	1,116	941	
Property, plant and equipment	15	4,507	
Intangible assets	251	27	
Loans and borrowings	(3,089)	(4,355)	
Creditors and accrued charges	(10,416)	(628)	
Deferred tax	-	(217)	
Net assets	**279**	**494**	
Carrying amount of NCI	**140**	**49**	**189**
Revenue	3,407	1,660	
Profit	701	238	
OCI	-	-	
Total comprehensive income	**724**	**238**	
Profit allocated to NCI	350	(7)	343
OCI allocated to NCI	-	-	-
Operating activities cashflows	585	87	
Investing activities cashflows	124	(158)	
Financing activities cashflows	-	(12)	
Net increase / (decrease) in cashflows	**709**	**(83)**	

33. Acquisition of financial instrument

On 9 June 2021 the Group acquired 10% of the issued share capital of RFG for nil consideration. The receipt of the issued share capital is considered to be a commitment fee receivable by the Group in order to originate loan facilities in aggregate not exceeding £6,250,000 to RFG. The commitment fee is an integral part of the effective interest rate of the associated loan facilities issued to RFG.

The Group is not considered to have a significant influence over RFG as it holds less than a 20% shareholding and is not considered to participate in the policy making decisions of the entity. The 10% shareholding has thus been classified as a financial instrument.

The Group continues to obtain information necessary to measure the fair value of the shares obtained. The fair value of the financial instrument received has been determined as £122,000 (2021: £68,000) based on the proportionate share of the net asset value of RFG. There has been no change to fair value at year-end.

As part of the transaction, the Group has been granted two warrants to acquire further shares. The first warrant is for 5% of the share capital and the second warrant is for a further 5% of the share capital.

The two warrants are exercisable dependent upon the Group's banking subsidiary, the Bank, contracting with RFG, for a larger facility. The fair value of the two warrants has been determined to be nil due to the significant uncertainty that exists at acquisition date and the period end in issuing a further debt facility.

34. Goodwill

Cash generating unit	Group 2022 £000	Group 2021 £000
PAL (see Note 32)	4,456	-
EAL	1,649	1,849
BLX	1,908	1,908
BBSL	1,390	1,390
NRFL	678	678
Manx Collections Limited ("MCL")	454	454
Three Spires Insurance Services Limited ("Three Spires")	41	41
	10,576	6,320

As at 31 December 2022, no indications of impairment have been assessed on the PAL goodwill following its recognition on the Group's Statement of Financial Position (see Note 32).

The goodwill is considered to have an indefinite life and is reviewed on an annual basis by comparing its estimated recoverable amount with its carrying value. The key assumptions used in the estimation of the recoverable amount are set out in this note. The recoverable amount of the CGUs discussed in this note were each based on value in use. The values assigned to key assumptions represents management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

The estimated recoverable amount in relation to the EAL CGU (including also goodwill generated on acquisition of EAL) is based on the forecasted 3 year cash flow projections, extrapolated to 10 years using a 2.0% annual increment, and then discounted using a 14.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on stable profit levels. An impairment loss on EAL goodwill of £200,000 has been recognised during the year.

The estimated recoverable amount in relation to the goodwill generated on the purchase of BLX is based on forecasted 3 year interest income calculated at an average yield of 8%, with a terminal value calculated using a 3.0% growth rate of net income and then discounted using a 14.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of up to 20.0% on varying interest income growth rates.

The estimated recoverable amount in relation to the goodwill generated on the purchase of BBSL is based on forecasted 3 year interest income calculated at an average yield of 8%, with a terminal value calculated using a 3.0% growth rate of net income and then discounted using a 14.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of up to 20.0% on varying interest income growth rates.

The estimated recoverable amount in relation to the goodwill generated on the purchase of NRFL is based on a 4 year sales forecast, extrapolated to 14 years using a 1.5% annual increment, and then discounted using a 12% discount factor. The sensitivity of the analysis was tested using additional discount factors of up to 20.0% on varying sales volumes. On the basis of the above reviews no impairment to goodwill has been made in the current year.

The estimated recoverable amount in relation to the goodwill generated on the purchase of MCL is based on forecasted 3-year sales interest income calculated at 5.0% margin.

34. Goodwill (continued)

This is extrapolated to 10 years using a 2.0% annual increment, and then discounted using a 11.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on varying sales volumes.

The goodwill generated on the purchase of Three Spires has been reviewed at the current year end and is considered adequate given its income streams referred to EAL. Based on the above no impairment to goodwill has been made in the current year.

35. Investment in Group undertakings

Amounts owed to Group undertakings

Amounts owed to and from Group undertakings are unsecured, interest-free and repayable on demand.

Subordinated loans

MFG has issued several subordinated loans as part of its equity funding into the Bank and EAL.

Creation	Maturity	Interest rate % p.a.	2022 £000	2021 £000
Conister Bank Limited				
11 February 2014	11 February 2024	7.0	**500**	500
27 May 2014	27 May 2024	7.0	**500**	500
9 July 2014	9 July 2024	7.0	**500**	500
17 September 2014	17 September 2026	7.0	**400**	400
22 July 2013	22 July 2033	7.0	**1,000**	1,000
25 October 2013	22 October 2033	7.0	**1,000**	1,000
23 September 2016	23 September 2036	7.0	**1,100**	1,100
14 June 2017	14 June 2037	7.0	**450**	450
12 June 2018	12 June 2038	7.0	**2,000**	2,000
Edgewater Associates Limited				
21 February 2017	21 February 2027	7.0	**150**	150
14 May 2017	14 May 2027	7.0	**128**	128
			7,728	7,728

36. Related party transactions

Cash deposits

During the year, the Bank held cash on deposit on behalf of Jim Mellon (Executive Chairman of MFG). At 31 December total deposits amounted to £94,475 (2021: £507,908), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

Key management remuneration including Executive Directors

	2022 £000	2021 £000
Remuneration	**516**	440
Performance Related Pay	**68**	51
Pension	**41**	34
	625	525

Employment benefits include gross salaries, performance related pay, employer defined contributions and restricted stock units (Note 29D).

As at 31 December 2022, Douglas Grant had £376,163 (2021: £107,386) outstanding to repay in Loans and advances to Conister Bank Limited, paying an average interest of 7.0% (2021: 2.54%); and James Smeed, £15,463 (2021: £29,756), paying an average interest of 3.01% (2021: 2.65%). No impairment is held in respect of these amounts.

Intercompany recharges

Various intercompany recharges are made during the course of the year as a result of the Bank settling debts in other Group companies.

Loan advance to EAL

On 14 December 2016, a loan advance was made to EAL by the Bank in order to provide the finance required to acquire MBL. The advance was for £700,000 at an interest rate of 8% per annum repayable over 6 years. A negative pledge was given by EAL to not encumber any property or assets or enter into an arrangement to borrow any further monies. The balance as at 31 December 2022 was £nil (2021: £140,950).

36. Related party transactions (continued)

Loan advance to PIML
On 24 May 2018, a £500,000 loan facility was made available to PIML by the Bank in order to provide the finance required to expand its operations. The facility is for 12 months. Interest is charged at commercial rates. At 31 December 2022, £1,241,000 (2021: £1,219,000) had been advanced to PIML. No impairment is held in respect of these amounts.

Subordinated loans
The Company has advanced £7,450,000 (2021: £7,450,000) of subordinated loans to the Bank and £278,000 (2021: £278,000) to EAL as at 31 December 2022. See note 34 for more details.

37. Leases
A. Leases as lessee
The Group leases the head office building in the Isle of Man. The lease's term is 10 years with an option to renew the lease after that date. Lease payments are renegotiated every 10 years to reflect market rentals.

The Group leases an office unit in the United Kingdom and IT equipment with contract terms of 2 to 3 years. These leases are short-term and / or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

Group	Land and Buildings £000	Total £000
Cost		
As at 1 January 2022	1,444	1,444
Acquisition of subsidiary	136	136
Additions	380	380
As at 31 December 2022	1,960	1,960
Accumulated depreciation		
As at 1 January 2022	205	205
Charge for the year	180	180
Eliminated on disposals	-	-
As at 31 December 2022	385	385
Carrying value at 31 December 2022	1,575	1,575
Carrying value at 31 December 2021	1,239	1,239

ii. Amounts recognised in profit or loss

	2022 £000	2021 £000
Interest on lease liabilities	78	42
Depreciation expense	180	162
Expenses relating to short-term leases and low-value assets	92	64

iii. Amounts recognised in statement of cash flows

	2022 £000	2021 £000
Total cash outflow for leases	280	243

37. Leases (continued)

iv. Non-cancellable operating lease rentals are payable in respect of property as follows:

	2022 £000	2021 £000
Less than one year	**92**	64
Between one and five years	**184**	128
Over five years	**-**	-
Total operating lease rentals payable	**276**	192

38. Regulators
Certain Group subsidiaries are regulated by the FSA and the FCA as detailed below.

The Bank and EAL are regulated by the FSA under a Class 1(1) - Deposit Taking licence and Class 2 - Investment Business licence respectively. The Bank and CFL are regulated by the FCA to provide regulated products and services.

39. 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.

40. Non-IFRS measures
Non-IFRS measures included in the financial statements include the following:

Measure	Description
Net trading income	Net trading income represents net interest income and contributions from non-interest income activities.
Operating income	Operating income represents net trading income other operating income and gains or losses on financial instruments

41. Subsequent events
There were no subsequent events occurring after 31 December 2022.

42. Financial risk management

A. Introduction and overview

The Group has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the ARCC, which is responsible for approving and monitoring Group risk management policies. The ARCC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARCC.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, though its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and investment debt securities. Credit risk includes counterparty, concentration, underwriting and credit mitigation risks.

Management of credit risk

The Bank's Board of Directors created the Credit Committee which is responsible for managing credit risk, including the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessments, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated in line with credit policy;
- Reviewing and assessing credit risk: The Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposures to counterparties, geographies and industries, by issuer, credit rating band, market liquidity and country (for debt securities);
- Developing and maintaining risk gradings to categorise exposures according to the degree of risk of default. The current risk grading consists of 3 grades reflecting varying degrees of risk of default;
- Developing and maintaining the Group's process for measuring ECL: This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - the incorporation of forward-looking information; and
- Reviewing compliance with agreed exposure limits. Regular reports on the credit quality of portfolios are provided to the Credit Committee which may require corrective action to be taken.

C. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Group's operations and investments.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have enough liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- Funding base: offering six-months to five-year fixed term deposit structure with no early redemption option. This means the Bank is not subject to optionality risk where customers redeem fixed rate products where there may be a better rate available within the market;
- Funding profile: the Bank has a matched funding profile and does not engage in maturity transformation which means that on a cumulative mismatch position the Bank is forecast to be able to meet all liabilities as they fall due;

42. Financial risk management (continued)
C. Liquidity risk (continued)
Management of liquidity risk (continued)

- Monitoring maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding;
- Liquidity buffer: the Bank maintains a liquidity buffer of 10.0% of its deposit liabilities, with strict short-term mismatch limits of 0.0% for sight to three months and -5.0% for sight to six months. This ensures that the Bank is able to withstand any short-term liquidity shock; and
- Interbank market: the Bank has no exposure to the interbank lending market. The Bank has no reliance on liquidity via the wholesale markets. In turn, if market conditions meant access to the wholesale funding was constrained as per the 2008 credit crisis, this would have no foreseeable effect on the Bank.

The Bank's liquidity position is monitored daily against internal and external limits agreed with the FSA and according to the Bank's Liquidity Policy. The Bank also has a Liquidity Contingency Policy and Liquidity Contingency Committee in the event of a liquidity crisis or potential liquidity disruption event occurring.

The Treasury department receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed considering both Group-specific events and market-related events (e.g. prolonged market illiquidity).

D. Market risk
Market risk is the risk that of changes in market prices; e.g. interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing), will affect the Group's income or value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Management of market risks
Overall authority for market risk is vested in the Assets and Liabilities Committee ("ALCO") which sets up limits for each type of risk. Group finance is responsible for the development of risk management policies (subject to review and approval by the ALCO) and for the day-to-day review of their implementation.

Foreign exchange risk
The Bank is not subject to foreign exchange risks and its business is conducted in pounds sterling.

Equity risk
The Group has investment in associates which are carried at cost adjusted for the Group's share of net asset value. The Bank has access to these accounts. The Bank's exposure to market risk is not considered significant given the low carrying amount of the investment.

The Group's does not hold any investments in listed equities.

Interest rate risk
The principal potential interest rate risk that the Bank is exposed to is the risk that the fixed interest rate and term profile of its deposit base differs materially from the fixed interest rate and term profile of its asset base, or basis and term structure risk.

Additional interest rate risk may arise for banks where (a) customers are able to react to market sensitivity and redeem fixed rate products and (b) where a bank has taken out interest rate derivate hedges especially against longer-term interest rate risk, where the hedge moves against the bank. However, neither of these risks apply to the Bank.

Interest rate risk for the Bank is not deemed to be currently material due to the Bank's matched funding profile. Any interest rate risk assumed by the Bank will arise from a reduction in interest rates, in a rising environment due to the nature of the Bank's products and its matched funded profile. The Bank should be able to increase its lending rate to match any corresponding rise in its cost of funds, notwithstanding its inability to vary rates on its existing loan book. The Bank attempts to efficiently match its deposit taking to its funding requirements.

42. Financial risk management (continued)

E. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

Management of operational risk

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Group has developed standards for the management of operational risk in the following areas:

- Business continuity planning;
- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Information technology and cyber risks; and
- Risk mitigation, including insurance where this is cost-effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are reported to the ARCC.

43. Basis of measurement

The financial statements are prepared on a historical cost basis, except for the following material items:

Items	Measurement basis
FVTPL – Trading asset	Fair value
FVOCI – Debt securities	Fair value
Land and buildings	Fair value
Deferred consideration	Fair value
Net defined benefit liability	Fair value of plan assets less the present value of the defined benefit obligation

44. Significant accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2022:

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards–Subsidiary as a First-time Adopter (issued on 12 April 2022);
- Amendment to IFRS 9 Financial Instruments–Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (issued on 12 April 2022);
- Amendment to IAS 41 Agriculture – Taxation in Fair Value Measurements (issued on 12 April 2022);
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract (issued on 12 April 2022);
- Amendments to IAS 16: Property and Equipment: Proceeds before Intended Use (issued on 12 April 2022); and
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 12 April 2022).

No significant changes followed the implementation of these standards and amendments.

New standards and amendments to standards, adopted but not yet effective with an initial application of 1 January 2023:

- Adoption of IFRS 17 Insurance Contracts (issued on 17 May 2022);
- Adoption of Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) (issued on 2 December 2022);
- Adoption of Definition of Accounting Estimates (Amendments to IAS 8) (issued on 2 December 2022); and
- Adoption of Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) (issued on 2 December 2022)

No significant changes are anticipated followed the implementation of the standards and amendments effective on 1 January 2023.

The Group has consistently applied the following accounting policies to all periods presented in these financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

44. Significant accounting policies (continued)

A. Basis of consolidation of subsidiaries and separate financial statements of the Company
i. Business combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instruments is classified as equity, then it is not measured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii. Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. Non-controlling interests (“NCI”)
NCI are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv. Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

vi. Separate financial statements of the Company
In the separate financial statements of the Company, interests in subsidiaries, associates and joint ventures are accounted for at cost.

B. Interests in equity accounted investees
The Group’s interests in equity accounted investees may comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group’s share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

C. Interest
Interest income and expense are recognised in profit or loss using the effective interest rate method.

i. Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts of the financial instrument to the gross carrying amount of the financial asset or amortised cost of the financial liability. When calculating the effective interest rate for financial assets, the Group estimates future cash flows considering all contractual terms of the financial instruments, including origination fees, loan incentives, broker fees payable, estimated early repayment charges, balloon payments and all other premiums and discounts. It also includes direct incremental transaction costs related to the acquisition or issue of the financial instrument. The calculation does not consider future credit losses.

44. Significant accounting policies (continued)

C. Interest (continued)
ii. Amortised cost and gross carrying amount
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

iii. Calculation of interest income and expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

D. Fee and commission income
The Group generates fee and commission income through provision of independent financial advice, insurance brokerage agency, introducer of foreign exchange services and commissions from brokering business finance for small and medium sized enterprises.

Independent financial advice and insurance brokerage agency
Income represents commission arising on services and premiums relating to policies and other investment products committed during the year, as well as renewal commissions having arisen on services and premiums relating to policies and other investment products committed during the year and previous years and effective at the balance sheet date. Income is recognised on the date that policies are submitted to product providers with an appropriate discount being applied for policies not completed. As a way to estimate what is due at the year-end, a “not proceeded with” rate of 10.0% for pipeline life insurance products and 0.0% for non-life insurance pipeline is assumed. Renewal commissions are estimated by taking the historical amount written pro-rata to 3 months.

Other
Income other than that directly related to the loans is recognised over the period for which service has been provided or on completion of an act to which the fee relates.

E. Leases
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i. As a lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and as a result, accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

44. Significant accounting policies (continued)

E. Leases (continued)
i. As a lessee (continued)
Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor
At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Finance leases and HP contracts
When assets are subject to a finance lease or HP contract, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. HP and lease income is recognised over the term of the contract or lease reflecting a constant periodic rate of return on the net investment in the contract or lease. Initial direct costs, which may include commissions and legal fees directly attributable to negotiating and arranging the contract or lease, are included in the measurement of the net investment of the contract or lease at inception.

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

F. Income tax
Current and deferred taxation
Current taxation relates to the estimated corporation tax payable in the current financial year. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill and temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred taxation is determined using tax rates, and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax is realised. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

44. Significant accounting policies (continued)

G. Financial assets and financial liabilities
i. Recognition and initial measurement
The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments including regular-way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification
Financial assets
On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information provided to management.

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities
The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

iii. Derecognition
Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

44. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)
iii. Derecognition (continued)
Financial assets (continued)
On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv. Modifications of financial assets and financial liabilities
Financial assets
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities
The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or losses recognised in profit or loss. Any costs and fee incurred are recognised as an adjustment of the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

v. Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group’s trading activity.

vi. Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

44. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)
vi. Fair value measurement (continued)
The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

vii. Impairment
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.

If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.

- An 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 an SICR has also deemed to occur; and
- 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, individual voluntary arrangement, abscond or disappearance, fraudulent activity and other similar events.

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.

The Group measures loss allowances at an amount equal to lifetime ECL, except for debt investment securities that are determined to have low credit risk at the reporting date for which they are measured as a 12-month ECL. Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

44. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)
vii. Impairment (continued)

Measurement of ECL
After a detailed review, the Group devised and implemented an impairment methodology in light of the IFRS 9 requirements outlined above noting the following:

- The ECL was derived by reviewing the Group's loss rate and loss given default over the past 9 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. At 2022 year-end, 28.8% had such credit enhancements (2021: 36.6%); and
- 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.

ECL are probability-weighted estimates of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable date:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or another type of financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In assessing of whether an investment in sovereign debt is credit impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments: generally, as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

44. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)
vii. Impairment (continued)

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

H. Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and deposit balances with an original maturity date of three months or less.

I. Loans and advances
Loans and advances' captions in the statement of financial position include:

- Loans and advances measured at amortised cost (see note 44 (G)). They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- Finance lease receivables (see note 44 (E)).

J. Property, plant and equipment
Items of property, plant and equipment are stated at historical cost less accumulated depreciation (see below). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings are carried at a revalued amount, being fair value at the date of revaluation less subsequent depreciation and impairment and are revalued annually.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Depreciation and amortisation
Assets are depreciated or amortised on a straight-line basis, so as to write off the book value over their estimated useful lives. The estimated useful lives of property, plant and equipment and intangibles are as follows:

Property, plant and equipment	
Leasehold improvements	to expiration of the lease
IT equipment	4 - 5 years
Motor vehicles	2 - 5 years
Furniture and equipment	4 -10 years
Plant and machinery	5 – 20 years

K. Intangible assets and goodwill
i. Goodwill
Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

44. Significant accounting policies (continued)

K. Intangible assets and goodwill (continued)
ii. Software
Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

iii. Other
Intangible assets that are acquired by an entity and having finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets acquired as part of a business combination, with an indefinite useful live are measured at fair value. Intangible assets with indefinite useful lives are not amortised but instead are subject to impairment testing at least annually.

The useful lives of intangibles are as follows:

Customer contracts and lists	to expiration of the agreement
Business intellectual property rights	4 years - indefinite
Website development costs	indefinite
Software	5 years

L. Impairment of non-financial assets
At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (“CGUs”). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group’s corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are located.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

44. Significant accounting policies (continued)

M. Deposits, debt securities issued and subordinated liabilities
Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

N. Employee benefits
i. Long-term employee benefits
Pension obligations
The Group has pension obligations arising from both defined benefit and defined contribution pension plans.

A defined contribution pension plan is one under which the Group pays fixed contributions into a separate fund and has no legal or constructive obligations to pay further contributions. Defined benefit pension plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and remuneration.

Under the defined benefit pension plan, in accordance with IAS 19 Employee benefits, the full-service cost for the period, adjusted for any changes to the plan, is charged to the income statement. A charge equal to the expected increase in the present value of the plan liabilities, as a result of the plan liabilities being one year closer to settlement, and a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period, is included in the income statement.

The statement of financial position records as an asset or liability as appropriate, the difference between the market value of the plan assets and the present value of the accrued plan liabilities. The difference between the expected return on assets and that achieved in the period, is recognised in the income statement in the year in which they arise. The defined benefit pension plan obligation is calculated by independent actuaries using the projected unit credit method and a discount rate based on the yield on high quality rated corporate bonds.

The Group's defined contribution pension obligations arise from contributions paid to a Group personal pension plan, an ex gratia pension plan, employee personal pension plans and employee co-operative insurance plans. For these pension plans, the amounts charged to the income statement represent the contributions payable during the year.

ii. Share-based compensation
The Group maintains a share option programme which allows certain Group employees to acquire shares of the Group. The change in the fair value of options granted is recognised as an employee expense with a corresponding change in equity. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

At each reporting date, the Group revises its estimate of the number of options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The fair value is estimated using a proprietary binomial probability model. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

O. Share capital and reserves
Share issue costs
Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

P. Earnings per share ("EPS")
The Group presents basic and diluted EPS data for its Ordinary Shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary Shareholders of MFG by the weighted-average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by adjusting profit or loss that is attributable to Ordinary Shareholders and the weighted-average number of Ordinary Shares outstanding for the effects of all dilutive potential Ordinary Shares, which comprise share options granted to employees.

44. Significant accounting policies (continued)

Q. Segmental reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segmental reporting is based on business segments.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components, whose operating results are regularly reviewed by the CEO who is the chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results reported to the CEO include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

SHAREHOLDER NOTES

Appendix – Glossary of terms

ALCO	Assets and Liabilities Committee
ARCC	Audit, Risk and Compliance Committee
BBSL	Blue Star Business Solutions Limited
BL	Burnbrae Limited
BLX	The Business Lending Exchange Limited
Bank	Conister Bank Limited
Bank's Board	The Bank's Board of Directors
BOE	Bank of England
BSL	Beer Swaps Limited
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFL	Conister Finance & Leasing Ltd
CGU	Cash Generating Unit
CODM	Chief Operating Decision Maker
Company	Manx Financial Group PLC
EAL	Edgewater Associates Limited
ECF	ECF Asset finance PLC
ECL	Expected Credit Loss
ESG	Environmental, Social and Governance
EPS	Earnings Per Share
FCA	UK Financial Conduct Authority
Fraud risks	Risk of Material Misstatement Due to Fraud
FSA	Isle of Man Financial Services Authority
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
Group	Comprise the Company and its subsidiaries
HP	Hire Purchase
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFA	Independent Financial Advisors
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Interim financial statements	Condensed consolidated interim financial statements
IOM	Isle of Man
ISA	International Standards of Auditing
JM	Jim Mellon
LSE	London Stock Exchange
MBL	MBL Financial Limited
MCL	Manx Collections Limited
MFG	Manx Financial Group PLC
MFX	Manx FX Limited
MFX.L	Manx Financial Group PLC ticker symbol on the LSE
MVL	Manx Ventures Limited (previously Bradburn Limited)
NEC	Notice of Error Correction
NOMCO	Nomination Committee
NRFL	Ninkasi Rentals & Finance Limited (previously Beer Swaps Limited)
OCI	Other Comprehensive Income
PAL	Payment Assist Limited
PIML	Payitmonthly Limited
QCA	Quoted Companies Alliance
REMCO	Remuneration Committee
RFG	Rivers Finance Group Plc
RMF	Risk Management Framework
SBA	Share Buyback Agreement
Scheme	The Conister Trust Pension and Life Assurance Scheme
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SR	Southern Rock Insurance Company Limited
Subsidiaries	MFG's subsidiaries being Bank, BBSL, BLX, CFL, ECF, EAL, MFX, MVL, NRFL
TCF	Treating Customers Fairly
Three Spires	Three Spires Insurance Services Limited
UK	United Kingdom
UP	Unrelated parties

Manx Financial Group

Clarendon House
Victoria Street
Douglas
Isle of Man
IM1 2LN

Tel: (01624) 694694
Fax: (01624) 624278

www.mfg.im