Manx Financial Group PLC

ANNUAL REPORT 2020

Welcome to Manx Financial Group PLC
Integrity through independence and service

An independent banking 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) which has subsidiaries (together referred to as "Group") engaged in a suite of financial services based in the Isle of Man and the UK. These companies offer financial services to both retail and commercial customers. MFG's strategy is to grow organically and through strategic acquisition to further augment the range of services it offers.

Principal wholly owned subsidiaries:
- Conister Bank Limited
- Conister Finance & Leasing Ltd
- Blue Star Business Solutions Limited
- Edgewater Associates Limited
- Manx FX 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 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 brokerage of hire purchase and leasing finance facilities in the UK.

CFL is regulated by the Financial Conduct Authority in the UK and registered as a designated business by the Financial Services Authority in the Isle of Man.

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 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 £361 million (2019: £324 million).

Manx FX

Manx FX Limited provides access to competitive foreign exchange and international payment processing facilities.

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

CHAIRMAN'S STATEMENT

Dear Shareholders

Introduction
As reported in my Interim Statement, the Group was well prepared for the economic downturn caused by Covid-19 and Brexit. Our staff have risen magnificently to the challenge and I would like to thank them for their teamwork, commitment and focus on helping both their colleagues and our customers through these difficult times.

During the year we successfully agreed our long-term VAT dispute with the Isle of Man Customs & Excise regarding the unfair recovery rate applied to the Company. We received full recovery of our debtor.

Our banking subsidiary, Conister Bank Limited (the "Bank"), quickly recognised the difficulties that Covid-19 would bring and, consequently, announced it would set aside £10 million to help Isle of Man businesses. Following this, when the Manx government announced two business support schemes, the Bank became the only lender on the Island to become accredited for both – clearly demonstrating our commitment to help. The Bank then became accredited through the British Business Bank for the two UK government business support schemes. All four schemes provide an 80 -100% government guarantee against loss. These schemes together provided much needed support to companies both on-and off-Island and, via these guarantees, afforded a safe lending proposition to the Bank.

In April 2020, the Company entered into a share buyback agreement to purchase and cancel 16,966,158 ordinary shares in the Company. The positive impact of this transaction increased the Net Asset Value per share for all the remaining shareholders by approximately 15%. Further, in December 2020, after an absence of 15 years, the Company announced the return of a dividend scheme which will allow shareholders to either increase their shareholding in the Company at no cost or, alternatively, to take a cash dividend. The terms for the 2020 dividend will be announced at our forthcoming Annual General Meeting.

Financial Performance
At the peak of the first UK lockdown, the Bank had negotiated forbearance or payment holidays to help over 2,000 customers. This figure was managed down to only 144 just before the UK went into its third lockdown in December. Whilst this demonstrated the underlying quality of the loan book, it also necessitated an increase in provisions as we continued to prudently manage the balance sheet. By year-end, provisions stood at £3.95 million (2019: £1.90 million) with a significant amount of the increase relating to one customer. Consequently, our profit before tax decreased by £1.0 million to £2.0 million (2019: £3.0 million), a figure ameliorated by credits totalling £1.3 million relating to our recent acquisitions, VAT recovery and treasury management, partially offsetting some of the increase in provisions.

Despite the economic headwinds, lending at the Bank was a record £167.2 million (2019: 158.8 million) and our total assets increased by £15.1 million to £268.0 million (2019: £252.9 million), a growth of 6%. Also, this volatility created opportunity for Manx FX Limited, our foreign exchange advisory business, which recorded a record profit of £1.1 million (2019: £0.5 million) and is well positioned for a strong 2021.

Our operating expenses, excluding provisions and the VAT credit, decreased by £0.2 million to £11.3 million (2019: £11.5 million), reflecting our improved cost control which was achieved without compromising lending growth. In turn, our operating income ratio, less provisions and VAT, improved by 0.5% to 69.1% (2019: 69.6%).

Our loyal Isle of Man depositors have underpinned our loan book growth with deposits increasing by £8.4 million to £218.3 million (2019: £209.9 million) and our loan to deposit ratio improved by 3% to 89% (2019: 86%) – a key measure in demonstrating operational efficiency.

Following the Bank increasing its holding in Beer Swaps Limited to 75%, we were able to recognize a £2.6 million increase in our fixed assets.

Liabilities increased by £14.9 million to £245.5 million (2019: £230.6 million) driven mostly by an £8.4 million increase in deposits to support lending, and a £6.3 million increase in loan notes. The latter figure relates to the share buy back and cancellation, together with further loans providing incremental regulatory capital to allow the Bank to continue to make additional acquisitions and to increase lending to underpin further growth.

Key objectives
In this economic environment, our fundamental focus continues to be the protection of shareholder value. Thus, following a recent review, our strategic concentration remains to:

- Provide the highest quality service throughout our operations to all customers, ensuring that their treatment is both fair and appropriate;
- Adopt a pro-active strategy of managing risk within a structured compliant regime;
- Concentrate on developing our core business by considered acquisitions, increasing prudential lending and augmenting the range of financial services we offer;
- Continue 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 liabilities side of our balance sheet; and
- Manage our balance sheet to continue to exceed the regulatory requirements for capital adequacy.

Strategic Report / Risk and Governance
Immediately following this statement, I detail our approach to strategy, and our assessment of risk and our implementation of compliance and governance. In particular, I set out our perceived risks and how these are managed, together with a review of our regulatory requirements and also how we meet the obligations of the QCA Code. Rather than reiterate these methodologies at this point, I would ask that you take the opportunity to review these topics in conjunction with my report.

CHAIRMAN'S STATEMENT

Conister Bank Limited
The Bank finally and successfully resolved its position with the Isle of Man Customs and Excise ("C&E") with regards to its VAT recovery rate. This has taken 13 years and numerous court cases for the claim, amounting to £1.3 million, to be settled in our favour. I would like to thank our Executives for their perseverance in this matter. Shortly after this claim was resolved, a second claim of £0.6 million was made to C&E, and I expect to be able to provide an update on its resolution at the half-year.

Having positioned the business for growth in 2019, the 2020 strategy was impacted by the onset of Covid-19, even though the Manx market quickly returned to a near-normal level after the initial lockdown, with the Manx loan book growing by £8.4 million to £54.3 million (2019: £45.9 million). However, our UK business was badly impacted by the three lockdowns which eventually drove the economy into a sharp recession. We re-positioned UK lending to the more prime sectors, exiting those with a higher risk exposure and provided liquidity to markets that had already demonstrated a level of resilience to the recession. Whilst this move has reduced new business lending, with a consequent £6.1 million decline of the UK loan book to £35.7 million (2019: 41.8 million), the quality of the loans now underwritten has improved considerably.

During the year, the Bank acquired a controlling interest in Beer Swaps Limited (trading as Ninkasi), the largest lessor of fermenting vessels to the UK brewing industry. This move takes the Bank's shareholding from 20% to 75%. The investment is already outperforming our expectations and we retain an option to acquire a further 15% in the coming months.

The Bank continues to attract deposits at historically low market rates which will position it well against any inflationary pressure and competition. With negative interest rates experienced in the UK Gilts primary market for the first time, our treasury management strategy was to leave our liquidity of £31.8 million (2019: £13.5 million) in cash and cash equivalents for the short-term. Over the next year, the Bank intends to utilise this excess liquidity to sustain lending in our preferred markets, with a particular focus on the Isle of Man commercial market and the UK wholesale market.

I have discussed over the last few years the need to reduce our dependence on overly expensive introducers and I am pleased to report continued progress on this project with commissions paid reducing by 36.3% to £3.6 million (2019: £5.7 million).

Personnel expenses increased by £0.4 million as the Bank's headcount increased by seven as part of the Beer Swaps Limited transaction. Overheads reduced by £0.2 million to £2.9 million (2019: £3.1 million), reflecting various cost-saving initiatives in the Bank's response to the impact of the pandemic. With our loan book growth, provisioning increased in the year by £2.1 million to £4.0 million (2019: £1.9 million). This increase in provisions reflected the deteriorating credit conditions in the UK as the economic lockdowns impacted Small and Medium-Sized Enterprises. Depreciation and amortisation increased by £0.2 million to £0.5 million (2019: £0.3 million), driven by continued investment in IT implementation as discussed in the 2020 Interim Statement. With other costs offsetting each other, the Bank's cost base increased by £2.5 million to £11.9 million (2019: £9.4 million).

Bearing in mind the economic backdrop and our prudent management of the balance sheet, I am pleased to report the £0.7 million reduction in profit to £1.9 million (2019: £2.6 million) is less of a contraction than our peers.

Total assets, driven by loan book growth, increased by £14.4 million to £260.2 million (2019: £245.7 million), an improvement of 5.9%. During the year, we continued to expand the capital base of the Bank by increasing the issued share capital by a further £4.8 million to £15.5 million (2019: £10.8 million). Shareholder funds increased by £5.1 million to £30.1 million (2019: £25.0 million), a growth of 20.1%. Thus, the Bank finished the year in a stronger financial position than the start.

Edgewater Associates Limited ("EAL")
Our independent financial advisory business remains the largest on the Isle of Man and had a difficult year with the trading conditions negatively impacted by Covid-19. Meeting clients became problematic and many sought to delay investment decisions due to market turbulence. Whilst a UK economic recovery is expected later in 2021, the Gross Domestic Product fell steeply by 19% in the second quarter of 2020, which created market uncertainty around the potential length of the UK recession. As a result, net income fell by £0.4 million in the year to £2.1 million (2019: £2.5 million). Operating costs remained constant at £2.1 million, leading to a small loss of £0.1 million (2019 profit: £0.2 million).

Notwithstanding the result, assets under management increased by 11.4% to £361 million (2019: 324 million) and renewal income remained consistent at £1.1 million, indicating positive customer satisfaction with portfolio management. The growth in assets under management is also a strong indication that the renewal income stream will increase in 2021.

Manx FX Limited ("MFX")
Our foreign exchange advisory business has had a remarkable year. Whereas our IFA business suffered from market volatility, MFX benefitted, demonstrating the importance in having a fully diversified financial services group.

Turnover increased to £1.3 million (2019: £0.8 million) as customers moved into safer, stable currencies such as Euros and USD and hedged their future exposures. With its cost income ratio improving significantly to 17.3% (2019: 39.4%), profitability increased by 118.3% to £1.1 million (2019: £0.5 million)

The business continues to have a very liquid balance sheet and declared an interim dividend of £0.6 million for the year (2019: £1.1 million).

Beer Swaps Limited ("BSL")
On 28 February 2020, the Bank acquired further shares in BSL to increase its ordinary shareholding to 75% for a cash consideration of £0.7 million. For the period under ownership, BSL reported turnover of £0.6 million and a profit before tax of £0.2 million with net assets of £0.2 million. BSL is the largest tank lessor in the UK brewing market and is developing new related products to offer both its existing UK customers and, potentially, Europe.

CHAIRMAN'S STATEMENT

Blue Star Business Solutions Limited ("BBSL")
In April 2019, the Group acquired 100% of the shares in BBSL for a total expected cash consideration of £2.0 million. This UK business complements the Bank as it contracts directly with the end customer as opposed to through an intermediary and specialises in markets in which the Bank has little exposure. It is worth noting that despite BBSL operating within the same negative trading environment, it originated £4.1 million of advances to the Bank, generating £0.7 million of interest income (2019: £0.6 million) and its introductions generating little to no arrears. This business is a specialist in its market, and this is reflected in the quality of the loans it introduces. BBSL brokered a further £4.0 million of loans to other funders, providing a second revenue stream for the business.

Outlook
The Isle of Man has successfully bounced back from lockdowns, as shown by the less than expected uptake in the government support schemes, our positive lending figures and the encouraging recent government budget. As such, I expect a continued improvement in the economy on Island which will, in turn, create a positive environment for our lending and wealth management businesses to operate within.

The early signs show a sustained recovery is within the UK government's grasp, assuming infection rates continue to decrease and the well-managed roll-out of its vaccination strategy continues. However, there will be numerous sectors of the economy which will continue to require sustained government support. The Bank has been monitoring sector performance and will apply its liquidity to those sectors that have proved more resilient to the pandemic and are aligned with its longer-term growth strategy. The careful selection of markets and the continued lending through the government support schemes should create an excellent opportunity for growing our loan book.

We continue to consider new sources of liquidity both on and off Island. Indeed, the Bank launched a successful series of notice accounts deposit products on Island in 2020 and it will progress accessing new sources of liquidity in the UK in the coming year to ensure it has a sustainable base in each jurisdiction.

I believe that we have proved that our diversity continues to be our strength. Our organic growth strategy for the Bank is well developed and we will also take this time of turbulence to consider further investments to gain footholds or to increase our market share in identified strategic sectors. Our cash reserves are considerable, and the Bank now enjoys the highest prudential ratios held over the last 10 years. In short, each of our operations is well poised to take advantage of any economic upturn during 2021 and beyond.

Once again, I would like to thank my fellow Board members, the Group's executive team and staff for their continued contribution to our ongoing business. I would also like to thank our shareholders and customers for their continued support.

Jim Mellon
Executive Chairman
3 March 2021

BUSINESS MODEL AND STRATEGY

Conister Bank Limited ("Bank")
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; and
- Maintain stakeholder confidence.

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 manage risk on a day-to-day basis and are reviewed 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 United Kingdom ("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 COVID-19 pandemic and Brexit, drawing on both internal and external resources, the Bank continues to believe the credit markets 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 expansion of existing products organically, including participating in IOM and UK government business support schemes and through acquisition. This strategy can be analysed by the two geographical areas the Bank operates within, namely the IOM and the UK.

The Bank is proud of its heritage and remains heavily centric in the IOM but recognised that as its UK loan book grows it would need to create a 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 for the Bank to draw upon in order to support its lending strategy. The IOM deposit market remains a key source of liquidity through the fixed deposit products and new notice account products which were launched in 2019. The Bank has penetrated less than 1% of the retail segment available and has not established a meaningful presence in the £11 billion corporate and trust service provider market segment. This provides an opportunity to promote products other than fixed-term and notice accounts to attract new deposits.

The Bank recognises it has an opportunity to increase its market share as a result 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 gain market share in markets it already operates within 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 UK credit broker market and currently has circa £42.5 million of net loans outstanding. The strategy for growth is both organic (through improving customer service and increasing the number of brokers on its roster) and acquisitive. The Bank acquired BBSL in 2019 and Beer Swaps Limited ("BSL") in 2020, both established businesses with the view of expanding its offering.

Edgewater Associates Limited ("EAL")
EAL is the largest IFA firm in the IOM and is regulated by the Isle of Man Financial Services Authority ("FSA"). Its strategic objective is to:

- Grow and service its client base;
- Increase assets under advice; and
- Grow and develop its staff complement.

EAL is a generalist IFA practice with a diverse mix of clients requiring a broad range of products and services 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.

In 2016 EAL embarked on an aggressive and successful acquisition programme covering a two year period; at the outset it had a client base of approximately 4,600 clients. After four acquisitions and an active data cleansing review, EAL now has an active client base of approximately 9,600, with associated assets under advice of £361 million (2019: £324 million).

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

Diversification opportunities are also encouraged and pursued, as per its successful programme to grow or build Employee Benefit Group Schemes. This incorporates staff pensions (including pension freedom), protection, private medical cover, and death in service.

To keep pace with its development it will continue to train talented people to progress to rounded, professional advisers who are able to fit into succession planning. To supplement this, it also takes the opportunity to recruit quality experienced advisers and para-planners who can further enhance its team.

BUSINESS MODEL AND STRATEGY

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

- To be the first choice for international payments and foreign exchange;
- To maintain, develop and strengthen existing relationships; and
- 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.

The IOM offers a diversified range of industries and sectors. For the next 12 months MFX will concentrate its efforts in pursuing local new business opportunities.

MFX has the ability to negotiate upfront agreed foreign exchange margins and applies price transparency which underpins the professional relationship they provide. The international payment fees offer competitive value, at reduced rates compared with local high street banks.

RISK MANAGEMENT

Risk management overview
Effective risk management is crucial to MFG's sustainability. The MFG's 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 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 framework and intended to reinforce the key elements of widely accepted and long-established Quoted Companies Alliance ("QCA") corporate governance principles.

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 subsidiary level. The RMF supports the Board and senior management in fulfilling their respective duties in relation to the sustainable operation of 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 level and currently comprises of three experienced Non-executive Directors who 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 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. Learnings are taken from previous incidents and ongoing assessment to 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 set out the maximum amount of risk that it is prepared to accept in the pursuit of delivering on 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. Each individual within the Group in conjunction with their manager is responsible for understanding the risks associated with their role. 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 generally performed on a regular basis, at least annually, and is reported to and governed by:

- A high level risk assessment to identify the top risks enabling work to progress in a risk focused manner on completing risk and control assessments, in order to build a key controls monitoring programme;
- Management Committees, including a review of roles and responsibilities to ensure that all material risks are captured and formally considered prior to presentation to the ARCC and the Board;
- Policies within the policy framework to 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;

- 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;

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. This means that responsibility for governance and oversight is allocated throughout the organisation according to the three lines of defence principles.

The three lines of defence 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 the function 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 functions 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 functions within MFG have a direct reporting line to the ARCC and Board.

MFG has developed a combined assurance model to effectively manage the organisation's significant risks and material matters through a combination of the assurance service providers and functions described above.

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 review that process annually and evidence 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 will 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 use 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 of the Bank's strategy and plans to extreme adverse events that would 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 to industry standard 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, the ARCC, Internal Audit and the External Auditor prior to approval by the Bank's Board. 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 the 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 2020 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.

RISK MANAGEMENT

Principal risks
As a result of the RMF, identified on pages 9 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 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 Director's Reports' which are submitted to their respective Boards and then ultimately reported to the Group Board at each Board meeting. The reports will take account of input from the Group Executive Directors and current financial performance versus budget and seek to highlight strategic responses for the related subsidiary.

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

- 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 mitigation

- Delegated authorities: The Group operates to a schedule of delegated 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 written 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 undertaken through the maintenance, where appropriate, of cash reserves and loss pools to fund any buy-back indemnity. Comprehensive due diligence processes are also undertaken.

- 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 forecast and stress test on a more accurate basis.

- Concentration risk: To protect against the unintentional build-up of exposures where deterioration could materially impact the 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.

- Accounting standards: Finally, the introduction of IFRS 9 – Financial Instruments, provides an additional credit risk buffer.

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 to identify and implement efficiencies to enable increased customer service through the provision of additional services and products and to automate manual tasks wherever possible to minimise the potential for human error. The Group's IT Steering Committee reviews and monitors current service standards, highlight any deficiencies and mitigate accordingly. There are a number of exception reports and scheduled tasks on a daily basis to ensure that any controls within systems are being reported on adequately.

- 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 principals in place where required.
  - Exception reporting: Daily reporting ensures that any regulatory and internal limits are reviewed regularly by the appropriate Management team.
  - 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 in place for new outsourced partners in the 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 take-on due diligence 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 will ensure that all relevant input is included and material risks considered.
- 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 counter-parties). The risk exposure is regulatory in nature for the Group's UK based operations and consideration of any local jurisdiction guidance on good practice.

Controls and mitigation

The Group has an outsourcing policy to ensure that adherence to conduct and regulatory standards is contracted, and compliance with standards is appropriately monitored through the collection and assessment of relevant data, partner attestation, and onsite audits where appropriate.

General conduct and particularly Treating Customers Fairly ("TCF") principles are applied across the Group's activities.

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. The Group generally accesses wholesale funding markets or builds 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 which 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 on a daily basis 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 occur.

Interest rate risk

The principal potential interest rate risk that the Group 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.

Controls and mitigation

- Funding profile: Interest rate risk for the Group is not deemed to be material currently due to the Group'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 its lending rate to match any corresponding change in its cost of funds.

- The Group attempts to efficiently match its deposit taking to its funding requirements.

- The maturity profile of the Group's loan book through staged repayments means interest risk is difficult to hedge effectively so the Group does not currently hedge against this risk, and is therefore not exposed to any additional market interest rate risk in this respect.

- Funding cost: The Group would be exposed to potential risk if its 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 Group holds a Class 1 (1) Banking Licence in the IOM and is accordingly regulated by the Financial Services Authority ("FSA"). The Group 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 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, and the need to maintain a manageable cost of compliance.

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 approve 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 ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies 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") and 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 capitalise on its unique position as owning the only independent Bank within the British Crown Dependencies by developing core businesses within the financial services sector, both organically and by considered acquisitions.

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 largely operates in an inherently heavily regulated sector 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 in order 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 Principal 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 seeking financial advice. The Group's operations and working methodologies take account of the requirement to balance the needs of all of these 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.

- 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 or via a nominee, at the Annual General Meeting. In addition, the Group 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 in order to achieve continued excellent working relations;

- Customers – are at the heart of all we do, the Group operates with a shared vision and set of values. The 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; and

- Environment - the Group takes due account of any impact that its activities may have on the environment and seeks to minimise this impact by demonstrating leadership in corporate citizenship. Our continued dedication toward making a positive contribution to our communities and offering a great place to work is demonstrated via the operational subsidiaries' involvement in community events, charitable fundraising and the provision of ongoing support. In doing so the Group ensures continuous improvement in the management of our environmental impact, in line with the principles and standards set out within the Group's Corporate Social Responsibility Policy.

QCA Principal 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, compared with the budget, are reported to the Board on a monthly basis.

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 management team meets weekly to consider new risks and opportunities presented to the Group, making recommendations to the Board and / or the ARCC as appropriate.

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

QCA Principal 5: Maintain the board as a well-functioning, balanced team led by the chair
The Board currently comprises four Non-executive Directors and three Executive Directors.

All 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 that three Non-executive Directors, namely Alan Clarke (Chairman of the ARCC), David Gibson and John Spellman, are regarded as 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 Group Finance Director is the only Director who holds options over the Group's shares. The number and terms are found on page 26.

The option grant concerned is 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 Principal 6: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities
The Board considers that all of 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 course of 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 Principal 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 April 2020, 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 Principal 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 regularly sought. The senior management team regularly monitors the Group's cultural environment and 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 Principal 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 and promotes a culture of openness and debate 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. In doing so, this fosters a positive corporate governance culture throughout the Group.

Chief Executive Officer

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.

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 Non-executive Directors, currently Alan Clarke (Chairman), David Gibson 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 comprises of two Non-executive Directors, with the Executive Directors, Head of Human Resources and external advisers attending by invitation when appropriate. It is chaired by Alan Clarke and is responsible, amongst other matters, for determining the remuneration of the Executive Directors, the Company Secretary and other members of the management. Committee members do not take part in discussions concerning their own remuneration. The Chairman and CEO determine Non-executive Director fees.

The Directors believe that the above disclosures constitute sufficient disclosure to meet the QCA Code's requirement for a Remuneration Committee Report.

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.

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

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	4/6	-	-	1/2
Denham Eke	6/6	-	-	1/2
Douglas Grant	6/6	-	-	2/2
Alan Clarke	6/6	7/7	10/10	2/2
David Gibson	6/6	7/7	10/10	2/2
Gregory Bailey	5/6	-	-	2/2
John Spellman *	5/5	5/5	-	1/1
John Banks ~	2/2	-	-	1/1

~ John Banks resigned 14 April 2020
* John Spellman appointed 4 May 2020

QCA Principal 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 as a result 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 3 March 2021 and signed on its behalf by:

Jim Mellon
Executive Chairman
3 March 2021

DIRECTORS, OFFICERS AND ADVISERS

Executive Directors

Jim Mellon (64) ‡
Executive Chairman

Jim Mellon is a well-known and successful entrepreneur, author and economic commentator, starting his career in fund management and now including 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 a non-executive director of Agronomics Limited. He, together with Burnbrae Group Limited, of which he is the beneficial owner, holds a 18.83% shareholding of Manx Financial Group PLC. He is the founder, principal shareholder and chairman of the Regent Pacific Group, quoted on the Hong Kong Stock Exchange.

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

Denham Eke (69) ‡
Chief Executive Officer

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 appointed as Chief Executive on 12 February 2009.

Douglas Grant (56) ‡
Group Finance Director

Douglas Grant has over 30 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. He is also the Managing Director of Conister Bank Limited.

Non-executive Directors

Alan Clarke (70) ‡ † * ≠
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. Chairman of the Audit, Risk and Compliance Committee and Chairman of the Remuneration Committee.

David Gibson (73) ‡ † * ≠
Non-executive Director

David Gibson qualified as a certified accountant whilst holding posts with Shell-Mex and BP and CIBA-Geigy throughout the UK and abroad, before transferring into treasury management in senior positions with Turner and Newall and Westland Helicopters where he qualified as a corporate treasurer. He joined the Trustee Savings Bank of the Channel Islands as finance director, prior to becoming general manager finance at TSB Retail Bank where he gained his formal qualifications as a banker. Prior to retiring from executive life for family reasons, he was group finance director of Portman Building Society. He is also deputy chairman of two property investment companies.

Appointment
Appointed to the Board on 12 February 2009. He is Chairman of Conister Bank Limited.

Gregory Bailey (65) ‡
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. 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.

DIRECTORS, OFFICERS AND ADVISERS

Non-executive Directors

John Spellman (54) ‡ * ≠
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 10 years.

Appointment
Appointed to the Board on 4 May 2020.

Company Secretary

Lesley Crossley (53)
Company Secretary

Lesley Crossley is a Fellow of The Chartered Institute of Secretaries and Administrators and an Associate of the Chartered Insurance Institute. She 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
Appointed as Company Secretary on 2 September 2019.

* Member of the Audit, Risk and Compliance Committee
† Member of the Remuneration Committee
‡ Member of the Nominations Committee
≠ Independent Non-executive Director

John Banks resigned from the Board and his role as Non-executive Director and Member of the Nominations Committee on 14 April 2020.

Advisers

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Clarendon House
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Douglas
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Registered Agent
CW Corporate Services Limited
Bank Chambers
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Douglas
Isle of Man IM1 1LB

Legal Advisers
As to Isle of Man law
Long & Humphrey
The Old Courthouse
Athol Street
Douglas
Isle of Man IM1 1LD

As to English law
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The Broadgate Tower
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London EC21 2EW

Independent Auditor
KPMG Audit LLC
Heritage Court
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Douglas
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Principal Bankers
National Westminster Bank plc
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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
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Chiswick Park
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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 2020 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	7/7
David Gibson	13 February 2009	7/7
John Spellman	4 May 2020	5/5

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 the Head of Internal Audit, Head of Risk and Compliance and our External Auditor, KPMG Audit LLC.

The Chairman of the Board, the Executive Directors and executive management are invitees 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 our 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 approval:
    - Unaudited condensed interim results for the period-ended 30 June 2020;
    - Audited MFG PLC Group and subsidiary annual financial statements for the year-ended 31 December 2020; 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;
- Received a presentation from the External Auditor on the findings from their execution of the audit plan; and
- Satisfied itself as to the expertise 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
The External Auditor, KPMG Audit LLC, has been the Group's 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 0.06 to 1 (2019: 0.87 to 1). Non audit services related to transaction services and 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 260 letter.

The ARCC is satisfied with the independence of KPMG Audit LLC.

External Auditor's reappointment
The ARCC is responsible for recommending to the Board the reappointment of the Group's External Auditor which, in turn, will make a recommendation to its Shareholders.

It is noted that with good corporate governance, an audit tender process should regularly be conducted. With this in mind, the ARCC are considering whether an audit tender process should commence for the year-ended 31 December 2021. This will allow sufficient time to run a comprehensive and considered tender process subject to any delays related to COVID-19.

The ARCC therefore recommend to the Board that its External Auditor be reappointed for the year-ended 31 December 2021, whilst it considers a tender process.

Firms outside the Big 4 would be invited to take part in this process so long as they have sufficient resources and expertise to merit their inclusion. There are no anticipated conflicts of interest noted at this time and should any arise, they will be mitigated appropriately.

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 2020 and how they were addressed are detailed below:

Key accounting matter	ARCC response
Loan impairment – wholesale funding and individual finance agreements Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. 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 executive 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.

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% (2019: 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 overall MFG audit.	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
3 March 2021

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 2020.

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	10/10
David Gibson	12 December 2010	10/10

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 2020
During the year, the Committee considered the following:
- Reviewed the overall pay of Executive Directors;
- Reviewed the overall non-discretionary annual performance related pay scheme for Group staff; and
- Reviewed and approved all new Group staff appointments with annual packages over £50,000.

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 variable pay when this is considered appropriate, and various benefits detailed below.

Performance related payments are not pensionable and are not contracted.

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 share options) or a mixture of both. 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 set at between 2 to 3 times annual gross salary depending on the size of the 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 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.

DIRECTORS' REMUNERATION REPORT

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 £	**2020 Total £**	2019 Total £
Executives					
Jim Mellon	43,750	-	-	**43,750**	25,000
Denham Eke	43,750	-	-	**43,750**	25,000
Douglas Grant	211,325	50,000	21,103	**282,428**	279,309
	298,825	50,000	21,103	**369,928**	329,309
Non-executives					
Gregory Bailey	-	-	-	**-**	12,500
John Banks ~	6,250	-	-	**6,250**	25,000
Alan Clarke	45,000	-	-	**45,000**	45,000
David Gibson	85,000	-	-	**85,000**	69,167
John Spellman *	26,667	-	-	**26,667**	-
	162,917	-	-	**162,917**	151,667
Aggregate emoluments	461,742	50,000	21,103	**532,845**	480,976

~ John Banks resigned 14 April 2020
* John Spellman appointed 4 May 2020

Approval
This report was approved by the Board of Directors on 3 March 2021 and signed on its behalf by:

Alan Clarke
Chairman of the Remuneration Committee
3 March 2021

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

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.

CFL is 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 proposed transfers to and from reserves are as set out in the Statement of Changes in Equity on page 40.

Going Concern
The Group has recognised a profit for the year after taxation of £1,968,000 (2019: £2,673,000). As at the year ended 31 December 2020, the Bank had a total capital ratio of 19.1% which exceeded the regulatory minimum requirement of 15.0%. Based on these factors, management has a reasonable expectation that the Group has and will 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
Particulars of the authorised and issued share capital of the Company are set out in note 28 to the financial statements.

Significant shareholdings
The number of shares held and the percentage of the issued shares which that number represented as at 2 March 2021 are:

	Number	**% of issued capital**
Jim Mellon[1]	21,492,232	18.83
Gregory Bailey[2]	17,835,750	15.63
Euroclear Nominees Limited[3]	17,039,623	14.93
Lynchwood Nominees Limited	6,313,960	5.53
Island Farms Limited	4,222,319	3.70
Rock (Nominees) Limited	4,198,917	3.68
Chase Nominees Limited	3,855,000	3.38

Directors and Directors' share interests
Details of current Directors are set out on pages 19 and 20.

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

	Number 02/03/21	**Number 31/12/20**	Number 31/12/19
Jim Mellon[1]	**21,492,232**	**21,492,232**	21,492,232
Gregory Bailey[2]	**17,835,750**	**17,835,750**	17,835,750
David Gibson[4]	**1,721,433**	**1,721,433**	1,721,433
Douglas Grant	**505,821**	**505,821**	505,821
Alan Clarke	**52,149**	**52,149**	52,149

[1] Burnbrae Limited holds 19,164,250 Ordinary Shares. Burnbrae Limited is 100% beneficially owned by Jim Mellon. Denham Eke, CEO of MFG is also a director of Burnbrae Limited. Pershing Nominees Limited holds 166,666 Ordinary Shares and Vidacos Nominees Limited holds 1,468,666 Ordinary Shares in trust for Jim Mellon and 692,650 Ordinary Shares are held in his own name.

[2] Vidacos Nominees Limited holds 17,835,750 Ordinary Shares in trust for Gregory Bailey.

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

[4] Comprises 1,721,433 Ordinary Shares held by Interactive Investor Services Limited for the benefit of David Gibson.

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

	Number 02/03/21	**Number 31/12/20**	Number 31/12/19
Douglas Grant*	**700,000**	**700,000**	1,042,466

* 342,466 options expired on 25 June 2020.

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 2020, there were 120 members of staff (2019: 127), of whom 11 were part-time (2019: 14).

Investment in subsidiaries
Investments in the Company's subsidiaries are disclosed in note 30 to the financial statements.

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

ANNUAL FINANCIAL STATEMENTS

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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 Financial Reporting Standards ("IFRSs") as adopted by the EU, 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 reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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"), for the year ended 31 December 2020 which comprise the Consolidated and Parent Company Statements of Profit or Loss and Other Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows and the Consolidated and Parent Company Statements of Changes in Equity, and the related notes, including the accounting policies in note 39.

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's and of the Company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; 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 FRC Ethical Standards, 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 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 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. (These are unchanged from 2019 except for the key audit matter regarding VAT receivable, which is not included in the current year as the receivable amount has been received following agreement with Isle of Man Customs & Excise Division).

Key audit matter	The risk	Our response
Loan and advances to customers – wholesale funding Loans and advances to customers £32,509,000 (2019: £40,491,000) Impairment Provision £1,226,000 (2019: £536,000) Refer to 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 37 (B) (Financial Risk Management – Credit risk) and note 39(G)(vii) (Accounting Policy for Impairment of Financial Instruments).	**Subjective estimate** 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. 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. 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 impact of COVID 19 on the economy 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 controls in respect of the origination of wholesale funding loans, including borrower due diligence. Understanding the 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 expected credit losses. **Test of details:** We agreed the specific (instrument by instrument) provisions included in the financial statements to Group’s provisioning schedule and evaluated whether this schedule was correctly extracted from the loans and advances system, including the arrears information. We tested all specific (instrument by instrument) provisions. This included challenging Group’s assessment of the specific provision, taking account of such factors as: amount of arrears; financial standing of the business – by inspecting latest accounts; status of underlying security – by inspecting a sample of security documentation; and likelihood of recovery of any personal guarantees – by agreeing to the personal guarantee agreement and assessing supporting evidence of the ability of the guarantor to meet their obligations.

Key audit matter	The risk	Our response
		Historical comparison: We challenged the inputs used in models used to measure impairment on a collective basis 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.
Loan and advances to customers - individual finance agreements Loans and advances to customers £160,634,000 (2019: £138,879,000) Impairment Provision £5,895,000 (2019: £4,237,000) Refer to 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 37 (B) (Financial Risk Management - Credit risk) and note 39(G)(vii) (Accounting Policy for Impairment of Financial Instruments).	**Subjective estimate** 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. 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. 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 impact of COVID-19 on the economy 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 controls in respect of the origination of individual finance loans, including borrower due diligence. Understanding 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 expected credit losses. **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. **Test of details:** We agreed the specific (instrument by instrument) provisions included in the financial statements to Group's provisioning schedule and evaluated whether this schedule was correctly extracted from the loans and advances system, including the arrears information. We tested a sample of specific (instrument by instrument) provisions, weighted towards those against individually significant impaired loans. This included challenging Group'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 models to measure impairment on a collective basis and considered whether those inputs reflected 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.

Key audit matter	The risk	Our response
Impairment of goodwill and intangible assets Goodwill £4,412,000 (2019: £3,734,000) and Intangibles Assets £2,286,000 (2019: £2,293,000). Refer to the ARCC Report, note 4 (Use of Judgements and Estimates - Assumptions and Estimation Uncertainties), note 23 (Intangible Assets), note 33 (Investment in Group Undertakings), 39(A) (Basis for Consolidation of Subsidiaries and Separate Financial Statements of the Parent Company), note 39(K) (Intangible Assets and Goodwill) and note 39(L) (Impairment of Non-Financial Assets)	**Forecast based valuation** 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. Goodwill and intangible assets have arisen on the Group's acquisition of businesses including lenders, independent financial advisers and finance brokers. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill has a high degree of estimation uncertainty, including increased uncertainty from the impact of COVID-19 on the economy with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 32) disclose the sensitivity estimated by the Group.	**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 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 valuation of goodwill. **Use of KPMG Specialists:** We involved KPMG valuation specialists who have tested reasonableness of the assumptions in particular those relating to each cash generating unit's forecast revenue growth, profit margins 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, cost inflation and discount rates. **Indictors of impairment for intangible assets:** Analysing latest financial data for the business related to the relevant 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 Subordinated loans to subsidiaries £7,728,000 (2019: £7,778,000) and investment in subsidiaries £22,597,000 (2019: £17,822,000). Refer to the ARCC report, note 33 (Investment in Group Undertakings) and note 39(A)(vi) (Separate Financial Statements of the Company).	**Low risk, high value** The carrying value of the Parent Company's subordinated loans to and investment in subsidiaries represents 88% (2019: 93%) 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 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:* **Test of details:** Comparing the carrying amount of 100% of the Parent Company's loans to and investments in subsidiaries with the relevant subsidiaries' balance sheet to identify whether their financial position supported the carrying amount of the Parent Company's loans to and investments in those subsidiaries, assessing whether those subsidiaries have historically been profit-making and evaluating budgeted forecasts in line with our knowledge of the entity.

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 £82,000 (2019: £150,000), determined with reference to a benchmark of Group profit before tax (forecasted) of £2,044,000, of which it represents approximately 4% (2019: 5%).

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 £82,000 (2019: £150,000), 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 financial statements as a whole. Performance materiality for the Group was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £61,000 (2019: £112,500). 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 £4,000 (2019: £7,500), 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 one component – Beer Swaps Limited which represents 1.4% of the Group’s total assets. Group reporting is received for this company, subject to a materiality level set by the group audit team.

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

Going concern
The Directors have prepared the consolidated 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 risk that we considered most likely to affect the Group and the Company's financial resources or ability to continue operations over this period was the recoverability of financial assets subject to credit risk as a result of economic downturn due to outbreak of COVID19.

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 Company’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 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 and the Company’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 and the Company'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 the 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 general commercial and sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Company 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 and the Company are 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 and the Company are 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 of 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 and the Company'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.

Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 28, 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.

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

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

3 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2020 £000	2019 £000
Interest income		20,692	22,320
Interest expense		(5,222)	(4,391)
Net interest income	9	15,470	17,929
Fee and commission income	10	3,865	3,796
Fee and commission expense	10	(3,481)	(5,426)
Depreciation on leasing assets	22	(406)	(333)
Net trading income		15,448	15,966
Other operating income		200	388
Gain / (loss) on financial instruments	19	259	(1)
Realised gains on debt securities	18	261	179
Revaluation on acquisition of subsidiary	31	237	-
Operating income		16,405	16,532
Personnel expenses	11	(6,823)	(6,762)
Other expenses	12	(3,707)	(4,135)
Impairment on loans and advances to customers	13	(3,950)	(1,900)
Depreciation	22	(490)	(305)
Amortisation and impairment of intangibles	23	(374)	(430)
Share of profit of equity accounted investees, net of tax	29	54	124
VAT recovery	21	906	(101)
Profit before tax payable	14	2,021	3,023
Income tax expense	15	(53)	(350)
Profit for the year		1,968	2,673

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

For the year ended 31 December	Notes	2020 £000	2019 £000
Profit for the year		**1,968**	2,673
Other comprehensive income:			
Items that will be reclassified to profit or loss			
Unrealised (loss) / gains on debt securities	18	**(51)**	51
Items that will never be reclassified to profit or loss			
Actuarial loss on defined benefit pension scheme taken to equity	27	**(241)**	(128)
Total comprehensive income for the period attributable to owners		**1,676**	2,596
Profit attributable to:			
Owners of the Company		**1,935**	2,673
Non-controlling interests		**33**	-
		1,968	2,673
Total comprehensive income attributable to:			
Owners of the Company		**1,643**	2,596
Non-controlling interests		**33**	-
		1,676	2,596
Earnings per share – Profit for the year			
Basic earnings per share (pence)	16	**1.65**	2.04
Diluted earnings per share (pence)	16	**1.37**	1.66
Earnings per share – Total comprehensive income for the year			
Basic earnings per share (pence)	16	**1.41**	1.98
Diluted earnings per share (pence)	16	**1.19**	1.62

The notes on pages 43 to 85 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	2020 £000	2019 £000
Dividend income		572	1,466
Interest income		522	564
Operating income		1,094	2,030
Personnel expenses		(74)	(146)
Administration expenses		(122)	(100)
Depreciation expense		(101)	(101)
Profit before tax payable	14	797	1,683
Tax payable		-	-
Profit for the year		797	1,683
Total comprehensive income for the year		797	1,683

The notes on pages 43 to 85 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	2020 £000	2019 £000
Assets			
Cash and cash equivalents	17	34,053	14,620
Debt securities	18	25,532	46,792
Trading asset	19	4	19
Loans and advances to customers	20	193,143	179,370
Trade and other receivables	21	2,170	2,478
Property, plant and equipment	22	6,045	3,299
Intangible assets	23	2,286	2,293
Investment in associates	29	316	282
Goodwill	32	4,412	3,734
Total assets		267,961	252,887
Liabilities			
Deposits from customers	24	218,285	209,933
Creditors and accrued charges	25	3,206	2,972
Contingent consideration	6(ii)	672	863
Loan notes	26	22,222	15,971
Pension liability	27	944	688
Deferred tax liability	15	197	141
Total liabilities		245,526	230,568
Equity			
Called up share capital	28	19,121	20,732
Profit and loss account		3,230	1,587
Non-controlling interest		84	-
Total equity		22,435	22,319
Total liabilities and equity		267,961	252,887

The financial statements were approved by the Board of Directors on 3 March 2021 and signed on its behalf by:

Jim Mellon	**Denham Eke**	**Douglas Grant**
Executive Chairman	Chief Executive Officer	Group Finance Director

The notes on pages 43 to 85 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2020 £000	2019 £000
Assets			
Cash and cash equivalents	17	1,378	119
Trade and other receivables	21	309	231
Amounts due from Group undertakings	33	1,935	1,016
Property, plant and equipment	22	354	450
Intangible assets		7	7
Investment in subsidiaries	30	22,597	17,822
Subordinated loans	33	7,728	7,778
Total assets		34,308	27,423
Liabilities			
Creditors and accrued charges	25	501	575
Amounts due to Group undertakings	33	2,297	775
Loan notes	26	22,222	15,971
Total liabilities		25,020	17,321
Equity			
Called up share capital	28	19,121	20,732
Profit and loss account		(9,833)	(10,630)
Total equity		9,288	10,102
Total liabilities and equity		34,308	27,423

The notes on pages 43 to 85 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**	**Total £000**	**Non-controlling interests £000**	**Total equity £000**
Balance as at 1 January 2019	20,732	(1,009)	19,723	-	19,723
Profit for the year	-	2,673	2,673	-	2,673
Other comprehensive income	-	(77)	(77)	-	(77)
Transactions with owners	-	-	-	-	-
Balance as at 31 December 2019	20,732	1,587	22,319	-	22,319
Profit for the year	**-**	**1,935**	**1,935**	**33**	**1,968**
Other comprehensive income	**-**	**(292)**	**(292)**	**-**	**(292)**
Transactions with owners					
Changes in ownership interests	**(1,611)**	**-**	**(1,611)**	**-**	**(1,611)**
Acquisition of subsidiary with non-controlling interest	**-**	**-**	**-**	**51**	**51**
Balance as at 31 December 2020	**19,121**	**3,230**	**22,351**	**84**	**22,435**

Company	**Share Capital £000**	**Profit and loss account £000**	**Total equity £000**
Balance as at 1 January 2019	20,732	(12,313)	8,419
Profit for the year	-	1,683	1,683
Transactions with owners	-	-	-
Balance as at 31 December 2019	20,732	(10,630)	10,102
Profit for the year	**-**	**797**	**797**
Transactions with owners			
Changes in ownership interests	**(1,611)**	**-**	**(1,611)**
Balance as at 31 December 2020	**19,121**	**(9,833)**	**9,288**

The notes on pages 43 to 85 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2020 £000	2019 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax		2,021	3,023
Adjustments for:			
Depreciation	22	896	638
Amortisation and impairment of intangibles	23	374	430
Share of profit of equity accounted investees	29	(54)	(124)
Contingent consideration interest expense	6(ii)	122	88
Pension charge included in personnel expenses	27	15	17
Gain on financial instruments	6(ii)	(253)	-
Revaluation on acquisition of subsidiary	31	(237)	-
		2,884	4,072
Changes in:			
Trading asset	19	15	1
Trade and other receivables		415	118
Creditors and accrued charges		315	144
Net cash flow from trading activities		3,629	4,335
Changes in:			
Loans and advances to customers		(16,023)	(31,092)
Deposits from customers		8,352	51,433
Pension contribution	27	-	(41)
Cash (outflow) / inflow from operating activities		(4,042)	24,635
CASH FLOW STATEMENT			
Cash from operating activities			
Cash (outflow) / inflow from operating activities		(4,042)	24,635
Income taxes paid		(172)	(379)
Net cash (outflow) / inflow from operating activities		(4,214)	24,256
Cash flows from investing activities			
Purchase of property, plant and equipment	22	(1,187)	(1,634)
Purchase of intangible assets	23	(231)	(132)
Sale of tangible fixed assets	22	127	107
Acquisition of subsidiary or associate, net of cash acquired	31	(648)	(1,337)
Sale / (purchase) of debt securities	18	21,209	(16,207)
Contingent consideration		(59)	-
Net cash inflow / (outflow) from investing activities		19,211	(19,203)
Cash flows from financing activities			
Receipt of loan notes	26	4,640	100
Payment of lease liabilities (capital)	35	(204)	(148)
Decrease in borrowings from block creditors		-	(138)
Net cash inflow / (outflow) from financing activities		4,436	(186)
Net increase in cash and cash equivalents		19,433	4,867
Cash and cash equivalents at 1 January		14,620	9,753
Cash and cash equivalents at 31 December		34,053	14,620
Included in cash flows are:			
Interest received – cash amounts		20,274	21,441
Interest paid – cash amounts		(5,053)	(4,251)

The notes on pages 43 to 85 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December	Notes	2020 £000	2019 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax		797	1,683
Adjustments for:			
Depreciation	22	101	101
Dividend declared		(572)	(1,466)
		326	318
Changes in:			
Amounts due from group undertakings		(347)	-
Trade and other receivables		(78)	(199)
Creditors and accrued charges		17	98
Amounts due from / (to) Group undertakings		1,522	(595)
Cash inflow / (outflow) from operating activities		1,440	(378)
CASH FLOW STATEMENT			
Cash from operating activities			
Cash outflow from operating activities		1,440	(378)
Income taxes paid		-	-
Net cash inflow / (outflow) from operating activities		1,440	(378)
Cash flows from investing activities			
Dividend received		-	450
Investment in subsidiaries	30	(4,775)	(1,650)
Purchase of property, plant and equipment		(5)	-
Purchase of intangible assets		-	(7)
Net cash outflow from investing activities		(4,780)	(1,207)
Cash flows from financing activities			
Receipt of loan notes	26	4,640	100
Receipt of subordinated loan		50	
Payment of finance lease liability		(91)	(42)
Net cash inflow from financing activities		4,599	58
Net increase / (decrease) in cash and cash equivalents		1,259	(1,527)
Cash and cash equivalents at 1 January		119	1,646
Cash and cash equivalents at 31 December		1,378	119

The notes on pages 43 to 85 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

1. Reporting entity
Manx Financial Group PLC ("Company") is a company incorporated in the Isle of Man. The consolidated financial statements of the Company for the year ended 31 December 2020 comprise the Company and its subsidiaries ("Group").

2. Basis of accounting
The consolidated and the separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations applicable to companies reporting under IFRS, including International Accounting Standards ("IAS"), 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 Group'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.

The extent to which COVID-19 impacts the Group's business will depend on the effectiveness of government containment actions and the effectiveness of government and central bank stimulus measures. As the economic environment remains uncertain, actual results may differ from the estimates below.

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 21 – measurement of VAT receivable: key assumptions underlying carrying amount;
- Note 27 – measurement of defined benefit obligations: key actuarial assumptions;
- Note 23 and 32 – impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts;
- Note 39(G)(vii) - measurement of Expected Credit Loss ("ECL") allowance for loans and advances to customers and assessment of specific impairment allowances where loans are in default or arrears: key assumptions in determining the weighted-average loss rate; and
- Note 6 – measurement of contingent consideration.

5. Financial instruments - Classification
For description of how the Group classifies financial assets and liabilities, see note 39(G)(ii).

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

31 December 2020	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	-	-	-	-	34,053	34,053
Debt securities	-	-	25,532	-	-	25,532
Trading assets	4	-	-	-	-	4
Loans and advances to customers	-	-	-	-	193,143	193,143
Trade and other receivables	-	-	-	-	2,170	2,170
Total financial assets	4	-	25,532	-	229,366	254,902
Deposits from customers	-	-	-	-	218,285	218,285
Creditor and accrued charges	-	-	-	-	3,206	3,206
Loan notes	-	-	-	-	22,222	22,222
Total financial liabilities	-	-	-	-	243,713	243,713

5. Financial instruments - Classification (continued)

31 December 2019	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	-	-	-	-	14,620	14,620
Debt securities	-	-	46,792	-	-	46,792
Trading assets	19	-	-	-	-	19
Loans and advances to customers	-	-	-	-	179,370	179,370
Trade and other receivables	-	-	-	-	2,478	2,478
Total financial assets	19	-	46,792	-	196,468	243,279
Deposits from customers	-	-	-	-	209,933	209,933
Creditor and accrued charges	-	-	-	-	2,972	2,972
Block creditors	-	-	-	-	-	-
Loan notes	-	-	-	-	15,971	15,971
Total financial liabilities	-	-	-	-	228,876	228,876

6. Financial instruments – Fair values

For description of the Group's fair value measurement accounting policy, see note 39(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 2020	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets measured at fair value					
Debt securities	25,532	25,532	-	-	25,532
Trading assets	4	4	-	-	4
	25,536	25,536	-	-	25,536
Financial assets not measured at fair value					
Cash and cash equivalents	34,053	-	-	-	-
Loans and advances to customers	193,143	-	-	-	-
Trade and other receivables	2,170	-	-	-	-
Investment in associate	316	-	-	-	-
	229,682	-	-	-	-
Financial liabilities measured at fair value					
Contingent consideration	672	-	-	672	672
	672	-	-	672	672
Financial liabilities not measured at fair value					
Deposits from customers	218,285	-	-	-	-
Creditors and accrued charges	3,206	-	-	-	-
Loan notes	22,222	-	-	-	-
	243,713	-	-	-	-

6. Financial instruments – Fair values (continued)

	Carrying amount	Fair value			
31 December 2019	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets measured at fair value					
Debt securities	46,792	46,792	-	-	46,792
Trading assets	19	19	-	-	19
	46,811	46,811	-	-	46,811
Financial assets not measured at fair value					
Cash and cash equivalents	14,620	-	-	-	-
Loans and advances to customers	179,370	-	-	-	-
Trade and other receivables	2,478	-	-	-	-
Investment in associate	282	-	-	-	-
	196,750	-	-	-	-
Financial liabilities measured at fair value					
Contingent consideration	863	-	-	863	863
	863	-	-	863	863
Financial liabilities not measured at fair value					
Deposits from customers	209,933	-	-	-	-
Creditors and accrued charges	2,972	-	-	-	-
Block creditors	-	-	-	-	-
Loan notes	15,971	-	-	-	-
	228,876	-	-	-	-

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.
Contingent 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 £790,869 (2019: £1,199,701) Risk-adjusted discount rate 14% (2019: 16%)	The estimated fair value would increase (decrease) if: -the expected cash flows were higher (lower); or -the risk-adjusted discount rate were lower (higher).

6. Financial instruments – Fair values (continued)
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.

	2020 £000	2019 £000
Balance at 1 January	863	-
Assumed in a business combination (see note 31)	-	775
Finance costs	122	-
Net change in fair value (unrealised)	(253)	88
	(131)	88
Payment	(60)	-
Balance at 31 December	672	863

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 2020	Increase	Decrease
Expected cash flows (10% movement)	(66)	66
Risk-adjusted discount rate (1% movement (100 bps))	7	(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 37.

A. Credit risk
For definition of credit risk and information on how credit risk is mitigated by the Group, see note 37.

i. Credit quality analysis
Loans and advances to customers
Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 39(G)(vii).

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

	2020				2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Grade A	173,673	-	-	173,673	168,796	-	-	168,796
Grade B	-	5,728	7,751	13,479	1,143	1,675	-	2,818
Grade C	335	9	12,771	13,115	-	1,985	10,544	12,529
Gross value	174,008	5,737	20,522	200,267	169,939	3,660	10,544	184,143
Allowance for impairment	(423)	(18)	(6,683)	(7,124)	(116)	(467)	(4,190)	(4,773)
Carrying value	173,585	5,719	13,839	193,143	169,823	3,193	6,354	179,370

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.

7. Financial risk review (continued)
Risk management (continued)
A. Credit risk (continued)
i. Credit quality analysis (continued)
Loans and advances to customers (continued)

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

	2020				2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
31 December	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000
Current	**170,436**	**-**	**-**	**170,436**	145,373	-	-	145,373
Overdue < 30 days	**3,572**	**-**	**-**	**3,572**	24,259	-	-	24,259
Overdue > 30 days	**-**	**5,737**	**20,522**	**26,259**	307	3,660	10,544	14,511
	174,008	**5,737**	**20,522**	**200,267**	169,939	3,660	10,544	184,143

For Stage 3 loans and advances that are overdue for more than 30 days, the Bank holds collateral with a value of £13,362,468 (2019: £8,706,600) representing security cover of 65% (2019: 60%).

Debt securities, cash and cash equivalents
The following table sets out the credit quality of liquid assets:

	2020	2019
	£000	£000
Government bonds and treasury bills		
Rated A to A+	**24,431**	44,690
Floating rate notes		
Rated A to A+	**1,101**	2,102
Cash and cash equivalents		
Rated A to A+	**34,053**	14,620
	59,585	61,412

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

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 commission share schemes have an element of capital indemnified. During 2020, 34.0% of loans and advances had an element of capital indemnification (2019: 25.5%).

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. 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 39(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. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – Financial Instruments: Recognition and Measurement.

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.
- The Group has granted payment holidays to customers with no prior arrears based on individual circumstances. These customers are not able to incur further arrears as no payments are being called whilst they are on the payment holiday. These customers have not been deemed to have a SICR unless the customer is under exceptional financial hardship due to COVID-19.

7. Financial risk review (continued)
Risk management (continued)
A. Credit risk (continued)
iii. Amounts arising from ECL (continued)

- 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 8 years by product and geographical segment.
- The Group has assumed that the future economic conditions will broadly mirror the current environment and therefore the forecasted loss levels in the next 3 years will match the Group's experience in recent years.
- For portfolios where the Group has never had a default in its history or has robust credit enhancements such as credit insurance or default indemnities for the entire portfolio, then no IFRS 9 provision is made.
- 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 2020 (2019: more than 20%).

B. Liquidity risk
For the definition of liquidity risk and information on how liquidity risk is manged by the Group, see note 37.

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:

	2020	2019
At 31 December	**27%**	29%
Average for the year	**28%**	23%
Maximum for the year	**32%**	29%
Minimum for the year	**25%**	19%

7. Financial risk review (continued)
Risk management (continued)
B. Liquidity risk (continued)

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 2020	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	3,106	3,194	19,775	53,380	59,023	61,491	25,221	-	225,190
Other liabilities	27	88	668	819	3,630	16,401	7,851	1,141	30,625
Total liabilities	3,133	3,282	20,443	54,199	62,653	77,892	33,072	1,141	255,815

31 December 2019	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	2,900	5,127	19,670	40,315	43,792	77,746	22,397	-	211,947
Other liabilities	5,212	-	4,765	16	7,281	1,274	1,444	2,180	22,172
Total liabilities	8,112	5,127	24,435	40,331	51,073	79,020	23,841	2,180	234,119

Maturity of assets and liabilities at the reporting date:

31 December 2020	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	34,053	-	-	-	-	-	-	-	34,053
Debt securities	-	5,301	14,000	-	6,231	-	-	-	25,532
Loans and advances	6,270	7,750	21,565	17,822	27,490	84,111	25,756	2,379	193,143
Other assets	4	-	-	-	2,578	-	5,637	7,014	15,233
Total assets	40,327	13,051	35,565	17,822	36,299	84,111	31,393	9,393	267,961
Liabilities									
Deposits	3,106	2,736	18,981	52,478	57,922	58,805	24,257	-	218,285
Other liabilities	-	-	450	496	2,983	14,874	7,297	1,141	27,241
Total liabilities	3,106	2,736	19,431	52,974	60,905	73,679	31,554	1,141	245,526

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 2019	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	14,620	-	-	-	-	-	-	-	14,620
Debt securities	-	5,795	15,748	17,751	-	7,498	-	-	46,792
Loans and advances	12,564	2,017	12,652	14,977	32,615	77,077	27,461	7	179,370
Other assets	19	-	-	-	-	-	-	12,086	12,105
Total assets	27,203	7,812	28,400	32,728	32,615	84,575	27,461	12,093	252,887
Liabilities									
Deposits	2,889	5,060	19,411	39,867	43,574	76,953	22,179	-	209,933
Other liabilities	5,250	-	4,710	-	7,245	900	350	2,180	20,635
Total liabilities	8,139	5,060	24,121	39,867	50,819	77,853	22,529	2,180	230,568

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

	2020 Carrying amount £000	**2020 Fair value £000**	2019 Carrying amount £000	2019 Fair value £000
Balances with other banks	**34,053**	**34,053**	14,620	14,620
Unencumbered debt securities	**25,532**	**25,532**	46,792	46,792
Total liquidity reserves	**59,585**	**59,585**	61,412	61,412

C. 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 37.

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 2020	**Carrying amount £000**	**Trading portfolios £000**	**Non-trading portfolios £000**
Assets subject to market risk			
Debt securities	**25,532**	**-**	**25,532**
Trading assets	**4**	**4**	**-**
Total	**25,536**	**4**	**25,532**

		Market risk measure	
31 December 2019	Carrying amount £000	Trading portfolios £000	Non-trading portfolios £000
Assets subject to market risk			
Debt securities	46,792	-	46,792
Trading assets	19	19	-
Total	46,811	19	46,792

7. Financial risk review (continued)
Risk management (continued)
C. 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 2020	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	34,053	-	-	-	-	-	-	-	34,053
Debt securities	5,301	14,000	-	6,231	-	-	-	-	25,532
Loans and advances to customers	14,020	21,565	17,822	27,490	84,111	25,756	2,379	-	193,143
Other assets	-	-	-	-	-	-	-	15,233	15,233
Total assets	53,374	35,565	17,822	33,721	84,111	25,756	2,379	15,233	267,961
Liabilities and equity									
Deposits from customers	5,842	18,981	52,478	57,922	58,805	24,257	-	-	218,285
Other liabilities	-	450	496	280	14,874	7,297	944	2,900	27,241
Total equity	-	-	-	-	-	-	-	22,435	22,535
Total liabilities and equity	5,842	19,431	52,974	58,202	73,679	31,554	944	25,335	267,961
Interest rate sensitivity gap	47,532	16,134	(35,152)	(24,481)	10,432	(5,798)	1,435	(10,102)	-
Cumulative	47,532	63,666	28,514	4,033	14,465	8,667	10,102	-	-

31 December 2019	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	14,620	-	-	-	-	-	-	-	14,620
Debt securities	5,795	15,748	17,751	-	7,498	-	-	-	46,792
Loans and advances to customers	14,581	12,652	14,977	32,615	77,077	27,461	7	-	179,370
Other assets	-	-	-	-	-	-	-	12,105	12,105
Total assets	34,996	28,400	32,728	32,615	84,575	27,461	7	12,105	252,887
Liabilities and equity									
Deposits from customers	7,949	19,411	39,867	43,574	76,953	22,179	-	-	209,933
Other liabilities	586	4,710	1,188	1,200	1,268	7,882	-	3,801	20,635
Total equity	-	-	-	-	-	-	-	22,319	22,319
Total liabilities and equity	8,535	24,121	41,055	44,774	78,221	30,061	-	26,120	252,887
Interest rate sensitivity gap	26,461	4,279	(8,327)	(12,159)	6,354	(2,600)	7	(14,015)	-
Cumulative	26,461	30,740	22,413	10,254	16,608	14,008	14,015	-	-

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 (2019: 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 2020	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	47,532	16,134	(35,152)	(24,481)	10,432	(5,798)	1,435	(10,102)	-
Weighting	-	0.003	0.007	0.014	0.027	0.054	0.115	-	-
£000	-	48	(246)	(343)	282	(313)	165	-	(407)

7. Financial risk review (continued)
Risk management (continued)
C. Market risk (continued)

i. Exposure to interest rate risk (continued)

31 December 2019	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	26,461	4,279	(8,327)	(12,159)	6,354	(2,600)	7	(14,015)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
£000	-	13	(58)	(170)	172	(140)	1	-	(182)

D. Capital Management
i. Regulatory capital
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'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 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.

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.

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 (2019: four) product orientated segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans, block discounting, vehicle stocking plans and wholesale funding agreements); EAL; and MFX.

For the year ended 31 December 2020	**Asset and Personal Finance £000**	**Edgewater Associates £000**	**Manx FX £000**	**Investing Activities £000**	**Total £000**
Net interest income	15,470	-	-	-	15,470
Fee and commission income	430	2,103	1,332	-	3,865
Operating income	13,206	2,103	1,096	-	16,405
Profit / (loss) before tax payable	1,316	(94)	1,096	(297)	2,021
Capital expenditure	1,138	46	2	1	1,187
Total assets	260,155	2,638	536	4,632	267,961
Total liabilities	230,001	660	12	14,853	245,526

8. Operating segments (continued)

For the year ended 31 December 2019	Asset and Personal Finance £000	Manx Incahoot £000	Edgewater Associates £000	Manx FX £000	Investing Activities £000	Total £000
Net interest income	17,929	-	-	-	-	17,929
Fee and commission income	439	(9)	2,529	837	-	3,796
Operating income / (loss)	13,518	(10)	2,529	828	-	16,865
Profit / (loss) before tax payable	2,944	(295)	219	502	(347)	3,023
Capital expenditure	1,744	-	14	-	8	1,766
Total assets	249,449	14	2,292	321	811	252,887
Total liabilities	220,685	14	1,022	321	8,526	230,568

9. Net interest income

	2020 £000	2019 £000
Interest income		
Loans and advances to customers	19,484	21,824
Total interest income calculated using the effective interest method	19,484	21,824
Operating lease income	1,208	496
Total interest income	20,692	22,320
Interest expense		
Deposits from customers	(4,044)	(3,383)
Loan note interest	(1,016)	(873)
Lease liability	(40)	(47)
Contingent consideration: interest expense	(122)	(88)
Total interest expense	(5,222)	(4,391)
Net interest income	15,470	17,929

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.

	2020 £000	2019 £000
Major service lines		
EAL: Independent financial advice income	2,103	2,528
MFX: Foreign exchange trading income	1,332	837
Asset and personal finance: Brokerage services income	430	431
Fee and commission income	3,865	3,796
Fee and commission expense	(3,481)	(5,426)
Net fee and commission income / (expense)	384	(1,630)

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11. Personnel expenses

	2020 £000	2019 £000
Staff gross salaries	(5,331)	(5,142)
Executive Directors' remuneration	(299)	(259)
Non-executive Directors' fees	(163)	(152)
Executive Directors' pensions	(21)	(21)
Executive Directors' performance related pay	(50)	(50)
Staff pension costs	(297)	(302)
National insurance and payroll taxes	(606)	(628)
Staff training and recruitment costs	(56)	(208)
	(6,823)	(6,762)

12. Other expenses

	2020 £000	2019 £000
Professional and legal fees	(1,063)	(1,559)
Marketing costs	(177)	(261)
IT costs	(822)	(633)
Establishment costs	(270)	(286)
Communication costs	(105)	(155)
Travel costs	(95)	(219)
Bank charges	(151)	(137)
Insurance	(300)	(199)
Irrecoverable VAT	(436)	(340)
Other costs	(288)	(346)
	(3,707)	(4,135)

13. Impairment on loans and advances to customers
The charge in respect of specific allowances for impairment comprises:

	2020 £000	2019 £000
Specific impairment allowances made	(6,833)	(2,091)
Reversal of allowances previously made	3,039	64
Total charge for specific provision for impairment	(3,794)	(2,027)

The charge in respect of collective allowances for impairment comprises:

	2020 £000	2019 £000
Collective impairment allowances made	(421)	(138)
Release of allowances previously made	265	265
Total (charge) / credit for collective allowances for impairment	(156)	127
Total charge for allowances for impairment	(3,950)	(1,900)

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

		Group		Company	
		2020 £000	2019 £000	2020 £000	2019 £000
Auditor's remuneration:	as Auditor current year	(167)	(110)	-	-
	non-audit services	(10)	(96)	-	-
Pension cost defined benefit scheme		(16)	(17)	-	-
Operating lease rentals for property		(97)	(117)	-	-

15. Income tax expense

	2020 £000	2019 £000
Current tax expense		
Current year	3	(297)
Changes to estimates for prior years	-	
	3	(297)
Deferred tax expense		
Origination and reversal of temporary differences	(56)	(53)
Utilisation of previously recognised tax losses	-	-
Changes to estimates for prior years	-	-
	(56)	(53)
Tax expense	(53)	(350)

		2020 £000		2019 £000
Reconciliation of effective tax rate				
Profit before tax		2,021		3,023
Tax using the Bank's domestic tax rate	(10.0%)	(202)	(10.0)%	(302)
Effect of tax rates in foreign jurisdictions	1.4%	28	(0.8)%	(23)
Non-deductible expenses	0.0%	-	(2.6)%	(78)
Timing difference in current year	3.2%	65	0.0 %	-
Origination and reversal of temporary differences in deferred tax	2.8%	56	1.8 %	53
Tax expense	(2.6%)	(53)	(11.6)%	(350)

The main rate of corporation tax in the Isle of Man is 0.0% (2019: 0.0%). However, the profits of the Group's Isle of Man banking activities are taxed at 10.0% (2019: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 19.0% (2019: 19.0%).

The value of tax losses carried forward reduced to nil and there is now a timing difference related to accelerated capital allowances resulting in a £197,000 liability (2019: £141,000 liability). This resulted in an expense of £56,000 (2019: £53,000) to the Consolidated Income Statement.

16. Earnings per share

	2020	2019
Profit for the year	£1,968,000	£2,673,000
Weighted average number of ordinary shares in issue (basic)	118,964,270	131,096,235
Basic earnings per share (pence)	1.65	2.04
Diluted earnings per share (pence)	1.37	1.66
Total comprehensive income for the year	£1,676,000	£2,596,000
Weighted average number of ordinary shares in issue (basic)	118,964,270	131,096,235
Basic earnings per share (pence)	1.41	1.98
Diluted earnings per share (pence)	1.19	1.62

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.

16. Earnings per share (continued)

As at:	2020	2019
Reconciliation of weighted average number of ordinary shares in issue between basic and diluted		
Weighted average number of ordinary shares (basic)	118,964,270	131,096,235
Number of shares issued if all convertible loan notes were exchanged for equity	36,555,556	41,666,667
Dilutive element of share options if exercised	-	-
Weighted average number of ordinary shares (diluted)	155,519,826	172,762,902
Reconciliation of profit for the year between basic and diluted		
Profit for the year (basic)	£1,968,000	£2,673,000
Interest expense saved if all convertible loan notes were exchanged for equity	£166,250	£196,150
Profit for the year (diluted)	£2,134,250	£2,869,150

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.

As at:	2020	2019
Reconciliation of total comprehensive income for the year between basic and diluted		
Total comprehensive income for the year (basic)	£1,676,000	£2,596,000
Interest expense saved if all convertible loan notes were exchanged for equity	£166,250	£196,150
Total comprehensive income for the year (diluted)	£1,842,250	£2,792,150

17. Cash and cash equivalents

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Cash at bank and in hand	11,728	14,620	1,378	119
Notice account balance (less than 95 days)	21,025	-	-	-
Fixed deposit (less than 90 days)	1,300	-	-	-
	34,053	14,620	1,378	119

Cash at bank includes an amount of £120,000 (2019: £1,060,000) representing receipts which are in the course of transmission.

18. Debt securities

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Financial assets at FVOCI:				
UK Government Treasury Bills	24,431	44,690	-	-
Floating Rate Notes	1,101	2,102	-	-
	25,532	46,792	-	-

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 £261,000 (2019: £179,000) and unrealised losses of £51,000 (2019: unrealised gain of £51,000) during the year.

19. Financial assets

	Group		Company	
	2020	2019	**2020**	2019
	£000	£000	**£000**	£000
Financial assets at FVOCI:				
Gain on Contingent consideration (see note 6(ii))	**253**	-	**-**	-
Gain on equity instrument	**6**	(1)	**-**	-
	259	(1)	**-**	-

The equity instrument represents an investment in a UK quoted company, elected to be classified as a financial asset at fair value through profit or loss. The investment is stated at market value and is classified as a level 1 investment in the IFRS 13 fair value hierarchy. The cost of the shares was £471,000. The unrealised difference between cost and market value has been taken to the Consolidated Income Statement. The investment made a net gain of £6,000 (2019: £1,000) during the year.

20. Loans and advances to customers

		2020			2019	
	Gross Amount	**Impairment Allowance**	**Carrying Value**	Gross Amount	Impairment Allowance	Carrying Value
Group	**£000**	**£000**	**£000**	£000	£000	£000
HP balances	**72,930**	**(1,779)**	**71,151**	65,846	(1,537)	64,309
Finance lease balances	**34,373**	**(3,241)**	**31,132**	40,359	(2,125)	38,234
Unsecured personal loans	**27,762**	**(364)**	**27,398**	21,110	(199)	20,911
Vehicle stocking plans	**1,807**	**-**	**1,807**	1,494	(36)	1,458
Wholesale funding arrangements	**18,080**	**(808)**	**17,272**	23,840	(300)	23,540
Block discounting	**13,848**	**(418)**	**13,430**	15,693	(200)	15,493
Secured commercial loans	**9,602**	**(511)**	**9,091**	11,652	(376)	11,276
Secured personal loans	**2,152**	**-**	**2,152**	4,149	-	4,149
Government backed loans	**19,710**	**-**	**19,710**			
	200,264	**(7,121)**	**193,143**	184,143	(4,773)	179,370

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.

Specific allowance for impairment	**2020 £000**	2019 £000
Balance at 1 January	**4,632**	3,126
Specific allowance for impairment made	**5,231**	2,091
Release of allowances previously made	**(1,519)**	(64)
Write-offs	**(1,520)**	(521)
Balance at 31 December	**6,824**	4,632

Collective allowance for impairment	**2020 £000**	2019 £000
Balance at 1 January	**141**	268
Collective allowance for impairment made	**421**	138
Release of allowances previously made	**(265)**	(265)
Balance at 31 December	**297**	141
Total allowances for impairment	**7,121**	4,773

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2020 £629,345 (2019: £490,641) 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.

20. Loans and advances to customers (continued)

At the end of the current financial year 6 loan exposures (2019: 5) exceeded 10.0% of the capital base of the Bank:

Exposure	Outstanding Balance 2020 £000	Outstanding Balance 2019 £000	Facility limit £000
Block discounting facility	**5,878**	15,693	**8,250**
Wholesale funding agreement	**16,315**	23,840	**17,482**

HP and finance lease receivables

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

	2020 £000	2019 £000
Less than one year	**52,028**	51,865
Between one and five years	**71,348**	71,124
Gross investment in HP and finance lease receivables	**123,376**	122,989

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

	2020 £000	2019 £000
Less than one year	**45,250**	44,787
Between one and five years	**62,053**	61,418
Net investment in HP and finance lease receivables	**107,303**	106,205

21. Trade and other receivables

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Prepayments	**482**	385	**53**	44
VAT recoverable	**586**	835	**256**	187
Other debtors	**1,102**	1,258	**-**	-
	2,170	2,478	**309**	231

The Bank, as the Group VAT registered entity, had for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. In 2019, the Bank had a VAT receivable of £835,000. During the year, the Bank recognised an additional receivable and income of £372,000. This matter was resolved during the year and the Bank received full settlement.

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 has recognised a receivable and income of £534,000 during the year.

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

Group	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 2020	674	393	686	2,574	737	5,064
Acquisition of subsidiary	-	-	2,582	-	-	2,582
Additions	24	69	1,064	30	-	1,187
Disposals	-	-	-	(127)	-	(127)
As at 31 December 2020	698	462	4,332	2,477	737	8,706
Accumulated depreciation						
As at 1 January 2020	315	272	622	391	165	1,765
Charge for year	69	71	179	413	164	896
Disposals	-	-	-	-	-	-
As at 31 December 2020	384	343	801	804	329	2,661
Carrying value at 31 December 2020	314	119	3,531	1,673	408	6,045
Carrying value at 31 December 2019	359	121	64	2,183	572	3,299

[1]Motor vehicles relate to operating leases with the Group as lessor.

Company	Leasehold Improvements £000	IT Equipment £000	Furniture and Equipment £000	Right-of use-assets £000	Total £000
Cost					
As at 1 January 2020	234	13	17	424	688
Additions	-	5	-	-	5
Disposals	-	-	-	-	-
As at 31 December 2020	234	18	17	424	693
Accumulated depreciation					
As at 1 January 2020	169	4	5	60	238
Charge for year	38	1	2	60	101
Disposals	-	-	-	-	-
As at 31 December 2020	207	5	7	120	339
Carrying value at 31 December 2020	27	13	10	304	354
Carrying value at 31 December 2019	65	9	12	364	450

23. Intangible assets

Group	Customer Contracts £000	Intellectual Property Rights £000	IT Software and Website Development £000	Total £000
Cost				
As at 1 January 2020	1,920	539	2,163	4,622
Acquisition of subsidiary (note 31)	-	134	2	136
Additions	-	76	155	231
Disposals	-	-	-	-
As at 31 December 2020	1,920	749	2,320	4,989
Accumulated amortisation				
As at 1 January 2020	302	443	1,584	2,329
Charge for year / impairment	106	80	188	374
Disposals	-	-	-	-
As at 31 December 2020	408	523	1,772	2,703
Carrying value at 31 December 2020	1,512	226	548	2,286
Carrying value at 31 December 2019	1,618	96	579	2,293

24. Deposits from customers

	2020 £000	2019 £000
Retail customers: term deposits	209,235	203,241
Corporate customers: term deposits	9,050	6,692
	218,285	209,933

25. Creditors and accrued charges

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Commission creditors	1,748	1,044	-	-
Other creditors and accruals	822	893	83	66
Lease liability	503	707	418	509
Taxation creditors	133	328	-	-
	3,206	2,972	501	575

26. Loan notes

		Group		Company	
	Notes	2020 £000	2019 £000	2020 £000	2019 £000
Related parties					
J Mellon	JM	1,750	1,750	1,750	1,750
Burnbrae Limited	BL	3,200	1,200	3,200	1,200
Southern Rock Insurance Company Limited	SR	2,097	460	2,097	460
		7,047	3,410	7,047	3,410
Unrelated parties	UP	15,175	12,561	15,175	12,561
		22,222	15,971	22,222	15,971

JM – Two loans, one of £1,250,000 maturing on 26 February 2025, paying interest of 5.4% per annum, and one of £500,000 maturing on 31 July 2022 paying interest of 5.0% per annum. Both loans are convertible at the rate of 7.5 pence and 9 pence respectively.

26. Loan notes (continued)

BL – Three loans, one of £1,200,000 maturing on 31 July 2022, paying interest of 5.0% per annum, and 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.

SR – One loan consisting of £2,097,085 maturing on 14 April 2025, paying interest of 6.5% per annum.

UP – Thirty-three loans consisting of an average £459,848 with an average interest payable of 5.8% (2019: 5.5%) per annum. The earliest maturity date is 9 February 2021 and the latest maturity is 12 October 2025.

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.

27. 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.

The rules of the Scheme state: "*Each Employer shall pay such sums in each Scheme Year as are estimated to be required to provide the benefits of the Scheme in respect of the Members in its employ*".

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 analyses 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 2020 (2019: none).

27. Pension liability (continued)

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 2020, 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 2020.

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

Total underfunding in funded plans recognised as a liability	2020 £000	2019 £000
Fair value of plan assets	1,406	1,471
Present value of funded obligations	(2,350)	(2,159)
	(944)	(688)

Movement in the liability for defined benefit obligations	2020 £000	2019 £000
Opening defined benefit obligations at 1 January	2,159	1,945
Benefits paid by the plan	(76)	(69)
Interest on obligations	45	55
Actuarial loss	222	228
Liability for defined benefit obligations at 31 December	2,350	2,159

Movement in plan assets	2020 £000	2019 £000
Opening fair value of plan assets at 1 January	1,471	1,361
Expected return on assets	30	38
Contribution by employer	-	41
Actuarial (loss) / gain	(19)	100
Benefits paid	(76)	(69)
Closing fair value of plan assets at 31 December	1,406	1,471

Expense recognised in income statement	2020 £000	2019 £000
Interest on obligation	45	55
Expected return on plan assets	(30)	(38)
Total included in personnel costs	15	17
Actual return on plan assets	11	142

Actuarial loss recognised in other comprehensive income	2020 £000	2019 £000
Actuarial (loss) / gain on plan assets	(19)	100
Actuarial loss on defined benefit obligations	(222)	(228)
	(241)	(128)

27. Pension liability (continued)

Plan assets consist of the following	2020 %	2019 %
Equity securities	**47**	50
Corporate bonds	**19**	18
Government bonds	**29**	30
Cash	**2**	2
Other	**3**	-
	100	100

The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows:	2020 %	2019 %	2018 %
Rate of increase in pension in payment:			
Service up to 5 April 1997	**-**	-	-
Service from 6 April 1997 to 13 September 2005	**2.9**	3.0	3.0
Service from 14 September 2005	**2.1**	2.1	2.1
Rate of increase in deferred pensions	**5.0**	5.0	5.0
Discount rate applied to scheme liabilities	**1.8**	2.9	2.6
Inflation	**3.0**	3.1	3.1

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.

28. Called up share capital

Ordinary shares of no par value available for issue	Number
At 31 December 2020	**200,200,000**
At 31 December 2019	200,200,000

Issued and fully paid: Ordinary shares of no par value	Number	£000
At 31 December 2020	**114,130,077**	**19,121**
At 31 December 2019	131,096,235	20,732

On 9 April 2020, the Company and Southern Rock Insurance Company Limited ("SR") entered into a share buyback agreement ("SBA"), pursuant to which SR agreed to sell 16,966,158 Ordinary Shares for a consideration of £1,611,785. The consideration was left outstanding as a loan agreement (See note 26). The Ordinary Shares acquired were cancelled, and the Company's issued share capital reduced to 114,130,077 Ordinary Shares effective 14 April 2020.

Prior to the SBA, SR had a loan of £460,000, made to the Company, which was due to be repaid or converted into Ordinary Shares on or before 26 April 2020. Upon completion of the SBA, the Company and SR entered into an agreement varying the terms of the convertible loan such that they became subject to the terms of the SBA which contains no ability to convert the amounts outstanding into Ordinary Shares. The principal amount outstanding in respect of the convertible loan was increased by £25,300 to account for the reduction of the interest rate in transition to the SBA.

There are three convertible loans totalling £2,950,000 (2019: four convertible loans totalling £3,410,000).

On 23 June 2014, 1,750,000 share options were issued to Executive Directors and senior management within the Group at an exercise price of 14 pence. The options vest over three years with a charge based on the fair value of 8 pence per option at the date of grant. The period of grant is for 10 years less 1 day ending 22 June 2024. Of the 1,750,000 share options issued, 707,534 (2019:1,050,000) remain outstanding. 342,466 options expired during the year.

28. Called up share capital (continued)

Performance and service conditions attached to share options that have not fully vested are as follows: The options granted on 23 June 2014 require a minimum of three years' continuous employment service in order to exercise upon the vesting date.

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:

	23 June 2014	25 June 2010
Fair value at date of grant	£0.08	£0.03
Share price at date of grant	£0.14	£0.11
Exercise price	£0.14	£0.11
Expected volatility	55.0%	47.0%
Option life	3	3
Risk-free interest rate (based on government bonds)	0.5%	2.2%
Forfeiture rate	33.3%	0.0%

The charge for the year for share options granted was £nil (2019: £nil).

Analysis of changes in financing during the year

Analysis of changes in financing during the year	2020 £000	2019 £000
Balance at 1 January	37,410	36,603
Issue of loan notes	4,640	100
Issue of lease liability	-	855
Payment of lease liabilities	(204)	(148)
	41,846	37,410

The 2019 closing balance is represented by £19,121,000 share capital (2019: £20,732,000), £22,222,000 of loan notes (2019: £15,971,000) and £503,000 lease liability (2019: £707,000).

29. List of associates

Set out below is a list of associates of the Group:

	Group 2020 £000	Group 2019 £000
The Business Lending Exchange ("BLX")	190	167
Beer Swaps Limited ("BSL") (See note 31)	-	20
Payitmonthly Ltd ("PIML")	126	95
	316	282

In December 2017, 40.0% of the share capital of BLX was acquired for nil consideration. The Group's share of the associate's total comprehensive income during the year was £23,000 (2019: £110,000).

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 £31,000 (2019: £4,000).

In April 2018, 20% of the share capital of BSL was acquired for nil consideration. During the 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 (2019: 10,000).

30. List of subsidiaries

Set out below is a list of subsidiaries of the Group:

Carrying value of investments	Nature of Business	31 December 2020 % Holding	Date of Incorporation	Total 2020 £000	Total 2019 £000
Conister Bank Limited	Asset and Personal Finance	100	05/12/1935	20,592	15,817
Edgewater Associates Limited	Wealth Management	100	24/12/1996	2,005	2,005
TranSend Holdings Limited	Holding Company	100	05/11/2007	-	-
Bradburn Limited	Holding Company	100	15/05/2009	-	-
				22,597	17,822

All subsidiaries are incorporated in the Isle of Man.

31. Acquisition of subsidiary

Beer Swaps Limited ("BSL")

On 28 February 2020, the Group (through the Bank) announced that it entered into an agreement to acquire 55% of the shares and voting interests in BSL. As a result, the Group's equity interest in BSL increased from 20% to 75%, thereby obtaining control of BSL.

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

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

For the 10 months ended 31 December 2020, BSL contributed revenue of £620,285 and profit of £21,659 to the Group's results. If the acquisition had occurred on 1 January 2020, management estimates that the impact on consolidated fee income would have been £790,891 and the impact on consolidated profit for the period would have been £21,982.

A. BSL - Consideration transferred

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

	£'000
Cash	707
Settlement of pre-existing relationship	2,250
	2,957

B. BSL - Settlement of pre-existing relationship

The Bank and BSL were parties to a wholesale loan agreement with the Bank as lender and BSL as borrower. This pre-existing relationship was effectively terminated when the Bank acquired BSL.

C. BSL - Acquisition-related costs

The Group incurred acquisition-related costs of £30,000 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.

D. BSL - 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
Property, plant and equipment	2,582
Intangible assets – website	2
Intangible assets – customer related	71
Intangible assets – contract related	63
Cash and cash equivalents	59
Trade and other receivables	109
Creditors and accrued charges	(299)
Total identifiable net assets acquired	2,587

31. Acquisition of subsidiary (continued)
E. BSL – Measurement of fair values

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

Assets acquired	Valuation technique
Property, plant and equipment	*Market comparison technique and cost technique:* The valuation model considers market prices for similar items when they are available, and the depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
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.

The trade and other receivables comprise gross contractual amounts due of £116,000, of which £nil was expected to be uncollectable at the date of acquisition.

F. BSL - Goodwill

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

	£'000
Total consideration transferred	**2,957**
Non-controlling interest, based on their proportionate interest in the recognised amounts of the assets and liabilities of BSL	**51**
Fair value of existing interest in BSL	**257**
Fair value of identifiable net assets	**(2,587)**
Goodwill	**678**

The remeasurement to fair value of the Bank's existing 20% interest in BSL resulted in a gain of £237,000 (£257,000 less the £20,000 carrying amount of the equity accounted investee at the date of acquisition). This amount has been included separately in the statement of profit or loss and other comprehensive income.

Blue Star Business Solutions Limited ("BBSL")

On 16 April 2019, the Group (through BBL) 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 16.0% per annum. The range of contingent consideration payable is £nil - £2,500,000.

See note 6 for the fair value of the Contingent Consideration at 31 December 2020.

32. Goodwill

Cash generating unit	Group 2020 £000	Group 2019 £000
EAL	**1,849**	1,849
BBSL	**1,390**	1,390
BSL	**678**	-
ECF Asset Finance Limited ("ECF")	**454**	454
Three Spires Insurance Services Limited ("Three Spires")	**41**	41
	4,412	3,734

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 estimated recoverable amount in relation to the goodwill generated on the purchase 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 11.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on stable profit levels.

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 BSL 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 11.0% and 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 ECF is based on forecasted 3 year sales interest income calculated at 5.0% margin, 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 reviews no impairment to goodwill has been made in the current year.

33. Investment in Group undertakings

Amounts owed to Group undertakings

Amounts owed to 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.	2020 £000	2019 £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				
28 February 2013	28 February 2018*	7.0	**-**	50
21 February 2017	21 February 2027	7.0	**150**	150
14 May 2017	14 May 2027	7.0	**128**	128
			7,728	7,778

* The subordinated loan due for repayment on 28 February 2019 continued beyond maturity and was settled in 2020.

34. Related party transactions

Cash deposits

During the year, the Bank held cash on deposit on behalf of Jim Mellon (Executive Chairman of MFG) and companies related to Jim Mellon and Denham Eke (CEO of MFG). Total deposits amounted to £432,213 (2019: £446,366), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

During the year, the Bank held cash on deposit on behalf of David Gibson (Non-executive Director of the Bank and MFG) of £50,282 (2019: £nil).

Staff and commercial loans

Details of staff loans are given in note 20.

Commercial loans have been made to various companies connected to Jim Mellon and Denham Eke on normal commercial terms. As at 31 December 2020, £23,742 of capital and interest was outstanding (2019: £62,746).

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. EAL provides services to the Group in arranging its insurance and defined contribution pension arrangements.

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 2020 was £273,568 (2019: £395,172).

Loan advance to BLX

On 11 October 2017, a £4,000,000 loan facility was made available to BLX by the Bank in order to provide the finance required to expand its operations. The facility is for 12 months, followed by a 3 year amortisation period. Interest is charged at commercial rates. Due to subsequent facility increases, the loan facility available for draw down is £5,300,000 as at year-end, with £4,587,000 (2019: £4,000,000) having been advanced to BLX.

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. During the year, the facility was increased to £1,500,000. At 31 December 2020, £685,000 (2019: £1,424,000) had been advanced to PIML.

Investments

The Bank holds less than 1% equity in the share capital of an investment of which Jim Mellon is a Shareholder (note 19). Denham Eke acts as co-chairman.

34. Related party transactions (continued)
Subordinated loans
The Company has advanced £7,450,000 (2019: £7,450,000) of subordinated loans to the Bank and £278,000 (2019: £328,000) to EAL at 31 December 2020. See note 33 for more details.

Loan notes
See note 26 for a list of related party loan notes as at 31 December 2020 and 2019.

Key management remuneration including Executive Directors

	2020 £000	2019 £000
Short-term employee benefits	1,120	927

35. Leases
A. Leases as lessee
The Group leases the head office building in the Isle of Man. The leases typically run for a period of 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 and 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 2020	737	737
Additions	-	-
Disposals	-	-
As at 31 December 2020	737	737
Accumulated depreciation		
As at 1 January 2020	165	165
Charge for the year	164	164
Eliminated on disposals	-	-
As at 31 December 2020	329	329
Carrying value at 31 December 2020	408	408
Carrying value at 31 December 2019	572	572

ii. Amounts recognised in profit or loss

	2020 £000	2019 £000
Interest on lease liabilities	40	47
Depreciation expense	164	165
Expenses relating to short-term leases and low-value assets	97	117

35. Leases (continued)

iii. Amounts recognised in statement of cash flows

	2020 £000	2019 £000
Total cash outflow for leases	244	195

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

	2020 £000	2019 £000
Less than one year	84	100
Between one and five years	-	-
Over five years	-	-
Total operating lease rentals payable	84	100

36. Subsequent events

There were no subsequent events occurring after 31 December 2020.

37. 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.

i. 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 to 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
    - 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;

37. 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 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 of £308,000 (2019: £282,000) which are carried at cost adjusted for the Group's share of net asset value. The investment is audited annually and 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 investment in listed equities is not considered significant.

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.

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.

37. 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.

38. 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
Net defined benefit liability	Fair value of plan assets less the present value of the defined benefit obligation

39. Significant accounting policies

A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

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:

39. 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 in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to issue of debt or equity securities.

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 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 Non-Controlling Interest ("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.

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.

39. Significant accounting policies (continued)

C. Interest (continued)
ii. Amortised cost and gross carrying amount (continued)
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 coveys 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.

39. 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 timing 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.

39. 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.

39. 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.

39. 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 arragement, 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'.

39. 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 8 years by product and geographical segment;
- The Group has assumed that the future economic conditions will broadly mirror the current environment and therefore the forecasted loss levels in the next 3 years will match the Group's experience in recent years;
- For portfolios where the Group has never had a default in its history or has robust credit enhancements such as credit insurance or default indemnities for the entire portfolio, then no IFRS 9 provision is made. At 2020 year-end, 36.6% had such credit enhancements (2019: 37.9%); 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 other 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 making an assessment 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.

40. 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 36 (I)). 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 36 (G)).

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.

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.

39. 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.

39. 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 employees.

39. 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 Group's 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 Group's CEO (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

SHAREHOLDER NOTES

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