



MANX FINANCIAL  
GROUP PLC

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CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS 2020

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# Welcome to Manx Financial Group PLC

## Integrity through independence and service

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

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MANX FINANCIAL  
GROUP PLC

Manx Financial Group PLC (“MFG”) is an AIM-listed company (LSE: MFX.L) which has subsidiaries engaged in a suite of financial services based in the Isle of Man and the UK. These companies offer financial services to both retail and commercial customers. 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 Limited (“the Bank”) is a licensed independent bank, regulated by the Financial Services Authority in the Isle of Man, the Financial Conduct Authority in the UK and is a full member of the 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 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 Services Authority in the Isle of Man and the Financial Conduct Authority in the UK.



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.



Edgewater Associates Limited (“EAL”) is the largest independent financial adviser in the Isle of Man.

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 £336 million (30 June 2019: £317 million, 31 December 2019: £324 million).

EAL provides services in the areas of wealth management, mortgages, general insurance, and retirement planning.



MANX FOREIGN  
EXCHANGE

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

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# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## CHAIRMAN'S STATEMENT

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### Dear Shareholders

I am pleased to present my half-year report for the period ended 30 June 2020.

When I last wrote to you in June this year, I explained that we have undertaken a number of initiatives to minimise the effects of COVID-19 on our businesses. Our immediate concern was to ensure the safety and well-being of our staff and our customers, and in doing so, I believe we have been extremely effective, more than managing to carry on our businesses seamlessly.

In operational terms, our staff on the Isle of Man, having implemented a successful working-from-home regime, are now all back at their desks and serving customers on near-normal terms. Since April 2020, Conister Bank (the "Bank") has been working closely with the Isle of Man Government and, as a result, have been appointed as accredited lenders for the provision of Disruption Loans ("DLGA") and Working Capital ("CBWCLA") loans, both government-backed at 80% and 100% respectively, for a combined value of up to £15 million. In addition, and outside these facilities, the Bank had committed a further £10 million to support local businesses prior to the activation of the government schemes.

Since the start of the year, Isle of Man new business remains ahead of forecast and with minimal arrears and defaults. Significantly, the Bank achieved a new monthly lending record in June 2020, beating pre-COVID outcomes and continues to have a robust pipeline.

It is also pleasing to note that Edgewater Associates Limited and Manx FX Limited - our principal Manx subsidiaries - are performing well with the latter recording an excellent first-half outcome.

However, the situation with our businesses in the UK is more complex as our customers experience the effects of the economic down-turn, compounded by a fall in business confidence. As a result: -

- we have streamlined our UK operations by merging Blue Star Business Solutions Limited within Conister Finance & Leasing Ltd, taking the difficult decision to close our Newbury and Manchester offices. We will now spearhead all our UK activities from our Alton, Hampshire office. These initiatives should save us in excess of £0.4 million in a full year;
- we have strengthened our lending criteria, moving away from the more vulnerable business sectors into Tier 1 opportunities;
- I am particularly pleased to note that we have been recognised and appointed as accredited lenders under both the UK state-owned British Bank's Business

Interruption ("CBILS") and Bounce Back ("BBILS") loan schemes. CBILS lending affords us an 80% government guarantee and BBILS affords us a 100% government guarantee;

- our UK-based Wholesale and Block Funding division remains unchanged, and both these activities have an encouraging forward order book; and
- finally, we have established a stand-alone Debt Management and Collections operation to help any customers in distress by offering forbearance or alternative repayment planning - an initiative that is proving extremely successful. At its height, 2,000 customers availed themselves of this service and by mid-August 2020, this figure had reduced to less than 300 as our customers were able to return to their planned repayment schedules.

Outside our COVID measures, at the beginning of February 2020, the Bank increased its holding in Beer Swaps Limited - a niche loan broker to the brewing industry - from 20% to 75%. This investment is already proving its worth and is performing in excess of our internal forecasts.

I have reported previously on our purchase and immediate cancellation of the shares held by Southern Rock Insurance Company Limited following the positive EGM vote in March 2020. This action has removed a significant uncertainty surrounding a market over-hang of our shares, whilst at the same time increasing the Net Asset Value per share for all remaining shareholders.

Lastly, during the period, we announced a change in directors with the appointment of John Spellman as an independent non-executive director to both the Group and the Bank. I am sure that you will join me in welcoming John, and also in wishing John Banks every success for the future following his resignation from the Group's board in March 2020.

### Financial Performance

Our operating income showed an increase of 8.3% to £8.7 million (2019: £8.0 million), despite a fall of 12% in our net interest income to £7.8 million (2019: £8.9 million), offset by a further 36.3% reduction in commission expense to £1.9 million (2019: £2.9 million). Our net interest yield has fallen slightly to 6.6% (2019: 7.5%), in part as a result of continuing to move our lending away from unsecured consumer loans. Against this, our pure operating expenses have grown by 6.6% to £5.1 million (2019: £4.8 million). We have taken a prudent 29.0% increase in the Bank's provisions to £1.9 million (2019: £1.5 million) following a careful review of our loan book in the light of the likely effects of COVID-19 upon our customers' businesses. It is worth noting that despite this, our cumulative provisions against the gross loan book stand at only 2.9% (2019: 2.3%) - a continuing reflection of the excellence of the

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# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## CHAIRMAN'S STATEMENT

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Bank's credit underwriting. Thus, profit after tax for the six months was slightly lower at £1.0 million (2019: £1.2 million).

Turning to our balance sheet, despite the difficult trading environment, our loan book has increased by 6.8% to £181.6 million (2019: £170.0 million). We have taken the decision to increase our liquidity as much as possible to provide a prudent buffer until the economic situation normalises and I am pleased to report that our cash and near cash has increased by 75.4% to £64.0 million (2019: £36.5 million), placing us in a more advantageous position than the majority of our competitors. Our customer deposits have grown by 22.7% to £217.8 million (2019: £177.4 million) - all of which leads to an 19.0% growth in our total asset base to £260.7 million (2019: £219.1 million). Shareholder equity has increased by 3.9% to £21.8 million (2019: £21.0 million), providing net assets per share of 19.1 pence (2019: 16.0 pence).

### Strategic Objectives for 2020

Our strategic priorities for 2020 remain unchanged, but our implementation of these has modified as we respond to demands of dealing with the effects of COVID-19. In particular, we have streamlined the Bank's UK operations to better serve the evolving market requirement.

I must reiterate that your Board's fundamental objective continues to be that of increasing shareholder value, both in a prudent yet progressive manner. I set out our 2020 key objectives in the 2019 year-end accounts and now review our progress at the six-month point: -

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

We continue to enhance our Treating Customers Fairly ("TCF") regime throughout our businesses and this is the cornerstone of all our operations as we strive to ensure that our customer service offering is second to none. Our TCF Committee regularly reviews complaints and compliments to identify trends which will improve our customer experience. We have undertaken further training for our teams, thus enhancing our TCF culture. We keep detailed records throughout the Group of any customer complaints and their resolution and I am pleased to report that we have again received a minimal number of complaints so far this year, of which only 6 were partially upheld following investigation (2019: 11) - this against a combined active customer base of over 20,000 accounts. All TCF investigations are thoroughly reviewed which allows us, if necessary, to amend and enhance any relevant policy, procedure or training module.

- *Adopting a pro-active strategy of managing risk, especially following the implementation of IFRS 9 in full. In doing so, we are committed to regularly review our loan book to allow for any credit impairment resulting from observing strict Expected Credit Loss criteria.*

Our response to the COVID pandemic has meant a refinement to our credit risk management process. We have brought forward the implementation of systems for electronic identification and verification and have installed enhanced credit scoring software. These enhancements allow our key staff more time to analyse propositions, rather than concentrating on processing. We are now reducing our exposure to unsecured consumer finance by replacement lending into prime and near prime sectors. We have implemented a segregated debt collection department to help customers deal with any financial hardship. Where possible, we have offered either forbearance or repayment plans should any loan fall into arrears. This allows us to more clearly identify potential credit issues at an early course and thus improve the Bank's ability to achieve a better outcome. We have increased our impairment allowance and we will continue our policy of strengthening our balance sheet to minimise the risk of any unforeseen event adversely affecting our profitability.

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

The current economic environment has produced a number of interesting potential acquisition opportunities. These are in the process of careful evaluation and I will report should any of these opportunities achieve fruition. Our recent relationships with the Isle of Man and UK government entities will provide the means for the Bank to lend up to £35 million of new business on secure or near-secure terms during the second half of the year.

- *Implementing 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.*

We continue with our investment in core systems and have recently upgraded both our deposit and lending systems. Our successful UK online portal now offers straight-through processing for our broker network, allowing us to redeploy staff into more productive areas. A review of our management information and accounting system needs is nearing completion and we anticipate a significant improvement following further investment in these key areas.

- *Focusing on the liabilities side of our balance sheet by introducing a new treasury management function and structure.*

Our new Group Treasury Management process is bearing fruit and I am pleased to report a realised gain of £212,000 for the first six months (2019: £80,000) - useful income in the continuing low interest rate environment. Our recently launched Isle of Man variable rate deposit account is gaining considerable traction and we will continue to develop attractive deposit products with competitive interest rates for our depositors.

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# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## CHAIRMAN'S STATEMENT

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- *Managing our balance sheet to exceed, as far as possible, the regulatory requirements for capital adequacy.*

We are well capitalised with our Total Capital Ratio standing at 16.04% (Year-end 2019: 16.86%). We will maintain our strategy of converting Group retained earnings into Tier 1 capital for the Bank to support our lending growth. Meanwhile, we will continue to maintain a heightened level of cash liquidity.

### **Current trading and outlook**

Thus far, the Isle of Man economy is bearing up well under the strain of COVID-19 and our local new business growth shows no signs of diminishing. The UK, however, is experiencing considerable uncertainty with the biggest fall in quarterly Gross Domestic Product on record at 20.4% for Quarter 2 this year. Thus, it is difficult for me to provide a clear steer as to our full year outcome in this changing environment. We have, however, started the beginning of the year in great shape and we are lucky in having a diverse range of financial services upon which to rely. I am also confident that worthwhile acquisition opportunities will emerge during the inevitable shake-out to come.

The Bank's appointments as accredited lenders to the various government-backed schemes will serve as an impetus to secure second-half lending growth, and we will continue to protect our existing loan book as far as possible by helping any customer in difficulty with revised payment planning or similar forbearance. Our recent streamlining and cost-cutting exercises will make a positive impact on profits for the second half and beyond. Meanwhile, we will continue to strengthen our balance sheet by maintaining adequate liquidity and ensuring our provisioning regime is both appropriate and prudent.

One matter that I intend to progress is the provision of a dividend scheme. Many shareholders have questioned me over the years on the lack of tangible return. Until now, our concentration has been on building up the balance sheet to reflect the success of the Group. I am pleased to say that we are in advanced discussions with our financial advisors as to how best to implement a dividend scheme to reward shareholder loyalty and I hope to announce the full details before the year-end.

It remains for me, as always, to thank on behalf of the Board, our staff for their splendid efforts coping with the additional demands of dealing with the COVID pandemic whilst continuing to develop the Group in such a successful manner and, finally, to thank our shareholders for their enduring loyalty.

**Jim Mellon**  
Executive Chairman  
25 August 2020

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the six months ended 30 June 2020 £'000 (unaudited)	For the six months ended 30 June 2019 £'000 (unaudited)	For the year ended 31 December 2019 £'000 (audited)
Interest income	6	10,428	10,813	22,320
Interest expense		(2,617)	(1,936)	(4,391)
<b>Net interest income</b>		<b>7,811</b>	<b>8,877</b>	<b>17,929</b>
Fee and commission income		2,157	1,816	3,796
Fee and commission expense		(1,870)	(2,934)	(5,426)
<b>Net trading income</b>		<b>8,098</b>	<b>7,759</b>	<b>16,299</b>
Other operating income		81	139	308
Gain / (loss) on trading assets		6	(3)	(1)
Realised gain on debt securities		212	80	179
Terminal funding	8	30	27	80
Gain from acquisition of subsidiary	18	237	-	-
<b>Operating income</b>		<b>8,664</b>	<b>8,002</b>	<b>16,865</b>
Personnel expenses		(3,337)	(3,102)	(6,762)
Other expenses		(1,772)	(1,692)	(4,135)
Impairment on loans and advances to customers		(1,895)	(1,469)	(1,900)
Depreciation		(425)	(281)	(638)
Amortisation and impairment of intangibles		(172)	(136)	(430)
Share of (loss) / profit of equity accounted investees, net of tax		(91)	46	124
VAT recovery	13	36	52	(101)
<b>Profit before tax payable</b>		<b>1,008</b>	<b>1,420</b>	<b>3,023</b>
Income tax expense		(16)	(184)	(350)
<b>Profit for the period / year</b>		<b>992</b>	<b>1,236</b>	<b>2,673</b>



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

		For the six months ended 30 June 2020 £'000 (unaudited)	For the six months ended 30 June 2019 £'000 (unaudited)	For the year ended 31 December 2019 £'000 (audited)
	Notes			
<b>Profit for the period / year</b>		<b>992</b>	1,236	2,673
<b>Other comprehensive income:</b>				
<b>Items that will be reclassified to profit or loss</b>				
Unrealised gain on debt securities		102	27	51
<b>Items that will never be reclassified to profit or loss</b>				
Actuarial loss on defined benefit pension scheme taken to equity		-	-	(128)
<b>Total comprehensive income for the period / year</b>		<b>1,094</b>	1,263	2,596
<b>Profit attributable to:</b>				
Owners of the Company		997	1,236	2,673
Non-controlling interests		(5)	-	-
		<b>992</b>	1,236	2,673
<b>Total comprehensive income attributable to:</b>				
Owners of the Company		1,099	1,263	2,596
Non-controlling interests		(5)	-	-
		<b>1,094</b>	1,263	2,596
<b>Earnings per share - Profit for the period / year</b>				
Basic earnings per share (pence)	9	0.87	0.94	2.04
Diluted earnings per share (pence)	9	0.66	0.77	1.66
<b>Earnings per share - Total comprehensive income for the period / year</b>				
Basic earnings per share (pence)	9	0.96	0.96	1.98
Diluted earnings per share (pence)	9	0.73	0.79	1.62

The notes on pages 11 to 19 are an integral part of these condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	30 June 2020 £'000 (unaudited)	30 June 2019 £'000 (unaudited)	31 December 2019 £'000 (audited)
<b>Assets</b>				
Cash and cash equivalents		6,991	8,916	14,620
Debt securities	10	57,036	27,583	46,792
Trading assets	11	4	17	19
Loans and advances to customers	5,12	181,581	170,035	179,370
Trade and other receivables	13	2,521	2,555	2,478
Property, plant and equipment		5,793	3,406	3,299
Intangible assets		2,290	1,864	2,293
Goodwill	14	4,361	4,532	3,734
Investment in associate		171	204	282
<b>Total assets</b>		<b>260,748</b>	219,112	252,887
<b>Liabilities</b>				
Deposits from customers		217,758	177,414	209,933
Creditors and accrued charges	15	3,148	3,202	2,972
Contingent consideration		921	954	863
Loan notes	16	16,222	15,871	15,971
Pension liability		688	543	688
Deferred tax liability		141	142	141
<b>Total liabilities</b>		<b>238,878</b>	198,126	230,568
<b>Equity</b>				
Called up share capital	17	19,121	20,732	20,732
Retained earnings		2,686	254	1,587
<b>Equity attributable to owners of the Company</b>		<b>21,807</b>	20,986	22,319
Non-controlling interest	18	63	-	-
<b>Total equity</b>		<b>21,870</b>	20,986	22,319
<b>Total liabilities and equity</b>		<b>260,748</b>	219,112	252,887

The notes on pages 11 to 19 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company			Non-controlling interests £'000	Total equity £'000
	Share capital £'000	Retained earnings £'000	Total £'000		
<b>For the six months ended 30 June 2020</b>					
<b>Balance at 1 January 2020</b>	20,732	1,587	22,319	-	22,319
<i><b>Total comprehensive income for the period:</b></i>					
Profit for the period	-	997	997	(5)	992
Other comprehensive income	-	102	102	-	102
<b>Total comprehensive income for the period</b>	-	1,099	1,099	(5)	1,094
<i><b>Transactions with owners:</b></i>					
Share-based payment expense	-	-	-	-	-
Purchase of ordinary shares (Note 17)	(1,611)	-	(1,611)	-	(1,611)
<b>Total transactions with owners of the Company</b>	(1,611)	-	(1,611)	-	(1,611)
<i><b>Changes in ownership interests:</b></i>					
Acquisition of subsidiary with non-controlling interest	-	-	-	68	68
<b>Total changes in ownership interests</b>	-	-	-	68	68
<b>Balance at 30 June 2020</b>	19,121	2,686	21,807	63	21,870

	Share capital £'000	Retained earnings £'000	Total equity £'000
<b>For the six months ended 30 June 2019</b>			
<b>Balance at 1 January 2019</b>	20,732	(1,009)	19,723
<i><b>Total comprehensive income for the period:</b></i>			
Profit for the period	-	1,236	1,236
Other comprehensive income	-	27	27
<b>Total comprehensive income for the period</b>	-	1,263	1,263
<i><b>Transactions with owners:</b></i>			
Share-based payment expense	-	-	-
Shares issued	-	-	-
<b>Total transactions with owners of the Company</b>	-	-	-
<b>Balance at 30 June 2019</b>	20,732	254	20,986

The notes on pages 11 to 19 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June 2020 £'000 (unaudited)	For the six months ended 30 June 2019 £'000 (unaudited)	For the year ended 31 December 2019 £'000 (audited)
	Notes			
<b>RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS</b>				
<b>Profit before tax</b>		<b>1,008</b>	1,420	3,023
Adjustments for:				
Depreciation		425	281	638
Amortisation and impairment of intangibles		172	136	430
Realised gain on debt securities		(212)	(80)	(179)
Share of loss / (profit) of equity accounted investees		91	(46)	(124)
Contingent consideration interest expense		58	8	88
Pension charge included in personnel costs		-	-	17
Gain on acquisition of subsidiary		(237)	-	-
Lease interest		20	-	-
Loan note interest capitalised	16	26	-	-
		<b>1,351</b>	1,719	3,893
Changes in:				
Trading asset		15	3	1
Trade and other receivables	13	73	43	118
Creditors and accrued charges	15	(15)	230	144
		<b>1,424</b>	1,995	4,156
<b>Net cash flow from trading activities</b>				
Changes in:				
Loans and advances to customers	5,12	(4,461)	(21,757)	(31,092)
Deposits from customers		7,825	18,914	51,433
Pension contribution		-	(41)	(41)
		<b>4,788</b>	(889)	24,456
<b>Cash inflow / (outflow) from operating activities</b>				

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

		For the six months ended 30 June 2020 £'000 (unaudited)	For the six months ended 30 June 2019 £'000 (unaudited)	For the year ended 31 December 2019 £'000 (audited)
	Notes			
<b>CASH FLOW STATEMENT</b>				
<b>Cash from operating activities</b>				
Cash inflow / (outflow) from operating activities		4,788	(889)	24,456
Income taxes paid		-	(149)	(379)
		<b>4,788</b>	<b>(1,038)</b>	<b>24,077</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(322)	(1,279)	(1,634)
Purchase of intangible assets		(35)	(48)	(132)
Acquisition of subsidiary or associate, net of cash acquired	18	(622)	(1,324)	107
(Purchase) / sale of debt securities at fair value through other comprehensive income	10	(3,608)	(6,001)	(1,337)
(Purchase) / sale of debt securities at amortised cost	10	(6,322)	9,059	(16,028)
		<b>(10,909)</b>	<b>407</b>	<b>(19,024)</b>
<b>Cash flows from financing activities</b>				
(Repayment) / receipt of loan notes	16	(1,386)	-	100
Lease payments		(122)	(68)	(148)
Decrease in borrowings from block creditors		-	(138)	(138)
		<b>(1,508)</b>	<b>(206)</b>	<b>(186)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>				
		<b>(7,629)</b>	<b>(837)</b>	<b>4,867</b>
Cash and cash equivalents - opening		14,620	9,753	9,753
		<b>6,991</b>	<b>8,916</b>	<b>14,620</b>
<b>Included in cash flows are:</b>				
Interest received - cash amounts		10,741	10,489	21,441
Interest paid - cash amounts		(2,669)	(1,917)	(4,251)

Non-cash investing and financing activities disclosed in other notes are:

- £1.60m acquisition of 16,966,158 of the Group's own Ordinary Shares (30 June 2019: nil and 31 December 2019: nil) - Note 17
- £2.25m settlement of pre-existing relationship on acquisition of subsidiary (30 June 2019: nil and 31 December 2019: nil) - Note 18

The notes on pages 11 to 19 are an integral part of these condensed consolidated interim financial statements.

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# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## NOTES

For the six months ended 30 June 2020

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### 1. Reporting entity

Manx Financial Group PLC (“the Company” or “MFG”) is a company incorporated in the Isle of Man. These condensed consolidated interim financial statements (“interim financial statements”) as at and for the six months ended 30 June 2020 comprise the Company and its subsidiaries (the “Group”).

### 2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the last annual consolidated financial statements as at and for the year ended 31 December 2019 (“last annual financial statements”). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements.

### 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

In preparing these interim financial statements, management 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 significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those described in the last annual financial statements other than noted below.

#### COVID-19

The extent to which COVID-19 impacts the Group’s business will depend on:

- the duration of COVID-19;
- 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.

#### i. Impairment of financial assets

The Group’s Expected Credit Losses (“ECL”) model contains accounting judgements and estimates which include the:

- grouping of financial assets by product when ECL is assessed at the product level;
- determination of model inputs such as probability of default, loss given default rate and loss rate;
- association of the Group’s macroeconomic outlook to the ECL model inputs; and
- determination of significant increase in credit risk (“SICR”).

In determining the ECL, a more severe economic outlook has been used at the interim reporting date when compared to the outlook used at the annual reporting date which has led to an increase in loss rate and probability of default estimates.

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 exceptionally stressed due to COVID-19.

#### ii. Impairment of non-financial assets

The Group has performed reviews for indicators of impairment at the interim reporting date in the same manner as at the annual reporting date. In performing this assessment, the Group has considered the definition and allocation of assets and liabilities to cash generating units (“CGU”), the estimate and allocation of future cash flows to CGU and applicable discount rates. No impairment loss has been recognised.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## NOTES

For the six months ended 30 June 2020

### 5. Credit risk

A summary of the Group's current policies and practices for the management of credit risk is set out in Note 8 - Financial risk review and Note 36 - Financial risk management on page 43 and 67 respectively of the Annual Financial Statements 2019.

An explanation of the terms Stage 1, Stage 2 and Stage 3 is included in Note 38 (G)(vii) on page 75 of the last annual financial statements.

#### A. Summary of credit risk on loans and advances to customers

As at 30 June 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000 (unaudited)
Grade A <sup>1</sup>	164,648	-	-	164,648
Grade B	-	2,252	-	2,252
Grade C	5,558	2,211	13,074	20,843
Gross value	170,206	4,463	13,074	187,743
Allowance for ECL	(220)	(38)	(5,904)	(6,162)
Carrying value	169,986	4,425	7,170	181,581

As at 30 June 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000 (unaudited)
Grade A <sup>1</sup>	161,124	-	-	161,124
Grade B	1,439	3,077	98	4,614
Grade C	-	1,627	7,206	8,833
Gross value	162,563	4,704	7,304	174,571
Allowance for ECL	(170)	(862)	(3,504)	(4,536)
Carrying value	162,393	3,842	3,800	170,035

As at 31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000 (audited)
Grade A <sup>1</sup>	168,796	-	-	168,796
Grade B	1,143	1,675	-	2,818
Grade C	-	1,985	10,544	12,529
Gross value	169,939	3,660	10,544	184,143
Allowance for ECL	(116)	(467)	(4,190)	(4,773)
Carrying value	169,823	3,193	6,354	179,370

<sup>1</sup> Loans are graded A to C depending on the level of risk. Grade C relates to agreements with the highest of risk, Grade B with medium risk and Grade A relates to agreements with the lowest risk.

#### B. Summary of overdue status of loans and advances to customers

As at 30 June 2020	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000 (unaudited)
Current	159,467	-	-	159,467
Overdue less than 30 days	5,181	-	-	5,181
Overdue 30 days or more	5,558	4,463	13,074	23,095
	170,206	4,463	13,074	187,743

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## NOTES

For the six months ended 30 June 2020

### 5. Credit risk (continued)

#### B. Summary of overdue status of loans and advances to customers (continued)

As at 30 June 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000 (unaudited)
Current	161,469	-	-	161,469
Overdue less than 30 days	4,562	-	-	4,562
Overdue 30 days or more	64	2,975	5,501	8,540
	<u>166,095</u>	<u>2,975</u>	<u>5,501</u>	<u>174,571</u>

As at 31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000 (audited)
Current	145,373	-	-	145,373
Overdue less than 30 days	24,259	-	-	24,259
Overdue 30 days or more	307	3,660	10,544	14,511
	<u>169,939</u>	<u>3,660</u>	<u>10,544</u>	<u>184,143</u>

### 6. Interest income

Interest income represents charges and interest on finance and leasing agreements attributable to the period or year after adjusting for early settlements and interest on bank balances, excluding the Terminal funding portfolio.

### 7. 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); Edgewater Associates and Manx FX.

For the 6 months ended 30 June 2020 (unaudited)	Asset and Personal Finance £'000	Edgewater Associates £'000	Manx FX £'000	Investing Activities £'000	Total £'000
Net interest income / (expense)	8,287	-	-	(476)	7,811
Operating income / (expense)	6,932	1,075	872	(215)	8,664
<b>Profit / (loss) before tax payable</b>	<u>843</u>	<u>6</u>	<u>785</u>	<u>(626)</u>	<u>1,008</u>
Capital expenditure	357	-	-	-	357
<b>Total assets</b>	<u>257,310</u>	<u>2,292</u>	<u>321</u>	<u>825</u>	<u>260,748</u>

For the 6 months ended 30 June 2019 (unaudited)	Manx Incahoot £'000	Asset and Personal Finance £'000	Edgewater Associates £'000	Manx FX £'000	Investing Activities £'000	Total £'000
Net interest income / (expense)	-	9,332	-	-	(455)	8,877
Operating income / (expense)	(10)	6,591	1,276	290	(145)	8,002
<b>Profit / (loss) before tax payable</b>	<u>(98)</u>	<u>1,863</u>	<u>278</u>	<u>79</u>	<u>(702)</u>	<u>1,420</u>
Capital expenditure	-	1,327	-	-	-	1,327
<b>Total assets</b>	<u>118</u>	<u>211,106</u>	<u>3,388</u>	<u>239</u>	<u>4,261</u>	<u>219,112</u>



# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the six months ended 30 June 2020

### 7. Operating segments (continued)

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

### 8. Terminal funding

In September 2014, the Bank discontinued funding handheld payment devices (referred to as Terminal funding) due to the volume of write-offs. Subsequently, the book has been placed in run-off whilst the Bank vigorously pursues historical write-offs. A decision was made by the Board during 2016 to cease funding and to run-off the book upon the final repayment date of August 2019. Terminal funding continues to generate secondary term rental income following the last repayment date.

	For the 6 months ended 30 June 2020 £'000 (unaudited)	For the 6 months ended 30 June 2019 £'000 (unaudited)	For the year ended 31 Dec 2019 £'000 (audited)
Interest income	22	27	78
Release of provisions	8	-	2
	<b>30</b>	<b>27</b>	<b>80</b>

### 9. Earnings per share

	For the 6 months ended 30 June 2020 £'000 (unaudited)	For the 6 months ended 30 June 2019 £'000 (unaudited)	For the year ended 31 Dec 2019 £'000 (audited)
<b>Profit for the period / year</b>	<b>992</b>	<b>1,236</b>	<b>2,673</b>
Weighted average number of ordinary shares in issue (basic)	114,130,077	131,096,235	131,096,235
Basic earnings per share (pence)	0.87	0.94	2.04
Diluted earnings per share (pence)	0.66	0.77	1.66
<b>Total comprehensive income for the period / year</b>	<b>1,094</b>	<b>1,263</b>	<b>2,596</b>
Weighted average number of ordinary shares in issue (basic)	114,130,077	131,096,235	131,096,235
Basic earnings per share (pence)	0.96	0.96	1.98
Diluted earnings per share (pence)	0.73	0.79	1.62

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

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## NOTES

For the six months ended 30 June 2020

### 9. Earnings per share (continued)

As at	30 June 2020 (unaudited)	30 June 2019 (unaudited)	31 Dec 2019 (audited)
<b>Reconciliation of weighted average number of ordinary shares in issue between basic and diluted</b>			
Weighted average number of ordinary shares (basic)	114,130,077	131,096,235	131,096,235
Number of shares issued if all convertible loan notes were exchanged for equity	36,555,556	41,666,667	41,666,667
Dilutive element of share options if exercised	-	10,366	10,366
Weighted average number of ordinary shares (diluted)	<u>150,685,633</u>	<u>172,773,268</u>	<u>172,762,902</u>
<b>Reconciliation of profit for the period / year between basic and diluted</b>			
Profit for the period / year (basic)	992	1,236	2,673
Interest expense saved if all convertible loan notes were exchanged for equity	83	98	196
Profit for the period / year (diluted)	<u>1,075</u>	<u>1,334</u>	<u>2,869</u>

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

As at	30 June 2020 £'000 (unaudited)	30 June 2019 £'000 (unaudited)	31 Dec 2019 £'000 (audited)
<b>Reconciliation of total comprehensive income for the period / year between basic and diluted</b>			
Total comprehensive income for the period / year (basic)	1,094	1,263	2,596
Interest expense saved if all convertible loan notes were exchanged for equity	83	98	196
Total comprehensive income for the period / year (diluted)	<u>1,177</u>	<u>1,361</u>	<u>2,792</u>

### 10. Debt securities

As at	30 June 2020 £'000 (unaudited)	30 June 2019 £'000 (unaudited)	31 Dec 2019 £'000 (audited)
<b>Financial assets at fair value through other comprehensive income:</b>			
UK Government treasury bills	48,612	21,581	44,690
<b>Financial assets at amortised cost:</b>			
UK Certificates of Deposit	8,424	6,002	2,102
	<u>57,036</u>	<u>27,583</u>	<u>46,792</u>

UK Government Treasury Bills are stated at fair value and unrealised changes in the fair value are reflected in equity.

### 11. Trading assets

The investment represents shares 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.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## NOTES

For the six months ended 30 June 2020

### 12. Loans and advances to customers

As at	Gross Amount £'000	Specific Provision £'000	ECL Allowance £'000	30 June 2020 Carrying Value £'000 (unaudited)	30 June 2019 Carrying Value £'000 (unaudited)	31 Dec 2019 Carrying Value £'000 (audited)
HP	71,893	(1,687)	(38)	70,168	61,434	64,309
Finance lease	38,855	(2,825)	(189)	35,841	30,620	38,234
Wholesale funding arrangements	19,290	(458)	-	18,832	28,421	23,540
Block discounting	15,161	(250)	-	14,911	20,437	15,493
Unsecured personal loans	25,101	(293)	(20)	24,788	11,448	20,911
Secured commercial loans	12,638	(374)	(27)	12,237	10,391	11,276
Secured personal loans	3,183	-	(1)	3,182	5,725	4,149
Vehicle stocking plans	1,622	-	-	1,622	1,559	1,458
	187,743	(5,887)	(275)	181,581	170,035	179,370

### 13. Trade and other receivables

As at	30 June 2020 £'000 (unaudited)	30 June 2019 £'000 (unaudited)	31 Dec 2019 £'000 (audited)
VAT claim	871	988	835
Prepayments	309	217	385
Other debtors	1,341	1,350	1,258
	2,521	2,555	2,478

Included in trade and other receivables is an amount of £0.871 million (30 June 2019: £0.988 million and 31 December 2019: £0.835 million) relating to a reclaim of VAT. For some time the Bank, as the Group VAT registered entity, has considered the VAT recovery rate being obtained by the business as neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division ("C&E"), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisors.

The Group's position rests on the outcome of discussions with C&E which in turn will take into account the final assessment by UK Her Majesty's Revenue and Customs ("HMRC") of the impact of the European Union's ruling in favour of Volkswagen Financial Services (UK) Limited ("VWFS") vs HMRC. In June 2020, HMRC released a note setting out a standard methodology for how the industry should calculate recoveries. The Bank has subsequently entered into discussions with C&E who have invited the Bank to calculate their historic claims based on this note.

The Bank has a total exposure in relation to this matter of £0.942 million (30 June 2019: £1.101 million and 31 December 2019: £0.906 million), comprising the debtor balance referred to above plus an additional £71,000 (30 June 2019: £113,000 and 31 December 2019: £71,000) VAT reclaimed under the partial Exemption Special Method, in the period from Q4 2011 to Q3 2012. From Q4 2012 the Bank reverted back to the previous method.

### 14. Goodwill

As at	30 June 2020 £'000 (unaudited)	30 June 2019 £'000 (unaudited)	31 Dec 2019 £'000 (audited)
Blue Star Business Solutions Limited ("BBSL")	1,390	2,188	1,390
Edgewater Associates Limited ("EAL")	1,849	1,849	1,849
ECF Asset finance PLC	454	454	454
Three Spires Insurance Services Limited	41	41	41
Beer Swaps Limited ("BSL") (Note 18)	627	-	-
	4,361	4,532	3,734

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the six months ended 30 June 2020

### 15. Creditors and accrued charges

As at	30 June 2020 £'000 (unaudited)	30 June 2019 £'000 (unaudited)	31 Dec 2019 £'000 (audited)
Commission creditors	1,110	1,031	1,044
Other creditors and accruals	1,089	997	893
Lease liability	605	787	707
Taxation creditors	344	387	328
	<u>3,148</u>	<u>3,202</u>	<u>2,972</u>

### 16. Loan notes

As at	Notes	30 June 2020 £'000 (unaudited)	30 June 2019 £'000 (unaudited)	31 Dec 2019 £'000 (audited)
<b>Related parties</b>				
J Mellon	JM	1,750	1,750	1,750
Burnbrae Limited	BL	2,200	1,200	1,200
Southern Rock Insurance Company Limited	SR	2,097	460	460
		<u>6,047</u>	<u>3,410</u>	<u>3,410</u>
<b>Unrelated parties</b>	UP	10,175	12,461	12,561
		<u>16,222</u>	<u>15,871</u>	<u>15,971</u>

**JM** - Two loans, one of £0.5 million maturing on 31 July 2022 with interest payable of 5.0% per annum, and one of £1.250 million maturing on 26 February 2025, paying interest of 5.4% per annum. Both loans are convertible at the rate of 7.5 pence and 9 pence respectively.

**BL** - A loan of £1.2 million maturing on 31 July 2022 with interest payable of 5.0% per annum and convertible at a rate of 7.5 pence. Another loan of £1.0 million maturing on 25 February 2025 with interest payable of 5.4%. Jim Mellon is the beneficial owner of BL and Denham Eke is also a director - both are Directors of MFG.

**SR** - One loan consisting of £2.097 million maturing on 14 April 2025 with interest payable of 5.4% per annum. See Note 18 for details of the transactions between the Group and SR during the period.

**UP** - Thirty-two loans consisting of an average £317,969 (30 June 2019: £377,606 and 31 December 2019: £380,636) with a weighted average interest payable of 5.6% per annum (30 June 2019: 5.4% and 31 December 2019: 5.5%). The earliest maturity date is 18 August 2020 for £100,000 and the latest maturity date is 30 April 2025 for £150,000.

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.

### 17. Called up share capital

Ordinary shares of no-par value available for issue	Number
At 30 June 2020, 31 December 2019 and 30 June 2019	200,200,000

Issued and fully paid ordinary shares of no par value	Number	£'000
At 31 December 2019 and 30 June 2019	131,096,235	20,732
At 30 June 2020	114,130,077	19,121

On 9 April 2020, the Company and Southern Rock Insurance Company Limited ("SR") entered into the 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 16). 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.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the six months ended 30 June 2020

### 17. Called up share capital (continued)

There are three convertible loans of £2,950,000 (30 June and 31 December 2019: four convertible loans of £3,410,000).

1,050,000 (30 June and 31 December 2019:1,050,000) share options with an exercise price of 14 pence, issued to Executive Directors and senior management within the Group on 23 June 2014 remain outstanding. The share options have vested and expire on 22 June 2024.

### 18. Acquisition of subsidiary

On 28 February 2020, 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.

In the six months to 30 June 2020, BSL contributed revenue of £183,000 and profit of £43,000 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 £307,000 and the impact on consolidated profit for the period would have been £65,000.

### A. 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
	<u>2,957</u>

### B. 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. 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 condensed consolidated statement of profit or loss and other comprehensive income.

### D. 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	2,597
Cash and cash equivalents	85
Trade and other receivables	116
Creditors and accrued charges	(277)
Intangible assets - customer related	71
Intangible assets - contract related	63
<b>Total identifiable net assets acquired</b>	<u>2,655</u>

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## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### NOTES

For the six months ended 30 June 2020

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#### 18. Acquisition of subsidiary (continued)

##### E. 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	68
Fair value of existing interest in BSL	257
Fair value of identifiable net assets	(2,655)
<b>Goodwill</b>	<b>627</b>

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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 condensed statement of profit or loss and other comprehensive income.

#### 19. Regulators

Certain Group subsidiaries are regulated by the Isle of Man Government Financial Services Authority ("FSA") and the Financial Conduct Authority (FCA) in the United Kingdom as detailed below.

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

#### 20. Contingent Liabilities

The Bank is required to be a member of the Isle of Man Government Depositors' Compensation Scheme which was introduced by the Isle of Man Government under the Banking Business (Compensation of Depositors) Regulations 1991 and creates a liability on the Bank to participate in the compensation of depositors should it be activated.

#### 21. Subsequent events

There were no significant subsequent events identified after 30 June 2020.

#### 22. Approval of interim financial statements

The interim financial statements were approved by the Board on 25 August 2020. The interim report will be available from that date at the Group's website - [www.mfg.im](http://www.mfg.im) and at the Registered Office: Clarendon House, Victoria Street, Douglas, Isle of Man, IM1 2LN. The Group's nominated adviser and broker is Beaumont Cornish Limited, Building 3, 566 Chiswick High Road, London W4 5YA. The interim and annual financial statements along with other supplementary information of interest to shareholders, are included on the Group's website. The website includes investor relations information, including corporate governance observance and contact details.



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