

Manx Financial Group

FY23 results

Executing on a high-growth strategy

Manx Financial Group (Manx) posted record PBT of £7m, a 35% increase year-on-year. Manx benefited from strong volumes, a full year contribution from Payment Assist Limited (PAL) and a £1.9m gain on debt securities, which offset funding cost pressures from higher average interest rates. Alongside a 24% increase in lending to £362.7m, it maintained robust credit quality, with its cost of risk (CoR) decreasing by 20bp y-o-y to 1.3%. As a result, the group delivered a strong return on average equity (RoAE) of 16.4%, 50bp higher than FY22. In line with its 10% dividend payout policy, the group proposed a dividend of 0.4551p/share, up 21% on FY22. The approval of a UK banking licence in October is a major milestone for Manx to continue to pursue its growth strategy.

Year end	Operating income (£m)	PBT (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/20	16.4	2.0	1.35	0.00	15.2	N/A
12/21	20.0	3.0	1.96	0.24	10.5	1.2
12/22	26.1	5.2	2.93	0.38	7.0	1.8
12/23	31.5	7.0	3.51	0.46	5.8	2.2

Note: *EPS is fully diluted.

Growth curbed by funding costs

Net interest income (NII) increased 33% and net interest margin (NIM) climbed to 7.5% (FY22: 7.1%) through 24% loan growth and the full year contribution from consumer finance subsidiary PAL. However, in H2 the NIM fell to 7.1% from 8.2% in H1, curbing year-on-year growth in NII to 15.6%. The cost of funding reached 4.4% in H2 versus 3.3% in H1 and 2.1% in FY22. Operating expenses increased 20% to £20.3m, relating to the consolidation of PAL and costs relating to the UK deposit-taking licence. However, the group still delivered a 22% y-o-y increase in net attributable profit to £5.3m. Subsequently, basic EPS grew to 4.59p from 3.77p in FY22.

PAL and UK deposit licence to boost growth

PAL made a remarkable contribution in FY23 with profit after tax rising from £0.8m to £2.1m. Manx will incur a maximum cost of £5m to buy out the minority in PAL, which should be largely self-funded: assuming no growth, PAL would generate c £4.8m of retained earnings for the group by end-FY26. The £1.1m minority deduction would disappear; this represents c 20% of group attributable profit in FY23, for example. Meanwhile, Conister Bank is gearing up for an expansion into the UK market, with plans to ramp up deposit-taking activities in H224. The granting of the UK banking licence presents new opportunities to catalyse further growth and bolster Conister's already solid performance.

Valuation: P/BV of 0.76x with RoAE of 16.4%

Using FY23 results, Manx currently trades at a diluted price to book value (P/BV) ratio of 0.76x and has an RoAE of 16.4%, double the peer average, and above its own FY17–22 average of 13.1%. To trade in line with peers, Manx would need to be trading at c 0.9x P/BV, or 19% above its current price.

Banks

18 April 2024

Price **20.5p**
Market cap **£24m**

Common Equity Tier 1 (CET1) ratio 11.5%

Shares in issue 116.2m

Free float 55.9%

Code MFX

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(4.7)	7.9	(19.6)
Rel (local)	(5.8)	2.8	(19.4)

52-week high/low 27p 15p

Business description

Manx Financial Group is an Isle of Man based diversified financial services group. Through its subsidiaries such as Conister Bank and Payment Assist, the group operates in resilient niche lending and financing markets in both the UK and the Isle of Man.

Next events

H124 results September 2024

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Manx Financial Group Manx Financial Group is a research client of Edison Investment Research Limited

Investment summary

Company description

Manx Financial Group, headquartered in the Isle of Man, is an independent banking and financial services group with roots dating back to 1935. Led by CEO Douglas Grant since 3 November 2021, the group operates several subsidiaries specialising in lending services for retail and commercial clients in the Isle of Man and the UK. Key subsidiaries include Conister Bank, Conister Finance and Leasing, MFX, PAL, Blue Star Business Solutions, Edgewater Associates, Ninkasi Rentals and Finance, and The Business Lending Exchange. The group's operations encompass a wide range of services from banking and specialist lending to FX and advisory. Focused on building scale in attractive market segments, Manx has pursued both organic and inorganic expansion, notably acquiring a 50.1% stake in PAL in 2022, a move that has proved highly successful. This organic and non-organic strategic approach has resulted in lending growth to £362.7m, representing a 24% growth rate y-o-y or a 19% CAGR since 2017. Recent initiatives have centred on driving lending expansion and enhancing cost efficiency through technology upgrades, including a migration to Microsoft Azure.

Valuation

Manx trades slightly above its peers based on 2023 P/E and P/BV metrics. Conservatively we use diluted book value for Manx in our valuation as the nearly £3m in convertible bonds are well in the money with strike prices of 8–9p per share. On a headline book value basis, Manx's P/BV is above the peer average of 0.68x, although Manx generates a higher ROE at 16.4% compared to the peer average of 8.3%. Manx maintains a relatively low payout ratio, which produces a lower dividend yield as it retains more capital for growth over dividends. Nonetheless, the declared dividend grew 21% in FY23.

Financials

In FY23, Manx saw a substantial 33% rise in NII to £32.4m, on the back of strong loan growth and the first full year of consolidation of PAL. NIM increased to 7.5% despite a major rise in funding costs as the Bank of England raised interest rates, due to the positive mix impact of PAL. NIM in H2 fell to 7.1% from 8.2% in H1 as funding costs increased, curbing NII growth to 15.6% y-o-y. Net fee and commission income declined to negative £3.3m due to expenses from PAL. Operating income rose 21% to £31.5m, including a £1.9m securities gain, while operating expenses increased 20% to £20.3m, resulting in a broadly flat cost-to-income (CiR) ratio. Despite a 4% increase in impairments to £4.1m, PBT rose by 35% to £7.0m, with net profit attributable to shareholders up 22% to £5.3m. The bank's RoAE increased to 16.4% and EPS grew to 3.51p/share, leading to a 21% increase in the recommended dividend to 0.4551p/share.

Sensitivities

Manx, like its peers in the lending sector, faces macroeconomic risks such as fluctuations in GDP growth, interest rates and employment, which can have an impact on loan growth, margins and credit quality. In addition, lenders are subject to liquidity risks as deposits and debt financing must be maintained.

In terms of interest risk, Manx closely monitors the sensitivity to interest rates using a methodology aligned with Isle of Man Financial Services Authority (FSA) standards. The modelled sensitivity to an instantaneous 2% increase in interest rates across the curve fell to a negligible -£46,000 in FY23 from +£1.1m at the end of FY22. This has reduced due to a mix shift to shorter-term loans and

securities and longer-term deposits. Similarly, the cumulative interest rate gap up to one year was +£7m at the end of FY23 compared to -£19.2m the previous year, indicating a broadly neutral sensitivity to shorter-term interest rates.

Likewise liquidity risk appears modest given the broadly matched maturity profile, liquidity buffer and zero exposure to the interbank lending market.

Management is focusing on treasury management to improve the return on the liability side of the balance sheet as we progress to a more normalised interest and inflation rate environment.

As regards credit quality, a 10% increase in the loan impairment rate would reduce PBT by 5.9% based on the FY23 figures.

FY23 results

NII increased 33% to £32.4m and NIM climbed to 7.5% (FY22: 7.1%) through 24% loan growth and the positive mix effect of a full year contribution from PAL, its 50.1% owned consumer finance subsidiary. However, in H2 NIM fell to 7.1% from 8.2% in H1, curbing year-on-year growth in NII to 15.6%. The cost of funding reached 4.4% in H2 versus 3.3% in H1 and 2.1% in FY22. For instance, deposit costs rose to £12.1m in FY23 against £4.6m in FY22 as the deposit base grew to £390.4m in FY23 from £304.2m in FY22. We note the stronger effect of higher funding costs in H223, where the bulk of the increase occurred. Funding cost pressure is likely to remain a headwind into H124 and until we see interest rates fall.

Net fee and commission income declined substantially to negative £3.3m as the group incurred fee and commission expenses of £7.3m, a consequence of the full year consolidation of PAL. The majority of the cost was incurred in H223 (£2.5m in H223 versus £0.8m in H123).

Subsequently, core operating income in the year rose 14% to £29.0m. Total operating income climbed 21% to £31.5m as the group benefited from an increased debt securities portfolio, realising £1.9m in gains in the year versus just £0.3m in FY22. Normalising the gain on securities and asset revaluations to the FY19–22 average of £0.5m, total operating income would be up 15% at £29.9m, while PBT would be up 4% to £5.4m.

Operating expenses grew 20% to £20.3m, predominantly in the form of personnel expenses, reflecting the consolidation of PAL into the group. Manx also incurred an incremental increase in overheads attributable to obtaining its UK deposit taking licence. Despite the extra costs, operating profit before impairments was up 22% to £11.2m (FY22: £9.2m). The CiR (defined as total operating expenses/total operating income) subsequently remained broadly flat at 64.5% (FY22: 64.8%).

Impairments increased modestly by 4% to £4.1m, despite loan balances increasing 24% to £362.7m, implying a CoR of 1.3%, 20bp lower than FY22.

As a result, PBT rose 35% y-o-y to £7.0m. On the back of stronger profit, income taxes increased to £0.9m (FY22: £0.5m), implying a 13% tax rate. Net profit subsequently jumped 31% y-o-y to £6.1m. Accounting for the minority interest owed to PAL, net attributable profit to shareholders was £5.3m, up 22% y-o-y, albeit including the £1.9m securities gain. Stronger profitability resulted in a stronger RoAE, with the metric increasing to 16.4% from 15.9% in FY22. The bank's common equity tier 1 ratio stood at 11.5% (FY22: 12.4%).

Basic EPS grew to 4.59p/share (FY22: 3.77p/share). In line with its 10% payout policy, the board has recommended a dividend of 0.4551p per share to be paid to shareholders, a 21% increase on FY22 (0.3764p per share).

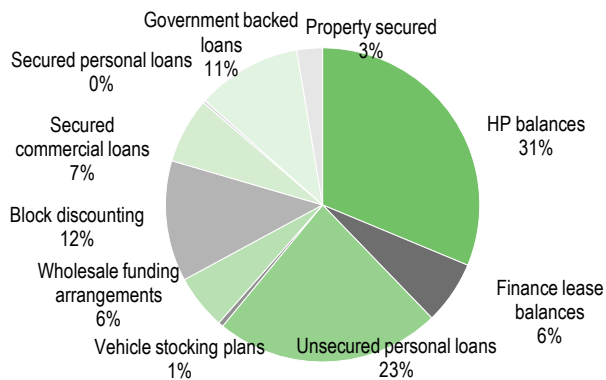
Exhibit 1: Selected numbers from the P&L

£'000 unless stated otherwise	FY19	FY20	FY21	FY22	FY23	y-o-y	H123	H223	H123 vs H223
Interest income	22,320	20,692	22,947	28,978	45,356	57%	21,458	23,898	11%
Other income	0	0	0	1,765	1,535	(13%)	713	822	15%
Interest expense	(4,391)	(5,222)	(4,967)	(6,391)	(14,530)	127%	(5,787)	(8,743)	51%
Net interest income	17,929	15,470	17,980	24,352	32,361	33%	16,384	15,977	(2%)
Net fee income	(1,630)	384	1,282	1,150	(3,330)	(390%)	(798)	(2,532)	217%
Depreciation on leasing assets	(333)	(406)	(269)	(16)	0	(100%)	0	0	
Core operating income	15,966	15,448	18,993	25,486	29,031	14%	15,586	13,445	(14%)
Other operating income	388	200	365	314	364	16%	62	302	387%
Gains on securities and asset revaluations	178	757	689	273	2,088	665%	664	1,424	114%
Total operating income	16,532	16,405	20,047	26,073	31,483	21%	16,312	15,171	(7%)
Operating expenses	(11,632)	(11,394)	(12,789)	(16,890)	(20,305)	20%	(9,986)	(10,319)	3%
Operating profit before impairments	4,900	5,011	7,258	9,183	11,178	22%	6,326	4,852	(23%)
Impairments	(1,900)	(3,950)	(4,360)	(3,990)	(4,135)	4%	(3,294)	(841)	(74%)
Associates profit	124	54	32	18	0	(100%)	0	0	
VAT recovery	(101)	906	113	0	0		0	0	
Profit before tax	3,023	2,021	3,043	5,211	7,043	35%	3,032	4,011	32%
Income tax expense	(350)	(53)	(234)	(537)	(903)	68%	(493)	(410)	(17%)
Net profit	2,673	1,968	2,809	4,674	6,140	31%	2,539	3,601	42%
Minority interests	0	(33)	(16)	(343)	(852)	148%	(612)	(240)	(61%)
Net attributable profit	2,673	1,935	2,793	4,331	5,288	22%	1,927	3,361	74%
Key ratios									
NIM (NII/average assets)	8.0	5.9	6.2	7.1	7.5				
Cost of risk (CoR, %)	1.2	2.1	2.1	1.5	1.3				
Cost income ratio (%)	70.4	69.5	63.8	64.8	64.5				
RoAE (%)	12.7	8.7	11.8	15.9	16.4				
Loan as % deposits	85.4	88.5	90.4	95.8	92.9				
Tier 1 ratio (%)			15.2	12.2	11.5				
Total capital ratio (%)	16.9	19.1	19.1	15.1	15.9				
Stage 3 loans as % of net loans	3.5	7.2	4.4	4.5	3.6				
Stage 3 loans as % of gross loans	5.7	10.2	7.7	8.8	8.5				
Loans (£'000s)	179,370	193,143	229,251	291,475	362,653				
Equity (£'000s)	22,319	22,435	24,985	29,770	35,984				

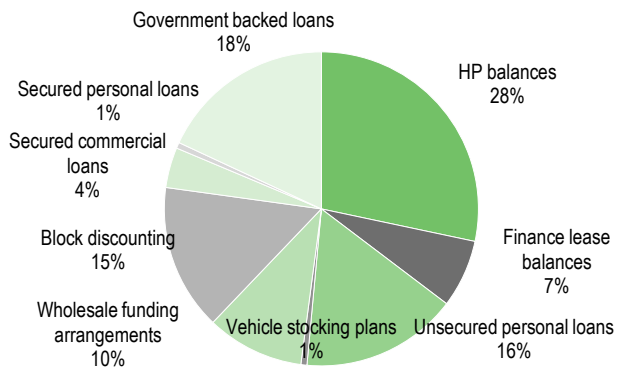
Source: Manx Financial Group

Loan book constituents

The loan mix underwent slight changes between FY22 and FY23, as illustrated in Exhibits 2 and 3. Notably, unsecured personal loans saw their share of the loan book rise from 16% to 23% in FY23, or in absolute terms, from £49.7m to £88.6m, reflecting the exceptional growth in PAL. Both hire purchase balances and secured commercial loans also increased their share of the book by 3%. It is worth mentioning that the group also participated in property-secured lending, accounting for 3% of gross lending in FY23.

Exhibit 2: FY23 gross loans


Source: Manx Financial Group

Exhibit 3: FY22 gross loans


Source: Manx Financial Group

Robust credit quality

Manx has a well-secured book, with the group holding underlying assets as collateral for HP, finance leases, vehicle stocking plans, block discounting, secured commercial and personal loans and wholesale funding arrangements. Exhibit 4 provides an analysis of its credit risk and the level of provisioning.

Loans in FY23 are categorised from A to C, indicating varying levels of risk, with A being the least risky and C posing the highest risk. Out of the total gross loans and advances of £382.3m in FY23, £32.5m were classified as stage 3 and overdue by 30 days, accounting for 8.5% of total gross loans (compared to 9.4% in FY22), signifying an improvement in credit strength. The group maintains strong coverage, with stage 3 impairment provisioning cover at 60% (compared to 55% in FY22). Additionally, collateral held on stage 3 loans amounts to £13.4m, or 41%, resulting in total coverage of 100% (compared to 100% in FY22).

Note, stage 1 loans are not deemed credit impaired with payments up to date to 30 days. Stage 2 loans are not deemed credit-impaired but payments are over 30 days overdue. Stage 3 loans are deemed credit-impaired and payments are more than 90 days overdue. Grade A loans are the lowest risk within each stage, while Grade C are the highest risk.

Exhibit 4: Credit risk analysis

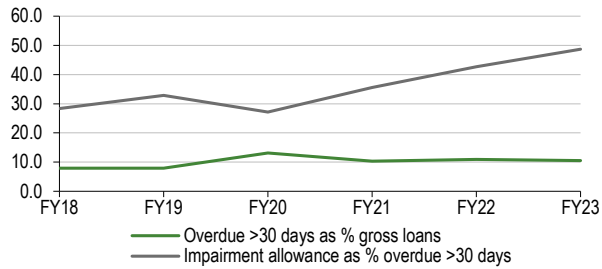
£'000	FY23				FY22			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Grade A	341,953			341,953	273,332			273,332
Grade B		7,822	3,700	11,522		5,006	9,347	14,353
Grade C		2	28,791	28,793	391		19,576	19,967
Allowance for impairment	(184)		(19,425)	(19,609)	(303)	(3)	(15,871)	(16,177)
Carrying value	341,769	7,824	13,066	362,659	273,420	5,003	13,052	291,475
Impairment coverage	0%	0%	60%	5%	0%	0%	55%	5%
Current	333,740			333,740	269,130			269,130
Overdue < 30 days	8,213			8,213	4,593	604		5,197
Overdue > 30 days		7,825	32,490	40,315		4,402	28,923	33,325
Total	341,953	7,825	32,490	382,268	273,723	5,006	28,923	307,652
Collateral			13,410				12,927	
Collateral coverage			41%				45%	
Total impairment and collateral coverage			100%				100%	

Source: Manx Financial Group

Total gross loans overdue by 30 days amount to £40.3m, or 10.5% of total gross loans, slightly lower than the 10.9% in FY22 (refer to Exhibit 5). Additionally, Exhibit 6 demonstrates loans classified as stage 2 and 3 as a percentage of gross loans. These figures remain consistent with

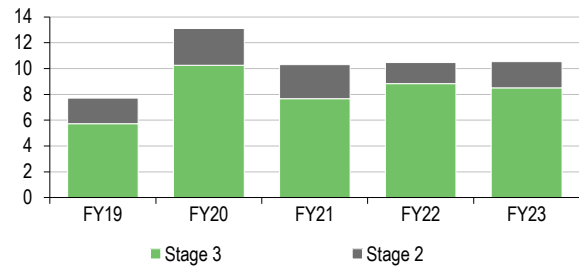
the past three years, with stage 3 showing a slight decrease from FY22. This underscores the quality of the loan book and reflects the credit strength observed in the industry.

Exhibit 5: Overdue loans and impairment allowance



Source: Manx Financial Group

Exhibit 6: Stage 2 and 3 as a percentage of gross loans



Source: Manx Financial Group

Sensitivity: Interest rate risk

Manx, like its peers in the lending sector, faces macroeconomic risks such as fluctuations in GDP growth, interest rates and employment, which can have an impact on loan growth, margins and credit quality. In addition lenders are subject to liquidity risks as deposits and debt financing must be maintained.

In terms of interest risk, Manx maintains a conservative risk profile, characterised by a predominantly fixed-term deposit book that aligns closely with a fixed-term loan book, thereby avoiding significant mismatches. Exhibit 7 illustrates the maturity profile of both assets and liabilities, showcasing a well-matched structure with a short aggregate duration. Notably, in FY23, 45% of assets and 31% of liabilities were subject to repricing within six months, while 58% of assets and 62% of liabilities faced repricing within one year (see Exhibit 8). The cumulative interest rate gap up to one year was +£7m at the end of FY23 compared to -£19.2m the previous year, indicating a broadly neutral sensitivity to shorter-term interest rates but away from being slightly liability sensitive.

Manx closely monitors the sensitivity to an interest rate shock using a methodology aligned with FSA standards. The results of this methodology for FY23 and FY22 are illustrated in Exhibits 9 and 10, respectively.

The modelled sensitivity to an instantaneous 2% increase in interest rates across the curve fell to a negligible -£46,000 in FY23 from +£1.1m at the end of FY22. This has reduced due to a mix shift to shorter-term loans and securities and longer-term deposits. The deposit shift reflects customers' inclination towards high-interest term deposits, with Conister Bank presently offering annual gross rates between 5% and 4.6% on one-to-three-year term deposits.

Likewise, liquidity risk appears modest given the broadly matched maturity profile, liquidity buffer and zero exposure to the interbank lending market.

Management is focusing on treasury management to improve the return on the liability side of the balance sheet as we progress to a more normalised interest and inflation rate environment.

As regards credit quality, a 10% increase in the loan impairment rate would reduce PBT by 5.9% based on the FY23 figures.

Exhibit 7: FY23 exposure to interest rate risk

£'000	Sight-1 month	>1 month – 3 months	>3 months – 6 months	>6 months – 1 year	>1 year – 3 years	>3 years – 5 years	>5 years	Non-interest bearing	Total
Assets									
Cash	12,107								12,107
Debt securities	11,475	28,275	36,379						76,129
Loans and advances	41,574	41,805	42,293	54,800	131,666	49,445	1,070		362,653
Other assets								29,816	29,816
Total assets	65,156	70,080	78,672	54,800	131,666	49,445	1,070	29,816	480,705
Liabilities									
Deposits	29,634	27,084	74,397	118,029	118,434	22,843			390,421
Other liabilities	100	1,000	5,800	5,370	16,160	12,265	162	13,443	54,300
Total equity								35,984	35,984
Total liabilities and equity	29,734	28,084	80,197	123,399	134,594	35,108	162	49,427	480,705
Interest sensitivity gap	35,422	41,996	(1,525)	(68,599)	(2,928)	14,337	908	(19,611)	
Cumulative	35,422	77,418	75,893	7,294	4,366	18,703	19,611		

Source: Manx Financial Group

Exhibit 8: FY22 exposure to interest rate risk

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

Source: Manx Financial Group

Therefore, in the event of rates falling to c 4.75–5.00% by the end of FY24, as anticipated by the market, we would only expect these effects to be relatively subdued. Overall, we anticipate that Manx will perform well in a lower interest rate environment, where the shift to term-funding might reverse to some degree.

Exhibit 9: FY23 interest rate sensitivity of 2% increase (£000s)

	Sight – 1 month	>1 month – 3 months	>3 months – 6 months	>6 months – 1 year	>1 year – 3 years	>3 years – 5 years	>5 years	Non-interest bearing	Total
Interest rate sensitivity gap	35,422	41,996	(1,525)	(68,599)	(2,928)	14,337	908	(19,611)	0
Weighting	0.0	0.003	0.007	0.014	0.027	0.054	0.115		0
Weighted impact	0	126	(11)	(960)	(79)	774	104	0	(46)

Source: Manx Financial Group

Exhibit 10: FY22 interest rate sensitivity of 2% increase (£'000)

	Sight – 1 month	>1 month – 3 months	>3 months – 6 months	>6 months – 1 year	>1 year – 3 years	>3 years – 5 years	>5 years	Non-interest bearing	Total
Interest rate sensitivity gap	35,685	20,646	(18,890)	(56,653)	7,144	26,343	2,861	(17,136)	0
Weighting	0.0	0.003	0.007	0.014	0.027	0.054	0.115		0
Weighted Impact	0	62	(132)	(793)	193	1,423	329	0	1,082

Source: Manx Financial Group

Outlook: What to look forward to

PAL: Self-funding minority buyout likely

PAL has an appealing business model centred on providing customers with the flexibility to manage one-time or larger expenses over relatively short time frames. As a result, its loan portfolio is characterised by short durations and granularity, facilitating early identification of potential issues with individual customers and swift corrective action. With an average loan duration of approximately 10 months, PAL turns its loan book over 1.2 times per year, leveraging attractive one-year funding from Conister Bank. This short-term focus not only streamlines credit management but also enables prompt identification and mitigation of payment issues, enhancing overall risk management.

Since its full consolidation into the group, PAL has emerged as a highly accretive business for Manx. In FY23, PAL contributed significantly to the group's financial performance, generating £4m in interest income from a turnover of £10.8m (FY22: £10.1m). This robust performance translated into an operating profit of £2.7m, a 50% uplift from £1.8m in FY22. Consequently, PAL's contribution to the group's profit after tax climbed to £2.1m, a substantial growth from £0.8m in FY22. Given the group's majority ownership of 50.1% in PAL, it retained £1.1m of the profit after minority interests.

Under the assumption of no further growth, PAL is poised to self-fund the buyout of the 49.9% minority interest. When Manx initially acquired PAL in September 2022 for £4.2m, it secured the option to purchase the remaining 49.9% minority for a variable cash consideration, set at two times the average net profit of PAL, with a cap of £5m by the beginning of 2027. If we consider a scenario where Manx opts to acquire the remaining stake at the maximum price of £5m, PAL essentially pays for itself. With PAL contributing £1.1m to Manx in FY23, and conservatively assuming a consistent performance until end-FY26, we project PAL would generate retained earnings of c £4.8m by the end of FY26, inclusive of its initial four-month contribution since acquisition. This creates capital and funding flexibility for Manx in terms of organic and strategic growth options to further enhance shareholder returns. Notably, within just 16 months, PAL has delivered an impressive return on investment of 33% based on cumulative profit contribution since acquisition.

Conister Bank: UK deposit taking to ramp up in H224

In October 2023, Conister obtained deposit-taking authorisation for its UK branch, marking a significant milestone that opens new avenues for funding growth opportunities. Management foresees the initiation of deposit-taking activities primarily through an online platform in the latter half of 2024. With the acquisition of the UK banking licence, Conister Finance and Leasing will undergo restructuring throughout 2024, consolidating regulated operations under the Conister umbrella. The Basingstoke office will continue to serve as Conister's UK-regulated deposit-taking and lending branch. This expansion into the UK market is expected to act as a catalyst for further growth, enhancing Conister's franchise and complementing its already robust performance.

In FY23, Conister Bank demonstrated significant asset expansion, with total assets climbing to £451.8m from £354.0m in FY22, marking an impressive growth rate of 28%. Deposits also rose by 28% y-o-y to reach £390.4m, showcasing the bank's success in both attracting new deposits and maintaining a high 77% retention rate within its Isle of Man depositors.

Manx consistently upholds a prudent lending strategy, evident in its approach to provisioning. In FY23, the stock of provisions decreased to £9.3m (FY22: £9.6m), representing 2.6% of the net loan book compared to 3.3% in FY22. We note that unsecured consumer loans are written off after 30 days past due and provision coverage of stage 3 loans remained at 100% including collateral. Hence the decline in provisions to loans underscores both management's confidence in the quality of the loan portfolio and the level of collateralisation.

Valuation

In Exhibit 11, we have curated a diverse selection of small and mid-cap UK banks and specialist lenders as a relevant peer group for Manx. Notably, Manx trades above its peers based on 2023 P/E and P/BV metrics. It is important to highlight that we utilise Manx's diluted book value, resulting in a higher P/BV compared to using its undiluted figure. Using the undiluted book value, Manx's P/BV of 0.68x is somewhat above the peer average of 0.52x, yet Manx boasts a superior ROE, double the peer average. Given its relatively high growth trajectory, Manx assumes a conservative payout ratio of 10% and hence offers a lower dividend yield. Nevertheless, the declared dividend per share grew by 21% in 2023. We also note that the historical dividend yields in Exhibit 11 distort the relative dividend yield position as Close Brothers has indicated a zero dividend for the next year and Vanquis has indicated a dividend per share of 'up to' 1p, which would give a yield of 2.1%. Adjusting for these, the peer average yield would be 3.1% instead of the historical yield of 7.4%

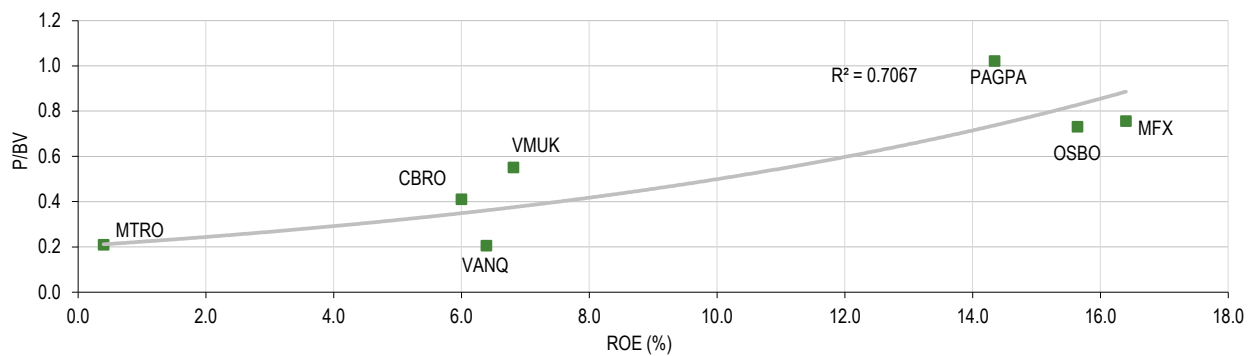
Exhibit 11: Peer comparison table

Company	Ticker	Price (p)	Market cap (£m)	P/E 2023 (x)	P/BV (CY1)	ROE (CY1)	Dividend yield (%)
Close Brothers	CBRO.L	440	664	6.7	0.41	6.0	15.3
Virgin Money	VMUK.L	213	2,767	7.1	0.55	6.8	2.5
OneSavings Bank	OSBO.L	374	1,467	5.0	0.73	15.6	8.6
Metro Bank	MTRO.L	33	219	N/A	0.21	0.4	0.0
Paragon	PAGPA.L	667	1,416	7.7	1.02	14.3	5.6
Vanquis	VANQ.L	48	123	6.7	0.20	6.4	12.5
Manx	MFX.L	21	24	5.8	0.76	16.4	2.2
Average			1,109	3.0	0.52	8.3	7.4

Source: LSEG. Note: Priced at 16 April 2024.

In Exhibit 12, we visually analyse the relationship between ROE and P/BV for all peers, constructing a regression line for comparison. It is worth noting that for Manx, we utilise its diluted book value, while for peers, undiluted values are applied. Our observation indicates that Manx trades slightly below the regression line. To trade closer in line with peer valuations, Manx would need to be trading closer to 0.9x book, implying 19% upside from its current share price.

Exhibit 12: ROE versus P/BV



Source: LSEG. Note: Priced at 16 April 2024.

Exhibit 13: Financial summary

Year-end 31 December	FY19	FY20	FY21	FY22	FY23
£m except where stated					
Profit and loss					
Net interest income	17,929	15,470	17,980	24,352	32,361
Net commission income	(1,630)	384	1,282	1,150	(3,330)
Other income	233	551	785	571	2,452
Total operating income	16,532	16,405	20,047	26,073	31,483
Total operating expenses	(11,632)	(11,394)	(12,789)	(16,890)	(20,305)
Operating profit pre impairments & exceptionals	4,900	5,011	7,258	9,183	11,178
Impairment charges on loans	(1,900)	(3,950)	(4,360)	(3,990)	(4,135)
Associates	124	54	32	18	0
VAT recovery	(101)	906	113	0	0
Operating profit post impairments	3,023	2,021	3,044	5,211	7,043
Non-recurring items	0	0	1	0	0
Profit before tax	3,023	2,021	3,044	5,211	7,043
Corporation Tax	(350)	(53)	(234)	(537)	(903)
Tax rate	12%	3%	8%	10%	13%
Profit after tax	2,673	1,968	2,810	4,674	6,140
Minority interests	0	(33)	(16)	(343)	(852)
Net income attributable to equity shareholders	2,673	1,935	2,794	4,331	5,288
Shares and per share ratios					
Average basic number of shares in issue (m)	131.1	119.0	114.3	114.8	115.3
Average diluted number of shares in issue (m)	172.8	155.5	150.8	153.8	155.7
Period end shares in issue (m)	131.1	114.1	114.3	115.1	116.2
Reported EPS (p)	2.04	1.63	2.44	3.77	4.59
Reported diluted EPS (p)	1.66	1.35	1.96	2.93	3.51
Reported DPS (p)	0.00	0.00	0.24	0.38	0.46
NAV per share (p)	12.2	14.4	15.7	17.7	20.7
Tangible NAV per share (p)	9.4	10.1	10.7	10.7	13.6
Income ratios and per share					
Net interest/average loans	10.9	8.3	8.5	9.4	9.9
Impairments /average loans	1.2	2.1	2.1	1.5	1.3
Cost income ratio	70.4	69.5	63.8	64.8	64.5
Return on average equity	12.7	8.7	11.8	15.9	16.4
Return on average TNAV	16.9	12.3	17.6	28.6	32.6
Balance sheet					
Net customer loans	179,370	193,143	229,251	291,475	362,653
Other assets	73,517	74,818	79,502	87,786	118,052
Total assets	252,887	267,961	308,753	379,261	480,705
Total customer deposits	209,933	218,285	253,459	304,199	390,421
Other liabilities	20,635	27,241	30,309	45,292	54,300
Total liabilities	230,568	245,526	283,768	349,491	444,721
Net assets	22,319	22,435	24,985	29,770	35,984
Minorities	0	84	56	189	1,041
Shareholders' equity	22,319	22,351	24,929	29,581	34,943
Reconciliation of movement in equity					
Opening net assets					
Profit in period	2,673	1,968	2,809	4,674	6,140
Other comprehensive income	(77)	(292)	236	538	318
Ordinary dividends	0	0	(185)	(217)	(342)
Minority changes from subsidiaries	0	(1,560)	(310)	(210)	0
Closing net assets	22,319	22,435	24,985	29,770	35,984
Balance sheet ratios					
Loans as % deposits	85.4	88.5	90.4	95.8	92.9
Loans to equity (x)	8.0	8.6	9.2	9.7	9.8
Stage 3 as % loans	3.5	7.2	4.4	4.5	3.6
Impairments as % stage 3 loans gross	45.3	34.7	47.8	49.2	60.4
Total capital ratio (%)	16.9	19.1	19.1	15.1	15.9

Source: Manx Financial Group, Edison Investment Research

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