CYNERGY BANK LIMITED

ANNUAL REPORT & ACCOUNTS 2019

Empowering business owners

Cynergy Bank

Contents

Empowering business owners, property entrepreneurs and family businesses to achieve their ambitions.

Cynergy Bank wants to create a new way of banking for medium-sized businesses. The owners we work with – heads of family businesses, entrepreneurs – they think and behave differently.

As their businesses grow, they're intensely focused on building and protecting their wealth to empower their futures. They're supporting their families financially, at the same time being conscious of keeping them safe and healthy. They also have a strong sense of community and a desire to contribute.

It's a complex mix of needs and aspirations, with personal and business tending to blend together in their everyday. At Cynergy Bank we get it, and we put those needs at the heart of everything we do, with customer experience front of mind: every interaction should be a delight.

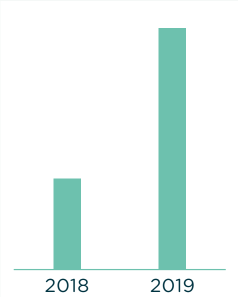
STRATEGIC REPORT

FINANCIAL HIGHLIGHTS

Executive Summary

Profit before tax (PBT)

£16.6m



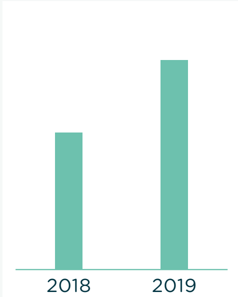
2018: £6.2m

+167%

Strong profit performance, achieving highest in the Bank's history and reflects successful delivery of the 1st year of the strategy.

Underlying PBT

£20.1m



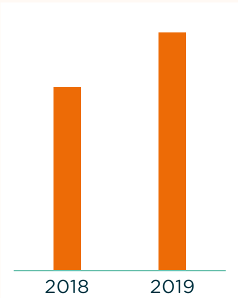
2018: £13.1m

+53%

Underlying profit, adjusting for transformation and management charges, also shows big improvements as a result of Bank growth.

Underlying Return on Equity (RoE)

10.4%



2018: 8.9%

+150bps

Underlying RoE in double digits, positive trajectory to the Bank's longer term ambition with expectations of further RoE growth.

Net lending book

£2.3bn

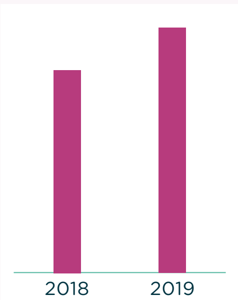
2018: £1.7bn

+£0.6bn

Strong lending growth of over £600m, or 35%, as the Bank breaks through the £2.0bn mark, against the backdrop of uncertain market enviroment.

Net promoter score

+52



2018: +45

+7

Customer NPS improved further over 2018's top quartile result reflecting our continued focus on a great service and putting the customer at the heart of everything we do.

Employee engagement

90%

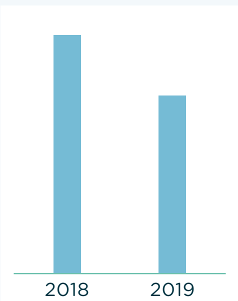
2018: 94%

-4%

For the second year in a row the Bank achieved a market wide high perfoming employee engagement score.

CET1 ratio

13.7%



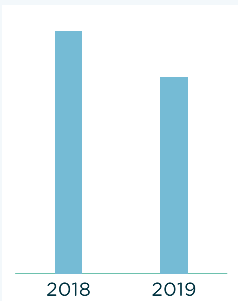
2018: 17.03%

-333bps

CET1 ratio has reduced year on year through effective management of capital injections versus lending requirements.

Asset Quality: NPLs to PLs

0.87%



2018: 1.03%

+16bps

We remain focused on prudent lending, with improving asset quality with reducing proportion of non performing.

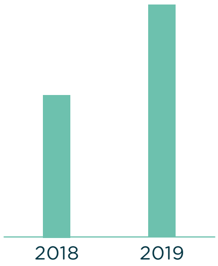
Balance Sheet

Gross new lending

£891m

2018: £545m

+63%

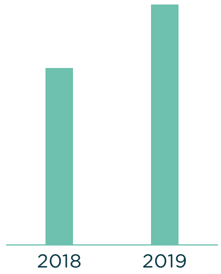


Net lending book

£2.3bn

2018: £1.7bn

+35%



Lending growth was strong despite considerable market uncertainty due to Brexit through 2019.

Gross new lending in 2019 was £891m, reflecting an increase of £346m or +63% on 2018.

Net Lending grew £0.6bn to £2.3bn reflecting 35% growth.

The growth was delivered through the successful launch of our new Private Banking business, whilst also continuing to support both our existing customer base and new customers through our Property business and supplementing our offering through the launch of Bridging and Fixed Term Lending.

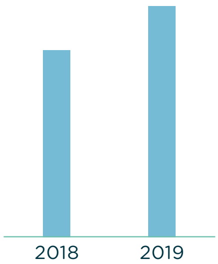
We have delivered on our strategy to achieve new product diversification in the year, but have also increased our geographical presence with investment in the South East, West and the opening of a new office in Edinburgh.

Customer deposits

£2.2bn

2018: £1.8bn

+22%

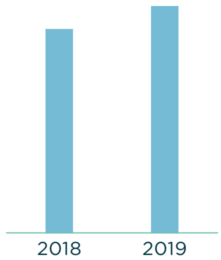


Loan deposit ratio

101%

2018: 95%

+6%



We continue to listen to our customers and develop new products that suit their savings needs, whilst enabling the Bank to be effective in funding its customer lending.

The deposit growth was across our deposit product range, including our new Online Cash ISA launched in Q4 2019 recognised by Moneynet.co.uk as Best Variable Rate ISA 2020.

This was the Bank's first easy access cash ISA applied for and managed exclusively online and saw 1000 applications in just 1 month.

The safety of our depositors is key, which is why the Bank is part of the FSCS deposit guarantee scheme covering 100% of eligible deposits up to £85,000.

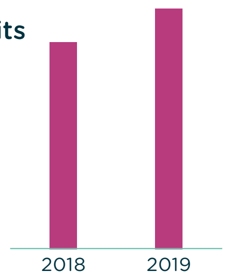
Cost of Retail Deposits has increased 10bps year on year, to 1.13%. This increase was anticipated and reflects the competitive nature of the retail deposit market.

Cost of customer deposits

1.13%

2018: 1.03%

+10bps

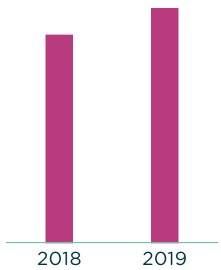


Net interest margin

2.62%

2018: 2.44%

+18bps



The Bank is a participant in a number of Government monetary schemes. This funding, along with our retail deposits, is how we manage our liquidity against our risk appetite, ensuring we never lend more than we borrow.

Net Interest Margin grew 18bps to 2.62%. The growth is a result of:

- ensuring that the Bank returns the right reward for the risk that we are willing to take through pricing discipline
- the benefits of the diversification into new lending products in the year, including Bridging and Fixed Term Lending, whilst
- managing our cost of deposits through careful cash management and utilisation of Bank of England schemes, whilst competitively pricing savings accounts to retain and attract customers.

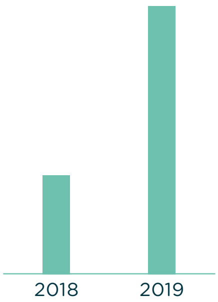
Headline and underlying profitability measures

Headline PBT

£16.6m

2018: £6.2m

+167%

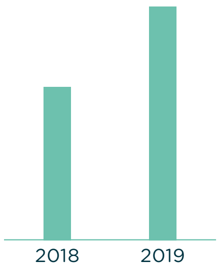


Underlying PBT

£20.1m

2018: £13.1m

+53%



Profit before tax is adjusted so that performance can more readily be compared year on year. This includes investment to support strategic and regulatory projects and the cost of our long term incentive plan.

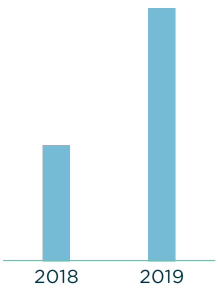
Underlying profit growth has been achieved through supporting our existing and new customers through increased lending, building our balance sheet along with a strong cost culture.

Headline RoE

8.6%

2018: 3.9%

+150bps



Underlying RoE

10.4%

2018: 8.9%

+150bps

Underlying return on equity is reflective of the underlying profit over the same capital base.

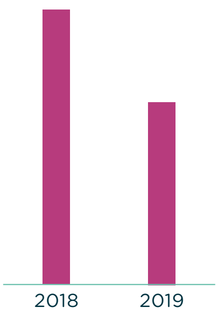
Effective capital management during 2019, when coupled with the increase in profitability, has led to the Bank achieving double digit RoE. The Bank continues to demonstrate prudent lending practices, with an average LTV of 59.1% and a low percentage of non-performing loans (0.87%).

Headline CIR

71%

2018: 87%

-16%



Underlying CIR

65%

2018: 73%

-8%

Cost/Income ratio (CIR) has reduced year on year, albeit remains higher than our longer term strategy.

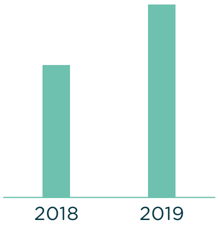
Across 2017 and 2018 the Bank needed to invest in order to build the foundations for a strong balance sheet. In 2019, we were able to focus spend on strategically important areas and to ensure the Bank's safety and security in areas, such as operational resilience and cyber security.

Despite this expenditure, CIR reduced through increasing revenues as the balance sheet builds.

Capital and liquidity ratios

Risk Weighted Assets (RWAs)

£1,144m

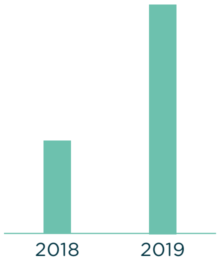


2018: £795m

+44%

CET1 Capital

£157m

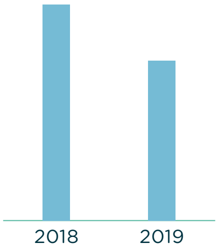


2018: £135m

+16%

CET1 Ratio

13.70%

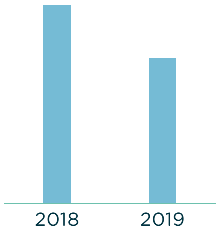


2018: 17.03%

-333bps

Total Capital Ratio

16.29%

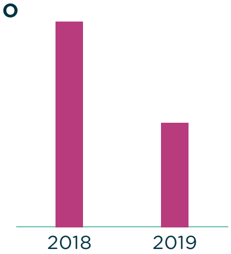


2018: 20.75%

-446bps

Liquidity Coverage Ratio

362%

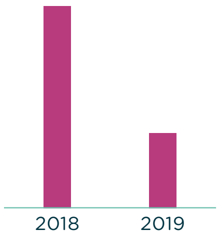


2018: 699%

-337%

Leverage Ratio

6.3%



2018: 6.8%

-50bps

The Bank has a well-established liquidity and capital management infrastructure in place to ensure the Bank is as efficient as possible but always putting our customers' and shareholders' safety first.

The Bank received £15m of capital injections during 2019 which, supplemented with profits, provided the capital required to support the ongoing balance sheet scale, reflective in the RWA and CET1 growth charts.

Our capital ratios reduced year on year due to the Bank becoming more efficient with its capital, balancing the need for capital injections with lending, and also reflects the timing of a capital injection in November 2018 and another injection in February 2019. Capital has remained above its regulatory requirements all year.

Historically the Bank has been highly liquid, inefficiently so; in 2018 this was impacted due to the ongoing sales process, which slowed up the lending profile. Further, over the last couple of years the Bank has improved its cash management processes and improved its funding efficiency.

Reconciliation of reported profit to underlying profit

	2019 Actuals £m	2018 Actuals £m
Reported Profit Before Tax:	**16.6**	**6.2**
– One Off Write Offs	-	1.7
– Operational Investment – Regulatory & Mandatory Costs	 0.7	 3.2
– Strategic Investment – Processes, Systems and People – New Product Investment	 0.6 -	 1.8 0.2
– Long Term Incentive Plan	2.2	-
Underlying Profit Before Tax:	**20.1**	**13.1**

Principal risks and uncertainties

The Bank operates an Enterprise Risk Management Policy and Corporate Governance Policy, establishing a clear risk framework and governance structure to ensure potential risks to the business model and future performance are identified, managed and monitored on an ongoing basis.

During 2019 the Bank aligned to the regulator's Senior Managers and Certification Regime. The principal risks are as follows:

Conduct Risk	The risk that any action by the Bank or an individual that leads to customer detriment, has an adverse effect on market stability or effective market competition

The Bank has introduced a number of policies and frameworks to ensure that conduct risk is managed as a core component of the strategic plans.

Conduct risks and controls are reviewed on a monthly basis by business units and management information from first line risk owners is presented to the Executive Risk Committee on a monthly basis for challenge and review by senior management.

The implementation of the Conduct Risk framework during 2019 included enhancements in monitoring and a thorough review of the Bank's complaints handling and identification of vulnerable customers to ensure we continue to provide services that deliver fair customer outcomes.

A Products and Services Committee was introduced to the Bank's governance structure during 2019 to deliver clear oversight of fair customer outcomes and regulatory compliance associated with implementation, changes and ongoing review of products.

With the cessation of Libor by the end of 2021 the Bank has been monitoring market development during 2019 and has established plans to replace the suite of Libor referenced lending products and transition the legacy GBP Libor referenced portfolio, throughout 2020, to an alternative reference rate appropriate for our customers.

Lending Risk	The risk to earnings and capital arising from a customer's failure to meet the terms of their lending contract or perform as agreed

Property lending: The Bank has continued to grow its balance sheet in the property investment sector over 2019, an area of core competency in the business. This has been done whilst maintaining effective risk management in line with the Bank's appetite. The portfolio's profile has remained low risk, there were no material impairments during the period and improving credit quality of the portfolio over the period is reflected in the provisions charges.

The Bank opened several UK regional offices in 2019 to support its strategic plan to diversify the existing portfolio of assets across the wider UK region and decrease concentration in London and the South East.

The Bank successfully entered the market as a Bridging lender in 2019. The Bridging loan product is aimed primarily at professional property investors, who require short term funding for a specific project and can demonstrate a feasible exit strategy. Close ongoing monitoring during the term of the loan ensures that any emerging risks are identified and managed.

Business & Commercial: The Bank maintains a core portfolio of Small to Medium Enterprises within the owner managed business space. During 2019 this was extended to focusing on offering both long term finance and working capital solutions for SMEs within the Hospitality, Healthcare & Leisure sectors for businesses based in the UK, with the focus reflected in the lending growth for Business and Commercial.

The Bank has an established track record of managing loans and cashflow based lending to owner managed businesses. The additional focus on these sectors remains within the Bank's established risk management processes and experience.

Private Banking: The Bank launched a Private Client offering during 2019 to High Net Worth borrowers who require financing to assist with the purchase of UK property, either as their primary residence or as an investment. All borrowing is subject to our standard credit parameters.

Concentration Risk: The lending portfolio for all business pillars remains significantly concentrated towards London and the South East. The Bank has expanded its geographical footprint by opening offices in Bristol (South West), Manchester (North) and Edinburgh (Scotland), and increasing its presence in Birmingham (Midlands). These strategic decisions are producing reductions in the Bank's concentration risk.

COVID-19: As the pandemic spreads throughout the globe, it has created uncertainty and disruption for the people and businesses everywhere. Inevitably the UK economy is expected to be impacted in different ways and levels. The financial services sector could therefore be adversely impacted as a consequence of deteriorating credit risk portfolios, liquidity shortage and reduced operational capacity. Although Government actions have been announced, these may take time to implement and embed.

The credit portfolio quality could be adversely impacted with a prolonged stress eroding customer affordability (both from a personal and business perspective). Consequently, this could increase the level of defaults and reduce the value of security within our loan book, impacting the Bank's forbearance measures, provisioning levels and write-offs, and resulting in increased capital requirements. We are proactively managing our lending portfolio and monitoring the measures announced by the PRA closely i.e. reducing the countercyclical buffer to 0% and allowing financial institutions to dip into the capital buffers.

Withdrawal from EU: The Bank continues to monitor the economic uncertainty associated with the UK's withdrawal from the EU. The Bank's strategy for 2020 accounts for the expectation of a subdued economic environment that may have an indirect impact on the credit risk of the portfolio.

Financial Risk	The risk that the Bank is unable to generate capital arising from sub-optimal business strategy or implementation of strategic plans
Capital	The risk that the Bank does not hold enough capital to protect its creditors from unexpected losses

Capital resources are assessed through the Bank's ICAAP and frequent stress testing of the Bank's portfolios to ensure adequate capital resources for both business as usual and a stressed environment. The capital ratios are monitored and managed with reporting on a monthly basis to ALCO.

The capital ratios (2019: 13.70% CET1, 16.29% TCR) are outlined above and the Bank has continued to be adequately capitalised throughout 2019, while improving the efficient management of capital resources. Capital resources have remained within the Bank's capital requirements throughout the period. This has been achieved through £15m of CET1 capital investment from the ultimate holding company during 2019 to support lending growth.

Market	The risk of loss arising from unfavourable movements in market prices

The Bank maintains a moderate market risk appetite, with oversight exercised through ALCO, to ensure that interest rate risk in the banking book is managed and monitored to prevent instability of earnings and the net present value of the balance sheet.

This is primarily monitored through the following indicators:

- Earnings at Risk – sensitivity of earnings to a +/- 100bps and to a +/- 60bps change in interest rates over a 12 month period.
- Net Present Value – The maximum impact of the EBA's multiple shock scenario on NPV over a five-year horizon.

Conservative limits are maintained for Foreign Exchange risk to support the FX requirements of our customers and is hedged where necessary to remain within limits.

The Bank does not operate a trading book.

Liquidity	Risk that the Bank does not hold sufficient liquid assets to meet its liabilities

The Bank continues to provide instant access and longer term savings products to the UK retail deposit market.

Liquidity is managed with an internal methodology and in line with the regulatory Liquidity Coverage Ratio (LCR). The LCR has exceeded regulatory requirements throughout the period and the business continues to hold more than adequate liquid assets to meet its liabilities. For further details on liquidity risk management see page 96.

EU withdrawal: The Bank continues to engage with Central Banks where deposits are from EU residents to manage the implications of the UK's withdrawal from the EU and the potential impact on our customers. The Bank primarily operates in the UK retail deposit market, so we do not expect a significant impact to liquidity from the withdrawal process.

COVID-19: As the Bank is funding its operations through retail deposits any possible change in depositor behaviour could have a negative impact on funding, and this has the potential to be more volatile under the current COVID-19 stress. The escalation of this risk is largely mitigated through existing and newly initiated government and central bank schemes, which continue to support market liquidity and of which the Bank is already participating.

Operational Risk	The risk of loss as a result of inadequate or failed internal processes, people, systems or from external events.

The Bank's processes and standards are established through the Operational Risk management framework and are aligned to the Basel Committee on Banking Supervision requirements for sound risk management.

A risk management information system is maintained for monitoring of all the key risks and incidents across the business. These are reassessed at a minimum on an annual basis, as part of risk and control self-assessments by first-line risk owners with input from relevant stakeholders.

The following are key themes throughout 2019:

Information Security and Cyber Risk: The Bank is subject to the ongoing risk of actual or attempted security breaches by increasingly sophisticated actors.

The Bank has invested in its information security controls to ensure that detection and anti-penetration measures remain robust in preventing and mitigating the impact of a security breach of the IT network, while staff members are provided with regular training and information relating to information security.

Vendor Management: The Bank utilises a number of third-party suppliers as part of its operational processes and has enhanced the management and control framework around these suppliers to ensure customers continue to be provided with a quality and resilient service.

Strategy Implementation: The Bank is cognisant of investing in the quality of our people to ensure the right skills are evident to continue delivering the strategic agendas and that change management is delivered in a sustainable way, with oversight of strategic initiatives through the Transformation Committee that reports directly to Exco.

During Q1 2020 the impact of COVID-19 has been felt across the whole economy and has represented a challenge to the financial industry's business continuity planning, with the possibility of negative impacts on employees and operational resilience as a key risk mitigation priority. During 2018/19 the Bank invested in its technology to support arrangements for the majority of staff to work from home as part of its business continuity planning and is in the process of further adapting plans to ensure all staff can safely work from home during this period. The Bank is already operating in line with the guidelines set by regulators and central government, and a significant proportion of the Bank's employees are able to work from home with minimal disruption to our day to day activities. The Bank continues to provide services that are critical to our customers and ensure adequate processes are in place to support customers that are facing a financial impact from these events.

Section 172 statement

A Director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

- the likely consequences of any decision in the long term,
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

As a Board we have always taken decisions in the long term interests of the Bank. The strategy predicated on the latest Central Planning Scenario (reviewed quarterly) takes into account macro-economic conditions derived from a number of independent external sources. Following the strategic review the Board then approves the budget for the year ahead based on those strategic initiatives which are then used for the Board agenda setting.

The Bank undertakes a bi-annual staff survey to understand colleagues' views and engagement and as detailed in the Chairman's statement (page 13) this resulted in an award from Korn Ferry during the year. In addition Board members regularly visit branch and head office staff and attend staff events.

The Executive has a Customer Committee where all issues affecting customers such as complaint analysis, customer experience, customer insights and communications are discussed on a monthly basis. Executive Committee members take it in turn to be the voice of the customer and challenge decisions from a customer standpoint in this committee. The Board also looks at customer interests through regular reviews of key scorecard measures such as NPS and the Board Risk Committee oversees key issues such as the needs of vulnerable customers.

Operational excellence is important to the Bank and is integral to its strategic plan. We work closely with our suppliers and are currently developing our processes to take into account recent consultations/proposals from our regulator in respect of material outsourcing. The Board Risk Committee reviews the performance of suppliers and oversees the risks in the supply chain environment including our Modern Slavery Act responsibilities.

Finally, the Board is very aware of the Bank's responsibilities towards the communities in which the Bank operates and to the environment. Apart from supporting Charitable causes like our current support for the Noah's Ark Children's Hospice we regularly support local initiatives in the Southgate area. The Bank has a "green Forum" and a designated member of the Senior Executive team who heads up this initiative. During the year to January 2020 initiatives by the Bank resulted in recycling of 16,755kg of materials with zero waste to landfill and a saving of 32 tonnes of CO_2.

Further details of our engagement with customers can be found on pages 20-23 and 25-27

Refer to page 24 for details of our employee engagement

Our engagement with our communities is covered in detail on page 30

Chairman's STATEMENT

by Philip Nunnerley

During a challenging 2019, with the market facing ongoing Brexit uncertainty and global economic slowdown, the Bank has performed well, surpassing £2bn of lending. This is an amazing achievement and more importantly, reflects the fact that we are now supporting more customers than ever – helping them to achieve their dreams and ambitions.

Whilst supporting this growth in customer numbers, the Board were delighted with the results of our customer net promoter score (NPS), which grew to +52 in 2019 from +45 in 2018 and is representative of our customer satisfaction with our services.

I continuously evaluate the composition and effectiveness of the Board against a defined set of measures, and take action accordingly, ensuring the Board considers their decisions over the long term. In 2019, we have added to the expertise on the Board, welcoming Michael Newman and Carole Berndt. Mike has joined as the new Chair of the Audit Committee and has a wealth of banking, financial management, audit and regulatory experience having spent 30 years as a senior audit partner with PwC. Carole joined the Board as a Non-Executive Director bringing with her an extensive banking career and has led large transaction banking businesses across the globe.

The Executive Committee was enhanced during the year ensuring we have the right blend of expertise and leadership to deliver the strategy. Ravi Sidhoo, Bernadette Smith, Will Swain and Anita Cunningham all joined in 2019 to support the continued organisational development.

Our financial and customer success could not be achieved without the dedication of our employees and their happiness is important to us. Our staff engagement scores were very pleasing and winning the Korn Ferry engagement award demonstrates how our employees feel about working for the Bank.

The UK market continues to be uncertain whilst we transition out of the EU and navigate through the unprecedented challenges we are all experiencing with COVID-19. Our immediate priority is the wellbeing and safety of our staff. At the same time we are committed to providing support to the many customers impacted by the decisions which the Government intends should control and combat the spread of the virus. None of us have experienced anything like it in peacetime but together we will come through it. Notwithstanding these challenges I am confident that with our loyal customers and engaged workforce we can continue to deliver value for all our stakeholders.

I would like to thank my fellow Directors, the management and staff for their valuable contribution throughout 2019 and the role they have played in supporting customers and helping to position our business for a successful future.

Philip Nunnerley
Chairman

CEO
REVIEW

by Nick Fahy

After a successful first year of Cynergy Bank, I am delighted to say that we are well on our way to achieving our goals to create a new way of banking for medium-sized business owners, family businesses and property entrepreneurs across the UK.

We promise to focus on our customers' needs

We strive to put our customers at the heart of everything we do, and I would sincerely like to thank the many long standing and new customers we have for their trust, their support and their loyalty. Our customers are showing their confidence in our service levels, evidenced by a net promoter score of +52. This is a top quartile score in the banking segment and reflects the quality of our customer service, lending and deposits products. We will continue to challenge ourselves and strive for customer service at its best.

To support our vision to be the best Bank for medium-sized business owners across the UK we have and continue to invest in our geographical and premises footprint, which includes the intent to consolidate our two Charlotte Street office locations into a new location with suitable access to our customers and improved connectivity with our regional hubs, which includes: London, Redhill (South East), Bristol (South West), Birmingham (Midlands), Manchester (North) and Edinburgh (Scotland). With this increased representation and investment, we can deliver certainty, quickly tailoring our approach to meet individual customer needs. We are excited about the opportunity and the expertise we can provide across these key markets.

Delivering strong financial performance

Our Financial highlights demonstrate a step forward in delivering our strategic financial objectives, which is to be a high performing bank with RoE in high teens, a high quality UK loan book of c.£6bn (and LTV <65%) and competitively low cost base (cost income ratio between 40%-50%). In 2019, we achieved an underlying return on equity over 10% (increase on 2018 of 1.4%), having delivered a significant increase in our underlying profitability before tax from £13m in 2018 to £20m.

Lending has grown by 35% year on year despite the uncertainty the entire country has experienced due to Brexit, and economic issues in the wider global economy. Our goal to be the Bank for business owners, family businesses and property entrepreneurs is being crystallised through ongoing lending to our core property customers and through our newly formed private bank, whilst deepening relationships with our business and commercial customers.

Developing our business

Cynergy Bank has three revenue generating businesses, that we continue to invest in, providing innovative blended solutions that meet the key needs of our customers.

Property: provides lending solutions to support wealth creation through property including residential and commercial investment and development finance. In 2019 we increased our offering through the launch of our Bridging product.

Business and Commercial: continued investment in products and services to meet the day-to-day needs of medium business owners, entrepreneurs and professionals, with deepening specialisms in hotels, health care and hospitality. In 2020 we will add new specialist sectors.

Private: in 2019 we launched the new private bank to serve the personal and family finance needs of business owners, including a growing suite of niche mortgage products, and that division introduced three new products in November designed to offer our private banking clients a more bespoke relationship managed service whatever their lending needs.

Digital enablement:

We are investing heavily in digital technology to position the Bank as a digitally enabled relationship Bank.

A high-quality management Team:

We bolstered our senior team with Ravi Sidhoo joining from Coutts to develop and lead our new Private Banking offering, and Will Swain joining from Swinton Group to be our Chief Operating Officer.

Being part of the community:

Community and the environment are important to the Bank, and we have included our environmental strategy in more detail on page 30. Of course I'm pleased with the progress we have made in our first year, undertaking a carbon footprint assessment and already making progress on how our waste is collected and treated, with demonstrable environmental savings.

We are our people:

I've always been a strong believer in fostering the values that underpin everything we do. I am therefore proud that the strength of Cynergy Bank's culture and its focus on its people has been recognised globally – we became one of only eight UK companies to win a Korn Ferry Global Engaged Performance Award.

Our staff are passionate about what they do, and our customers can feel that in every interaction. Our achievements are only possible due to the work of each and every team member at Cynergy Bank and the core values we share - so thank you all.

Looking ahead

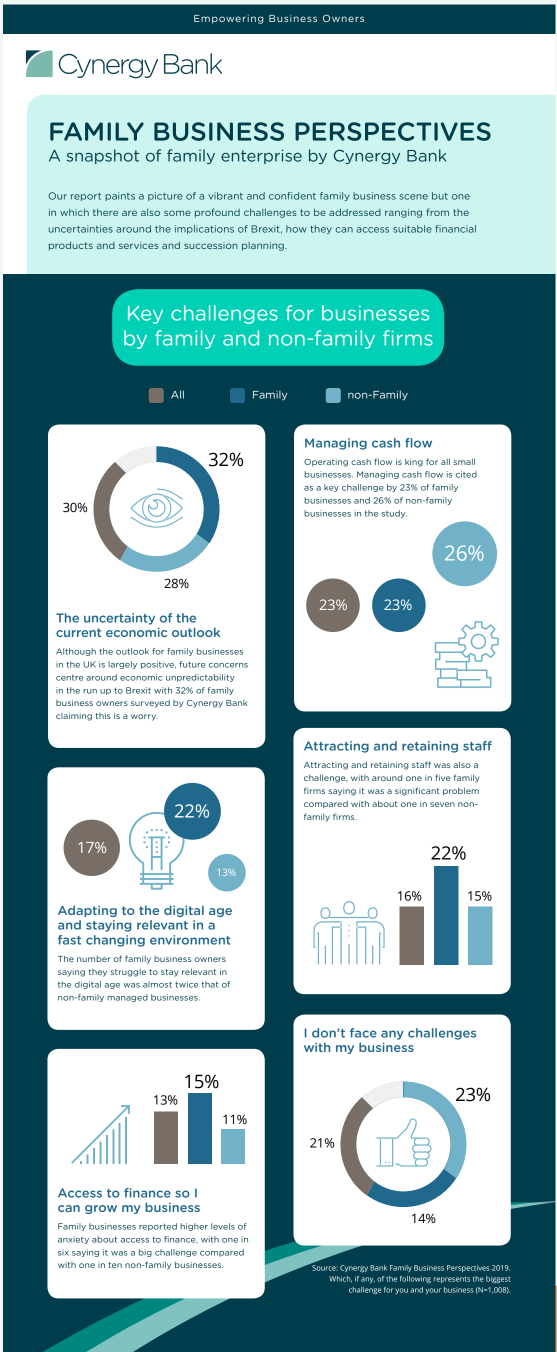
We continue to operate in materially uncertain times, albeit with some clarity after the general election and the resolution of the EU withdrawal bill but with material uncertainty created by the COVID-19 Pandemic.

Our immediate priorities are the wellbeing of our staff and customers and we have put in place extensive support to help our customers through this very challenging time.

In summary, we head into 2020 with confidence in the Bank's strong capital position and our ability to implement our strategy while remaining prudent in our risk appetite and supporting our customers and staff.

On behalf of the Board.

Nick Fahy
Chief Executive Officer



Results of family business study

New initiatives and products

Cynergy Bank '& Daughters' fund launch

Partnering with Women in Banking & Finance

New initiatives and products

OUR VISION

Our vision is to create a new way of banking for business owners, property entrepreneurs and family businesses.

We will foster competition and be an attractive alternative provider in the markets we operate in.

Who we are

Cynergy Bank serves the needs of business owners, entrepreneurs and family businesses. We recognise that professional and personal lives often overlap and our mission is to help empower our customers to achieve their ambitions by serving all their banking needs: be it providing immediate decision making on short term finance needs; attractive returns on savings; personal mortgages or more complicated longer term business lending. We have expanded our reach with offices now in London, Birmingham, Bristol, Redhill, Manchester and Edinburgh.

We are owned by a consortium of investors that are experienced business owners in the UK, focused on retail and medium sized businesses. They have worked together for several years and have a number of successful business interests and investments, in a variety of sectors including retail, wholesale, property and financial services.

Cynergy Bank was established following the acquisition of Bank of Cyprus UK by Cynergy Capital Limited in November 2018. Bank of Cyprus UK provided services to business customers in the UK since 1955.

What makes us unique

We believe the Cynergy Bank model is unique as we focus on a segment that is underserved by traditional banks. We put enduring relationships at the heart of what we do and provide quality products, services and expertise to help our customers manage their interdependent professional and personal financial requirements. We are committed to delivering a comprehensive set of services to meet the evolving needs of our customers and remain a bank focused on customers, people and relationships.

At Cynergy Bank, we understand the power of technology, but still firmly believe in the importance of human to human interactions when it comes to dealing with your bank. Our investment in technology will maintain this balance.

Technology affects every aspect of our lives, making it easier and more convenient to carry out day-to-day tasks – be it how we travel, the ability to work more flexibly or indeed how we interact with our banks. At Cynergy Bank, we have embraced technological advances to improve our service and ensure we have a strong digital offering.

However, it doesn't go unnoticed that technology does have its downsides. Although nearly 2 billion people worldwide use a smartphone, it is no substitute for human contact. That's why we place emphasis on guaranteeing that the more complex matters are dealt with face to face, if that's what the customer wants, by putting them directly in touch with the right team member. We will continue to engage with our customers online and in person. Technology should be used to enhance personal relationships, not replace them.

We believe that our business model can be used to create competition in more markets, and offer family businesses, property entrepreneurs and business owners an attractive alternative.

We remain a bank focused on customers, people and enduring relationships.

OUR BUSINESS

We have a clear purpose at Cynergy Bank, to be the best bank for business owners, property entrepreneurs and family businesses across the UK.

To help us fulfil this vision we continue to work tirelessly to meet our customers' needs. We recognise that as business owners, our customers have a diverse range of needs across their business and personal lives and we differentiate ourselves by offering a blended service to meet these needs:

Property Finance

Lending solutions to support wealth creation. This includes capability to make quick decisions whatever the customer's needs, be it buy-to-let investments, property development loans or bridging finance. We also offer bespoke business and commercial mortgages.

Business & Commercial Banking

Products and services to support growth and meet day to day business needs including: a business current account; a range of savings products; overdrafts; term loans and FX solutions.

Private Banking

Services that support personal and family finance needs; with our recently launched range of high net worth lending products; plus current accounts, personal loans and savings products.

Savings

Allowing customers to grow their savings online with tax-free, fixed rate and easy access options.

OUR PROMISE
TO CUSTOMERS

We also know that how we deliver our service is crucial. That's why we've created our Customer Promises for business owners and savers.

Empowering business owners

- Understand your business – we'll ensure you're always in good hands with accessible, knowledgeable people who understand your needs.
- Relationship driven – our people will work with you to find solutions to meet your evolving business needs.
- Make quick decisions – our people are empowered to make quick decisions that you can rely on.

Empowering savers

- Value and reward – our best deals are always available to our existing customers.
- Safe and Secure – your eligible deposits are protected by the UK's Financial Services Compensation Scheme.
- Direct access – you can get help and access when you need it online 24/7, 365 and from our knowledgeable UK call centre.

OUR **VALUES**

At Cynergy Bank, our core values underpin our culture and set out the type of organisation we want to be. Attracting, developing and retaining the right people is vital to remaining a bank focused on enduring relationships.

Doing the right thing
Acting with integrity and transparency in all our dealings

Putting the customer first
Placing the customer at the heart of our decision making

Embracing change
Taking the initiative, seeking to learn, and welcoming a better way

One team
Achieving success by working together towards a common goal

Being at your best
Contributing to the best of our ability

Our values and behaviours are brought to life via:

- Our performance management processes where we clearly establish for employees the behavioural expectations that support delivery of our values.
- Key metrics that enable executive management and our Board to track performance against each of our core values.

The Board, primarily via its Remuneration, Nominations and Corporate Governance sub-Committee, assess and monitor culture within the Bank by

- Reviewing the results and actions arising from our twice-yearly employee engagement survey which informs the Board on the prevailing culture within the business
- Overseeing our performance management process, to ensure performance assessment is aligned to the overall performance of the business and the behavioural expectations of employees based on the Bank's values
- Promoting the embedding of our desired culture and core values by periodically obtaining external independent assessment of progress, and by supporting our twice yearly 'Being at your best' awards programme that enables employees to nominate, recognise and reward colleagues who are positive role models for our values
- Overseeing progress against our quarterly Culture Dashboard which enables the Board to track performance against a set of high-level performance measures aligned to our core values
- Promoting internal visibility of Board members by rotating venues for meetings and engagement with employees via business unit visits and attendance at social events
- Monitoring the structure, size, composition, diversity and performance of the Board, its Committees and individual Directors; and development and succession planning for Directors and Senior Management Functions within the Company.

OUR **MARKET**

Business owners, entrepreneurs and family businesses are a strategically important market segment that is underserved by banks in the UK.

Entrepreneurs and medium-sized businesses are the backbone of our economy. In the UK an estimated **4.3 million business owners** lead more than **5.9 million small and medium businesses**.

These businesses provide 60% of private sector employment in the UK and roughly half of private sector turnover.

Property entrepreneurs, business owners and family businesses are a key strategic sector for Cynergy Bank, equating to an addressable **total market of around 300,000 UK businesses**.

Key needs of medium-sized business owners

We specifically serve business owners, property entrepreneurs and family businesses. So we understand their unique and diverse financial needs.

Build and protect wealth

I'm a property professional and need quick decisions.

I invest in property to create wealth; protection is also important.

I enjoy supporting my community economically and socially.

I want to connect with other entrepreneurs.

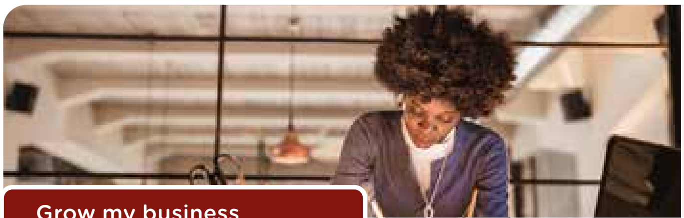
Support my community

Support family financially

I support my family's finance needs such as our house, our cars, day-to-day expenses and holidays.

I want my family and I to feel financially secure and have the time and space to enjoy the benefits of our hard work.

Maintain health and wellbeing



Grow my business

I need financial and business support to help me grow my business.

Business Model

Cynergy Bank is a specialist bank serving the blended financial needs of medium business owners, property entrepreneurs and family businesses.

We deliver on our business model through our customer promises:

- Understanding our customers business – we ensure customers are always in good hands with accessible, knowledgeable people who understand their needs.
- Relationship driven – our people will work with our customers to find innovative solutions to meet their evolving business needs.
- Quick decisions – our people are empowered to make quick decisions that our customers can rely on.

Our aim is to be the best bank for business owners in the UK.

HOW WE CREATE **VALUE**

Case study: Ringley Group

20 years ago, co-founders of Ringley Group, Mary-Anne Bowring and husband Mehdi Mehra were on a mission to build their business. They approached a number of high-street banks who looked at their business and Cynergy Bank saw the potential.

At the time Ringley Group was providing management services to leaseholders, and Bank of Cyprus UK (as we were known then) had already been working with Mary-Anne and Mehdi as their business bank; but the couple had high hopes of expanding their offering to include a more comprehensive range of property solutions.

We were the first bank to view Ringley Group's assets as a whole and to see the potential in the business. We welcomed the opportunity to deepen our working relationship and what developed from that point is a long and truly diverse partnership across a range of projects.

Helping grow the Ringley business

With an approved credit line from Bank of Cyprus UK, Ringley Group was able to acquire a number of assets including their current business premises in Camden Town; and invest £2m in disruptive technology.

"It's very expensive to grow a business and having an approved credit line is a crucial part of the journey," Mary-Anne explains. "Some banks seem to focus on a specific asset or view us as a number; Cynergy Bank saw the bigger picture."

Ringley Group is now a multi-disciplined property solutions provider split into six businesses led by managing director Mary-Anne and chairman Mehdi. Services include surveys, valuations, legals, property and facilities management, sales and lettings. It provides a living for more than 300 families, from the staff in their London head office to more than 2,000 contractors in the supply chain up and down the country.

According to Mary-Anne, "Every entrepreneur likes to think that they've done it themselves, but not one of them could do it without financial backing. It's as simple as that. When we've worked on projects with Cynergy Bank, it's been a partnership all the way."

Businesses sharing similar values

Ringley Group's relationship with Cynergy Bank has thrived because both companies put people first, and see the value in improving the lives of those within their influence. "Both parties have got to share a vision, otherwise you wouldn't choose to be partners in the first place," Mary-Anne says.

Cynergy Bank understands how blended an entrepreneur's business becomes with their personal life and their family. "Your business is your life," Mary-Anne says.

For Ringley Group, trust is important – knowing that their financial partners will stick with them through the obstacles, when projects get tricky. There has to be an emotional commitment, as well as the obvious financial one.

As Mary-Anne says, "You have to be prepared to be open and honest in the partnership. You also have to be brave enough to give your mobile phone number to somebody and trust they will only ring you at midnight if they really need to!".

20 years and the relationship is as strong as ever

Cynergy Bank, have been there to help guide Mary-Anne and the Ringley Group at various stages along a 20-year journey, always with a deep understanding of what the business has been trying to achieve. "A proper working relationship means you're entwined with people's lives and their business," she says. "Cynergy Bank really know our business, we're certainly not a number to them," she says.

And there has to be the right level of human interaction as well. "It's very difficult when everybody wants to do everything digitally," she says. "You really have to know when humans need humans. Automation is all well and good, but it can never replace a relationship."

"Every entrepreneur likes to think that they've done it themselves, but not one of them could do it without financial backing. It's as simple as that.

When we've worked on projects with Cynergy Bank, it's been a partnership all the way"

RINGLEY GROUP

HOW WE GIVE BACK

Community and the environment are important for our customers, and for us too

Where we can we will:

- Minimise any adverse environmental impact of our operations.
- Invest in programmes and partnerships which bring sustainable improvements to the communities we live and work in.
- Be fair and responsible in our dealings with customers, our partners and other associates.

When we contribute to charities and local initiatives it helps us keep true to our values and encourages our staff to engage with their communities.

Green Forum

Our environmental impact aims in 2019 were as follows:

i. To achieve a 20% reduction in paper use

ii. To reduce carbon output by 10% during the same period (with a view to becoming carbon neutral by the end of 2020)

iii. To ensure that none of our waste goes to landfill

iv. To consider any available opportunities to achieve environmental accreditation

We completed a carbon footprint assessment which gave us a 2018 baseline against which to measure our future progress on carbon reduction.

That made us a "Carbon Assessed" organisation.

Our second carbon assessment showed a drop in the amount of CO^2 generated from 566 tonnes in 2018 to 286 tonnes in 2019 – a reduction of just over 50%.

This makes us a "Carbon Reduced" organisation.

All our waste is now collected by a recycling company and anything that cannot be recycled is incinerated to produce energy. Absolutely none of our waste goes to landfill.

We have also changed electricity supply to a 100% renewable energy provider. This began in October 2019 and will lead to a further reduction to our carbon footprint.

We are now working towards ISO14001, which is a very significant level of environmental accreditation. We hope to achieve that by the end of 2020.

Recent upgrading of our printing systems will also allow us to achieve large reductions in paper use.

In terms of direct impact:

- 16,755kg of materials were recycled
- 197 trees saved
- Zero to landfill waste
- 13,000kg of waste turned into 10,590kWh of energy
- 32 tonnes of CO2 saved
- 3,939kg waste used to create gas

Noah's Ark Children's Hospice

This is our flagship charity for 2019/20, chosen by our employees. Noah's Ark Children's Hospice is a community-based hospice service that gives clinical, practical and emotional support to babies, children and young people with life-limiting or life-threatening conditions in the North and Central London area. It also supports their families.

Schools Artwork Project

We work with the art departments of local state schools, using our public and office space as a gallery for the talents of their GCSE students. We organise the framing and display of students' works and then invite teachers, parents, carers and students to an annual reception to celebrate their work.

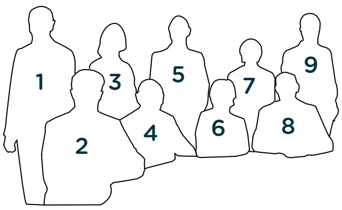
Helping Hands

Every Cynergy Bank employee gets two days paid leave each year to support charities and those in need. It's their choice - they can sort donations at a local charity shop, help out in local schools, present a friendly face at a neighbourhood care home, or assist people cooking lunches for the homeless.

Give as you Earn

Through Charities Aid Foundation we match employees' donations to charities that are close to their hearts.

Governance Structure
Board of Directors



Philip Nunnerley, Chairman 4

Appointed a Non-Executive Director in 2012 and became Chairman in 2015

Prior to retiring in 2006 Philip spent nearly 40 years at Lloyds Bank where he held numerous senior roles, latterly Director of People Development. In retirement he has held a number of appointments in the charitable and voluntary sector, as well as acting as a consultant at the Bank of England. Philip is currently also a Non-Executive Director of DB UK Bank (a Deutsche Bank subsidiary), Deutsche Trustee Company, and Deutsche Bank International.

Philip is a Fellow of the Institute of Financial Services and has an Economics degree from the University of Kent.

Nick Fahy, Chief Executive 2

Appointed to the Board in January 2016

Nick has been CEO of Cynergy Bank since December 2015. He oversaw the acquisition of Bank of Cyprus UK by Cynergy Capital Limited in November 2018, and its rebrand to Cynergy Bank in December 2018. The acquisition forms part of ambitious plans for the future of Cynergy Bank, enabling the bank to grow its franchise across enterprising business owners and savers in the UK.

Nick joined Cynergy Bank from the Westpac Banking Corporation where he had been State General Manager for the bank's retail and business banking operation in Western Australia. Prior to Westpac, he spent 17 years with Bank of Ireland Group in a variety of leadership roles, including Chief Operating Officer for Bank of Ireland's retail banking operation in the UK and Ireland, Managing Director for Northern Ireland; and Managing Director for the Bank's UK-wide financial services operation with the Post Office.

Francesca Hampton, Chief Financial Officer 3

Appointed to the Board in September 2017

Francesca joined the Bank as Chief Financial Officer in September 2016. She is a Chartered Accountant and specialised in Corporate Finance and Mergers and Acquisitions activity on qualifying. She spent 19 years at RBS in various Finance positions including CFO of Lombard, RBS Invoice Finance and RBS Global Transaction Services. Having left RBS to join challenger banking she undertook roles as Commercial Finance Director at Co-op Bank and Finance Director at Metro Bank.

Pradip K Dhamecha, Non-Executive Director 9

Appointed to the Board in September 2018 following the acquisition of the Bank by Cynergy Capital.

Pradip is the CEO of Dhamecha Group, Cash & Carry Food Wholesalers, serving some 10,000 independent retailers in the London and the Midlands area. He is responsible for the strategy and overall performance of the Dhamecha family business.

Pradip was awarded an OBE in June 2018 for services to exports, economic growth and philanthropy.

Bal Sohal, Non-Executive Director 5

Appointed to the Board in September 2018 following the acquisition of the Bank by Cynergy Capital.

Bal is an accomplished investor in the hospitality and real estate sectors both in the UK and overseas. Bal has been involved with complex real estate transactions and has extensive experience in deal structuring, financing and successfully monetising projects. Bal is an entrepreneur and has a depth of experience in the residential, commercial development and financial markets.

Euan Hamilton, Senior Independent Non-Executive Director, Chair of Remuneration, Nominations & Corporate Governance Committee 1

Appointed to the Board in March 2016.

Euan was Director, Restructuring & Recoveries with Bank of Cyprus Group. Before joining Bank of Cyprus, Euan held a range of senior executive roles with RBS including Deputy CEO of the Bank's Non-Core Division, and Global Head of its Sponsor Coverage and Leveraged Finance businesses. Euan is a Fellow of the Chartered Institute of Bankers in Scotland.

Kim Rebecchi, Independent Non-Executive Director, Chair of Risk Committee 6

Appointed to the Board in July 2017

Kim worked at Leeds Building Society for 28 years, most recently as the Sales and Marketing Director and an Executive member of the Board. She holds the Financial Times Non-Executive Diploma and is also a Director of Business and Enterprise Finance Ltd (a subsidiary of West and North Yorkshire Chamber of Commerce), Furness Building Society and Redmayne Bentley, Investment Managers. Kim is an active Rotarian and is involved in supporting local, national and international charities and good causes. Kim is a Fellow of the Chartered Institute of Bankers and she holds a post graduate diploma in financial services.

Mike Newman, Independent Non-Executive Director. Chair of Audit Committee 8

Appointed to the Board in September 2019

Mike has a wealth of banking, financial management, audit and regulatory experience having spent 30 years as a senior audit partner with PwC.

During his career he has worked with large UK and US banks as well as a variety of UK based building societies and banks, motor finance, asset finance and private banking businesses. Mike is a Fellow of the Institute of Chartered Accountants and is currently also a Non-Executive Director of SG Kleinwort Hambros Bank, the UK private bank of Societe General.

Carole Berndt, Independent Non-Executive Director 7

Appointed to the Board in October 2019

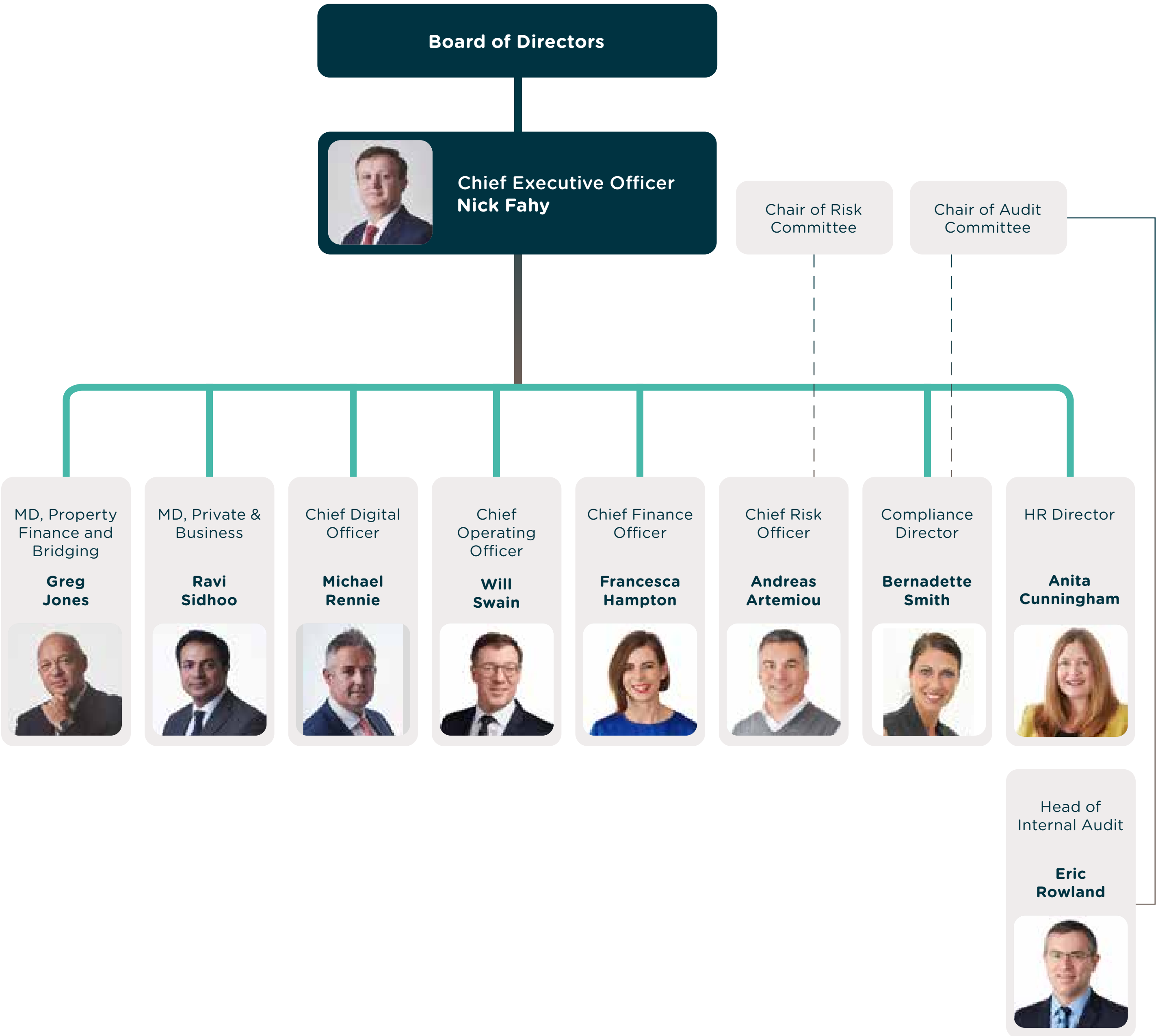
Carole has an extensive banking career and has led large transaction banking businesses across the globe including at ANZ in Hong Kong, RBS and Bank of America Merrill Lynch in London, and Citigroup in New York.

The nature of transaction banking means that Carole brings a great understanding of technology, digital change, operations and control environments to her role. Carole has an MBA in International Business.

* Note: All appointments prior to November 2018 would have been made to the Board of Bank of Cyprus UK Limited, prior to its change of ownership and rebrand to Cynergy Bank Limited.

Governance Structure

Executive Committee and Senior Management



Directors' report

The Directors present their report and financial statements for the year ended 31 December 2019.

Principal activity

The principal activity of the Bank is business and personal banking.

Financial results

The results of the Bank for the year ended 31 December 2019 are set out in the income statement on page 50, showing profit after tax of £13,519k. The Directors endorse the information and views set out in the Chairman's statement and Chief Executive Officer's review and strategic report.

Going concern

In preparing the Going Concern statement, we took into account all information of which we were aware about the future, which was at least, but not limited to, 12 months from the date that the balance sheet was signed. Consideration was given to the following: the change in ownership, the conduct programme, capital, the current economic environment and the uncertainties being faced in view of COVID-19, and the projected operating performance of the Bank. The Directors are satisfied that the Bank is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

The Directors are satisfied that the capital and liquidity positions of the Bank more than meet regulatory requirements and are adequate for the foreseeable future.

A statement of responsibilities of the Directors in relation to the financial statements is shown on page 39.

Capital

The Bank has complied in full with all its externally imposed capital requirements over the period reported.

Liquidity

The Bank manages liquidity with an internal methodology which fully meets and exceeds the regulatory Liquidity Coverage Ratio (LCR) measure. During 2019 the Bank fully met all its regulatory liquidity requirements including the LCR and Net Stable Funding Ratio (NSFR).

Dividends

The Bank paid a dividend of £299,999 in 2019 (2018: nil).

Future developments

A new strategic plan to 2023 was approved by the Board in November 2019. 2020 will demonstrate ongoing investment in the organisation across processes, people and systems to provide strength in depth, and resilience to any headwinds, and finally further growth in lending across the three key lending pillars, delivering on the diversification and growth strategy.

Events after the reporting period

In January 2020, the Bank issued 9,000,000 ordinary shares at their par value of £1 each to its parent company, with a total value of £9,000,000.

On 11th March 2020 it was announced that the scheduled reduction in Corporation Tax to 17% from 1 April 2020 was not to come into effect. The impact of this change will be an increase in deferred tax liability of £126k.

Directors' report

Since the balance sheet date, COVID-19 has introduced uncertainty in the market and will impact the Bank in 2020. The Directors are unable to reliably quantify the financial impact at this stage.

There are no other events after the reporting period that require disclosure in these financial statements.

Financial instruments

The Bank, where appropriate, uses interest rate swaps to hedge against interest rate risk and foreign exchange contracts to hedge against foreign exchange rate risk. Details of financial instruments are provided in note 16 of the financial statements.

Human resources

The Bank employed an average of 246 permanent employees during 2019. (2018: 242). During the year, the Bank invested £187,477 (2018: £161,487) in staff development.

Board of Directors

Full details of the Board of Directors are shown on pages 31 and 32. Since 1 January 2019 the following changes have taken place:

Name of Director	Date of appointment	Date of resignation
Michael Newman	27 September 2019	
Carole Berndt	24 October 2019	
David Green		31 March 2019
Jean Stevenson		30 September 2019

Directors and their interests

Other than the two Directors who are also Directors of the parent company and whose interests are disclosed in that company's financial statements, no Director has had any beneficial interest in the share capital of the Bank or the subsidiary company at any time during the year. No option to purchase shares in the Bank has been granted to any Director.

Disclosure of information to the auditors

So far as each person who was a Director at the date of this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Bank's auditor, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

Ernst & Young LLP resigned as auditors of the Bank in June 2019. PricewaterhouseCoopers LLP was appointed as auditors in July 2019. The Bank is a private limited company and under the Companies Act 2006 is not required to appoint auditors annually.

Corporate governance and risk management

The Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

Board of Directors

The Board of Directors has ultimate responsibility for the prudent management of the Bank and oversight of senior management. Its terms of reference include:

- Establishing a sustainable business model and a clear strategy consistent with that model
- Reviewing, challenging and approving strategic plans (and their underlying assumptions and rationale) and annual budgets after review by Bank senior management
- Ensuring the adoption and maintenance of high standards of corporate governance
- Ensuring that management maintains an appropriate system of internal controls which provides assurance of effective operations, internal financial controls and compliance with the rules and regulations
- Setting corporate values and standards, with due regard to treating customers fairly and ethical leadership

The Chair is an Independent Non-Executive Director. Members of the Board of Directors are appointed by the Board on the recommendation of the Remuneration, Nominations and Corporate Governance Committee and subject to approval by the Shareholder. External search consultants are generally used for the appointment of the Chair and Non-Executive Directors. During the year under review, Odgers Berndtson were used for the two Board appointments.

The Board of Directors has delegated a number of its responsibilities to three Board committees. These are:

Audit Committee

The Audit Committee is responsible for ensuring the integrity of the Bank's financial statements and any other announcements on financial performance. Its terms of reference include:

- Reviewing the adequacy of provisions for expected credit losses and other provisions
- Monitoring the effectiveness of the Bank's internal quality control and risk management systems and its internal audit
- Reviewing whistleblowing arrangements
- Receiving and considering internal audit reports and approving the internal audit plan
- Ensuring the effectiveness, performance and independence of the internal audit function and the external audit process
- Appointing the external auditors and approving their remuneration
- Ensuring compliance with applicable legal and regulatory requirements

Risk Committee

The Risk Committee advises the Board on the Bank's current and future risk appetite and assists the Board in overseeing the implementation of strategy. Its terms of reference include:

- Reviewing internal control systems
- Monitoring regulatory compliance and important regulatory correspondence
- Reviewing the adequacy of capital and liquidity in the light of the results of stress testing
- Challenging executives on major decisions involving risk management and risk-taking
- Ensuring that the Bank's risk profile and risk appetite remain appropriate
- Reviewing the Bank's Resolution and Recovery Plan

Remuneration, Nominations and Corporate Governance Committee

The Remuneration, Nominations and Corporate Governance Committee makes recommendations for senior appointments, oversees succession planning and monitors corporate governance arrangements. Its terms of reference include:

- Recommending appointments to the Board and the Executive Committee
- Reviewing corporate governance arrangements and making appropriate recommendations to the Board of Directors
- Monitoring the composition of the Board of Directors to ensure that a broad set of skills and experience are represented and that there is a strong independent element on the Board
- Agreeing targets for appropriate gender balance on the Board
- Ensuring that Directors have sufficient time to perform their duties effectively
- Ensuring that there are adequate resources for the induction and training of members of the Board
- In performing its duties, and to the extent possible, taking account of the need to ensure that the Board's decision-making is not dominated by any one individual or small group of individuals
- Overseeing the annual performance evaluation of the Board and its sub-committees, including annual assessment of the effectiveness of the Chair and individual Executive and Non-Executive Directors
- Reviewing the Nomination process in relation to the appointment of senior management and making recommendations to the Board, where necessary

Board Credit Committee

The Board Credit Committee is responsible for considering any policy exceptions over £10m in total connection exposure and approval of any lending proposals that are outside of the Bank's Risk Appetite Statement. The committee meets as required.

At executive level, risks are overseen and managed by a number of committees.

The main risk is credit risk, which is the risk that customers will be unable to repay their borrowings and will fail to perform under their contractual commitments. Credit risk is managed through credit policies, credit approval procedures and controls and analysis in relation to quality, sector and geographical area. The risk is monitored at executive level by the Executive Committee, which meets monthly.

Liquidity, cash flow and market risks are monitored at executive level by the Asset & Liability Committee, which meets monthly.

Systems risk, including risk relating to IT security, is monitored by the Executive Committee and by specialist sub-committees reporting into the Executive Committee.

The People Committee, which meets at least quarterly, monitors resources risk in terms of our people and succession planning.

The Executive Risk Committee's responsibility includes managing all risks, aligning risk tolerance to risk appetite, and monitoring exposures to risk limits.

More information on risk management is set out in note 30 of the financial statements.

Subsidiary

The Bank is the immediate owner of 100% of the shares of a UK company, Bank of Cyprus Financial Services Limited (BOCFS), a previously appointed representative of Legal & General Partnership Services Limited. Until 30th September 2017 BOCFS sold insurance and protection products of Legal & General. BOCFS ceased to trade on 30 September 2018.

Charitable donations

During 2019 the Bank made charitable donations totalling £6,533 (2018: £5,110).

Political donations

During 2019 the Bank did not make any political donations (2018: £nil).

Third party indemnity provisions for the benefit of Directors

The Bank has taken out Directors' and Officers' liability insurance.

On behalf of the Board

Paul Jordan
Company Secretary

*The "Nominations and Corporate Governance Committee" and the "Human Resources and Remuneration Committee" merged into the "Remuneration, Nominations & Corporate Governance Committee" on 28 March 2019.

Directors’ responsibilities in respect of the financial statements

The Directors are responsible for preparing the strategic report, the Directors’ report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs), as adopted in the EU, and applicable law. Under company law 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 Bank and of the profit or loss of the Bank for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IFRS and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the Bank has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank’s transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board considers that the financial statements have been prepared in a way as to ensure they are fair and balanced and are clear and understandable to a reader. They include all information necessary to assess the Bank’s financial position, business model and strategy. The Board is able to confirm its statement having consulted with the Audit Committee who had undertaken a detailed assessment of the financial statements.

Corporate information

Directors

Philip Nunnerley[3] – *Chairman*
Nick Fahy[4] – *Chief Executive Officer, Executive Director*
Euan Hamilton[1, 2, 3] – *Independent Non-Executive Director and Chair of the Remuneration, Nominations and Corporate Governance Committee*
Kim Rebecchi[1, 2, 3] – *Independent Non-Executive Director and Chair of the Risk Committee*
Francesca Hampton[4] – *Chief Financial Officer, Executive Director*
Pradip Dhamecha[3], OBE – *Non-Executive Director*
Balbinder Sohal[3] – *Non-Executive Director*
Michael Newman[1, 2] – Independent Non-Executive Director and Chair of the Audit Committee – appointed 27 September 2019
Carole Berndt[1] – Independent Non-Executive Director – appointed 24 October 2019

Other senior executives

Andreas Artemiou[4] – *Chief Risk Officer*
Michael Rennie[4] – *Chief Digital Officer*
Greg Jones[4] – *Managing Director, Property Finance and Bridging*
Ravi Sidhoo[4] – *Managing Director, Private and Business Banking*
Anita Cunningham[4] – *HR Director – appointed November 2019*
Bernadette Smith[4] – *Compliance Director – appointed March 2019*
Will Swain[4] – *Chief Operating Officer – appointed April 2019*

1 Member of the Audit Committee
2 Member of the Risk Committee
3 Member of the Remuneration, Nominations and Corporate Governance Committee
4 Member of the Executive Committee

Company secretary

Paul Jordan

Independent auditor

Ernst & Young LLP – resigned June 2019
25 Churchill Place
London E14 5EY

PricewaterhouseCoopers LLP – appointed July 2019
7 More London Riverside
London SE1 2RT

Registered office

27-31 Charlotte Street, London W1T 1RP

Locations

Central London
27-31 Charlotte Street, London W1T 1RP
&
48 Charlotte Street, London W1T 2NS

North London
PO Box 17484, 87 Chase Side, London N14 5WH

Redhill
Floor 6 Kingsgate, 62 High Street, Redhill RH1 1SH

Birmingham
123 Parade, Sutton Coldfield B72 1PU

North
3 Hardman Square, Spinningfields, Manchester M3 3EB

South West
10 Victoria Street, Bristol BS1 6BN

Scotland
Inigo Business Centre, Forth House, 2nd floor, 28 Rutland Square, Edinburgh EH1 2BW

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Registered in England and Wales under company number 04728421

www.cynergybank.co.uk

Independent auditors' report to the members of Cynergy Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cynergy Bank Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement and statement of comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 12 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall materiality: £1,665,500, based on 1% of net assets.

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment of the operations of the company, and other qualitative factors including consideration of the risks associated with a first-year audit.
- We performed audit procedures over all material balances of the company.

- Recognition of revenue on loans and advances;
- Impairment of loans and advances to customers;
- Privileged access to IT systems; and
- The company's response to Coronavirus ('COVID-19').

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified the principal risks of non-compliance with laws and regulations related to breaches of banking regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries in order to manipulate financial information, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management and internal audit, to determine whether there are any instances of known or suspected non-compliance with laws and regulation and fraud;
- Review of internal audit and compliance monitoring findings throughout the year;
- Reading key correspondence with regulatory authorities such as the Financial Conduct Authority and the Prudential Regulation Authority in relation to the company's compliance with banking regulations;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of loans and advances and revenue recognition from the EIR adjustment (see related key audit matters below); and
- Identifying and testing journal entries, in particular any journal entries posted by senior management, journals whose description indicate a higher level of risk, and journals with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Recognition of revenue on loans and advances The company's accounting policy is outlined on pages 57 and 58. Management's significant assumptions and estimates are set out on page 73. The company recognises interest income using the effective interest rate method which spreads interest and directly attributable cash flows, the most significant of which relate to loan arrangement fees and upfront cost of new lending, over the loans' expected lives. The expected life assumption utilises the behavioural life of the loans and advances to which the fees relate. Management uses two different models based upon the date of loan originations to determine the behavioural life of the loans.	We have obtained an understanding of the end to end lending process, including the Effective Interest Rate (EIR) methodology. We evaluated the design and implementation of the key controls around the identification of upfront costs and fees and determination of their treatment, tested the accuracy of the effective interest calculation, and the determination and approval of the assumptions used in the estimation of the behavioural lives of loans and advances. We performed substantive testing and assessed the application of judgement to the treatment of effective interest rate accounting for fees and costs, including; • The identification of fees and costs which are directly attributable to the lending; • The estimation of behavioural lives of the loans, over

which those amounts are spread; and

- The effective interest rate method used.

We tested key data inputs and assumptions to supporting documentation, and stressed the estimates applied, to assess whether they were appropriate.

A number of exceptions were identified in our testing. These have been discussed with management and addressed to our satisfaction.

Based on the work performed, we found the methodology, judgements and estimates used to be appropriate and materially compliant with the requirements of IFRS 9.

Impairment of loans and advances to customers

The company's accounting policy is outlined on pages 64 to 69. Management's significant assumptions and estimates are set out on page 72.

The methodology used by the company to determine expected credit losses ("ECLs") requires a number of important assumptions and judgements to be made. Those of most significance included the following:

- The judgements made by management in determining the probability of default ('PD') and loss given default ('LGD');
- The 'staging' thresholds selected by management to determine a significant increase in credit risk and hence whether a 12 month or lifetime loss provision is recorded;
- The application of probability weighted forward looking information and multiple economic scenarios used in the models;
- The measurement of ECL on stage 3 loans; and
- The completeness and ongoing appropriateness of post model adjustments ('PMAs') to address data and model limitations or emerging risks not captured by existing models.

We evaluated and tested key model monitoring controls and controls covering the identification of credit impairment events. We identified exceptions in our testing and therefore we could not place reliance on certain controls for the purposes of our audit.

We performed the following substantive audit procedures in order to assess the performance of the ECL models implemented and the appropriateness of management's key judgements and estimates in the context of the economic environment and our wider industry experience.

We engaged the support of credit modelling specialists in the substantive procedures set out below.

PD and LGD rates

• We critically assessed the methodology applied in the impairment models, to evaluate whether the methodology was compliant with IFRS 9 requirements, and tested key assumptions and judgements made by management in determining the PDs and LGDs used in the calculation of provisions.

Staging

• To test the application of management's 'staging' thresholds, we performed substantive procedures including selecting samples of loans and advances, forming our own judgements of stage allocation and comparing these to management's conclusions.

Measurement of ECL on Stage 3 loans

For a sample of Stage 3 credit impaired loans, we:

• Critically evaluated the basis on which the provision was determined, and the evidence supporting the analysis performed by management; and

• Independently assessed whether the key assumptions used, such as the recovery strategies, expected cashflows, collateral rights and valuations and ranges of potential outcomes, were appropriate, given the borrower's circumstances.

Forward looking information and multiple economic scenarios

• We assessed the reasonableness of the forward looking information used by management in the impairment model, by comparing the forward looking assumptions to publicly available forecasts, including those published by the Bank of England.

• We assessed the reasonableness of management's probability weights applied to the economic scenarios in the calculation of impairment and considered whether the scenarios and probability weights appeared reasonable.

We tested the accuracy of critical data inputs used by the impairment models on a sample basis to supporting documentation.

We considered the completeness of post model adjustments to take account of known model limitations or latent risks using our industry expertise. We assessed the rationale for those used by management, and tested them to underlying evidence.

A number of exceptions were identified in our testing. These have been assessed with management and addressed to our satisfaction.

Based on our procedures, we found the assumptions and judgements used by management in their impairment estimate to be reasonable, and the financial statement disclosures to be materially compliant with the requirements of IFRS 9.

Privileged access to IT systems

The company's financial reporting processes are reliant on automated processes, controls and data managed by IT systems.

For the purposes of our audit, we evaluated the design and implementation of those automated and IT dependent controls that support the in-scope financial statement line items.

As part of our audit work, we identified exceptions in relation to the management of access to IT platforms supporting applications in-scope for financial reporting. While there is work being performed by management to address such control matters, the fact that these were open during the period meant there was a risk that automated functionality, reports and data from the systems were not reliable.

We evaluated the design and implementation of those key controls identified that manage access to the IT systems relevant to our audit work. Specifically, we tested controls over:

- The completeness and accuracy of the inventory of privileged accounts;
- The management of IT privileged accounts (including static IT privileged accounts), and monitoring of privileged accounts activity; and
- The approval, recertification and timely removal of access from IT systems.

As part of our work, we identified a number of exceptions. Consequently, we extended our testing in those areas related to significant audit risks, or where we identified a higher risk of material fraud or error, including the following:

- Increased testing of interest income and expenses recognised during the year;
- Increased testing of reconciling items relating to bank account reconciliations;
- Increased testing of risk based manual journals;
- Increased testing over the application of payments to customer accounts.

In performing the procedures noted above, no exceptions were identified.

The company's response to Coronavirus ('COVID-19')

Management has assessed the impact of COVID-19 on the entity on pages 10 and 11 and 34 and 35.

There is a global pandemic of COVID-19 which, subsequent to the year end, has taken hold in the UK where the Bank operates. This has been disruptive to financial markets and normal patterns of human behaviour. This is anticipated to translate into an adverse impact on the global economy. In response, the UK and other governments, and the Bank of England, have announced measures, such as lowering the base rate and countercyclical buffer, designed to ameliorate resulting adverse impacts on the economy.

The directors have specifically considered the impact on the financial statements, including the post balance sheet event disclosures and its impact on their going concern assessment through evaluating the impact on the company's capital and liquidity position.

The directors have concluded that the matter is a non-

We critically assessed the directors' conclusions that the matter be treated as a non-adjusting post balance sheet event and that the impact cannot be reliably estimated at this stage. We considered:

- The timing and development of the outbreak across the world;
- The timing and nature, in particular, of UK government advice to UK citizens; and
- How the financial statements might be impacted by the aforementioned disruption and the complexity in measuring such impacts.

In assessing the directors' going concern assessment, we evaluated whether it considered impacts arising from COVID-19. Our procedures in this respect included:

- Evaluating management's assessment of the impact of COVID-19 on the company's capital and liquidity position,

adjusting post balance sheet event, the financial effect of which cannot be reliably estimated at this stage.	and operating plans, and challenged key assumptions made to supporting evidence; • Substantiating the company's liquid assets held at the Bank of England, and its ability to access Bank of England liquidity facilities. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

All of the company's activities are administered in the UK. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment of the operations of the company, and other qualitative factors including consideration of the risks associated with a first-year audit. We performed audit procedures over all material account balances and financial information of the company, with reference to the materiality level set out below.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,665,500
How we determined it	1% of net assets.
Rationale for benchmark applied	The company is a wholly owned subsidiary of Cynergy Capital Limited. The principal stakeholders include the shareholders and directors of the parent company who have their equity invested, and regulators who would be focussed on the adequacy of regulatory capital resources. In addition, the company is in a developing stage under new ownership, investing in growth of the business. Accordingly, we concluded that net assets is the more relevant measure when assessing the performance of the company, as this reflects the current position of the company, and is an accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £83,250 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 39, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

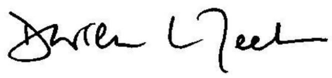
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 5 July 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.



Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 April 2020

FINANCIAL STATEMENTS

Contents

Income statement and statement of comprehensive income

For the year ended 31 December 2019	Notes	2019 £000	2018 £000
Interest income calculated using the effective interest method	5	**78,051**	63,667
Other interest and similar income	5	**4,407**	3,565
Interest expense calculated using the effective interest method	6	**(26,348)**	(21,565)
Net interest income		**56,110**	45,667
Fee and commission income	7	**2,364**	2,433
Foreign exchange gains	8	**424**	285
Fair value gain on derivative instruments	9	**100**	211
Total operating income		**58,998**	48,596
Staff costs	10	**(26,015)**	(22,221)
Depreciation, amortisation and impairment	11	**(1,274)**	(3,382)
Other operating expenses	12	**(14,846)**	(16,613)
Total operating expense before conduct and legal provision		**(42,135)**	(42,216)
Provision for customer redress	24	**-**	-
Profit before credit loss expense on financial assets		**16,863**	6,380
Credit loss on financial assets	13	**(292)**	(223)
Profit before tax		**16,571**	6,157
Income tax expense	14	**(3,052)**	(1,557)
Profit after tax		**13,519**	4,600
Other comprehensive income not to be reclassified to profit or loss:			
Revaluation of own properties	21	**1,024**	-
Income tax relating to own properties	14	**105**	(83)
Total comprehensive profit for the period attributable to the equity holders		**14,648**	4,517

The notes on pages 55 to 111 form an integral part of these financial statements.

Statement of financial position

As at 31 December 2019	Notes	2019 £000	2018 £000
Assets			
Cash and balances with central banks	15	**111,754**	196,454
Placements with banks	15	**63,265**	55,538
Loans and advances to customers	17	**2,264,381**	1,668,923
Other assets	18	**6,270**	17,433
Intangible assets	19	**9,804**	1,010
Right of use assets	20	**87**	-
Property and equipment	21	**7,514**	15,652
Assets classified as held-for-sale	21	**8,819**	-
Investment in subsidiary	31	**10**	10
Total assets		**2,471,904**	1,955,020
Liabilities			
Customer deposits	22	**2,227,678**	1,762,654
Bank deposits	23	**25,063**	240
Provision for customer redress	24	**1,164**	12,221
Lease liabilities	20	**110**	-
Other liabilities	25	**21,610**	13,050
Subordinated loan	26	**29,629**	29,524
Total liabilities		**2,305,254**	1,817,689
Equity			
Share capital	27	**146,000**	131,000
Revaluation reserve		**2,435**	1,306
Accumulated profits		**18,215**	5,025
Total equity		**166,650**	137,331
Total liabilities and equity		**2,471,904**	1,955,020

The notes on pages 55 to 111 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20th April 2020 and were signed on its behalf by:

Nick Fahy
Chief Executive Officer

Company number 04728421

Statement of changes in equity

For the year ended 31 December 2019	2019				2018
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total £000	Total £000
1 January	**131,000**	**1,306**	**5,025**	**137,331**	112,718
Impact of adopting IFRS 9	-	-	-	-	98
Impact of adopting IFRS 16 (Note 20)	-	-	**(29)**	**(29)**	-
Restated opening balance under IFRS 16 and IFRS 9	**131,000**	**1,306**	**4,996**	**137,302**	112,814
Dividend to Cynergy Capital Ltd	-	-	**(300)**	**(300)**	-
Profit for the year after tax	-	-	**13,519**	**13,519**	4,600
Other comprehensive income	-	**1,129**	-	**1,129**	(83)
Issue of share capital (Note 27)	**15,000**	-	-	**15,000**	20,000
31 December	**146,000**	**2,435**	**18,215**	**166,650**	137,331

*Property revaluation reserve

The notes on pages 55 to 111 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2019	2019 £000	2018 £000
Operating activities		
Profit before tax	**16,571**	6,157
Adjustments for:		
Provisions for credit loss on financial assets	**292**	223
Depreciation of property and equipment	**773**	1,036
Amortisation of intangible assets	**501**	643
Impairment of fixed assets	**-**	1,703
Interest on subordinated loan	**2,400**	2,500
Lease interest	**8**	-
Amortisation of issuance costs relating to subordinated loan	**105**	100
Tax paid	**(2,087)**	(1,613)
Foreign exchange gains	**(424)**	(285)
Changes in operating assets		
Increase in mandatory deposits with central bank	**(1,081)**	(1,621)
Increase in loans and advances to customers	**(595,750)**	(261,849)
Decrease in other assets	**10,869**	18,440
Increase in accrued income and prepaid expenses	**(602)**	(328)
Changes in operating liabilities		
Increase in customer deposits	**489,847**	105,920
Decrease in other liabilities and provision for customer redress	**(8,240)**	(29,349)
Increase in accrued expenses	**2,908**	1,024
Net cash flow used in operating activities	**(83,910)**	(157,299)
Investing activities		
Purchase of property and equipment	**(387)**	(1,281)
Purchase of intangible assets	**(8,400)**	(1,366)
Proceeds of sale of investment	**-**	390
Net cash flow used in investing activities	**(8,787)**	(2,257)
Financing activities		
Decrease in subordinated loan	**-**	(43)
Proceeds from issuance of new share capital	**15,000**	20,000
Interest paid on subordinated loan	**-**	-
Capital repayment from finance lease obligations	**(58)**	-
Dividend paid	**(300)**	-
Net cash flow from financing activities	**14,642**	19,957
Net decrease in cash and cash equivalents for the year	**(78,055)**	(139,599)

Statement of cash flows – continued

For the year ended 31 December 2019	2019 £000	2018 £000
Cash and cash equivalents (see note 15)		
1 January	**249,310**	388,909
Net decrease in cash and cash equivalents for the year	**(78,055)**	(139,599)
31 December	**171,255**	249,310
Operational cash flows from interest		
Interest paid	**23,879**	19,034
Interest received	**78,086**	63,633

Refer to notes 15 and 25 for disclosures of cash and cash equivalents and changes in liabilities arising from financing activities respectively. The notes on pages 55 to 111 form an integral part of these financial statements.

Notes to the financial statements

1 Corporate information

Cynergy Bank Limited (the Bank) is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

The Bank is wholly owned by Cynergy Capital Ltd, the Parent in which the financial statements of the Bank are consolidated. The Parent is incorporated in England and Wales and its consolidated financial statements may be obtained from www.gov.uk/government/organisations/companies-house.

The Bank has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because the Bank and its subsidiary are included in the consolidated financial statements of the Parent company, Cynergy Capital Ltd, which are publicly available. These financial statements have been prepared on a standalone basis. Also, as an intermediate parent, the Bank is exempt from preparing consolidated financial statements under IFRS 10. The accounting policies used by the Bank that are relevant to an understanding of the financial statements are stated in note 3.

2 Basis of preparation

These standalone financial statements, including the accounting policies, are prepared on a going concern basis and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and interpretations as issued by the IFRS Interpretations Committee of the IASB and adopted by the European Union (EU) (together IFRS). They have been prepared on a historical cost basis, except for land and buildings classified as property, shared based transaction liabilities and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Statement of compliance

The standalone financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and the requirements of the Companies Act 2006.

Presentation of financial statements

The financial statements are presented in sterling, which is the Bank's functional and presentational currency. All values are rounded to the nearest thousand, except where otherwise indicated.

The Bank presents its balance sheet broadly in order of decreasing liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in note 30.

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis and to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Foreign currency translation

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting currency rate of exchange ruling at the balance sheet date. All differences are taken to 'Foreign exchange gains' in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in Other Comprehensive Income (OCI) or profit or loss are also recognised in OCI or profit or loss, respectively).

3 Accounting policies

3.1 Accounting standards and interpretations adopted during the period

The Bank has adopted for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not effective / adopted by the EU.

The nature of each new standard or amendment is described below:

3.1.1 IFRS 16 Leases

The Bank leases various offices. Rental contracts are typically made for fixed periods of either 1 year or up to 20 years. The Bank has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis. The lease terms do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the present value of fixed lease payments. The lease payments are discounted using the incremental borrowing rate, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The interest rate implicit in the lease cannot be readily determined.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. A termination option is included within the present property lease. In determining the lease term, management considers all facts and circumstances which may lead to the exercising of the termination option. The right-of-use asset is therefore depreciated over the expected lease term through to termination.

While the Bank revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment, motor vehicle leases and small items of office equipment and furniture.

The Bank had to change its accounting policies as a result of adopting IFRS16. The Bank elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 20. No lease assets or liabilities were previously recognised under IAS17. The impact of IFRS 16 as at 1 January 2019 increased right-of-use assets by £129,964, lease liabilities by £160,027, and reduced retained earnings by £30,063.

The following practical expedients have been applied at adoption:

- initial direct costs have been excluded;
- short term leases have been excluded.

There were no other standards or interpretations relevant to the Bank's operations which were adopted during the period.

3.2 New accounting standards and interpretations issued by the IASB but not yet adopted by the EU

There have been no new standards or interpretations issued, but not yet adopted, that are mandatory for 31 December 2019 reporting periods, up to the date of issuance of the Bank's financial statements which are relevant to its operations or are expected to have a material effect on the Bank.

Included below are standards and amendments which are being considered for future reporting periods which have not been applied in preparing these financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments'

The Directors do not expect that the adoption of the Standards or amendments listed above will have a material impact on the financial statements of the Bank in future periods.

3.3 Segmental information

The Bank operates in the United Kingdom in one principal activity, namely business and personal banking.

3.4 Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest income

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at fair value through profit or loss (FVPL). Interest income on interest bearing financial assets measured at fair value through other comprehensive income (FVOCI) under IFRS 9, is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Fee and commission income integral to the effective interest rate

Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees and early redemption fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR.

Banking fees and commissions

Revenue from banking fees and commissions are measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer.

The nature, timing of satisfaction of performance obligations and significant payment terms of products and services are set out in the below table: .

Nature of good or service	Timing of Recognition	Timing of billing & payment	Geographical region
Service fees for current accounts	Monthly	Quarterly	UK
Service fees for Debit / Credit cards	At point of delivery	At point of delivery	UK
Services fees for handling payments	At point of delivery	At point of delivery	UK
Service fees for credit Administration	At point of delivery	At point of delivery	UK
Ad hoc fees	Monthly or at point of delivery	At point of delivery or periodic	UK

3.5 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses. Detailed disclosures are provided in Note 24.

3.6 Taxation

Taxation on income is provided in accordance with fiscal regulations and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date which will give rise to taxable amounts in future periods.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

3.7 Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

Measurement categories of financial assets and liabilities

The Bank classifies its financial assets at inception into three measurement categories; amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL):

- Amortised Cost: Assets that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest ('SPPI') and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by an expected credit loss allowance recognised and measured as described in 3.10. Interest income from these financial assets is included in 'Interest income' using the effective interest method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instruments' amortised cost which are recognised in the profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of the hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Total operating income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held-for-trading, in which case they are presented separately in 'Net Investment Income'. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

The Bank classifies and measures its derivative portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held-for-trading and derivative instruments or the fair value designation is applied.

3.8 Financial assets and liabilities

Cash and balances with central banks, Placements with banks, Placements with/by related entities, Loans and advances to customers, Customer deposits and Subordinated loan at amortised cost

The Bank only measures Cash and balances with central banks, Placements with banks, Placements with / by related entities, Loans and advances to customers, Customer deposits and Subordinated loan at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

i) Business model assessment

The Bank's business model is relatively homogenous, and is determined by the Board set strategy which ensures that its core capabilities are leveraged to provide solutions that meet the key needs of medium-segment business owners. The products being offered must be able to achieve its business objective, and this business model has not changed in the last 12 months. All financial assets are measured at amortised cost with a view to collect contractual cash flows. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Further:

- The performance of the business model and the assets held on the Bank's balance sheet are tightly evaluated at origination and undergo a structured review cycle and monitoring. They are reported to the Bank's key management personnel through the appropriate committee and escalation framework to ensure that early intervention can be taken where necessary;
- Aligned to the Bank's defined risk appetite Lending Risk is a core risk and the Board defines core risk appetite thresholds which must be reported on a monthly basis for its oversight;
- At an operational level the risk appetite metrics are supported by a more comprehensive suite of working level key risk indicators, which report on the broader performance of the Bank's portfolio providing trend analysis and book segmentation to identify and consequently manage emerging risks;
- The Bank ensures that its personnel are compensated in a manner that does not promote poor practice or unfair customer outcomes;
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that differs from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets as part of its forward business model.

ii) The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium / discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than '*de minimis*' exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL.

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variables, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying');
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors;
- It is settled at a future date.

The Bank enters into derivative transactions with one counterparty. These include interest rate swaps, futures and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fully collateralised derivatives that are settled net in cash on a regular basis through HSBC are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 16. Changes in the fair value of derivatives are included in 'Total operating income' unless hedge accounting is applied. Hedge accounting disclosures are provided in Notes 9 and 16.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variables, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held-for-trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

From 1 January 2018, with the introduction of IFRS 9, the Bank accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments. Embedded derivatives are not separated from financial assets.

Financial assets or financial liabilities held-for-trading

The Bank classifies financial assets or financial liabilities as held-for-trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in 'Total operating income'. Interest and dividend income or expense is recorded in 'Total operating income' according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

Debt instruments at FVOCI

The Bank applies the category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 3.10. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held-for-trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

When establishing the accounting treatment for financial instruments with equity conversion rights, write-down and call options, the Bank first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument, other than the equity component (such as an equity conversion option), is included in the liability component. Once the Bank has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held-for-trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;

Or

- The liabilities are part of a group of financial liabilities (or financial assets), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;

Or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount / premium and qualifying transaction costs being an integral part of the instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rates. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 28. The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in note 28. The Bank occasionally issues loan commitments at below market interest rates at drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

3.9 Derecognition of financial assets and liabilities

IFRS 9 incorporates the requirements of IAS 39 for derecognition of financial assets and financial liabilities without substantive amendments. However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognise any gain or loss in profit or loss on modification of financial liabilities and non-distressed financial assets that do not lead to derecognition.

3.10 Impairment of financial assets

The impairment of financial assets under IFRS 9 is based on an expected credit loss (ECL) model which replaces the previous incurred loss methodology under IAS 39 and is the area where IFRS 9 has the most significant impact. IFRS 9 requires a 12 month (Stage 1) ECL calculation where financial assets have not experienced a significant increase in credit risk since origination; and a lifetime ECL calculation where it has been demonstrated that there has been a significant increase in credit risk (Stage 2 and 3). The lifetime ECL calculation is further refined into separate stages depending on whether the financial asset is credit-impaired or not. The area of IFRS 9's impairment criteria where the greatest judgment is required relates to when financial assets display a significant deterioration in credit quality since initial recognition and subsequently move from a 12 month ECL calculation (Stage 1) to a non-credit-impaired lifetime ECL calculation (Stage 2).

i) Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, including loan commitments in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12m ECL) as outlined in Note 30. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 30.

The 12m ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12m ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

ii) The Calculation of ECLs

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- *Probability of Default (PD)*: The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.
- *Exposure at Default (EAD)*: The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 30.
- *Loss Given Default (LGD)*: The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 30.

When estimating the ECLs, the Bank considers three scenarios: mild upside, baseline and downside ('downside 1'). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 30. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. The maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12m ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- Loan commitments: When estimating LTECLs for loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at the expected EIR on the loan.

- Overdrafts: The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products. The interest rate used to discount the ECLs for overdrafts is based on the average EIR that is expected to be charged over the life of the instrument.

iii) Forward looking information

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information using key economic variables which impact on the credit risk and credit losses of the lending portfolio.

The variables of the Bank's economic modelling are deployed to forecast the PD, LGD and EAD across different scenarios and the Bank partners with market leader in global forecasting and quantitative analysis to ensure that the quarterly updates made to its economic inputs are aligned to market best practice estimates. Due to the relative homogeneity of the Bank's portfolio as a property lender it is able to use three scenarios to model the Bank's lending book 'base', 'mild upside', and 'downside'.

Base: At YE 2019 the economics from the base scenario was forecasting a weak outlook for the UK by historical standards with risks skewed to the downside. This flowed from the continued uncertainty surrounding Brexit and an increasing probability of a 'no deal' outcome at the end of 2020.

Mild Upside: The mild upside scenario can be thought of as an alternative base case in which the cyclical momentum in demand in the UK and other economies is stronger than currently thought, reflecting in part improved business, household and investor sentiment and more buoyant global trade. The benign probability of default and loss given default mean that loan losses are likely to remain well below long run averages.

Downside: The downside scenario assumes the UK enters recession during 2020 precipitated by lower interest rates and increased unemployment. This forces more sellers into the residential property market, which results in a fall on UK property prices.

The weightings assigned to each economic scenario at 31 December 2019 were as follows:

Base	Mild Upside	Downside
40%	30%	30%

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Central Bank base rates;
- House price indices.

The most significant period-end assumptions used for the ECL estimate as at 1 January 2019 are provided below.

		2019	2020	2021	2022	2023
Interest Rate (% Year End)	Base	0.8	0.7	1.0	1.2	1.5
	Mild Upside	0.8	1.1	1.6	2.0	2.3
	Downside	0.8	0.3	0.3	0.5	0.8
Unemployment (% Year Average)	Base	3.8	3.8	3.7	3.7	3.6
	Mild Upside	3.8	3.7	3.3	3.3	3.2
	Downside	3.8	4.5	5.3	6.0	6.0
House Price Index (% YoY Change)	Base	1.1	2.0	2.5	3.1	3.4
	Mild Upside	1.1	7.0	5.6	8.4	3.1
	Downside	1.1	-7.1	-6.5	-4.0	4.0
UK GDP (Year Average)	Base	1.3	1.0	1.9	1.7	1.5
	Mild Upside	1.3	2.0	3.1	3.0	1.8
	Downside	1.3	-0.4	-0.1	0.3	1.1

For comparison the ECL derived by applying a 100% weighting to each of the economic scenarios is:

Base (100%)	Mild Upside (100%)	Downside (100%)
4,344	4,145	4,763

A moderate change in house prices, as our most sensitive model input, would not have a significant impact on the ECL. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are material.

3.11 Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral where possible. The collateral comes in various forms, such as real estate, cash, securities, letters of credit / guarantees, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on professional valuations.

3.12 Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

3.13 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 30. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contract that is more than 30 days past due.

3.14 Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event or events have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Individual impairment

For loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists.

The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral. There is objective evidence that a loan is impaired when it is probable that the Bank will not be able to collect all amounts due according to the original contract terms.

Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults or a decline in the value of collateral.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. To assess the future cash flows from tangible collateral in the form of land and buildings the Bank obtains up to date professional advice on the sale value.

Future cash flows are based upon prudent assumptions about the value of the property representing the underlying security, costs that might be incurred in realising the value in the property and the time it takes to repossess and sell properties. The property value is updated at regular intervals to ensure the Bank has a good understanding of the change in the market value of the property held as collateral.

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income' as interest income from impaired loans and advances.

The present value of the estimated future cash flows is calculated using the loan's original EIR. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

Collective impairment

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets included in the collective impairment calculation are those which are individually assessed for impairment for which no impairment loss is recognised, as well as those not individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors. Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Changes after recognition of impairment

Loans are monitored continuously and are reviewed for impairment at each reporting period. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected on a timely basis, the previously recognised impairment loss is reduced by adjusting the impairment provision account.

3.15 Funding for Lending Scheme ('FLS')

The Bank is a participant in the FLS which enables it to borrow highly liquid UK Treasury Bills in exchange for eligible collateral. The Treasury Bills issued are for an original maturity of nine months and if delivered back prior to their maturity date can be exchanged for further nine month Bills. Costs of borrowing are charged directly to the Income Statement. The Treasury Bills are not recorded on the Bank's balance sheet as ownership remains with the Bank of England. The risk and rewards of the collateral provided remains with the Bank and continues to be recognised in the Bank's financial statements.

3.16 Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition. Placements by related entities which are repayable on demand and form an integral part of the Bank's cash management are also included as a component of cash and cash equivalents for the purposes of the Statement of cash flows.

3.17 Property and equipment

Property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out on a three-year cycle by independent qualified valuers on the basis of current market values. Management reassesses the carrying amount to ensure that it does not differ materially from the fair value at the end of each intervening reporting period. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

Computer hardware and furniture and equipment are carried at cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to acquisition.

Property and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. The recoverable amount is the higher of (i) the asset's fair value less costs to sell and (ii) the asset's value in use.

Depreciation of buildings and equipment is calculated on a straight line basis over the estimated useful life, as follows: buildings 30 years, computer equipment 5 years, furniture and fixtures 10 years. Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains or losses on the disposal of property and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

3.18 Non-current assets held-for-sale

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale rather than continued use and a sale is deemed to be highly probable. They are measured at the lower of their carrying value and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held-for-sale.

Non-current assets classified as held-for-sale are presented separately from the other assets in the statement of financial position.

3.19 Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Accumulated amortisation on intangible assets is included within depreciation, amortisation and impairment within the income statement.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

Intangible assets are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

- Computer software – 3 years;
- Core application software – 10 years;
- Core deposits systems – 5 years.

3.20 Employee benefits

3.20.1 Retirement benefits

The Bank operates a defined contribution pension plan in the UK. The cost of providing retirement pensions is charged to the profit and loss account at the amount of the defined contributions payable for each year. Differences between contributions payable and those actually paid are shown as accruals or prepayments.

3.20.2 Share-based payments

The Bank provides share-based compensation benefits to employees via the Executive Long Term Incentive Plan (LTIP). Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions. The fair value of awards granted is recognised as an expense, with a corresponding liability. The total amount to be expensed is determined by reference to the fair value of the awards granted including any market performance conditions, excluding the impact of any service and non-market performance conditions, and including the impact of any non-vesting conditions. The Bank also estimates the number of awards that are expected to vest based on the non-market service and performance conditions. The total expense is recognised over the vesting period. At the end of each financial period, the Bank revises its estimate of fair value as well as its estimate of the number of awards that are expected to vest. The impact of these revisions is recognised in the profit and loss, with a corresponding adjustment to the liability.

4 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires the Bank's management to make judgments, estimates and assumptions that can have a material impact on the amounts recognised in the financial statements. The accounting policies that are critical to the Bank's results and financial position in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgment including the use of estimates and assumptions are set out below.

Critical judgments

There have been no critical judgments needed in the preparation of the financial information.

Significant estimates

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

Estimates and management assumptions are reviewed on a regular basis and when new information becomes available. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in subsequent accounting periods.

The judgments and assumptions that are considered to be the most important in the portrayal of the Bank's financial affairs are those related to impairment, the conduct risk and legal provision included in these accounts.

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered key elements or assumptions include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Set out below are the changes to the ECL as at December 2019 that would result from applying the 3 economic scenarios to the PD while maintaining the Base scenario variables on the LGD and EAD components of the model to assess the sensitivity of the PDs to the parameters of the economic scenarios.

Scenario	ECL Movement from Base
Mild Upside	-1.16%
Downside	2.54%

Forward looking ECL sensitivities are detailed in note 3.10.

Provision for conduct risk, customer remediation and litigation

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result it is involved in various litigation, arbitration, conduct and regulatory investigations and proceedings, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgment is required to conclude on these estimates.

The Bank has established a provision for redress payable in respect of historic conduct issues. The provision is management's best estimate of the anticipated costs of redress and related administration expenses. The determination of appropriate assumptions to underpin the provision requires significant judgment by management. Details of the provision for customer redress are presented in note 24 to the financial statements.

The current project opt-in rate for the 'invite into the review' cohort is 79%.

For prudence, the current opt-in rate used for the provision assumption is 80% - which would allow for a further 12 opt ins.

We have received no further opt-ins since H1 2019, 9 months ago. Given no proactive contact has been made with the non-respondent cohort beyond the agreed customer contact cycle – which completed in Q1 2019, we are comfortable that 80% is the appropriate assumption to be used as part of the provision calculation.

The effective interest method

The Bank's interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost, fair value to profit and loss and fair value through other comprehensive income. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The Bank recognises interest income at a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgment regarding the expected behaviour and life-cycle of the instruments, as well as expected changes to the Bank's and the Central Bank base rate and other fee income / expense that are integral parts of the instrument. The key judgment sensitivity is completed through increasing and decreasing the behavioural life of the property lending portfolio, which would result in reducing/increasing income of £36k/£42k.

Valuation of shared based payment liability

The Board and the Remuneration, Nominations and Corporate Governance Committee approved the Long term Incentive Plan (LTIP) for senior executives in February 2019. The LTIP is designed to provide long-term incentives for senior executives to deliver long-term shareholder returns. Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions. Awards are granted on the basis that only 50% of the award will be satisfied following the vesting date, 30% will be subject to a holding period of one year and 20% of the award will be subject to a holding period of two years. Upon maturity of the plan, the valuation of the award is calculated using a market value approach, assuming there is no quoted price available at this point. The valuation method considers comparable companies and comparable transactions to derive a comparable P/E ratio and book multiple. The final award is at the discretion of the Board in consideration of satisfaction of the performance conditions.

The final award is capped at 1.5x incremental growth in value, such that the liability is also capped. The estimated liability based on the valuation for the year ended 31st December 2019 has reached this cap. Should the valuation increase there will be no further liability, however a reduction in valuation of 2.5% or more would see a reduction in liability.

5 Interest income

	2019 £000	2018 £000
Loans and advances to customers	75,647	61,367
Placements with banks and central banks	1,431	1,308
Placements with related entities	-	457
Derivative financial instruments	973	535
	78,051	63,667
Other interest and similar income	4,407	3,565
	82,458	67,232

Other interest and similar income relates to fee income forming an integral part of the corresponding financial instruments through an adjustment to the instruments' EIR.

6 Interest expense

	2019 £000	2018 £000
Customer deposits	22,030	17,513
Placements by related entities	-	576
Bank deposits	643	319
Subordinated loan (note 26)	2,505	2,500
Lease liabilities	8	-
	25,186	20,908
Derivative financial instruments	1,162	657
	26,348	21,565

7 Fee and commission income

Nature of good or service	2019 £000	2018 £000
Service fees for current accounts	884	979
Service fees for Debit / Credit cards	430	460
Services fees for handling payments	202	236
Service fees for credit Administration	85	75
Early repayment charges	-	495
Ad hoc fees	763	188
	2,364	2,433

In the current year, the Bank has reclassified early repayment charges to interest income, from fee and commission income, to achieve a fairer presentation.

8 Foreign exchange gains

Foreign exchange gains arise from the re-translation of monetary assets in foreign currency at the balance sheet date, realised exchange gains from transactions in foreign currency which have been settled during the period and the revaluation of foreign exchange derivatives.

	2019 £000	2018 £000
Foreign exchange gain	424	285

9 Fair value gain on derivative instruments

	2019 £000	2018 £000
Net gain arising on derivatives (see note 16)	100	211

10 Staff costs

	2019 £000	2018 £000
Salaries	19,674	18,570
Social security costs	2,047	1,806
Retirement benefit costs - defined contribution scheme	2,094	1,845
Other benefits (Long term incentive plan)	2,200	-
	26,015	22,221

The average number of staff employed (including two Executive Directors) by the Bank during the year ended 31 December 2019 was 246 (December 2018: 242).

11 Depreciation, amortisation and impairment

	2019 £000	2018 £000
Depreciation	730	1,036
Amortisation of intangible assets	501	643
Depreciation of right-of-use assets	43	-
Impairment	-	1,703
	1,274	3,382

12 Other operating expenses

	2019 £000	2018 £000
Information technology	**5,354**	4,470
Professional fees	**3,185**	2,834
Clearing charges	**1,108**	991
Communication	**336**	360
Advertising	**567**	490
Premises	**1,211**	1,322
Printing and stationery	**115**	243
Other operating expenses – refer to analysis below	**2,970**	5,903
	14,846	16,613

Professional fees include fees payable to the Bank's auditor of £462,000 (2018: £412,560) which are analysed below (amounts including VAT):

Audit of the Bank's financial statements	**438**	380
Audit of the subsidiary's financial statements	**-**	10
Other assurance related services	**24**	23
	462	413

Other operating expenses are further analysed below:

Subscriptions and publications	**394**	328
Directors' fees	**371**	256
Recruitment	**486**	419
Training	**187**	169
Travel and entertaining	**281**	279
Strategic initiatives	**21**	2,781
Rebranding	**11**	728
Management fees	**182**	40
Financial Services Compensation Scheme levy	**287**	3
Other insurances	**305**	307
Other operating expenses	**445**	396
Miscellaneous	**-**	198
	2,970	5.903

13 Credit loss on financial assets

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

	2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	**416**	**(12)**	**(112)**	**292**
Total impairment loss	**416**	**(12)**	**(112)**	**292**

	2018			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	348	(1)	(124)	223
Total impairment loss	348	(1)	(124)	223

14 Taxation

	2019 £000	2018 £000
UK corporation tax		
Charge for the year	**3,190**	1,576
Adjustments in respect of prior year	**(196)**	229
	2,994	1,805
Deferred tax		
Charge / (credit) for the year	**34**	(248)
Adjustment in respect of prior year	**24**	-
Tax charge for the year	**3,052**	1,557

A reconciliation of the tax charge in the income statement for the year and the accounting profit multiplied by the standard rate of corporation tax in the United Kingdom of 19.00% (December 2018: 19.00%) is presented below:

Profit before tax	**16,571**	6,157
Tax calculated at 19.00% (December 2018: 19.00%)	**3,148**	1,170
Tax effect of:		
Expenses not deductible for tax purposes	**83**	102
Tax rate change	**(7)**	56
Adjustment in respect of prior year – Corporation Tax	**(196)**	229
Adjustment in respect of prior year – Deferred Tax	**24**	-
Tax charge for the year	**3,052**	1,557

	2019 £000	2018 £000
The net deferred tax liability arises from:		
Difference between capital allowances and depreciation	**454**	514
Property revaluation	**(1,103)**	(1,209)
Net deferred tax liability	**(649)**	(695)
The movement in the net deferred tax liability is set out below:		
1 January	**(695)**	(860)
Revaluation of properties	**105**	(83)
Deferred tax recognised in the income statement	**(59)**	248
31 December	**(649)**	(695)
The analysis of the net deferred tax charge recognised in the income statement is set out below:		
Difference between capital allowances and depreciation	**(42)**	342
Other temporary differences	**-**	(38)
Change in tax rates	**7**	(56)
Adjustment in respect of prior years	**(24)**	-
Deferred tax (credit) / charge for the year	**(59)**	248

The corporation tax rate reduces to 17% effective from 1 April 2020 enacted in September 2016. Accordingly, the deferred tax asset is calculated at 17% (31 December 2018: 17%).

15 Cash, balances with central banks and placements with banks

	2019 £000	2018 £000
Cash	**326**	457
Balances with the Bank of England	**111,428**	195,997
	111,754	196,454
Placements with banks	**63,265**	55,538
Cash and cash equivalents	**175,019**	251,992

The ECLs relating to cash, balances with central banks and placements with banks are negligible and round to zero.

Placements with banks earn interest (or in some cases are charged interest) based on the inter-bank rate for the relevant term and currency.

Balances with central banks include mandatory deposits of £3,763,768 (31 December 2018: £2,682,295) which are not available for use in the Bank's day-to-day business. These comprise cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

Cash and cash equivalents for the purposes of the Statement of cash flows are presented below:

	2019 £000	2018 £000
Cash	**326**	457
Balances with the Bank of England	**111,428**	195,997
Less: Mandatory deposits with the central bank	**(3,764)**	(2,682)
Placements with banks	**63,265**	55,538
Cash and cash equivalents per the Statement of cash flows	**171,255**	249,310

16 Derivative financial instruments

The use of derivatives is an integral part of the Bank's activities. Derivatives are used to manage the Bank's own exposure to fluctuations in interest rates and exchange rates.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

Interest rate caps and floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The fair value of derivative financial instruments represents the cost of replacement of these contracts at the balance sheet date. The credit exposure arising from these transactions is managed as part of the Bank's market risk management.

The fair value of the derivatives can be either positive (an asset) or negative (a liability) as a result of fluctuations in market interest rates or foreign exchange rates in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

The Bank has not applied hedge accounting in the current financial year.

The Bank uses derivatives to hedge the changes in interest rates or exchange rates which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the income statement.

Gains or losses due to changes on fair value hedges and derivatives for the year are as follows:

	2019 £000	2018 £000
Gains / (losses) from change in fair value of derivatives	**100**	(72)
Gains from change in fair value of hedging instruments	**-**	151
Gains from change in fair value of hedged items	**-**	132
	100	211

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2019			2018		
	Notional amount £000	Fair value		Notional amount £000	Fair value	
		Assets £000	Liabilities £000		Assets £000	Liabilities £000
Exchange rate contracts						
By type						
Foreign exchange swaps	**51,166**	**480**	**(673)**	48,735	105	(252)
Foreign exchange spots	**84**	**2**	**-**	207	1	(1)
Foreign exchange forwards	**-**	**-**	**-**	-	-	-
Total exchange rate contracts	**51,250**	**482**	**(673)**	48,942	106	(253)
By maturity						
Up to 1 year	**51,250**	**482**	**(673)**	48,942	106	(253)
1 - 5 years	**-**	**-**	**-**	-	-	-
Over 5 years	**-**	**-**	**-**	-	-	-
Total exchange rate contracts	**51,250**	**482**	**(673)**	48,942	106	(253)
By counterparty						
Banks and building societies	**51,166**	**480**	**(673)**	48,813	105	(253)
Customers	**84**	**2**	**-**	129	1	-
Total exchange rate contracts	**51,250**	**482**	**(673)**	48,942	106	(253)

	2019			2018		
	Notional amount £000	Fair value		Notional amount £000	Fair value	
		Assets £000	Liabilities £000		Assets £000	Liabilities £000
Interest rate contracts						
By type						
Interest rate swaps	-	-	-	205,000	356	-
Collar	-	-	-	-	-	-
Forward rate agreements	-	-	-	-	-	-
Total interest rate contracts	-	-	-	205,000	356	-
By maturity						
Up to 1 year	-	-	-	205,000	356	-
1 - 5 years	-	-	-	-	-	-
Over 5 years	-	-	-	-	-	-
Total interest rate contracts	-	-	-	205,000	356	-
By counterparty						
Banks and building societies	-	-	-	205,000	356	-
Customers	-	-	-	-	-	-
Total interest rate contracts	-	-	-	205,000	356	-
By hedging status						
Open	-	-	-	-	-	-
IAS 39	-	-	-	-	-	-
Economic	-	-	-	205,000	356	-
Pre-hedges	-	-	-	-	-	-
Total interest rate contracts	-	-	-	205,000	356	-

There were no interest rate contracts as at 31st December 2019.

17 Loans and advances to customers

	2019 £000	2018 £000
Loans	**2,253,544**	1,660,652
Overdrafts	**14,577**	11,817
	2,268,121	1,672,469
Less: Allowance for ECL/impairment losses	**(3,740)**	(3,546)
	2,264,381	1,668,923

The following two tables show the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 30.

Loans	2019			
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Standard grade	**2,156,086**	**66,081**	**-**	**2,222,167**
Watch list medium risk	**-**	**11,597**	**-**	**11,597**
Watch list high risk	**-**	**-**	**-**	**-**
Individually impaired	**-**	**-**	**19,780**	**19,780**
Total	**2,156,086**	**77,678**	**19,780**	**2,253,544**

Overdrafts	2019			
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Standard grade	**13,908**	**593**	**-**	**14,501**
Watch list medium risk	**-**	**56**	**-**	**56**
Watch list high risk	**-**	**-**	**-**	**-**
Individually impaired	**-**	**-**	**20**	**20**
Total	**13,908**	**649**	**20**	**14,577**

Loans	2018			
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Standard grade	1,567,247	62,463	-	1,629,710
Watch list medium risk	-	10,820	-	10,820
Watch list high risk	-	-	-	-
Individually impaired	-	-	20,122	20,122
Total	1,567,247	73,283	20,122	1,660,652

Overdrafts	2018			
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Standard grade	9,738	1,792	-	11,530
Watch list medium risk	-	76	-	76
Watch list high risk	-	-	-	-
Individually impaired	-	-	211	211
Total	9,738	1,868	211	11,817

An analysis of changes in the gross carrying amount is as follows:

Loans	2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2019	1,567,247	73,283	20,122	1,660,652
New assets originated	856,744	25,609	1,013	883,366
Assets derecognised or repaid	(263,284)	(20,738)	(6,317)	(290,339)
Transfers to Stage 1	20,033	(17,469)	(2,564)	-
Transfers to Stage 2	(21,568)	22,228	(660)	-
Transfers to Stage 3	(3,086)	(5,235)	8,321	-
Modifications	-	-	-	-
Amounts written-off	-	-	(135)	(135)
Foreign exchange adjustments	-	-	-	-
Total	2,156,086	77,678	19,780	2,253,544

Overdrafts	2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2019	9,738	1,868	211	11,817
New assets originated	7,173	13	2	7,188
Assets derecognised or repaid	(3,234)	(997)	(157)	(4,388)
Transfers to Stage 1	344	(336)	(8)	-
Transfers to Stage 2	(109)	109	-	-
Transfers to Stage 3	(4)	(8)	12	-
Modifications	-	-	-	-
Amounts written-off	-	-	(40)	(40)
Foreign exchange adjustments	-	-	-	-
Total	13,908	649	20	14,577

Loans	2018			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2018	1,307,941	66,311	16,206	1,390,458
New assets originated	498,121	8,476	2,305	508,902
Assets derecognised or repaid	(210,260)	(19,794)	(8,011)	(238,065)
Transfers to Stage 1	19,328	(18,815)	(513)	-
Transfers to Stage 2	(43,228)	44,912	(1,684)	-
Transfers to Stage 3	(4,655)	(7,807)	12,462	-
Modifications	-	-	-	-
Amounts written-off	-	-	(643)	(643)
Foreign exchange adjustments	-	-	-	-
Total	1,567,247	73,283	20,122	1,660,652

Overdrafts	2018			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2018	19,116	1,453	229	20,798
New assets originated	1,078	769	4	1,851
Assets derecognised or repaid	(9,729)	(967)	(134)	(10,830)
Transfers to Stage 1	146	(146)	-	-
Transfers to Stage 2	(869)	869	-	-
Transfers to Stage 3	(4)	(110)	114	-
Modifications	-	-	-	-
Amounts written-off	-	-	(2)	(2)
Foreign exchange adjustments	-	-	-	-
Total	9,738	1,868	211	11,817

An analysis of changes in the ECL is as follows:

Loans	2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
ECL allowance as at 1 January 2019 under IFRS 9	1,418	335	1,647	3,400
New assets originated	851	99	35	985
Assets derecognised or repaid	(192)	577	(1,059)	(674)
Transfers to Stage 1	14	(14)	-	-
Transfers to Stage 2	(123)	123	-	-
Transfers to Stage 3	(87)	(804)	890	(1)
Modifications	-	-	-	-
Amounts written-off	-	-	(80)	(80)
Foreign exchange adjustments	-	-	-	-
Total	1,881	316	1,433	3,630

Overdrafts	2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
ECL allowance as at 1 January 2019 under IFRS 9	25	14	107	146
New assets originated	3	-	1	4
Assets derecognised or repaid	5	(1)	(21)	(17)
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(3)	3	-	-
Transfers to Stage 3	-	(5)	5	-
Modifications	-	-	-	-
Amounts written-off	-	-	(23)	(23)
Foreign exchange adjustments	-	-	-	-
Total	31	10	69	110

Loans	2018			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
ECL allowance as at 1 January 2018 under IFRS 9	1,064	336	2,362	3,762
New assets originated	889	179	818	1,886
Assets derecognised or repaid	(246)	(224)	(1,135)	(1,605)
Transfers to Stage 1	11	(11)		-
Transfers to Stage 2	(161)	163	(2)	-
Transfers to Stage 3	(139)	(108)	247	-
Modifications	-	-	-	-
Amounts written-off	-	-	(643)	(643)
Foreign exchange adjustments	-	-	-	-
Total	1,418	335	1,647	3,400

Overdrafts	2018			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
ECL allowance as at 1 January 2018 under IFRS 9	31	15	151	197
New assets originated	-	4	2	6
Assets derecognised or repaid	(1)	11	(65)	(55)
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(3)	3	-	-
Transfers to Stage 3	(3)	(18)	21	-
Modifications	-	-	-	-
Amounts written-off	-	-	(2)	(2)
Foreign exchange adjustments	-	-	-	-
Total	25	14	107	146

18 Other assets

	2019 £000	2018 £000
Debtors	601	280
Receivable from the Bank of Cyprus Public Company Limited towards redress payments (note 24)	1,685	12,845
Prepayments and accrued income	1,851	1,249
Receivables from payment service provider	1,616	1,701
Assets under construction	-	895
Derivatives	482	461
Other	35	2
	6,270	17,433

In the current year, the Bank has reclassified assets under construction to intangible assets, from other assets, to achieve a fairer presentation.

19 Intangible assets

	2019			2018
	Computer software £000	Assets under construction £000	Total £000	Total £000
Cost as at 1 January	8,561	-	8,561	7,020
Transfer from Other assets	-	896	896	-
Additions	1,229	7,170	8,399	1,373
Disposals and write-offs	-	-	-	-
Reclassifications	-	-	-	168
Cost at 31 December	9,790	8,066	17,856	8,561
Accumulated amortisation at 1 January	(7,551)	-	(7,551)	(5,397)
Amortisation charge for the year	(501)	-	(501)	(643)
Disposals and write-offs	-	-	-	(1,343)
Reclassifications	-	-	-	(168)
Accumulated amortisation at 31 December	(8,052)	0	(8,052)	(7,551)
Net book value at 31 December	1,738	8,066	9,804	1,010

20 Leases

	2019 £000	2018 £000
Right of use assets		
Buildings	87	-
	87	-
Lease liabilities		
Current	53	-
Non-current	57	-
	110	-

There were no additions to the right-of-use assets during the 2019 financial year.

	2019 £000	2018 £000
Depreciation charge of right-of-use assets		
Buildings	43	-
	43	-
Interest expense (included in interest expense)	8	-
Expense relating to short term leases (included in other operating costs)	292	-
Expense relating to low value assets that are not shown above as short term leases (included in other operating costs)	101	-
	401	-

The total cash outflow for leases in 2019 was £450,652.

The undiscounted cash payments that will be made until the end of the lease term are as follows:

	£000
Within 1 year	58
Between 2 to 5 years	116
More than 5 years	-

21 Property and equipment

	2019					2018
	Freehold property £000	Leasehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000	Total £000
Cost or valuation at 1 January	15,034	543	4,707	7,910	28,194	27,044
Revaluation	(617)	(41)	-	-	(658)	-
Additions	-	-	378	8	386	1,157
Disposals and write-offs	-	-	-	-	-	-
Assets classified as held-for-sale	(8,317)	(502)	-	-	(8,819)	-
Reclassifications	-	-	-	-	-	(7)
Cost or valuation at 31 December	6,100	-	5,085	7,918	19,103	28,194
Accumulated depreciation at 1 January	(1,309)	(72)	(3,261)	(7,900)	(12,542)	(11,271)
Depreciation charge for the year	(286)	(16)	(423)	(5)	(730)	(1,036)
Revaluation	1,595	88	-	-	1,683	-
Disposals, write-offs and impairments	-	-	-	-	-	(241)
Assets classified as held-for-sale	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	6
Accumulated depreciation at 31 December	-	-	(3,684)	(7,905)	(11,589)	(12,542)
Net book value at 31 December	6,100	-	1,401	13	7,514	15,652

Property includes land amounting to £1,830,000, which relates to freehold property. No depreciation is charged for land. The net book value of freehold property on a cost less accumulated depreciation basis, as at 31 December 2019 would have amounted to £2,246,666 (2018: £2,328,333) excluding properties classified as held-for-sale.

All properties were revalued as at 31 December 2019. One was independently valued. At the year end one freehold and one leasehold property were reclassified as held-for-sale due to third party interest in their acquisition at an acceptable price level and the management intention to sell. These offers were used to conduct the revaluation on these properties. The sale of the properties is intended to complete during the year ending 31 December 2020. Within the statement of comprehensive income, revaluation reserves contains a surplus of £761,526 related to these properties. This represents the gross surplus less deferred tax payable. No impairment losses have been recognised on the held-for-sale assets, and no subsequent increase in fair value.

22 Customer deposits

	2019 £000	2018 £000
Customer deposits by category		
Demand	**1,224,326**	856,862
Notice	**-**	113,497
Term	**1,003,352**	792,295
	2,227,678	1,762,654
Customer deposits by geographical area		
United Kingdom	**1,905,067**	1,409,316
Cyprus	**258,510**	278,789
Greece	**49,885**	60,324
Other countries	**14,216**	14,225
	2,227,678	1,762,654

23 Bank deposits

	2019 £000	2018 £000
Bank deposits by category		
Demand	**25,063**	240
Bank deposits by geographical area		
United Kingdom	**25,063**	240

24 Provision for customer redress

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will result in an outflow of resources (payment), and it can be reliably estimated.

The most significant of the provisions recognised as at 31 December 2019 is the conduct and legal risk provision for customer redress relating to historic conduct issues (2008 to 2012). This provision is underwritten by Bank of Cyprus, Cyprus.

In October 2016, after a review of an issue which had been a source of complaints and litigation against the Bank, and following a clarification of the legal situation in an Appeal Court Decision in June 2016 (*Alexander vs West Bromwich Mortgage Company*), the Bank concluded that the manner in which it re-priced a group of loans breached an FCA conduct principle and the matter was notified to the FCA.

Remediation principles were agreed and in 2016 the Bank made an initial assessment of the level of provision that was considered appropriate to meet current and future expectations in relation to the customer remediation exercise. As a result, a provision for £14.9m was established for the year ended 31 December 2016.

Management has exercised judgment around the key assumptions that underpin the estimates. Key assumptions include customers' opt in rate, uphold rate, consulting and operational costs, Financial Ombudsman Service referrals, and expected level of consequential loss. The most significant of these assumptions is the combined response rate and opt-in rate. The sensitivity of the provision to this combined assumption is shown in the table overleaf.

Sensitivity analysis based on customer opt-in rates	
Customer Opt-in Rate*	Total Provision £000
80%	**56,010**
81%	**56,249**
82%	**56,491**
85%	**57,215**

*Opt-in rate is calculated across all the population affected by the remediation.

Over the course of 2019, the Bank reassessed the level of provision that was considered appropriate and concluded that a further charge of £1.7m (2018: £3.9m) was required, incorporating the new estimate based on new information that became available. There is no charge (2018: nil) to be booked in the Bank while the full balance of £1.7m (2018: £3.9m) is to be booked in Bank of Cyprus Plc with a corresponding booking as a receivable in the accounts of the Bank (see note 18). There would be no impact on the Bank of any increase in the provision up to the agreed caps as set out within the Deed of Support agreed with the Bank of Cyprus Plc.

The receivable noted above has been included as a separate asset on the balance sheet (see note 18), and it has not been offset against the conduct provision which is presented gross as a liability on the face of the statement of financial performance.

The total redress cost was estimated at £56m (2018: £54.0m) as at the reporting date of 31 December 2019. The Bank has funded £2.9m of this with the balance funded by Bank of Cyprus, Cyprus.

This provision constitutes one of the Bank's critical accounting estimates as disclosed in note 4 to the financial statements.

	2019 £000	2018 £000
Provision for customer redress		
At 1 January	**12,221**	41,516
Arising during the year:		
Charged in the Bank's statement of comprehensive income	**-**	-
Provided for by BOC CY under the Deed of Support (note 18)	**1,685**	3,894
Payments made during the year	**(12,742)**	(33,189)
At 31 December	**1,164**	12,221

25 Other liabilities

	2019 £000	2018 £000
Trade creditors	**917**	828
Accruals	**9,115**	6,208
Accrued interest payable incl. subordinated debt	**4,887**	2,531
Financial Services Compensation Scheme levy (note 29)	**135**	-
Derivatives	**673**	253
PAYE and NI settlement	**830**	614
Items in the course of settlement	**89**	427
Deferred tax liability (note 14)	**649**	695
Tax payable (note 14)	**1,612**	706
Tax deduction scheme for interest	**1**	63
Amounts owed to parent (note 33)	**10**	120
Other	**2,692**	605
Total	**21,610**	13,050

Other items of other liabilities represent individually immaterial low value items of a similar nature.

26 Subordinated loan

	2019 £000	2018 £000
Unsecured subordinated loan	**29,629**	29,524

In December 2017, the Bank issued a £30 million unsecured and subordinated Tier 2 capital loan (the loan), priced at par. Interest is payable semi-annually on the loan at a coupon of 8.00% per annum up to 21 December 2022 and then at the 5-year swap rate plus a margin of 6.99% per annum up to the loan maturity on 21 December 2027. Subject to meeting contractual notice conditions, the Bank has the option to redeem the loan on 21 December 2022. The loan is unlisted.

Liability for payment of coupons under the Tier 2 facility with Lamesa Investment Ltd is currently subject to Court proceedings.

Changes in liabilities arising from financing activities 2019	**1 January 2019 £000**	**Cash flows £000**	**Conversion to equity £000**	**Other £000**	**31 December 2019 £000**
Unsecured subordinated loan	**29,524**	**-**	**-**	**105**	**29,629**

Changes in liabilities arising from financing activities 2018	1 January 2018 £000	Cash flows £000	Conversion to equity £000	Other £000	31 December 2018 £000
Unsecured subordinated loan	29,537	(40)	-	27	29,524

27 Share capital

	31 December 2019		31 December 2018	
	Number of shares	**£000**	Number of shares	£000
Authorised, issued and fully paid:				
Ordinary shares of £1 each	**146,000,000**	**146,000**	131,000,000	131,000

In February 2019, the Bank issued 15,000,000 ordinary shares at their par value of £1 each to its parent company, with a total value of £15,000,000, received in cash.

Ordinary shares have ordinary voting rights. Shareholders participate *pari passu* in any dividends. Shareholders have the right to participate in any distribution upon winding up. Ordinary shares are not redeemable at the option of the Bank.

28 Contingent liabilities and commitments

28.1 Guarantees and commitments

As part of the services provided to its customers, the Bank enters into various revocable commitments and contingent liabilities. These consist of financial guarantees and undrawn commitments to lend.

Guarantees include those given on behalf of a customer to stand behind the current obligations of the customer and to carry out those obligations should the customer fail to do so.

Where guarantees are issued on behalf of customers, the Bank usually holds collateral against the exposure and has a right of recourse to the customer.

In relation to acceptances and guarantees, the table below shows the Bank's maximum exposure should contracts be fully drawn upon and customers default without taking account of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held:

	2019 £000	2018 £000
Acceptances, guarantees and cashing facilities	**1,253**	1,278
Commitments to advance	**337,607**	265,923
Total	**338,860**	267,201

The tables below show the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 30.

Acceptances, guarantees and cashing facilities		2019			2018
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Total £000
Standard grade	**1,153**	**100**	**-**	**1,253**	1,278
Watch list medium risk	**-**	**-**	**-**	**-**	-
Watch list high risk	**-**	**-**	**-**	**-**	-
Individually impaired	**-**	**-**	**-**	**-**	-
Total	**1,153**	**100**	**-**	**1,253**	1,278

Commitments to advance		2019			2018
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Total £000
Standard grade	**337,607**	**-**	**-**	**337,607**	265,923
Watch list medium risk	**-**	**-**	**-**	**-**	-
Watch list high risk	**-**	**-**	**-**	**-**	-
Individually impaired	**-**	**-**	**-**	**-**	-
Total	**337,607**	**-**	**-**	**337,607**	265,923

An analysis of changes in the gross carrying amount is as follows:

Acceptances, guarantees and cashing facilities		2019			2018
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Total £000
Gross carrying amount as at 1 January 2019	**1,148**	**130**	**-**	**1,278**	1,020
Net new exposures	**1,152**	**-**	**-**	**1,152**	1,278
Exposure derecognised or matured / lapsed	**(1,148)**	**(29)**	**-**	**(1,177)**	(1,020)
Transfers to Stage 1	**-**	**-**	**-**	**-**	-
Transfers to Stage 2	**-**	**-**	**-**	**-**	-
Transfers to Stage 3	**-**	**-**	**-**	**-**	-
Modifications	**-**	**-**	**-**	**-**	-
Amounts written-off	**-**	**-**	**-**	**-**	-
Foreign exchange adjustments	**-**	**-**	**-**	**-**	-
Total	**1,152**	**101**	**-**	**1,253**	1,278

Commitments to advance					
	2019				2018
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Total £000
Gross carrying amount as at 1 January 2019	**265,923**	-	-	**265,923**	99,944
Net new exposures	**337,607**	-	-	**337,607**	265,923
Exposure derecognised or matured / lapsed	**(265,923)**	-	-	**(265,923)**	(99,944)
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Modifications	-	-	-	-	-
Amounts written-off	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-
Total	**337,607**	-	-	**337,607**	265,923

The ECLs relating to acceptances, guarantees and cashing facilities and commitments to advance here round to zero.

Contingent obligations and commitments are managed in accordance with the Bank's credit risk management policies. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank.

28.2 Conduct risk related matters

There continues to be residual uncertainty and thus judgment in determining the quantum of conduct risk related liabilities within note 24. This reflects the Bank's current position in relation to redress provisions of the remediation programme. The final amount required to settle the Bank's potential liability, including any consequential loss is uncertain.

Contingent liabilities include those matters where redress is likely to be paid and costs incurred but any further costs cannot currently be estimated, but are not expected to be material. The Bank will continue to reassess the adequacy of the provision in this respect and the assumptions underlying the calculation at each reporting date based upon experience and other relevant factors at that time.

Any contingent liabilities in excess of the amount already provided in the financial statements will be met in full by Bank of Cyprus Public Company Limited, subject to the terms of the Deed of Financial Support.

29 Financial Services Compensation Scheme levy

The FSCS has provided compensation to eligible depositors following the collapse of a number of deposit takers, such as Bradford & Bingley plc. The compensation paid out was funded by £20 billion of loans to the FSCS from the Bank of England and HM Treasury. Under the FSCS Levy rules, all deposit takers, including Cynergy Bank, will be required to pay a proportion of any irrecoverable principal amounts on the loans. Deposit takers are also obligated to share the interest costs of the loans and the management expenses of the FSCS. The proportion of the total levy charged to each bank is determined by the individual bank's market share of deposits protected through the FSCS.

During 2015, the FSCS levy was also charged to institutions for the third of three annual levies to cover capital repayments to the UK Government. The principal of these borrowings, which remains after the three annual levies have been paid, is expected to be repaid from the realisation of the assets of the defaulted institutions.

The ultimate cost of the FSCS Levy to the industry as a result of the 2008 collapses is dependent upon various uncertain factors, including: the value of potential recoveries of assets by the FSCS; changes in the interest rate on the loans; the level of protected deposits and the population of FSCS members at the time.

30 Risk management

Through its normal operations the Bank is exposed to a number of risks, the most significant of which are liquidity risk, credit risk, operational risk and market risk. To manage these risks the Bank has established clear risk policies, including limits, reporting lines and control procedures. Adherence to these policies and procedures is independently monitored by the Bank's credit risk, market risk, operational risk, compliance and internal audit functions. The Bank's risk management processes and internal controls are subject to regular review by the appropriate executive committees, including the Executive Committee, Asset & Liability Committee and the board Audit and Risk Committees and from 1st January 2019, the Executive Risk Committee.

Fair value of financial assets and liabilities

The following tables analyse the Bank's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9. For the purposes of this note, carrying value refers to amounts reflected in the balance sheet.

		31 December 2019		31 December 2018	
	Notes	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets					
Cash and balances with central banks	(a, Level 1)	**111,754**	**111,754**	196,454	196,454
Placements with banks	(b, Level 1)	**63,265**	**63,265**	55,538	55,538
Placements with related entities	(b. Level 1)	**-**	**-**	-	-
Derivative financial assets	(e, see below)	**482**	**482**	461	461
Loans and advances to customers	(c, Level 3)	**2,264,381**	**2,298,418**	1,668,923	1,684,723
Financial liabilities					
Bank deposits	(b, Level 1)	**25,063**	**25,063**	240	240
Placements by related entities	(b, Level 1)	**-**	**-**	-	-
Customer deposits	(d, Level 3)	**2,227,678**	**2,211,252**	1,762,654	1,761,792
Derivative financial liabilities	(e, see below)	**673**	**673**	253	253
Subordinated loan	(f, Level 3)	**29,629**	**29,629**	29,524	29,524

The fair value estimates are based on the following methodologies and assumptions:

(a) The carrying amounts of these financial assets, largely due to the short term maturities of these instruments, approximate fair value.

(b) The carrying value of placements with banks and amounts due to banks is considered to approximate fair value. Placements with banks are repayable on demand or within twelve months. Amounts due to banks and related entities are re-priced every three months at market rates. As a result, these carrying values approximate fair values.

(c) The carrying value of loans and advances to customers is net of allowance for impairment losses and unearned income. The estimated fair value of the advances is calculated by discounting the cash flows using prevailing market interest rates adjusted for risk premium of the Bank.

(d) The carrying value of customer deposits is calculated by discounting the cash flows using prevailing market interest rates. The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand.

(e) The fair value of derivatives (including foreign exchange contracts and interest rate swaps) designated as being carried at fair value through profit or loss are based on quoted market prices and data or valuation techniques based on observable market data as appropriate to the nature and type of the underlying instrument.

(f) The subordinated loan is non-traded and the carrying value approximates fair value.

The following table shows an analysis of derivative financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2019	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total fair value £000**
Derivative financial assets	**-**	**482**	**-**	**482**
Derivative financial liabilities	**-**	**(673)**	**-**	**(673)**
31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total fair value £000
Derivative financial assets	-	461	-	461
Derivative financial liabilities	-	(253)	-	(253)

Level 1 inputs are those with quoted prices for similar instruments, level 2 inputs have directly observable market inputs other than level 1 inputs and level 3 inputs are not based on observable market data.

Liquidity risk

Liquidity risk is the risk of failure to realise assets or raise funds to meet current and future commitments. Liquidity risk is managed each day by the Bank's Treasury department under the supervision of the Asset & Liability Committee. To manage liquidity risk the Bank maintains a portfolio of high quality liquid and marketable assets sufficient to meet the liquidity requirements of the PRA and the Bank's internal policies. Actual and projected cash flows of the Bank are monitored on a continuing basis to ensure that the Bank preserves a satisfactory liquidity position at all times.

Under CRD IV LCR became the Pillar I standard for liquidity in the UK on 1 October 2015, with a minimum standard of 80%, thereafter a 10% increase on I January 2017 and 2018, to reach 100% on 1 January 2018. The objective of the LCR is to ensure that banks have sufficient high quality liquid assets (HQLA) that can be converted easily into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario. Assets which are eligible for inclusion as HQLA include balances held at the Central Bank and holdings of securities issued by central banks.

The Bank's LCR as at 31 December 2019 was 362%, and is in excess of the current minimum requirement of 100% set by the PRA (unaudited). The Bank has continued to maintain a significant level of HQLA throughout the year. In March 2019 the Bank was admitted to access the Bank of England's INDEXED Long Term Repo Scheme (ILTR) as part of the Sterling Monetary Framework (SMF), which provides an additional source of liquidity.

Analysis of assets and liabilities by expected maturity						
31 December 2019	Carrying value £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Assets:						
Cash and balances with central banks	111,754	106,513	-	5,241	-	-
Placements with banks	63,265	63,265	-	-	-	-
Placements with related entities	-	-	-	-	-	-
Investment in subsidiary	10	-	-	-	10	-
Loans and advances to customers	2,264,381	14,577	64,170	151,346	1,490,636	543,652
Property and equipment	16,420	-	-	8,819	87	7,514
Intangible assets	9,804	-	-	-	9,804	-
Other assets	6,270	1,616	-	4,654	-	-
Total assets	2,471,904	185,971	64,170	170,060	1,500,537	551,166
Liabilities and equity:						
Bank deposits	25,063	25,063	-	-	-	-
Placement by related entities	-	-	-	-	-	-
Customer deposits	2,227,678	1,314,132	176,754	586,924	149,868	-
Other liabilities	22,884	-	-	22,884	-	-
Subordinated loan	29,629	-	-	-	29,629	-
Total liabilities	2,305,254	1,339,195	176,754	609,808	179,497	-
Total equity	166,650	-	-	-	-	166,650
Total liabilities and equity	2,471,904	1,339,195	176,754	609,808	179,497	166,650
Acceptances and guarantees	1,253	1,253	-	-	-	-

Analysis of assets and liabilities by expected maturity 31 December 2018	Carrying value £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Assets:						
Cash and balances with central banks	196,454	193,772	-	2,682	-	-
Placements with banks	55,538	55,538	-	-	-	-
Placements with related entities	-	-	-	-	-	-
Investment in subsidiary	10	-	-	-	10	-
Loans and advances to customers	1,668,923	21,161	58,578	78,897	1,079,880	430,407
Property and equipment	15,652	-	-	-	-	15,652
Intangible assets	1,010	-	-	-	1,010	-
Other assets	17,433	1,701	-	15,732	-	-
Total assets	1,955,020	272,172	58,578	97,311	1,080,900	446,059
Liabilities and equity:						
Bank deposits	240	240	-	-	-	-
Placement by related entities	-	-	-	-	-	-
Customer deposits	1,762,654	856,859	227,676	530,532	147,587	-
Other liabilities	25,271	-	-	25,271	-	-
Subordinated loan	29,524	-	-	-	29,524	-
Total liabilities	1,817,689	857,099	227,676	555,803	177,111	-
Total equity	137,331	-	-	-	-	137,331
Total liabilities and equity	1,955,020	857,099	227,676	555,803	177,111	137,331
Acceptances and guarantees	1,278	1,278	-	-	-	-

The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Bank is entitled and intends to repay the liability before its maturity.

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities:

Non-derivative financial liabilities	2019					
	Total £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Bank deposits	**25,063**	**25,063**	**-**	**-**	**-**	**-**
Customer deposits	**2,227,678**	**1,314,132**	**176,754**	**586,924**	**149,868**	**-**
Subordinated loan	**34,501**	**4,872**	**-**	**-**	**29,629**	**-**

Non-derivative financial liabilities	2018					
	Total £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Placements by related entities	240	240	-	-	-	-
Customer deposits	1,762,654	848,908	227,406	534,819	151,521	-
Subordinated loan	31,996	2,472	-	-	29,524	-

Credit risk

Credit risk arises principally from lending activities, but also from other on and off balance sheet transactions where there is a risk that the counterparty may not meet its obligations to the Bank. Credit risk occurs mainly in customer advances. To control credit risk, the Bank establishes lending policies and exposure limits by various categories including counterparty, sector and country, which are reviewed on a continuing basis.

Credit policies are approved by the Board of Directors on recommendation from the Executive Risk Committee, which has management oversight of credit risk. The Bank maintains a dedicated credit risk function with responsibility for managing credit risk and monitoring management of advances by the Bank's business units.

The Executive Risk Committee meets monthly and reviews reports on credit concentration, portfolio performance and provisions. The Executive Credit Committee, a sub-committee of the Executive Risk Committee, approves credit facilities within its authority or makes recommendations to the Board of Directors for approval at Board Credit Committee where on an exception basis facilities fall outside credit policy.

Definition of default and cure

From a quantitative perspective a key trigger of default and therefore Stage 3 (credit-impaired) for ECL calculations, is when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Bank;
- The borrower having past due liabilities to public creditors or employees;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application / protection.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 18 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in note 3.14.

i) <u>The Bank's internal rating and PD estimation process</u>

Each of the Bank's key portfolios operates separate systems which apply internal credit grades to its customers. The systems incorporate both qualitative and quantitative information to assign PDs based on historical experience, where such experience is sufficient to establish a robust estimate of PD. Where there is insufficient historical experience, PDs are estimated on the basis of information from a credit rating agency. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and apply the IFRS 9 Stage classification of the exposure. The Banks macroeconomic scenarios are then applied to assess a weighted ECL output at an exposure level.

ii) <u>Treasury, trading and interbank relationships</u>

The Bank's counterparties comprise financial services institutions and central banks. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Moody's or Standard and Poor.

iii) <u>Corporate and small business lending</u>

For corporate and small business lending, borrowers are assessed by relationship managers under the oversight of the Credit Risk unit of the Bank. The credit risk assessment is based on a credit grading system that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Bank's performance.

The complexity and granularity of the grading techniques varies based on the exposure of the Bank and the complexity and size of the customer.

iv) Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income / salary levels based on records of current accounts, personal indebtedness and expected interest re-pricing;
- Retail mortgages: GDP growth, unemployment rates, changes in personal income / salary levels based on records of current accounts, personal indebtedness and expected interest re-pricing.

v) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

For loans, EAD is modelled on the basis of the contractual amortisation profile of the loan but assuming that for the last 90 days before default no further repayments are made. No account is taken of early repayments made at the option of the borrower. For overdrafts, the EAD is taken as the full amount of the approved limit or, if higher, the overdrawn balance at the balance sheet date. Undrawn facilities which have been offered in the last three months before the balance sheet data are assumed to draw down in full, as are the undrawn portions of staged loans, such as property development loans.

vi) Loss given default

The revaluation of the underlying collateral to a credit exposure is reviewed aligned to the Bank's Valuation policy, which is consistent with the UK's application of the Capital Requirements Regulation (CRR). The calculation of the LTV is a core component of the LGD which takes into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral for which the Bank has a charge over.

The LGD rate for customer advances is based on the following principal inputs:

- The probability that the account will cure after default, in which case the loss will be nil. The estimate of the probability of cure is based on historical experience and is a function of LTV. For cases that are in Recoveries the probability of cure is taken to be nil.
- The LTV of the borrower at the time of default.
- The forced sale discount, which is determined on a probability distribution with a mean of 26% for residential properties and 33% for commercial properties.
- The cost of realisation, which is assumed to be 5%, based on the Bank's experience of recoveries case in the past.
- The discount rate applied to the realisation proceeds, which is the effective interest rate of the exposure.
- The time to sale, which is assumed to be 18 months from the date of default, based on the Bank's experience and based on the Bank's assessment of industry practice.
- Post write-off recoveries, which are assumed to be nil.

Further, LGDs under IFRS 9 incorporate recent data and forward-looking macroeconomic variables in order to determine a rate across multiple scenarios. Examples of key inputs involve changes in collateral values including property prices for mortgages, payment status or other factors that are indicative of losses in the group. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each asset class.

vii) Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. For example, the Bank considers an exposure to have significantly increased in credit risk when any of the following has occurred:

- The exposure is forborne;
- The exposure is placed on the Watch List;
- The exposure is graded D or E using the Bank's internal grading methodology;
- The exposure has been downgraded from A to C using the Bank's internal grading methodology.

In certain cases, the Bank may also consider that events explained in note 3.10 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due the credit risk is deemed to have increased significantly since initial recognition.

For borrowers with exposure less than £100,000 there is no specific annual review and borrowers are subject to a review on the trigger of an exception. Therefore should symptoms of credit weakness, such as arrears be identified the credit quality of the customer will be re-assessed. For these accounts (which account for 2% of total customer advances), a separate assessment of the evidence of a significant deterioration and an adjustment is made to the ECL estimate as a management overlay, if appropriate.

The following table shows the risk concentration by sector for customer advances:

	2019 £000	2018 £000
Business sector		
Property investment	**1,743,322**	1,264,223
Property development	**53,689**	61,224
Hotels, catering and leisure	**174,984**	92,025
Manufacturing	**10,672**	9,213
Retail and wholesale	**9,983**	7,337
Other business sectors	**50,656**	49,079
Personal sector	**224,815**	189,368
	2,268,121	1,672,469
Less: Allowance for ECL / impairment losses	**(3,740)**	(3,546)
Carrying amount	**2,264,381**	1,668,923

The amount of loans and advances subject to forbearance is analysed below. Forbearance means the active agreement by the Bank with the customer to vary the terms of a loan agreement, either temporarily or permanently, to assist a customer to overcome financial stress and repay a loan.

31 December 2019	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000
Temporary conversions from repayment to interest only	**2,048**	**-**	**664**	**1,384**
Term extensions for capital repayment	**452**	**-**	**49**	**403**
Capitalisation of arrears	**-**	**-**	**-**	**-**
Payment holidays	**19**	**-**	**-**	**19**
Amortisation profile change	**1,533**	**-**	**-**	**1,533**
Refinance	**558**	**-**	**205**	**353**
Others	**351**	**-**	**120**	**231**
Total	**4,961**	**-**	**1,038**	**3,923**

31 December 2018	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000
Temporary conversions from repayment to interest only	1,545	-	-	1,545
Term extensions for capital repayment	446	-	55	391
Capitalisation of arrears	-	-	-	-
Payment holidays	401	-	378	23
Amortisation profile change	1,577	-	-	1,577
Refinance	580	-	205	375
Others	352	-	-	352
Total	4,901	-	638	4,263

Loans and advances which have been subject to forbearance continue to be classified as being subject to forbearance until the loan or advance is redeemed or upon completion of a minimum 24 months monitoring period subject to their ongoing performance.

In the current year, the Bank has represented the 2018 comparison, to achieve a fairer presentation.

Maximum exposure to credit risk and collateral and other credit enhancements

The table below shows the maximum exposure to credit risk and the tangible and measurable collateral held. It also shows the net exposure to credit risk, which is the exposure after taking into account the impairment loss and tangible and measurable collateral held. Where guarantees are held the collateral shown below includes any collateral supporting the guarantee. In normal circumstances the Bank does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on its balance sheet. It is the Bank's policy to dispose of the repossessed assets in an orderly fashion. For financial assets recognised on the balance sheet, the gross exposure to credit risk is equal to the carrying amount.

		Fair value of collateral held by the Bank			
31 December 2019	**Maximum exposure £000**	**Cash £000**	**Property £000**	**Net collateral £000**	**Net exposure £000**
Assets:					
Cash and balances with central banks	**111,754**	**-**	**-**	**-**	**111,754**
Placements with banks	**63,265**	**-**	**-**	**-**	**63,265**
Placements with related entities	**-**	**-**	**-**	**-**	**-**
Loans and advances to customers	**2,264,381**	**1,844**	**3,878,795**	**2,247,658**	**16,723**
Other assets	**6,270**	**1,685**	**-**	**1,685**	**4,585**
On-balance sheet total	**2,445,670**	**3,529**	**3,878,795**	**2,249,343**	**196,327**
Contingent liabilities:					
Acceptances, guarantees and cashing facilities	**1,253**	**7**	**5,400**	**1,253**	**-**
Commitments to advance	**337,607**	**275**	**635,605**	**335,114**	**2,493**
Off-balance sheet total	**338,860**	**282**	**641,005**	**336,367**	**2,493**
Total credit risk exposure	**2,784,530**	**3,811**	**4,519,800**	**2,585,710**	**198,820**

		Fair value of collateral held by the Bank			
31 December 2018	Maximum exposure £000	Cash £000	Property £000	Net collateral £000	Net exposure £000
Assets:					
Cash and balances with central banks	196,454	-	-	-	196,454
Placements with banks	55,538	-	-	-	55,538
Placements with related entities	-	-	-	-	-
Loans and advances to customers	1,668,923	2,298	2,970,150	1,654,891	14,032
Other assets	17,433	8,898	-	8,898	8,535
On-balance sheet total	1,938,348	11,196	2,970,150	1,663,789	274,559
Contingent liabilities:					
Acceptances, guarantees and cashing facilities	1,278	21	4,944	1,278	-
Commitments to advance	265,924	366	894,242	263,688	2,236
Off-balance sheet total	267,202	387	899,186	264,966	2,236
Total credit risk exposure	2,205,550	11,583	3,869,336	1,928,755	276,795

The Bank targets sustainable growth through diversified lending activities, promoting a culture of responsible banking which cultivates long-term customer relationships. It employs sound and prudent risk management throughout its operations to ensure that it maintains and controls a moderate appetite for lending risk, which is prescribed by its credit and lending policies and supported by collateral that offers the Bank an appropriate level of credit risk mitigation aligned to its Risk Appetite.

The Bank's policies require that loan origination is secured by:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

All new origination is required to meet the Bank's Valuation Policy which provides requirements to ensure that the Bank's interests are protected by an appropriate level of security. The Bank's policy in obtaining and perfecting the security of its loans has not materially changed over the last 12 months and the quality of the collateral continues to be paramount in the origination process.

The Bank maintains a low LTV in its lending activities ensuring that its loan loss allowances remain at the lower end of the market, and this practice is central to the Bank's risk appetite and the calculation of the Bank's expected credit loss model.

The following table provides the distribution of LTV ratios for the Bank's credit-impaired portfolio:

LTV distribution	Credit-impaired (Gross carrying amount)
Lower than 50%	5,407
50-60%	9,684
60-70%	1,806
75-80%	106
90-100%	2,122
Higher than 100%	2,111
Total	21,236

Operational risk

Operational risk is the risk of loss or reputational damage arising from inadequate systems, errors, poor management, internal control breaches, fraud and external events. Procedures and controls are in place to manage these risks throughout the Bank and are supplemented by contingency planning to ensure business continuity, as well as the maintenance of insurance cover where appropriate.

Market risk

Market risk is the risk that changes in the level of interest rates, exchange rates and other financial indicators will have an adverse financial impact.

The Bank is exposed to interest rate risk as a result of mismatches in its balance sheet between the dates on which interest receivable on assets and interest payable on liabilities next reset to market rates or the dates on which the assets and liabilities mature. The Bank aims to manage this risk through controlling such mismatches within limits set by reference to the maximum potential loss of earnings under given changes of interest rates. Interest rate risk arising from the mismatch between the Bank's lending and deposit rates is actively managed. The majority of the advances and deposits are priced off market rates and margins are closely monitored and evaluated. In managing these mismatches the Bank makes use of appropriate interest rate derivative contracts including interest rate swaps. The exposure to interest rate changes and sensitivity is regularly reported to and reviewed by the Asset & Liability Committee, which manages the overall exposure within an agreed limit.

A summary of the Bank's interest rate gap position based on the contractual re-pricing date of assets and liabilities is as follows:

31 December 2019	Carrying value £000	Non-interest bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Assets:						
Cash and bank advances	175,019	-	169,778	5,241	-	-
Investment in subsidiary	10	10	-	-	-	-
Loans and advances to customers	2,264,381	-	78,748	151,346	1,490,635	543,652
Fixed assets	16,420	16,420	-	-	-	-
Other assets	16,074	16,074	-	-	-	-
Total assets	2,471,904	32,504	248,526	156,587	1,490,635	543,652
Liabilities:						
Bank deposits	25,063	-	25,063	-	-	-
Placements by related entities	-	-	-	-	-	-
Customer deposits	2,227,678	328,179	1,162,707	586,924	149,868	-
Other liabilities	22,884	22,884	-	-	-	-
Subordinated loan	29,629	-	-	-	29,629	-
Total liabilities	2,305,254	351,063	1,187,770	586,924	179,497	-
Interest rate gap	166,650	(318,559)	(939,244)	(430,337)	1,311,138	543,652

31 December 2018	Carrying value £000	Non-interest bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Assets:						
Cash and bank advances	251,992	457	248,852	2,683	-	-
Investment in subsidiary	10	10	-	-	-	-
Loans and advances to customers	1,668,923	-	79,740	78,898	1,079,880	430,405
Fixed assets	16,662	16,662	-	-	-	-
Other assets	17,433	17,433	-	-	-	-
Total assets	1,955,020	34,562	328,592	81,581	1,079,880	430,405
Liabilities:						
Bank deposits	240	-	240	-	-	-
Placements by related entities	-	-	-	-	-	-
Customer deposits	1,762,654	233,170	857,050	525,752	146,682	-
Other liabilities	25,271	25,271	-	-	-	-
Subordinated loan	29,524	-	-	-	29,524	-
Total liabilities	1,817,689	258,441	857,290	525,752	176,206	-
Interest rate gap	137,331	(223,879)	(528,698)	(444,171)	903,674	430,405

In the current year, the Bank has represented the 2018 comparison, to achieve a fairer presentation.

The Bank monitors its exposure to interest rate risk and during the 2019 period utilised an enhanced Interest Rate Risk management and monitoring process. The annualised impact of a potential 0.6% change, both increase and decrease, in the interest rates against the Bank's interest bearing assets and liabilities is as follows:

	2019 £000	2018 £000
Increase of 0.6% (prior year: 0.6%)	**5,473**	4,050
Decrease of 0.6% (prior year: 0.6%)	**(4,449)**	(4,093)

In addition the Company monitors its exposure to interest rate risk in multiple scenarios including non-parallel shifts in accordance with the EBA guidelines on shock scenarios as stated in article EBA/GL/2018/02.

The interest rate sensitivities set out above are based on the Bank's internal monitoring at the end of the period. The figures represent the effect on net interest income for a year arising from a parallel rise or fall in all market interest rates.

The Bank remains significantly within its risk appetite in relation to IRRBB, and the Bank maintains interest rate floors across its predominantly variable rate advances which provide a natural hedge within its book. This is funded by a deposit book which has the capacity to reprice on a regular basis to ensure that the book continues to be sufficiently hedged and aligned to the Bank's risk appetite.

The Bank is exposed to foreign currency risk as a result of mismatches between assets and liabilities in foreign currencies arising from the Bank's lending, deposit taking and currency dealing activities. The majority of currency dealings are carried out for the purpose of facilitating customer transactions. The Bank's treasury department is responsible for managing currency risk within intra-day and overnight limits. The Bank's currency net exposures remain low at the balance sheet date. The potential impact on profit after tax and on equity of a change in currency exchange rates is negligible at the reporting date.

Set-off

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Bank currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank is party to a number of arrangements that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented gross.

The table below shows potential effect of the amounts that could be offset under the Bank's right of set-off but which are shown gross in the financial statements.

	2019			2018		
	Gross amounts presented in the balance sheet £000	**Offset amounts £000**	**Net amounts £000**	Gross amounts presented in the balance sheet £000	Offset amounts £000	Net amounts £000
Financial assets						
Placements with banks	**63,265**	**-**	**63,265**	55,538	-	55,538
Placements with related entities	**-**	**-**	**-**	-	-	-
Loans and advances to customers	**2,264,381**	**68,807**	**2,195,574**	1,668,923	54,584	1,614,339
Financial liabilities						
Bank deposits	**25,063**	**-**	**25,063**	240	-	240
Placements by related entities	**-**	**-**	**-**	-	-	-
Customer deposits	**2,227,678**	**68,807**	**2,158,871**	1,762,654	54,584	1,708,070

Conduct risk

Conduct risk is defined as the risk that the Bank's behaviour, offerings or interactions with unfair outcomes for its customers results in fines, compensation, redress costs and reputational damage.

The Bank manages conduct risk in a way that is consistent with its overall risk appetite and with its business strategy. Conduct risk involves treating customers fairly, in line with regulatory requirements arising from FCA rules and guidance.

As set out in note 24, the Bank has made a provision for customer redress. Remediation principles were agreed and in 2016 the Bank made an initial assessment of the level of provision that was considered appropriate to meet current and future expectations in relation to the customer remediation exercise. As a result, a provision for £14.9m was established for the year ended 31 December 2016. This was increased to £57.0m in 2017, 2018 and 2019. Details of the provision for customer redress are presented in note 24 to the financial statements.

31 Investment in subsidiary

Bank of Cyprus Financial Services Limited (BOCFS), whose principal place of business is England and Wales and whose registered office is 27-31 Charlotte Street, London, W1T 1RP, is a wholly owned subsidiary of the Bank (100% of the ordinary shares of BOCFS is held directly by the Bank). BOCFS was an appointed representative of Legal & General Partnership Services Limited. Until 30th September 2017 BOCFS sold insurance and protection products of Legal & General. BOCFS ceased to trade on 30 September 2018. The investment in subsidiary is accounted for at cost.

32 Capital management

The Bank is supervised by the PRA, as a UK authorised bank, and is required to satisfy the liquidity and capital requirements of the PRA. It is required to demonstrate to the PRA that it can withstand liquidity and capital stresses.

The Bank carries out regular reviews of the adequacy of its capital to support its current and future activities, including during periods of stress, using the standardised approach for credit risk. Full reviews are documented in the Internal Capital Adequacy Assessment Process document, which is approved by the Board of Directors and submitted to the PRA. The PRA reviews the Internal Capital Adequacy Assessment Process document and issues Individual Capital Guidance (ICG) setting out the minimum capital requirements for the Bank.

The Bank manages its capital so as to ensure that it will have adequate capital resources to support its plans and to meet the regulatory requirements as set out in the ICG, including during periods of stress. For this purpose it maintains its own buffer in excess of the regulatory requirements. The preparation of annual plans, budgets and forecasts includes a projection of the capital position and capital requirements to ensure that capital resources will continue to be adequate.

Pillar 3 disclosures for the Bank are published on an annual basis concurrently with the Annual Report & Accounts in accordance with regulatory guidelines. Both the Pillar 3 document and the Annual Report & Accounts are published on the Bank’s website www.cynergybank.co.uk.

33 Related party transactions

Key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management personnel are identified as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank.

Key management compensation

	2019 £000	2018 £000
Short-term benefits	**1,821**	1,166
Long-term benefits	**1080**	-
Post employment benefits	**96**	26
Termination benefits	**25**	404
Total compensation for key management personnel	**3,022**	1,596

Directors' compensation

	2019 £000	2018 £000
Short-term benefits	**2,204**	1,130
Long-term benefits	**1,120**	-
Post employment benefits	**17**	26
Total compensation for Directors	**3,341**	1,156

The total remuneration of the highest paid Director was £1,483,640, including one off payments for housing and relocation (2018: £636,142). The amount of pension contributions paid by the Bank to the pension scheme on behalf of the highest paid Director was £10,000 (2018: £10,000).

We provide banking services to Directors and persons connected to them. A connected person is a person or corporate entity connected to a Director, such as a member of the Director's family or a company controlled by the Director. Loan transactions during the year and the balances outstanding at 31 December were as follows:

	2019 £000	2018 £000
Loans and overdrafts:		
Loans and overdrafts outstanding at 1 January	**6,434**	-
Loans and overdrafts issued during the year	**24,547**	6,800
Loans and overdrafts repayments during the year	**(1,695)**	(366)
Loans and overdrafts outstanding at 31 December	**29,286**	6,434
Interest expense on Loans and overdrafts payable to the Bank	**939**	280

There were 8 loans outstanding at 31 December 2019 totalling £29.3m. All loans are commercial mortgages secured on property and were provided on normal commercial terms. There were no loan transactions during the year or balances outstanding at the year end for key management personnel.

	2019 £000	2018 £000
Deposit accounts and current account credit balances:		
Deposits outstanding at 1 January	**426**	340
Net movements in the year	**292**	86
Deposits outstanding at 31 December	**718**	426

Other transactions with related parties

	2019 £000	2018 £000
Amounts owed to related entities:		
Balance owed to subsidiary	**10**	10
Balance owed to parent (Cynergy Capital Limited)	**10**	120
Total	**20**	130
Transactions with related parties:		
Management fees paid to parent	**180**	40
Total	**180**	40

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

The Bank made contributions to an employee savings plan during the year ended 31 December 2019 totalling £212,255 (2018: £316,648). The contributions are held as a deposit in the Bank.

34 Share-based payments

The Board and the Remuneration, Nominations and Corporate Governance Committee approved the Long Term Incentive Plan (LTIP) for senior executives, including Executive Directors, in February 2019. The LTIP is designed to provide long-term incentives for senior executives to deliver long-term shareholder returns. Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions, including financial measures, customer NPS, employee engagement, risk measures and relevant personal objectives. Awards are granted on the basis that only 50% of the award will be satisfied following the vesting date, 30% will be subject to a holding period of one year and 20% of the award will be subject to a holding period of two years. Upon maturity of the plan, the valuation of the award is calculated using a market value approach, assuming there is no quoted price available at this point. The valuation method considers comparable companies and comparable transactions to derive a comparable P/E ratio and book multiple. The final award is at the discretion of the Board in consideration of satisfaction of the performance conditions.

Awards are granted under the plan for no consideration and carry no dividend or voting rights.

For the year ended 2019 the fair value of the awards granted was assessed and a charge of £2,200,000 is included in the income statement. A corresponding liability is included within accruals in other liabilities.

35 Events after the reporting period

In January 2020, the Bank issued 9,000,000 ordinary shares at their par value of £1 each to its parent company, with a total value of £9,000,000.

On 11th March 2020 it was announced that the scheduled reduction in Corporation Tax to 17% from 1 April 2020 was not to come into effect. The impact of this change will be an increase in deferred tax liability of £126k.

Since the balance sheet date, COVID-19 has introduced uncertainty in the market and will impact the Bank in 2020. The Directors are unable to reliably quantify the financial impact at this stage.

There are no other events after the reporting period that require disclosure in these financial statements.

Cynergy Bank