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CYNERGY BANK LIMITED
ANNUAL REPORT & ACCOUNTS 2020

Cynergy Bank

Cynergy Bank will transform banking for those customers who value a face-to-face relationship that is enabled by the latest digital technology.

Cynergy Bank is the human digital bank, serving the needs of scaleup SMEs, (ambitious small/medium businesses, business owners, property entrepreneurs and family businesses with the capability and capacity to grow); professionals, high net worth and mass affluent individuals to achieve their ambitions.

Cynergy Bank will transform banking for those customers who value a face-to-face relationship that is enabled by the latest digital technology.

As businesses grow, and adapt to changing environments, 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. 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)

£27.0m

2019: £16.6m

+63%

Year on year incremental growth £10.4m against Covid landscape.

Underlying PBT

£30.0m

2019: £20.1m

+49%

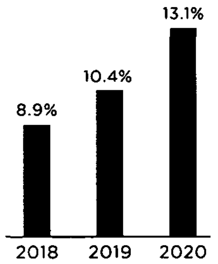
Underlying profit reflects the Bank's ambition to scale the balance sheet, enhanced net interest margin and strong cost culture embedded.

Underlying Return on Equity (RoE)

13.1%

2019: 10.4%

+270bps



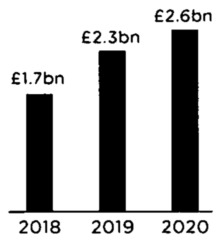
Growth in profits and efficient management of capital increased RoE towards longer term ambition.

Net lending book

£2.6bn

2019: £2.3bn

+13%



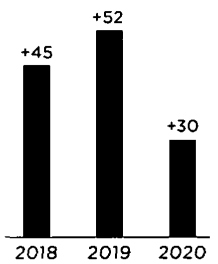
Lending growth of c.£300m, 13%, as the Bank makes cautious progress against the backdrop of Covid, towards its long-term ambition.

Net promoter score

+30

2019: +52

-22



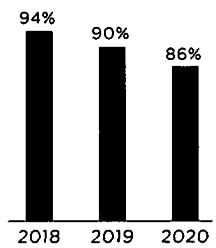
Short term deterioration during 2020. The Bank has taken steps to understand and enhance the customer experience going forward.

Employee engagement

86%

2019: 90%

-4%



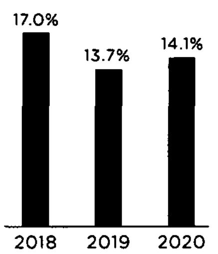
For the third year in a row the Bank achieved a high performing employee engagement score with a downwards trajectory reflecting challenges faced as a result of the pandemic. 90% of employees believe the Bank has responded well to the Covid crisis.

CET1 ratio

14.1%

2019: 13.7%

+0.4%



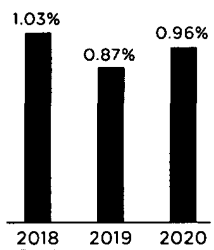
CET1 ratio continues to be effectively and efficiently managed. The Bank is well capitalised with a strong CET1 surplus.

Non-Performing Exposures

0.96%

2019: 0.87%

+9bps



Non-performing exposures, defined as loans which are impaired or defaulted, have only marginally increased year on year despite the significant impact of Covid on the economy.

Note: Underlying Return on Equity and Underlying Profit Before Tax are alternative performance measures and are defined on page 124.

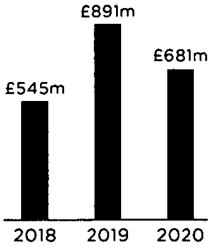
Balance Sheet

Gross new lending

£681m

2019: £891m

-£210m

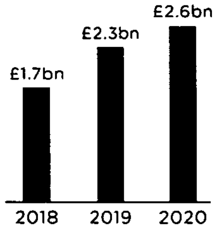


Net lending book

£2.6bn

2019: £2.3bn

+13%



Gross new lending in 2020 was lower than 2019, reflecting the Bank's cautious approach in an uncertain environment.

Our focus was on supporting our customers through the pandemic, in each region we operate, including the well managed launch of the Coronovirus Business Interruption Loan Scheme (CBILS) product delivering over £100m of new lending and £130m of applications in progress as at 31st December 2020.

We entered 2020 with a strong pipeline and have ended the year with similar levels, laying the foundations for a positive 2021.

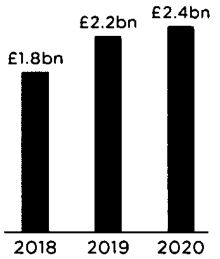
Overall, our lending booked increased from £2.3bn to £2.6bn, +13%, another step towards achieving a £5bn balance sheet.

Customer deposits

£2.4bn

2019: £2.2bn

+9%

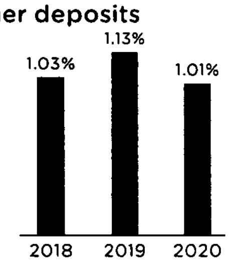


Interest paid on customer deposits

1.01%

2019: 1.13%

-12bps



2020 was a strong year for our Savings business with a key focus on supporting customers through the pandemic. We opened over 28k new accounts, provided competitive fixed term deposits, moved to an electronic document service and, driven by Brexit arrangements, replaced £75m of EU-based accounts which we were not permitted to maintain, without impacting the Bank's liquidity.

We were delighted to win a number of industry awards including the Best Online Savings Provider, voted by the public, at the Personal Finance Awards, reflecting our ongoing commitment to competitive pricing backed up by award-winning digital technology and customer service

We continue to maintain a strong, loyal current account base and this will be a key area for investment in 2021.

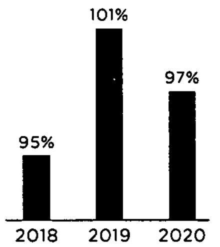
Interest paid on deposits is down, in line with peers, as a result of a combination of falling market rates and a reduced dependency on customer deposits due to cautious lending growth and utilisation of Bank of England funding. The Bank prides itself on its competitiveness in this market, ensuring the best products are available to existing customers. The Bank did not pass on all of the base rate reductions to customers.

Loan to deposit ratio

97%

2019: 101%

-4%

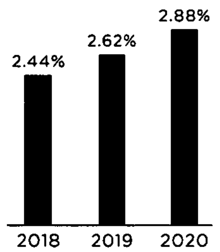


Net interest margin

2.88%

2019: 2.62%

+26bps



In 2020 we joined the Bank of England's Term Funding Scheme (TFSME), issued as a response to the economic shock of Covid, which provides a cost effective source of liquidity.

Our Loan to Deposit ratio is robust at an efficient 97%. Liquidity has been carefully managed through enhanced cash management and a continuing stable deposit book, with significant contingent liquidity available.

The Bank's enhanced Net Interest Margin (NIM) in 2020 reflects appropriate risk based pricing and our customers' willingness to pay a premium for the quality relationship we provide.

NIM also benefitted from the lower interest paid on customer deposits and utilisation of the Bank of England funding schemes.

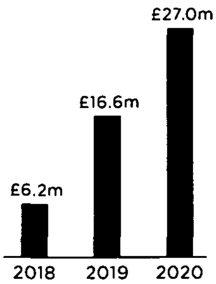
Headline and underlying profit

Headline PBT

£27.0m

2019: £16.6m

+63%

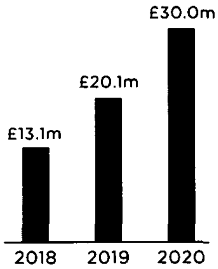


Underlying PBT

£30.0m

2019: £20.1m

+49%



Profit before Tax is adjusted to remove one-offs, including multi year investments supporting strategic and regulatory projects and the cost of long-term incentive plans, allowing for a clearer year on year view of performance.

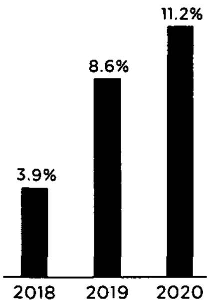
Underlying profit achieved over £30m for the first time with growth from ongoing scaling of the balance sheet, enhanced NIM from reducing cost of funding and tight cost control.

Headline RoE

11.2%

2019: 8.6%

+259bps

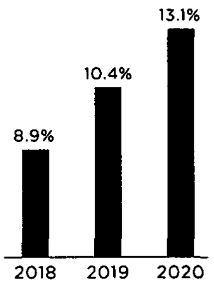


Underlying RoE

13.1%

2019: 10.4%

+270bps



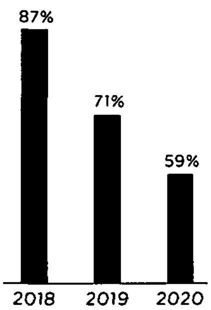
Underlying Return on Equity, being the profits adjusted for one-offs over the headline reported equity base, increased to 13.1%. This reflects the Bank's capital conservation actions taken during the pandemic, strong cost control and prudent lending decisions with an average LTV of 58% and a low percentage of non-performing loans.

Headline Cost / Income Ratio

59%

2019: 71%

-12%

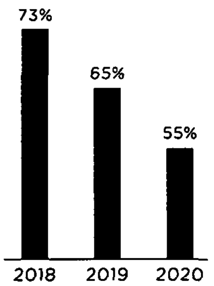


Underlying Cost / Income Ratio

55%

2019: 65%

-10%



The Bank has achieved a cost / income ratio below 60% which continues our positive trajectory to a top quartile performance. The reductions are due to the ongoing scaling of the balance sheet increasing our revenues (32% higher year on year) whilst cost growth was limited to 10% by identifying and removing unnecessary expenditure yet investing in strategically important areas such as operational resilience and regulatory projects (LIBOR transition, PSD2). Underlying cost / income ratio represents the reported costs adjusted for one offs, over the reported income.

Note: Underlying Cost / Income Ratio is an alternative performance measure and is defined on page 124.

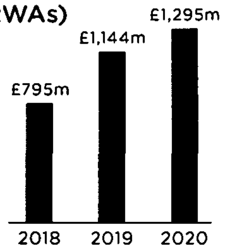
Capital ratios

Risk Weighted Assets (RWAs)

£1,295m

2019: £1,144m

+13%

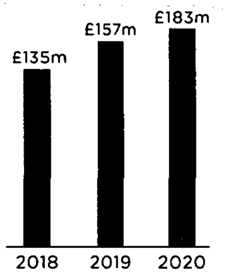


CET1 Capital

£183m

2019: £157m

+16%

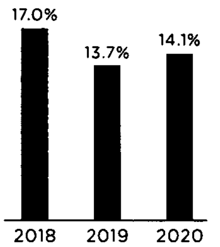


CET1 Ratio

14.1%

2019: 13.7%

+39bps

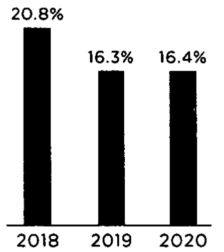


Total Capital Ratio

16.4%

2019: 16.3%

+6bps

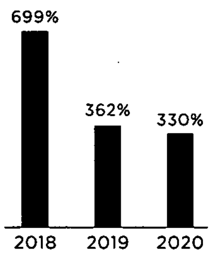


Liquidity Coverage Ratio

330%

2019: 362%

-32%

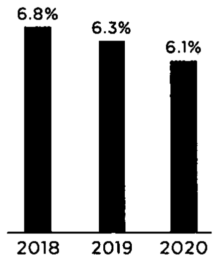


Leverage Ratio

6.1%

2019: 6.3%

-19bps



Key capital and liquidity ratios for the Bank remain strong and remain in line with peers reflecting the lower risk profile of the Bank. The Bank retained a strong regulatory capital surplus to deal with any Covid provision impacts in 2021.

The key capital ratios have decreased year on year reflecting the PRA's changing requirements and prudent management of the Bank's capital base through a carefully considered capital conservation plan.

RWAs have increased year on year as a result of lending growth, which includes the lower risk weighted lending under the government approved Coronavirus Business Interruption Loan Scheme.

Liquidity Coverage Ratio remained strong all year.

Principal risks and uncertainties 2020

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 2020 the Bank has been tackling the headwinds that Covid has presented and focused its efforts on ensuring it is able to continue to meet its obligations as a regulated credit institution and the needs of its clients in these unprecedented times. Therefore, the impact of Covid within the management of the Bank's principal risks has been a prominent theme.

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

The management of credit risk underpins lending risk as a principal risk for Cynergy Bank. The Bank closely manages the quality of its book to ensure that the management of lending risk is a top priority.

Whilst the propensity for credit risk to crystallise has increased as business models and lending have been placed under continued stress throughout 2020, the Bank has seen a modest increase in impairments and arrears across its portfolio. The Bank has continued to support customers impacted by the Covid pandemic, ensuring that its approach is applied consistently and appropriately in its interaction with its customers, and the continued government and regulatory support provided to the UK economy has ensured that increased credit risk has remained low throughout the year.

Early in the pandemic the Bank implemented the 'government moratoria' to support eligible customers and created its own 'specific moratoria' to support those customers that were not eligible for the government scheme. These moratoria or "schemes" had a specific purpose, to support businesses and individuals with short-term liquidity difficulties caused by Covid. This support consisted of payment holidays and the reversion of repayment schemes to an interest only repayment profile for an initial period of 3-6 months, but with the optionality for extending these conditions dependent on government and regulatory advice and the prolonged nature of pandemic.

Over the course of 2020 the Bank provided concessions to 450 customers totalling £540m of balances, equivalent to 20% of the balance sheet and by the end of 2020 this has reduced to only 3% of the balance sheet.

The schemes strictly followed the criteria set by the Government and all support was subject to a clearly defined internal governance process.

The Bank continued to sustain its loan book during 2020 by maintaining effective risk management in line with the Bank's appetite and safeguarding the credit quality of its lending decisions. Whilst risk within the global economy has increased, credit impairments remain low, but the Bank has recognised the increased risk in the market by reflecting this in its provision charges.

The Bank successfully became a participant in CBILS in April 2020 and has used this product to support current and new customers with lending solutions.

Strategic Risk	The risk that the Bank fails to achieve its strategic and business objectives through failed or poor business decisions and execution. Strategic risk is a major factor in determining the value of the Bank

Strategic risk stems from the Bank's business strategy and whether the advancement of the strategy is aligned to the risk appetite and the associated risks inherent in the execution of the strategy. It is the role of the Board and the Executive Committee (ExCo) to ensure that the execution of the strategy aligns with the risk appetite of the Bank.

Human Digital Bank: Whilst 2020 delayed the full launch of the Bank's strategy, 2021 will provide the platform for the Bank to build out its human digital relationship bank. The execution of this strategy will redefine the delivery of service to customers and this will be a pivotal moment in the Bank's future, therefore the implementation of the future business model is considered our key strategic risk.

Climate Change Risk: The impact of climate change will prompt substantial structural adjustments to the global economy, with the potential to disrupt the financial sector and Cynergy Bank's business model and operations. Aligned to regulatory expectation, the risk from climate change is to be treated as a 'cross-cutting risk' across the Bank's risk taxonomy and the impact of this risk is to be applied holistically, but with specific focus on financial risk, reputational impact and the Bank's portfolio, notably through lending risk. For this reason, Climate Change Risk occupies a prominent position under strategic risk and the Bank's assessment of the impact is to be embedded into the risk taxonomy through 2021.

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

Cynergy Bank remains adequately capitalised both for a stable environment and for the current economic stress. The capital resources of the Bank are formally assessed annually, but are subject to constant review and monitoring through Asset & Liability Committee (ALCO) and Board level oversight. The capital ratios are monitored and managed with reporting on a monthly basis to ALCO.

As the impact of Covid became apparent in early 2020, the PRA acted to reduce the minimum capital requirements of lending institutions by releasing capital buffers and by reinforcing and accelerating capital relief in the market. Some of the measures taken have included:

- Applying a reduction of the CounterCyclical Buffer from 1.00% to 0.00% in March 2020
- Increase the Pillar 2B Firm Specific Buffer, ensuring all firms held the same level of CET1 Capital
- Reinforced the use of IFRS 9 transitional requirements to ensure that some increases in provisions due to IFRS 9 could to some degree be offset against the impact on CET1

These actions have supported Cynergy Bank's position and reduced the Bank's minimum capital requirements. This places the Bank in a strong capital position for YE 2020; providing the Bank with the scope to be able to continue to support its customers and the real economy as appropriate.

The Bank continues to improve the efficient management of capital resources, whilst maintaining capital resources required to support the Bank's continued growth in the current market stress.

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

In March 2020 the Bank of England (BOE) cut interest rates to a historic low of 0.1% to support the UK economy through the Covid pandemic. BOE Base Rate (BBR) remained at this level with other reference rates converging on the BBR through 2020. The expectation is that the UK will be in a low rate environment into the medium term, and the possibility of negative rates has been mooted as being used as a monetary policy to stimulate growth.

The low rate environment continues to have an impact on income generation, however Cynergy Bank has maintained a moderate market risk appetite, and through ALCO oversight, ensured 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. The following indicators are monitored and reported:

- Earnings at Risk: Sensitivity of earnings to a +/- 100bps change in interest rates over a 12 month period
- Net Present Value: Sensitivity of Economic Value to a +/- 100bps change in interest rates
- Net Present Value: Maximum impact of the EBA's multiple shock scenario on Economic Value over a five-year horizon

Foreign Exchange limits have remained consistent year on year to support the FX requirements of the Bank's customers and is hedged where necessary to remain within limits, these are conservative and reviewed on a regular basis to ensure they remain aligned to the Bank's business model.

The Bank does not operate a trading book.

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

The Bank primarily operates in the UK retail deposit market and has continued to provide instant access and longer term savings products to the UK retail deposit market. The Liquidity Coverage Ratio (LCR) has continued to be in excess of the regulatory requirements throughout 2020.

As part of the Bank's forward strategy it is considering actions to broaden its options for strategic deposit gathering and assessing suitable solutions for broadening its portfolio of liquid assets. These developments are subject to the Bank's governance process and are undergoing a comprehensive risk review and acceptance process prior to implementation according to the Bank's Risk Appetite.

The Bank has arrangements in place to maintain adequate liquid assets to meet its liabilities. For further details on liquidity risk management see note 30.

As part of the UK's withdrawal from the European Union the Bank is in the process of exiting all deposits which are linked to EU residents. This has not had a significant impact on liquidity or created any funding constraints on the Bank. The Bank has been aware to the potential for increased depositor volatility due to the Covid stress, however liquidity has remained stable during 2020 and deposits continue to be attracted to Cynergy Bank's market leading products offering consistent and stable returns in the current uncertain and low rate environment.

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. As part of the Bank's risk and control self-assessments, these are reassessed at a minimum on an annual basis, by first-line risk owners with input from relevant stakeholders.

During 2020 the impact of Covid was unprecedented in the speed it occurred and the scale of the impact at a national and international level. This represented significant challenges to the financial industry particularly in respect of operating a Bank on a remote basis.

As with most banks, Cynergy Bank initiated its Business Continuity Plan (BCP), which enabled the majority of employees to continue to work from home for the duration of the pandemic. The Bank's infrastructure has proven to be resilient and the Bank has continued to operate in line with the guidelines set by regulators and central government. The Bank continues to provide all critical services to its customers and has minimised disruption to its day to day activities. The following operational risk themes have been high on the agenda through 2020.

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.

People Risk: The pandemic continues to be a risk to the Bank's operational resilience and especially employees. The Bank has been successfully working remotely for the duration of the pandemic and has implemented a two tier process for ensuring those who are considered as 'core' (who attend the office as required to maintain operational capability) and 'secondary' (who can work effectively from home and will only attend the office if required) can do so safely, with all necessary precautions taken. All business continuity plans have been reviewed and monitored. Minimum staff levels are also monitored, while cross coverage has been established.

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 embedding of the Conduct Risk framework during 2020 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 2020 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 since 2019 and has established plans to replace the suite of LIBOR referenced lending products and transition the legacy GBP LIBOR referenced portfolio, throughout 2021, to an alternative reference rate appropriate for our customers. Further, conduct risk has been heightened due to Covid and the Bank has been focused on this (see note 30 'Response to Covid' and 'Supporting our Customers').

Risk Appetite Statement

Cynergy Bank will act in accordance with its Board approved risk appetite to achieve its strategic goals in the pursuit of its vision "to empower entrepreneurs and business owners to achieve their dreams". To realise this, Cynergy Bank targets sustainable growth through diversified lending activities, promoting a culture of responsible banking which cultivates long-term customer relationships.

Cynergy Bank employs sound and prudent risk management throughout its operations to ensure that it maintains and controls a moderate appetite for lending risk, and supports this with strong financial fundamentals which are capable of delivering its medium to long-term objectives in both periods of stability and economic stress.

Risk Appetite Framework

The Risk Appetite Framework (RAF) is the over-arching framework which defines the types and quantum of risk that the Board of Directors of Cynergy Bank, choose to accept in pursuit of the Bank's strategy. It supports the Bank to fulfil its regulatory requirements, both under business as usual and stressed conditions, and outlines the risk appetite principles and limits framework.

This Risk Appetite considers Cynergy Bank's risk capacity, its financial position, the strength of its core earnings and the resilience of its reputation and brand. This can be expressed both with qualitative statements describing the risks undertaken and the rationale behind it, as well as using various quantitative techniques. The main aims are to ensure that:

- Business activity is guided, controlled and aligned to this risk appetite statement;
- The limits and thresholds in the Risk Appetite Statement (RAS) dovetail with the Recovery Plan measures (MI and Monitoring, Maximum Risk Appetite (MRA) and Maximum Risk Capacity (MRC)) such that specific business actions necessary to mitigate risk are identified early and acted upon in a timely manner; and
- Key assumptions underpinning the risk appetite are continuously monitored and adjusted accordingly.

The RAF is reviewed at least annually and, additionally, when there are material changes to the Bank's Strategic Plan or identified in its operating environment.

The Bank manages a number of key risks and emerging risks as part of its Bank-wide oversight and governance process. Generally these risks have not yet crystallised and are being managed on a forward-looking basis to ensure that, insofar as possible, they can be mitigated. The Bank's proactive approach to risk and risk management is a key factor in maintaining its risk appetite and the quality of the balance sheet.

Risk	Assessment	Approach
Impact of Covid on the UK economy	The continuing challenging economic climate within the UK and globally has resulted in increased uncertainty on the performance of certain segments of the Bank's property portfolio and this uncertainty is expected to remain at an elevated level through 2021. In particular the threat of increasing levels of unemployment, and general economic uncertainty imposes significant credit and operational challenges. The Government and the UK regulatory bodies (FCA, PRA, BoE) provided supporting measures and guidance to ensure that the economy was supported: • Guidance was issued by the FCA setting the market standards for granting Covid related payment deferrals • The PRA clarified that the customers utilising payment deferrals would not necessarily indicate a significant increase in credit risk or impairment and issued guidance to this effect • The UK Government introduced the CBIL Scheme enabling banks to provide customers with up to £5m of lending to SMEs with a turnover under £45m • The BoE reduced the UK countercyclical buffer (CCyB) to 0% for UK banks to support lending and relieve pressure on regulatory capital These measures continue to protect the market in the short-term, however, the loosening of this support could cause a swift contraction in market confidence. This, together with limited consumer spending could result in a consequent downward impact on the commercial real estate portfolio and SMEs.	The Bank acted swiftly at the onset of the pandemic and put in place extensive measures to support its customers through these difficult times and ensure that the Bank was positioned to continue to lend safely against an uncertain backdrop. Underwriting guidelines and requirements were enhanced to support lending through the pandemic aligned to the guidance provided on temporary support. The Bank also became a member of the CBILS initiative and has been supporting current customers and new to Bank customers with this offering. The Bank established a new Restructuring, Recoveries and Arrears management team ("Restructuring"). The team was formed in response to the worsening economic environment brought on by the Covid pandemic. The team also assumed responsibility for the Bank's Recoveries team. The team set-up the Bank's end to end response to payment holiday requests, across unregulated and regulated lending, including establishing the requisite committees required to sanction and oversee these requests.

Risk	Assessment	Approach
Impact of Covid on Operational Resilience Risk	The pandemic continues to be a risk to the Bank's operational resilience, employees and execution process & delivery of services.	The Bank has been successfully working remotely for the duration of the pandemic and has implemented a two tier process for ensuring those who are considered as 'core' (who attend the office as required to maintain operational capability) and 'secondary' (who can work effectively from home and will only attend the office if required) can do so safely, with all necessary precautions taken. Customers continue to be serviced and the Bank operates a robust platform with the ability to detect, prevent, respond or recover from operational disruptions and shocks effectively. It is also prepared for any further UK Monetary or Fiscal policy changes which will require implementation (i.e. zero or negative rates as set out in the Dear CEO letter from the Bank of England and the Prudential Regulation Authority (PRA).
Transition from LIBOR to an alternative reference rate	The interest rate benchmark LIBOR is expected to cease after end-2021. The transition from LIBOR to an alternative reference rate is expected to be completed by the market before this date. The industry has made good progress on this so far, however, there continues to be challenges in relation to finalising the transition to SONIA as a reference rate.	The Bank continues its LIBOR transition plan and is on track to complete this by the end of 2021. All new loans are now only written against alternative reference rates and the back-book migration phase of the project is underway.

Risk	Assessment	Approach
Risks presented by Climate Change	Climate change and how society will respond to it, presents financial risks which impact the Bank's objectives. Climate change has moved up the regulatory agenda over the last few years and it will be in the spotlight over the coming period. The risks arise through two primary channels: the physical effects of climate change (floods, increase in temperature, etc), and the impact of changes associated with the transition to a lower carbon economy (i.e. increased energy efficient standards on buy to let properties).	The Board expects the impact of climate change will prompt substantial structural adjustments to the global economy, with the potential to disrupt the financial sector and the Bank's business model and operations. The risk from climate change is to be treated as a 'cross-cutting risk' across the Bank's risk taxonomy and an assessment of the impact of this risk to be applied holistically, but with specific focus on financial risk, reputational impact and the Bank's portfolio, notably lending risk. The Bank is developing its approach to managing the risks presented by climate change and will complete this in 2021. This consists of a risk assessment of the impact of climate change on the Bank through to the development of stress testing scenarios and how these could impact on the Bank, its business model and its portfolio especially the impact on credit risk and provisions. The Bank is ensuring that any approach adopted is closely aligned to the Government's own actions and milestones in addressing broader market considerations, for example energy efficiency and emissions reduction. The Bank is already a carbon neutral organisation and will continue to build on this over the coming years.
The UK's exit from the European Union (Brexit)	After months of negotiations, the UK and European Union agreed a deal that will define their future relationship before the 31.12.2020 deadline. The deal contains new rules for how the UK and EU will live, work and trade together.	The Bank has been closely managing this risk throughout the UK-EU negotiations and has held a dedicated 'Brexit Forum' to ensure that the impact of the exit is formally assessed and managed within the Bank, including the preparation for 2nd and 3rd order impact of business and supplier relationships.

Section 172 statement

What is Section 172(1) and why are we reporting on it?

The Companies Act 2006 S172(1) requires Directors to act in the way they consider 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 part of their induction, all new Directors are briefed on the activities of the Bank and their duties and responsibilities as a Director.

This section sets out how the Bank's Directors take these requirements into account in taking their decisions.

The Bank's governance framework (as set out on pages 39-41) governs the conduct of the Board and the executive team and is vital to the success of the Bank.

When making decisions the Board always looks at any impacts on stakeholders. This is not always easy and sometimes requires a degree of balancing between the competing interests of different stakeholders whilst looking to try and treat everyone as fairly as possible. Below we have set out some examples of how this has been achieved with our stakeholders in the last year:

Staff

The Board regards staff welfare as paramount especially during the current crisis. The majority of staff moved to working from home within a few days of the initial lockdown whilst those who were required to attend the office were provided with a safe and Covid secure working environment. The Board oversaw the Bank's response to the crisis, meeting frequently throughout the pandemic, and as often as weekly at the start of the pandemic. A staff survey was undertaken in June to gauge how colleagues viewed the Bank's response to the crisis, with 90% believing that the Bank has responded well to the crisis, 87% felt personally well supported during the crisis. An independently run staff engagement survey was then undertaken at the end of the year with an 87% response rate with 86% of staff believing they are treated fairly, regardless of their gender, ethnicity, or personal circumstances.

The Board Remuneration Nomination and Corporate Governance Committee (RNCGC) reviews staff engagement and related matters on a regular basis and the CEO holds a fortnightly video briefing session for all staff where colleagues are encouraged to ask questions either directly or anonymously via designated question askers. Where relevant these sessions are attended by specific Board members such as the Chairman or the Senior Independent Director.

During the year the Bank has created a Committee made up of staff members and chaired by a Senior Executive to look at Diversity and Inclusion which is reporting regularly to the RNCGC.

Customers

The Board continues to support the Executive team to develop a customer centric bank. This is something that everyone in the Bank regards as a key differentiator, recognising the great benefit to customers. Cynergy Bank was an early accredited member of the CBIL Scheme which enabled 58 loans to be made to customers who needed support during the year. In addition the Bank also provided a number of payment holidays to customers to help them over the pandemic (see CEO's statement).

Customers are also central to the Bank's product development with regular customer focus group sessions being held to test possible new products and customers' understanding of products. 2020 also saw a very exciting development for customers with the Bank teaming up with Google and Wipro, both giants in technology, to deliver the first human digital bank, Cynergy Connect. Customers will be able to interact with the Bank through their phones and tablets but still retaining the ability to have their own dedicated relationship manager. We believe this will give our customers the best of both worlds and increase customer choice.

We pride ourselves on having a market leading customer service. The Bank had issues with the secure authenticator solution mid-way through 2020, which did not provide the optimal customer experience and drove down the 2020 NPS score to +30 which was lower than in previous years. The Executive team took swift action to rectify the source of the issues which included the implementation of a new customer service model, a new method of secure authentication and the signing of a strategic partnership to supplement our inhouse telephony. The Board hopes that these initiatives, in combination with its investment in Cynergy Connect, will mean that customers will be able to talk to knowledgeable staff on a 7 day a week basis as well as accessing state of the art technology for all of their banking needs.

Suppliers

Our suppliers are essential to the smooth running of the Bank and maintaining good relationships is a key part of that process. We recognise that this year has potentially been difficult for some of our suppliers, we are committed to making our supplier payments in accordance with payment terms. Regular relationship meetings are held with all major suppliers where performance against key performance indicators is discussed as are any operational issues or improvements. The procurement team provide regular reports to both the Executive Risk Committee and the Board Risk Committee on any issues in relation to the supply chain. Matters such as compliance with the Modern Slavery Act and Anti-Bribery legislation form part of the Bank's due diligence process when selecting suppliers and continue as part of the review cycle after the contract is signed.

Environment

As a Bank, we acknowledge that climate change poses a material financial risk to the global financial system and we are committed to playing our part in minimising these risks by taking strategic action now. To that end the Board approved a roadmap to achieve the Bank's objectives within the organisation by the end of 2021. A working group has been set up and the Chief Operations Officer (succeeded by the Chief Risk officer) has been designated as the accountable Executive under the Senior Managers Regime.

Progress made to date includes :

- The Bank gained its Carbon Neutral Plus certification in May 2020 with the benefit of offset;
- As part of our environment commitment agreed with Board in November 2018, we met our December 2020 target of 'Zero waste to landfill';
- At present we are on track to reduce paper usage by 77% - well ahead of our 50% reduction target; and
- We have achieved ISO 14001 accreditation.

The Bank is also taking steps to become a carbon neutral organisation by 2025, whilst also significantly reducing paper usage, improving recycling and cutting energy use.

Communities

As an organisation we were acutely aware in 2020 of the impact on people of the pandemic. During the year we tried to do our part to help those less fortunate. This included distributing food parcels local to our office in Southgate, donations to relatives of staff employed in the NHS to purchase care packages for themselves and their colleagues and donations to charities assisting in Covid related work. In addition the Bank continued to support Noah's Ark Children's Hospice (see page 38).

Shareholders

We maintained close contact with our shareholders throughout the year. In addition, two shareholder representatives of the parent company Cynergy Capital Ltd sit on the Board and also take part as members of RNCGC. The CEO and the Senior Independent Director have regular briefings with the shareholder representatives throughout the year.

Each year, the Board (including the shareholder representatives) sets aside a day to discuss the five year strategic plan for the Bank. This includes plans for growth, the launch of new products and the implications for additional capital requirements. As part of this process, the Board considers the likely benefits and implications for customers and staff, and focusses on achieving long-term, sustainable growth rather than short-term profits.

Regulators

The Bank, as a dual regulated firm, has good working relationships with both the FCA and the PRA as well as with bodies such as the Bank of England and the Financial Services Ombudsman. Senior members of the Executive brief the regulators on key issues such as our material outsource contract with Wipro and the Compliance team manage the day to day relationships. The Board are kept appraised of key regulatory developments and interactions with regulators at each meeting. Members of the Board are provided with regular updates on regulatory developments and both Board members and senior staff attend training initiatives organised by the regulators. The Executive team also subscribe to key industrial groups and participate in activities by such groups as UK Finance.

The Strategic Report was approved by the Board of Directors on 12th April 2021 and was signed on its behalf by:

Nick Fahy
Chief Executive Officer

CHAIRMAN'S **STATEMENT**

"In over 50 years in banking I have seen tremendous change and many challenges - secondary banking crisis; third world debt; recessions; and the financial crash. Looking back on 2020 it was without doubt the toughest year."

Setting aside any uncertainty attaching to the end of the Brexit transition period, the global pandemic threw at us unprecedented business challenges. At the same time, each and every one of us had to adapt to the impact of coronavirus on our lives and those of our families. I pay particular tribute to the resilience of all our staff who have responded magnificently to the crisis.

The Board has met more frequently supporting the Executive team as the human crisis affecting both staff and customers took centre stage. Protecting and supporting our staff required early decisions and we invoked our Business Continuity Plans establishing homeworking for the majority of our staff but equally ensuring a safe, secure, working environment for those key workers who had to continue to attend the office to maintain critical customer services. It is pleasing to acknowledge that in our recent staff feedback results, 90% of our team felt that the Bank had responded well to the Covid crisis, testament to the strength and quality of the management of the Bank under Nick Fahy's leadership.

Our agility in responding to the continuing changes in the environment have been fully tested and not found wanting. The impact of the pandemic on our customers necessitated reprioritisation of our focus as we have sought, and continue, to support our customers through the challenges they have been facing. Through our relationship managers we have embraced all the forbearance measures under government sponsored initiatives whether that be offering payment holidays, restructuring borrowing, or providing access to the Coronavirus Business Interruption Loan Scheme.

Despite all these challenges we have continued to pursue our strategic plan, building on success of 2019 and implementing new products and services. 2020 was another successful year with a strong financial performance with underlying profits of £30m and loan growth of 13%. Strong cost management aligned with close monitoring of risk contributed to a strengthening of our capital position.

We recently announced our major technology transformation in partnership with Wipro and Google to deliver the first human digital bank and we are proud we will be offering the benefits of human face to face relationship banking to our customers powered by superior digital processes.

Looking forward, in the immediate future we will continue to operate in an uncertain marketplace, awaiting news of the vaccination programme and relaxation in lockdown and restrictions which still impact the daily lives of both our staff and customers. Change is a constant, and we have more to accommodate in 2021 - transition away from LIBOR; and development of a clear strategy that specifically responds to the impact of climate change.

I have been closely involved with the Bank for over 15 years, as a Director since 2012 following incorporation, and as Chairman for the last six years. Change is an inevitable, and I am announcing that I will be standing down from the Board at the end of June. I am handing the reins over to a respected and familiar face and Euan Hamilton, the current Senior Independent Director, will be assuming the Chair. I will be working closely with Euan over the next few months to ensure a smooth and seamless passing of the baton.

I wish the Bank continuing success. My thanks to all of our staff for their support and wish them and our loyal customers a safe, healthy, and hopefully successful 2021.

Philip Nunnerley
Chairman

"I remain confident that with the continued dedication of our staff the Bank will rise to these challenges and deliver the objectives implicit in the business strategy."

CEO
REVIEW

"We entered 2020 with optimism and ambition having successfully delivered year one of the Cynergy Bank strategy in 2019. As a result of Covid we focused our priorities on successfully navigating through the pandemic, with the welfare of staff, customers and the security of the Bank as key priorities."

In an historically challenging year we have worked tirelessly to support our customers through these uncertain times, including becoming an accredited member of the Coronavirus Business Interruption Loan Scheme (CBILS) through which we have lent over £100m with a further £130m of applications in process. Further, we have provided 625 payment holidays to 450 customers, the majority of which have now returned to full payments.

I am pleased with how our team handled themselves over this difficult period, remaining calm and dedicated to supporting our customers, whilst delivering on our objectives for 2020, including an underlying profit of £30m, lending growth of 13% and underlying RoE of 13.1%.

Although this is a fluid situation, reflected in the most recent lockdown in 2021, our prudent lending approach has ensured the book is resilient to economic shocks and allows us to remain open for business with pipeline in December returning to pre-pandemic levels, providing renewed optimism for the year ahead.

Our Strategy: The Human Digital Bank

2020 was an important year for Cynergy Bank as we began our journey to deliver the first human digital bank supported by our material investment in technology, partnering with Google Cloud and Wipro.

We are focused on supporting medium and fast-growing smaller businesses as well as mass affluent professionals through our scalable human relationship management blended into the latest technology, traditional banking products (lending, savings and current accounts) enabled by digital processes, to give a great customer experience and the provision of next generation digital products to help our customers digitise their businesses.

As a fast growing banking platform our model benefits from rapid growth in profitability, with strong capital and liquidity ratios which provides resilience during stress periods such as the current pandemic.

We passionately believe that the human / digital model is the future of the mid-market and we are uniquely positioned to be the market leader.

A year in review

Our business proved resilient to the uncertain economic conditions in 2020, absorbing an increase in provisions while delivering a 49% increase in underlying profits and maintaining strong capital and liquidity ratios.

Our loans have grown by 13% year on year to £2.6bn through the delivery of the pre-pandemic pipeline across our key lending pillars of Property, Business & Commercial and Private, and supplemented with the addition of CBILS lending. This has supported an underlying Return on Equity of 13.1%, our second year of double digit RoE and underlying Profit of £30m, which has increased by £10m on 2019 despite the pandemic.

Our credit losses were c.£5m in 2020, increasing significantly year on year, as a result of Covid and its impact on the economics which underpin the IFRS 9 provision calculations.

Our underlying cost / income ratio significantly improved in the year through the delivery of increased revenues as a result of balance sheet growth and improvements in net interest margin. We maintained strong pricing disciplines and implemented a series of cost control measures to conserve the Bank's capital.

The Bank has been closely managing the risk of the UK's exit from the European Union. A notable impact was our decision to replace £75m of EU-based deposits. This was successfully completed without impacting the Bank's liquidity. Further information on our response to Brexit can be found within our Principal Risks.

The Bank's net promoter score was +30 in 2020, which is lower than 2019 as we experienced short-term service issues as result of the implementation of a new secure authenticator process. We acted quickly to rectify the source of our issue.

Operational Resilience

The PRA and FCA published a series of consultation papers in late 2019 in relation to Operational Resilience requiring firms to:

- Define and process map important business services
- Set tolerances for the maximum tolerable disruption to these services to prevent harm to customers, the Bank or market integrity
- Test the ability to remain within the impact tolerance through a range of severe but plausible scenarios

We are making good progress against meeting these important requirements by late 2021.

On a practical basis, in December we successfully augmented our telephony services through a new strategic partner, extending the previous Monday to Friday from 9am to 5pm service to 8am to 8pm Monday to Friday and 9am to 5pm at the weekend, 362 days in the year to directly improve resilience and customer experience.

Culture and People

Our culture underpins everything that we do and is based around five core values: doing the right thing, putting the customer first, embracing agility and entrepreneurship, one team (diverse and inclusive), and being at our best every day. These principles have guided the management team and staff through this difficult year.

At the beginning of the Covid lockdown, through a series of well executed changes in our technology including the addition of video calling and electronic signing we successfully implemented a remote working environment.

The Bank achieved an employee engagement score that is in line with global high performing companies, which is pleasing to see given the difficult circumstances. 86% of the team would recommend the Bank as a place to work and 90% of employees believe the Bank has responded well to Covid. The Bank introduced a number of initiatives to support physical and mental health including the appointment of Mental Health Champions to support the wellbeing of our staff.

Our social responsibility is very important to us. The Bank has partnered with Noah's Ark Children's Hospice and we are proud to have raised over £50,000 throughout the course of our relationship to support the provision of nursing and care staff. We have supported our local communities where we live and work, donating to the NHS on behalf of employees who have immediate family members or friends working in the front line.

Looking Ahead

2021 will be an exciting year in the evolution of the human digital bank. Our model will transform banking for those customers who still value a face to face relationship supported by the latest digital technology.

Our 2021 financial plan is underpinned by an expectation of an economic environment reflecting continued GDP contraction in the first half of the year before signs of recovery in the second half. We expect a very competitive marketplace, with ongoing emergence of digital banks and digital products, and with challenger banks continuing to demonstrate their ability to grow and take market share, through serving the underserved.

We plan to increase revenues again in 2021 as a result of a conservative increase in lending to our customer base, whilst holding net interest margin. Costs will marginally increase reflecting our strategic investments, whilst we anticipate provisions to further increase. We expect to see material customer growth throughout the year.

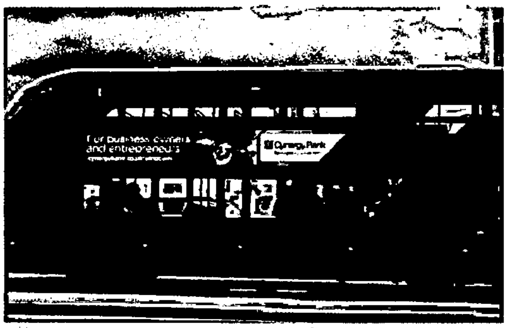
Following the regulators removing their support of LIBOR, we will be supporting our customers through the transition to an alternative reference rate. We will work closely and transparently, using the strength in our customer relationships, to deliver this change.

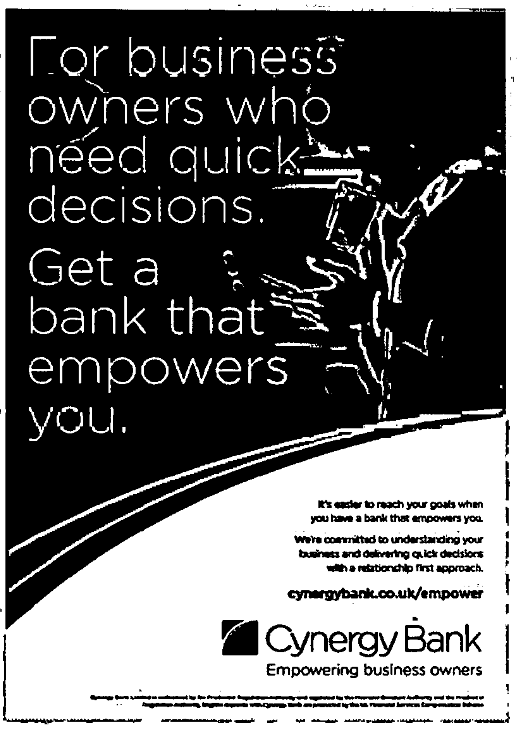
The Bank is proud to be carbon neutral and continues to send zero waste to landfill. In 2021 our investment in the human digital bank will support the Bank's intention to be a paperless organisation. We are currently assessing the impact of climate risk on our lending portfolio and policies, whilst exploring the opportunity to establish a range of green products and services that promote environmentally friendly outcomes. We will be embedding risk management and a high standard of governance to oversee and monitor financial risks arising from climate change. Further commentary on our approach to managing climate risk can be found within our Principal Risks.

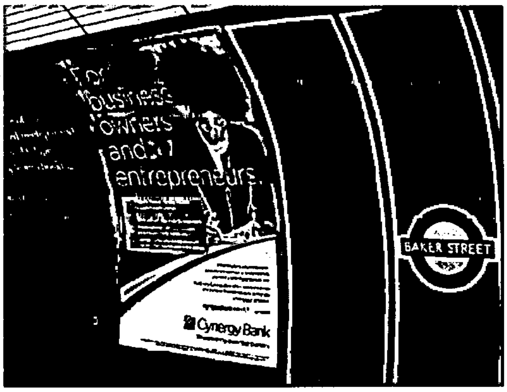
Although 2021 will no doubt have its challenges, we have cause for optimism in the year ahead. The roll out of vaccinations will hopefully bring positive outcomes for everyone and we are excited about the development of the first human digital bank and the opportunities that this will bring for our customers and staff.

Nick Fahy
Chief Executive Officer

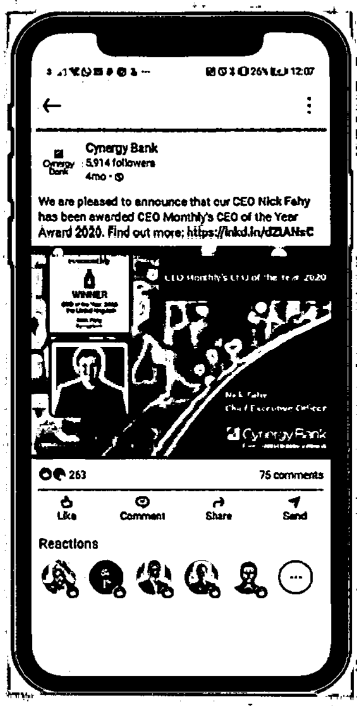
Brand awareness campaign

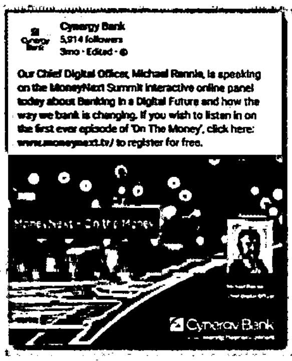


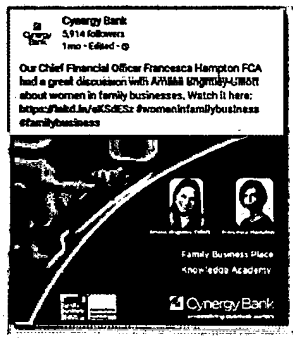




LinkedIn







Equality initiative

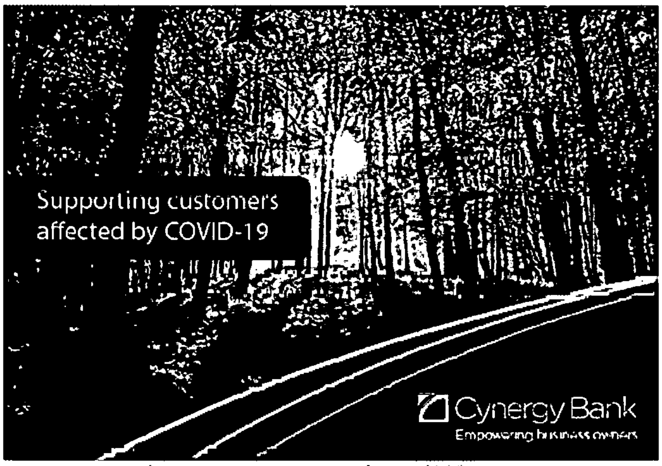
As a business, and particularly in times of crisis, the decisions we make are guided by our five simple core values:

- Doing the right thing
- Putting the customer first
- Embracing agility and entrepreneurship
- One team - Diverse and inclusive
- Being at your best

Embracing diversity and inclusivity is fundamental to these values and makes us a better organisation for our employees, customers and the communities that we work with.

Cynergy Bank

Covid initiative




OUR
VISION

> Our vision is to transform banking for those customers who value a face-to-face relationship that is enabled by the latest digital technology.

Who we are

Cynergy Bank serves the needs of scaleup SMEs, professionals, high net worth and mass affluent individuals. 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 serve our customers with offices in London, Birmingham, Bristol, Redhill, Manchester and Edinburgh.

We provide a digitally enabled range of products and services to meet the needs of our customers delivering excellent personal service and great customer experience in: Property Finance, Business and Commercial Banking; Private Banking, and Personal Savings.

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

The Cynergy Bank human digital model will transform banking for those customers who value a seamless blend of a face-to-face relationship that is enabled by the latest digital technology.

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. Digital banks have focused their efforts on app-based delivery while large banks continue to adopt a 'one size fits all' approach to their small and medium-sized enterprises (SME) and client relationships. Cynergy Bank will offer a personal relationship experience but with the infrastructure and software of a fully digital bank.

We put enduring relationships at the heart of what we do and provide quality products, services and expertise, enabled by innovative digital technology, 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.

While technology has many benefits, 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. We will use technology to enhance personal relationships, not replace them.

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

OUR **BUSINESS**

At Cynergy Bank, we passionately believe in 'human relationships' and are utilising the technology to allow our people to do what they do best - look after our customers.

The human digital model transforms banking for customers who still value a face-to-face relationship that is enabled by the latest digital technology.

To help us fulfil this vision we continue to work tirelessly to meet our customers' needs. We recognise that 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 including; 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 including; our recently launched range of high net worth lending products; plus current accounts, personal loans and savings products.

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.

Business

- 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

Savings

- 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 as well as 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	Putting the customer first	Embracing agility and entrepreneurship	One team – Diverse and inclusive	Being at your best
Acting with integrity and transparency in all our dealings	Placing the customer at the heart of our decision making	Taking the initiative, being nimble, seeking to learn, and welcoming a better way	Achieving success by working together as an inclusive team towards a common goal	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
- Our twice-yearly employee engagement survey that assesses our progress on embedding our values within the business and the extent to which our leaders are good role models for our values
- Our Diversity & Inclusion Group who promote and celebrate inclusion through various interventions and events throughout the year
- 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

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

- Promoting the embedding of our desired culture and core values by periodically obtaining external independent assessment of progress
- 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
- Reviewing the results and actions arising from our twice-yearly employee engagement survey which informs the Board on the prevailing culture within the business
- Receiving updates on progress from our Diversity & Inclusion Group
- 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
- 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

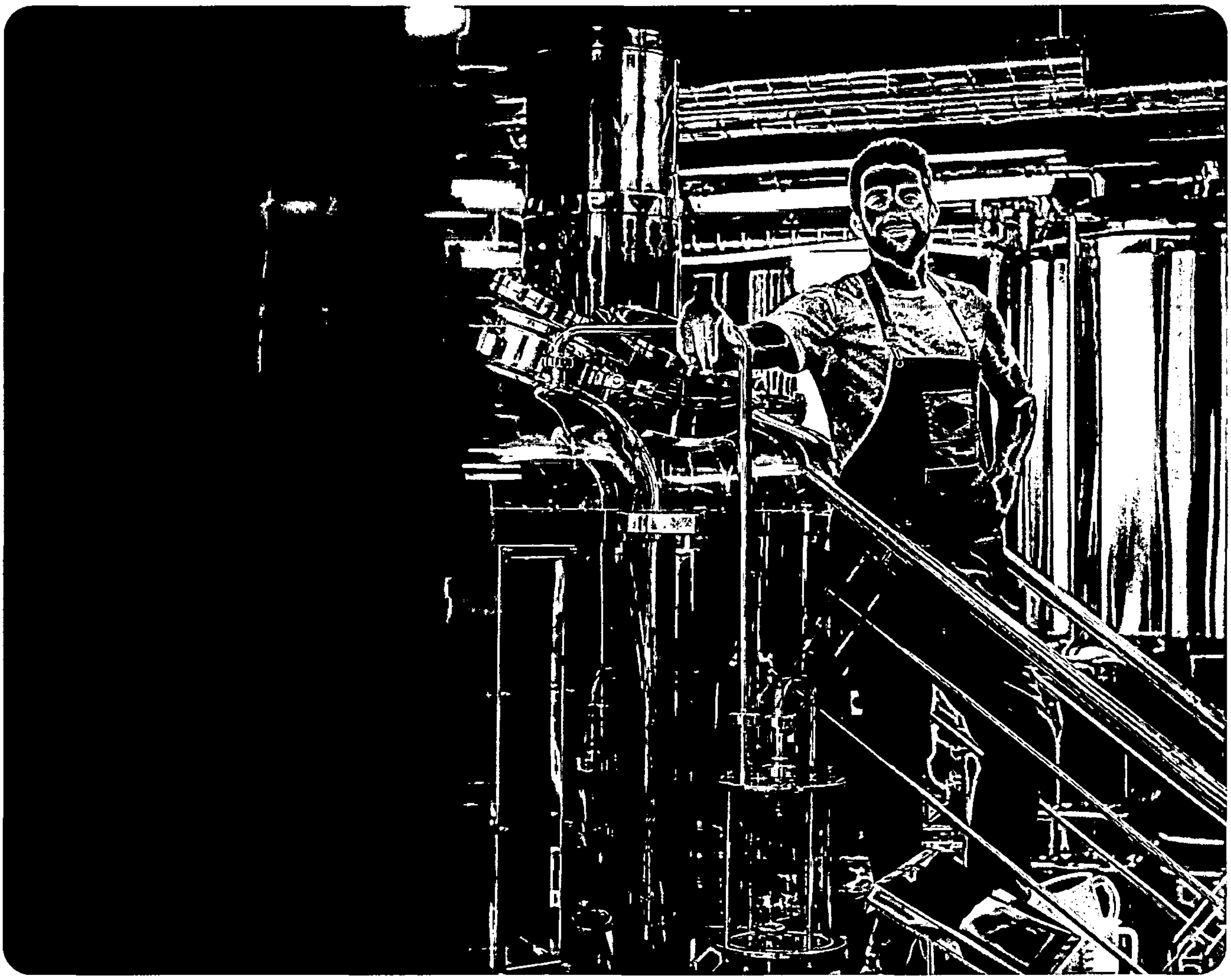
OUR **MARKET**

Scaleup SMEs, professionals, high net worth and mass affluent individuals are a strategically important market segment that is underserved by banks in the UK.

These 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.

They are a key strategic sector for Cynergy Bank, equating to an addressable **total market of around 300,000 UK businesses**.



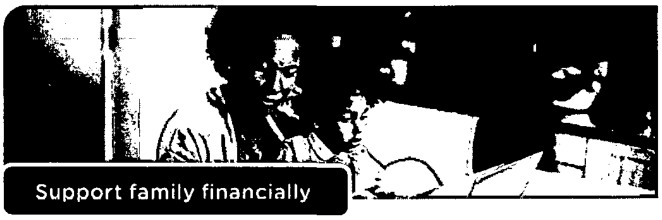
Key needs of medium businesses

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.



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.

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

Business Model

Cynergy Bank serves the blended financial needs of scaleup SMEs, professionals, high net worth and mass affluent individuals. The human digital model transforms banking for customers who still value a face-to-face relationship that is enabled by the latest digital technology.

At Cynergy Bank 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 interdependent banking needs. We provide a range of digitally enabled products and services to meet the property finance, business and commercial banking, private banking and personal savings needs of our customers.

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

SUPPORTING **FAMILY TRADITIONS**

Case study: Ladhar Group/Project Knight Ltd

When the Ladhar Group saw an opportunity to buy 16 pubs during Covid lockdown, their strong relationship with Cynergy Bank made it the finance partner of choice. For the Bank, it was a way to support a regional business in a struggling sector.

It's a tough time to be in pubs. At the time of writing, every single site in the portfolio of Ladhar Group was shut. "It's something you never expect would happen," said Michael Ladhar, who runs the Newcastle-based business with his cousin Barry.

Started in the 1960s by Michael's grandfather, Ladhar Group established its leisure portfolio in 1999, and by October 2020 owned 28 bars, pubs, restaurants and hotels, primarily in the North East.

When the Sir John Fitzgerald Group pubs came up for sale in October, in the middle of Covid restrictions, the Ladhars had their heart set on acquiring them. But at a time of such uncertainty, the high street banks were cautious.

Finding finance in lockdown

The Ladhars decided to approach one of their existing funders, Cynergy Bank, who had provided finance for a couple of commercial properties in the past. The Bank showed immediate interest.

It helped that their Manchester-based Relationship Director hailed originally from the North East. "That was one of the things that concerned us: would our funders get it?" Michael said. "Luckily, we were looked after by someone who knew the business really well."

With such a competitive process, speed was key in concluding the transaction. "I was really impressed by the responsiveness of Cynergy Bank, and the decision making. I found the process to be quite nimble; the Bank was able to react quickly to any issues that came up."

Michael said that to acquire 16 mostly freehold pubs, both bank and customer needed to have confidence and trust in each other, as well as a working relationship. Cynergy Bank fitted the bill, providing practical support - including making some conditions subsequent to allow the transactions to happen on time - and generally being flexible around the deal.

"There was lots of involvement from the Bank, and they were there every step of the way," said Michael.

That involvement included working together with the Ladhars to get under the hood of the business. Part of the application process was completed online using Cynergy Bank's platform, a simple and easy process according to Michael. At the same time, he was speaking to the Bank's Manchester team every day via video calls.

The Ladhars relied heavily on their Relationship Director's ability to put forward the offer to the Bank, tease out the required information and drive the deal at his end.

Keeping family traditions alive

As Covid had a significant impact on the group, with all their pubs closed, the Ladhar's financing was achieved through the Coronavirus Business Interruption Loan Scheme (CBILS) combined with traditional real estate funding against the properties.

The cousins are now proud owners of the most established family leisure business in the North East. "Actually, one of the Fitzgeralds pubs is our local! Everybody in the North East has a local which is a Fitzgeralds one way or another," Michael said.

It's important to the Ladhars that the Sir John Fitzgerald group of pubs maintains its heritage, and that it be developed and invested in for the longer term.

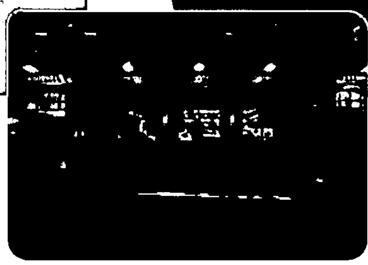
"If we hadn't been the acquirers, almost certainly the chain would have been carved up after being together for over a hundred years," observed Michael.

"I think we'll reflect back once the sites are all up and trading and know that Cynergy Bank were there when we needed them to be, to facilitate a deal which will be important to the North East."

Case study: Ladhar Group/Project Knight Ltd

"I was really impressed by the responsiveness of Cynergy Bank, and the decision making. I found the process to be quite nimble; the Bank was able to react quickly to any issues that came up"

Michael Ladhar



OUR PEOPLE

2020 was a successful but hugely challenging year for Cynergy Bank and our people

As with all businesses, the Covid crisis has placed significant demands on our team, who have responded magnificently. We are immensely proud of the resilience, commitment and versatility they have shown and the role they have played in supporting our customers, and each other, through this unprecedented period.

From the outset the wellbeing of our employees and their families was core to how we responded to this crisis. Specific initiatives included:

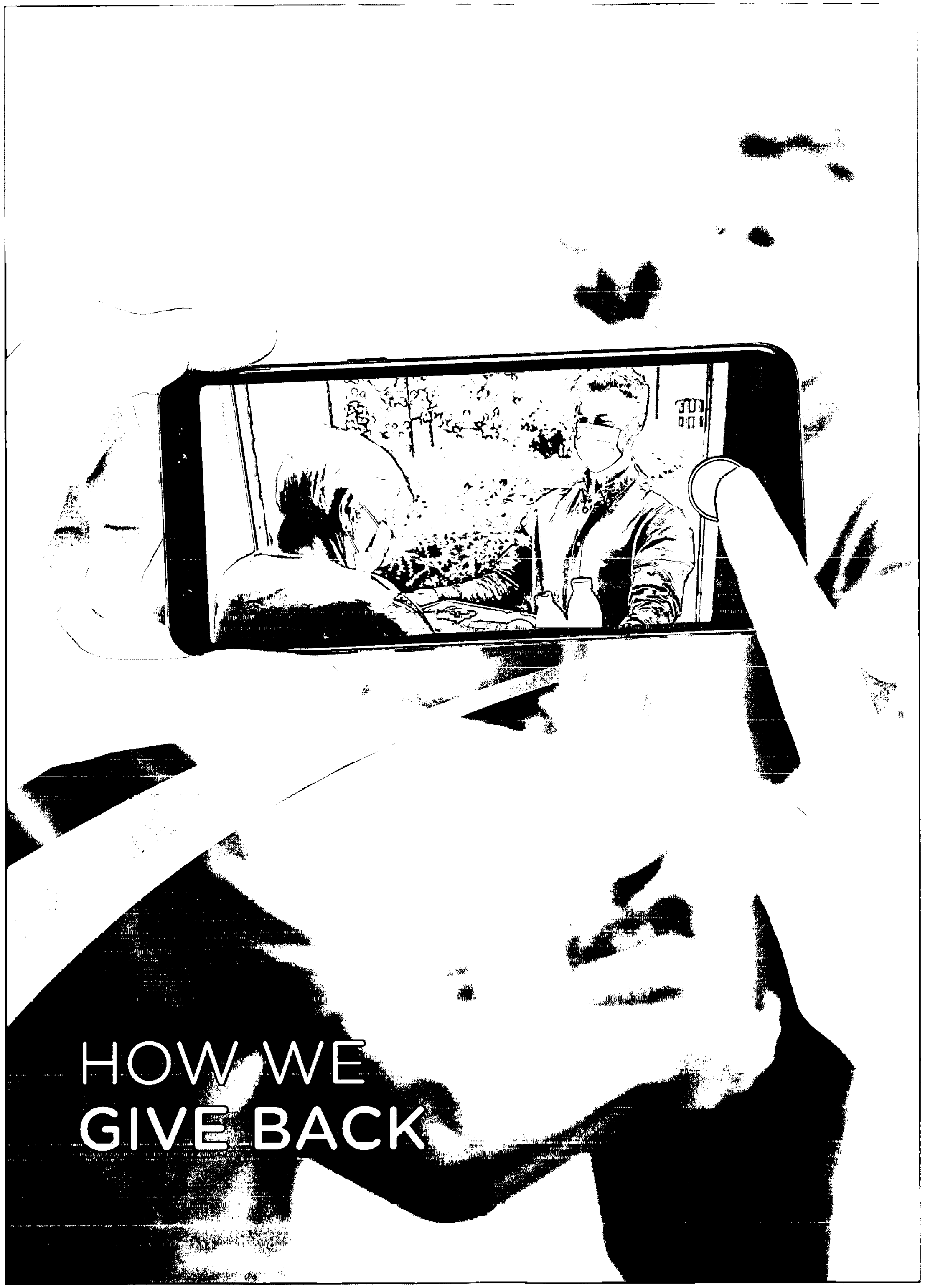
- Supporting employees to work effectively and safely from home by providing support with equipment, conducting remote risk assessments and providing home-working guidance
- Increased employee communications via daily video meetings and fortnightly calls with our CEO
- Introduced a new 'Wellbeing Hub' with videos and guides to support physical and mental health
- Introduced an improved Employee Assistance Programme offering our people immediate access to professional support on a range of medical, legal and domestic issues
- Appointed Mental Health Champions across our business and commissioned a series of videos on maintaining good mental health and wellbeing
- Launched our virtual 'Coffee club', randomly linking employees across the business for a coffee and a chat on non-work related subjects
- Opened the "Everybody's Inn" - our virtual pub which has housed quiz nights, bingo, art competitions etc
- Held a virtual mid-year event for all staff with Katie Piper as our guest speaker on overcoming adversity and staying positive
- Gifts emailed to employees to treat their families during lockdown
- Increased our carry over entitlement for holidays to ensure employees were not penalised by not being able to take their planned break
- All employees were awarded a one-off payment of £500 net by the Board to acknowledge their contribution during the year

In keeping with our values, our team also focused on those in need at this time with various initiatives to support family members and friends working in frontline NHS roles and vital fund raising for our chosen charity, Noah's Ark Children's Hospice (see 'How we give back').

Finally, during the year, we conducted various pulse surveys amongst our team to check on how they felt we were responding to the crisis. In our 2020 year-end engagement survey:

- 90% agreed that the Bank has responded well to the Covid crisis so far
- 86% agreed that the Bank cares about their health and wellbeing and have felt well supported

We are proud that our colleagues felt well supported during 2020 and are immensely grateful for all their efforts in this most challenging of years.


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 2020 were as follows:

i. Become carbon neutral
ii. Reduce our paper usage by 50%
iii. Obtain the ISO 14001:2015 certification

Following our 2019 independent assessment completed by Carbon Footprint Ltd which showed a reduction of 286T, an over 50% improvement from 2018, we have now offset our entire carbon footprint by investing in tree planting both in the UK and Amazon Rainforest.

We have now been awarded "Carbon Neutral Plus" certification.

Our paper usage decreased by 65% from 2019. Although this is partly due to the majority of staff working from home in 2020, we hope to continue this trend when we return to the office-based environment by upgrading printing systems and other technology, and a review of our current paper-based processes.

In November we were awarded the ISO 14001:2015 certification. This demonstrates our commitment to continuous improvement and reducing our environmental impact. The ISO 14001 standard provides a systematic framework for integrating environmental management practices by supporting environmental protection, pollution prevention, waste minimisation as well as energy and materials consumption reduction.

We continue to partner with a recycling company and anything that cannot be recycled is incinerated to produce energy. Absolutely none of our waste goes to landfill.

In 2020 we achieved the following:

- 2,325kg of materials were recycled
- 21 trees saved
- 1,625kg of waste turned into 931kWh of energy
- 3 tonnes of CO_2 saved

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.

Covid meant 2020 was a difficult year for Noah's Ark. We were therefore very proud to be able to help them through various fund-raising including our virtual exercise challenge and supporting their 'Moments that Matter' campaign raising £15,000 to support provision of nursing and care staff.

Schools Artwork Project

We work with the art departments of local state schools, using our office space as a gallery for the talents of their GCSE students. We organise the framing and display of students' works and, when possible due to Covid restrictions, we 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.

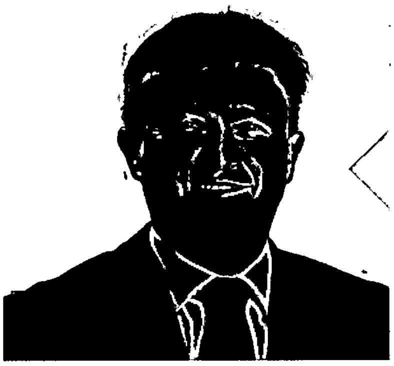
Give as you Earn

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

Governance Structure

Board of Directors

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

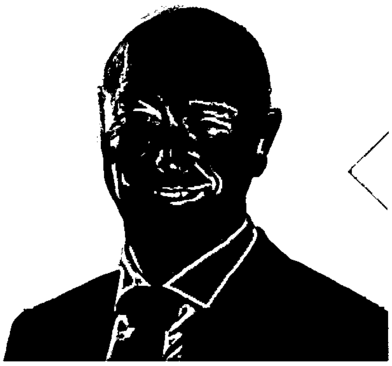


Nick Fahy
Chief Executive
Appointed to the Board in January 2016

Kim Rebecchi
Independent Non-Executive Director, Chair of Risk Committee
Appointed to the Board in May 2017

Mike Newman
Independent Non-Executive Director, Chair of Audit Committee
Appointed to the Board in September 2019

Bal Sohal
Non-Executive Director
Appointed to the Board in September 2018 following the acquisition of the Bank by Cynergy Capital



Euan Hamilton
Senior Independent Non-Executive Director, Chair of Remuneration, Nominations & Corporate Governance Committee
Appointed to the Board in March 2016

Francesca Hampton
Chief Financial Officer
Appointed to the Board in September 2017

Carole Berndt
Independent Non-Executive Director
Appointed to the Board in October 2019

Pradip K Dhamecha
Non-Executive Director
Appointed to the Board in September 2018 following the acquisition of the Bank by Cynergy Capital

Philip Nunnerley, Chairman

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 Officer

Nick Fahy is Chief Executive Officer of Cynergy Bank, the UK's human digital bank serving the needs of 'scale up' or medium sized and fast growing SMEs, professionals, high net worth and mass affluent individuals. He is a highly experienced financial professional having worked within the banking sector for over 20 years across the UK, Ireland and Australia.

Nick has been CEO of the Bank since December 2015. During his tenure he has overseen the acquisition of Bank of Cyprus UK by Cynergy Capital Limited in November 2018, and the rebrand to Cynergy Bank in December 2018. The acquisition forms part of his ambitious plans for the future of Cynergy Bank, enabling the Bank to grow its franchise across the UK and internationally and redefine banking with the human digital bank. The Cynergy Bank human digital model transforms banking for customers who still value a face-to-face relationship enabled by the latest digital technology. Nick signed a partnership with Wipro to continue to evolve the human bank.

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, and managing director for Northern Ireland; and MD for the bank's Post Office's UK-wide financial services operation.

Francesca Hampton, Chief Financial Officer

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

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

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

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

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

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 Generale.

Carole Berndt, Independent Non-Executive Director

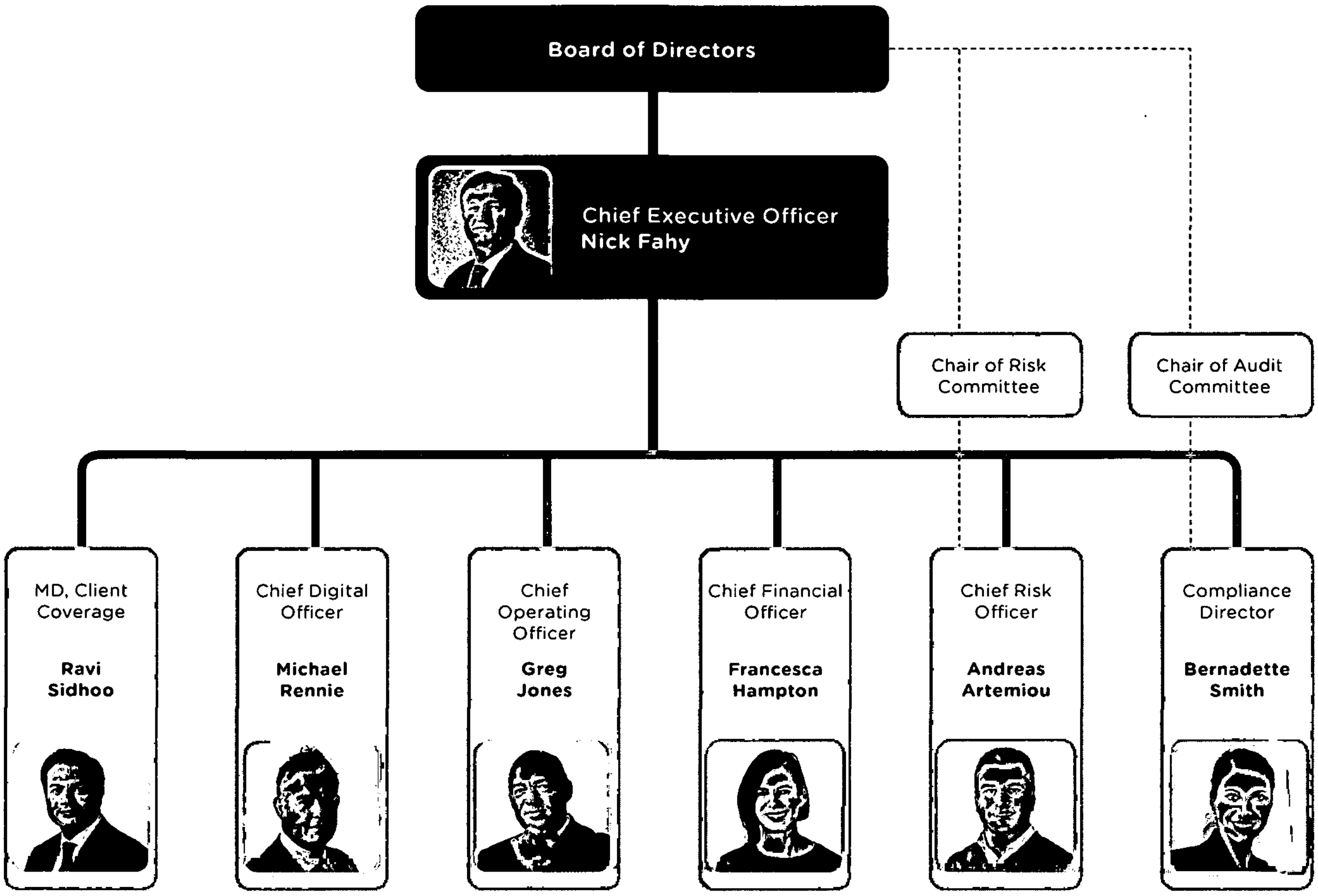
Carole has an extensive banking career and has led large transaction banking businesses across the globe including at ANZ in Hong Kong, RBS and Bank of America Merrill Lynch in London, and Citigroup in New York.

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



The Cynergy Board has a policy to promote diversity within the Bank and particularly within the Board itself and the Executive team. The Remuneration, Nomination and Corporate Governance Committee will be reviewing the Hampton-Alexander Review published in February 2021 in detail, and it is noted that currently the Board with three female Directors has a 33.33% female representation which is marginally ahead of FTSE 250 target of 33%, the closest comparable to the Bank. In terms of the Executive Committee the percentage of female Executives currently stands at 28.5% which is in line within FTSE 250 which stood at 28.5% in 2020.

The Board is aware that there is still room to improve in increasing both female and ethnic minority representation within the Board and Senior Management as well as having a good blend of age and skills in order to continue to make good balanced and informed decisions for the organisation.

Directors' Report

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

Principal activities

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

Financial results

The results of the Bank for the year ended 31 December 2020 are set out in the income statement on page 56, showing profit after tax of £20,828k (2019: £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 financial statements were signed. Consideration was given to the following: capital requirements, liquidity, profitability, business continuity and reliance on outsourced suppliers, the continuing impact of Covid and the legacy customer remediation provision. 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 46.

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 2020 the Bank fully met all its regulatory liquidity requirements including the LCR and Net Stable Funding Ratio (NSFR).

Dividends

The Bank did not pay a dividend in 2020 (2019: £299,999).

Future developments

Following the adoption of a new four year strategic plan in 2019 the Board reviewed and updated the plan in December 2020 with an emphasis on building out the human digital banking platform with technology partners and fintechs. 2021 will see the first phase of that project delivered for the benefit of customers.

Events after the reporting period

There are no 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. Derivatives are used for hedging purposes only, not for trading or taking speculative positions. Details of financial instruments are provided in note 16 of the financial statements.

Directors' Report

Human resources

The Bank employed an average of 235 permanent employees during 2020. (2019: 246). During the year, given the exceptional circumstances under Covid, the Bank invested a lower amount of £55,590 (2019: £187,477) in staff development.

Board of Directors

Full details of the Board of Directors are shown on pages 39 and 40.

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 auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Bank's auditors, 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 auditors are aware of that information.

Auditors

PricewaterhouseCoopers LLP continue as auditors of the Bank. The Bank is a private limited company and under the Companies Act 2006 is not required to appoint auditors annually.

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.

The Board of Directors has delegated a number of its responsibilities to four 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
- Reviewing the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)

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 £100 ordinary shares of a UK company, Cynergy Connect Technologies Ltd, incorporated on 30 July 2020 in England and Wales, company number 12779777, registered office 27-31 Charlotte Street, London, W1T 1RP. The company is not yet operating. On 3 November 2020, the subsidiary Bank of Cyprus Financial Services Limited (BOCFS), a previously appointed representative of Legal & General Partnership Services Limited was dissolved.

Charitable donations

During 2020 the Bank made charitable donations totalling £8,957 (2019: £6,533).

Political donations

During 2020 the Bank did not make any political donations (2019: £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

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 accounting standards in conformity with the requirements of the Companies Act 2006 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, 5] - *Chairman*
Nick Fahy[4, 5] - *Chief Executive Officer, Executive Director*
Euan Hamilton[1, 2, 3, 5] - *Senior 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, 5] - *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
Carole Berndt[1] - Independent Non-Executive Director

Other senior executives

Andreas Artemiou[4] - *Chief Risk Officer*
Michael Rennie[4] - *Chief Digital Officer*
Greg Jones[4] - *Chief Operating Officer*
Ravi Sidhoo[4] - *Managing Director, Client Coverage*
Bernadette Smith[4] - *Compliance Director*

[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
[5] Member of the Board Credit Committee

Company secretary

Paul Jordan

Independent auditors

PricewaterhouseCoopers LLP
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

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, a private company limited by shares.

www.cynergybank.co.uk

Contents

Cynergy Bank

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 2020 and of its profit and cash flows for the year then ended;

- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; 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 under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, and other qualitative factors.
- Our audit plan was discussed with the Board Audit Committee in September 2020 and updates were provided to the Committee at later stages of the audit. We discussed the key audit matters with the Committee at the conclusion of the audit.

Key audit matters

- Recognition of revenue on loans and advances
- Expected credit loss allowance for loans and advances to customers
- Impact of COVID-19

Materiality

- Overall materiality: £1,957,900 (2019: £1,665,500) based on 1% of net assets.
- Performance materiality: £1,468,400.

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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical or prohibited business practices, 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 of inappropriate journal entries and management bias through judgements and assumptions in significant accounting estimates, in order to manipulate the financial information and position of the company. Audit procedures performed by the engagement team included:

- Enquiries of the Board Audit Committee, Internal Legal Counsel, Chief Compliance Officer, Internal Audit and key members of the executive management team, 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 expected credit loss allowance for loans and advances to customers, and revenue recognition from the effective interest rate adjustments (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted by senior management, journals whose description indicate a higher level of risk, and testing period end adjustments; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Privileged access to IT systems, which was a key audit matter last year, is no longer included because of changes to our audit approach in the current year, in which we enhanced our focus on substantive audit testing, whilst reducing our focus on testing the company's controls. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	*How our audit addressed the key audit matter*
Recognition of revenue on loans and advances Refer to the company's accounting policy in note 3.4, and management's significant assumptions and estimates set out in note 4. The primary source of revenue for the company is loan interest income. 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, over the underlying loans' expected lives. Effective interest rate adjustments are modelled separately for each category of loans, based on underlying characteristics of loans, but using the same underlying methodology. Expected life assumptions are applied to each category of loans, and are formed using actual experience of redemptions and customer behaviours.	We have updated our understanding of the end to end lending processes, systems and controls, including those over the effective interest rate ("EIR") adjustments. We also evaluated the design and implementation of the key controls. We performed substantive testing over recorded interest income, 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 method and calculations used in measurement of the effective interest rate. We tested key data inputs and assumptions to supporting documentation, and performed sensitivity analyses, to assess whether assumptions used were appropriate. Based on the work performed, we found the methodology, judgements and assumptions used to be appropriate and materially compliant with the requirements of IFRS 9.
Expected credit loss allowance for loans and advances to Customers Refer to the company's accounting policy in note 3.11, and management's significant assumptions and estimates set out in note 4. The allowance represents management's best estimate of expected credit loss ("ECL") at the balance sheet date. The identification and the determination of allowances is inherently judgemental. Under IFRS 9 management is required to determine ECLs that are expected to occur based on possible default events over a 12 month period or the remaining life of the asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination or whether the borrower is in default. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. Management uses a model and post model adjustments ("PMAs") to achieve compliance with the requirements of IFRS 9. The determination of ECLs is complex and a number of significant judgements, which are set out below, are involved in the estimation process. The COVID-19 pandemic has impacted many individuals and businesses and their ability to operate normally. The economy has contracted and unemployment has begun to increase, although government support schemes have offset some of the impact of the disruption. There continues to be significant uncertainty regarding the path to recovery and the impact on the ability of borrowers to repay. As at the year end, the company has experienced only a low level of defaults. The additional allowances for impairment therefore mainly comprise an increase in the estimated expected credit losses resulting from the deterioration in economic outlook.	We have updated our understanding of the end to end processes, systems and controls, over the measurement of expected credit loss allowance. We also evaluated the design and implementation of the key controls. We identified some instances where controls were not designed or implemented effectively. We discussed these with the Board Audit Committee and performed procedures to respond to the relevant risks. <u>Significant model assumptions and judgements</u> We assessed whether the IFRS 9 ECL model methodologies used by management were appropriate, making use of our credit risk modelling specialists and our industry knowledge. This included an evaluation of the ability of the models to appropriately reflect the impact of the COVID-19 pandemic on certain model assumptions, as well as the criteria set by management for determining whether there had been a SICR. When evaluating the SICR criteria, we also considered the treatment of borrowers granted payment concessions in the period. We independently recalculated critical model components and re-performed the calculation of modelled ECL. We assessed whether the ECL calculations were consistent with the approved model methodologies. We independently performed key aspects of model monitoring relating to model performance, segmentation and stability. We critically assessed the monitoring results. We found no exceptions in this work. <u>Forward looking economic scenarios and scenario probability weightings</u> We used our economics experts and credit risk modelling specialists to critically assess the reasonableness of the

Management introduced new post model adjustments ("PMAs") in 2020, and also updated significant assumptions and judgements in existing PMAs where they considered the impact of the pandemic is not reflected through modelled ECLs. We consider the appropriateness of the model methodologies, including their ability to reflect the impact of COVID-19 through appropriate calibration of existing assumptions, and the following judgements and assumptions used in the determination of the modelled ECL to be significant: • Setting of appropriate thresholds for what represents a SICR; • The determination of forward looking macroeconomic scenarios and the probability weights applied to ECLs associated with each scenario; • The completeness and appropriateness of PMAs to address data and model limitations, such as certain impacts of the COVID-19 pandemic on ECLs.	multiple economic scenarios and scenario probability weightings adopted by management. We considered external economic data and consensus forecasts and whether management's forecasts appropriately reflected the possible economic consequences of the outcome of trade negotiations with the EU and the pandemic, including different possible paths that the pandemic could take. In particular, we challenged the appropriateness of the downside scenarios and the changes to probability weightings reflected in the allowance. As part of our testing of the scenario probability weightings implemented, we considered the inferred GDP 'time to recovery' for each scenario based on historic distribution and made a comparison to other external consensus forecasts. We observed that generally the company assigns a higher weighting to a slower recovery than the historical distribution would imply. We concluded that this is broadly consistent with external forecasts and reflects the unique nature of the current economic crisis. It is also reflective of the updates made by management to the scenario weightings in response to the third national lockdown, vaccination rollout challenges and outcome of the trade negotiations with the EU. We found that the change to scenario weights appropriately captured the additional economic uncertainty created by these three factors. Similarly, we challenged the severity of downside scenarios and the loss distribution implied by these scenarios. We found that the introduction of a fourth scenario improved the loss distribution of modelled ECLs. Further, we found the selection of this scenario appropriate in the context of the range of scenarios selected and the probability weightings assigned across the four scenarios. Overall, we concluded that management's scenarios and associated scenario probability weightings were reasonable. Post model adjustments (PMAs) We considered whether management had identified PMAs where risks were not captured in the modelled loss allowances, and whether appropriate methodologies were applied in their calculation. This included a new PMA introduced to address operational and timing limitations related to forward looking information noted above, and changes to existing PMAs to address modelling limitations highlighted by the economic conditions caused by the pandemic. Overall, we were satisfied with the PMAs included in the estimate of ECL. Based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of the ECLs to be reasonable, and the financial statement disclosures to be materially compliant with the requirements of IFRS.
Impact of COVID-19 Management has assessed the impact of COVID-19 on the company in the Strategic Report.	We discussed the impact of COVID-19 on the company with the Board Audit Committee during the year. Our planning and execution of the audit has given specific consideration to the impact of COVID-19.

The impact of the COVID-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The COVID-19 pandemic has also changed the way that companies operate their businesses, with one of the most substantial impacts being the transition to remote working. A substantial proportion of the company's employees have been working remotely during 2020, with some consequential changes on their processes and the control environment, some of which were relevant for financial reporting purposes. Our audit team has also been working remotely for most of 2020. The roll out of vaccines has created an expectation that the restrictions will be eased in the foreseeable future. However, there remains uncertainty about the future mutation and spread of the disease, the extent and impact of government measures and economic outlook. The impact of the COVID-19 pandemic and resulting uncertainty has required consideration in relation to a number of the estimates in the company financial statements, such as the determination of ECLs, EIR adjustments and impairment of non-financial assets.	We considered the impact of COVID-19 on the company's control environment through our audit testing and inquiries of management. We reflected any changes in our audit approach. We also adapted our own working practices to remote working and ensured we gathered appropriate audit evidence. The impact of COVID-19 on the most significant accounting judgements and our audit is set out in the expected credit loss allowance for loans and advances to customers key audit matter. We have reviewed management's going concern assessment as described in the section 'Conclusions relating to going concern' later in this opinion. This included consideration of the capital and liquidity resources of the company, and its operational arrangements. As a result of these procedures we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of these 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 based in the UK. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, and other qualitative factors. 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	£1,957,900 (2019: £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 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 use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,468,400 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £97,000 (2019: £83,250) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the company operates;
- Evaluation of the company's regulatory capital and liquidity positions and forecasts thereof, regulatory correspondence and reports provided to Board Risk Committee;
- Evaluation of the results of stress testing performed by management;
- Substantiation of the company's capital and liquidity resources, and liquidity facilities available to the company, for example from the Bank of England; and
- Reviewing the appropriateness of the disclosures in the Annual Report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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 Directors' Responsibilities in respect of the financial statements, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2019 to 31 December 2020.

Darren Meek

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2021

Income statement and statement of comprehensive income

For the year ended 31 December 2020	Notes	2020 £000	2019 £000
Interest income calculated using the effective interest method	5	**103,143**	81,861
Other interest and similar income	5	**729**	597
Interest expense calculated using the effective interest method	6	**(26,915)**	(26,348)
Net interest income		**76,957**	56,110
Fee and commission income	7	**1,814**	2,364
Foreign exchange (losses) / gains	8	**(1,626)**	424
Fair value gain on derivative instruments	9	**1,180**	100
Total operating income		**78,325**	58,998
Staff costs	10	**(23,715)**	(26,015)
Depreciation, amortisation and impairment	11	**(4,446)**	(1,274)
Other operating expenses	12	**(18,162)**	(14,846)
Total operating expense before customer redress provision		**(46,323)**	(42,135)
Provision for customer redress	24	**-**	-
Profit before credit loss expense on financial assets		**32,002**	16,863
Credit loss on financial assets	13	**(4,986)**	(292)
Profit before tax		**27,016**	16,571
Income tax expense	14	**(6,188)**	(3,052)
Profit after tax		**20,828**	13,519
Other comprehensive (expense) / income not to be reclassified to profit or loss:			
Revaluation of own properties	21	**(1,227)**	1,024
Income tax relating to own properties	14	**536**	105
Total other comprehensive (expense) / income		**(691)**	1,129
Total comprehensive profit for the period attributable to the equity holders		**20,137**	14,648

The notes on pages 61 to 123 form an integral part of these financial statements.

Statement of financial position

As at 31 December 2020

	Notes	2020 £000	2019 £000
Assets			
Cash and balances with central banks	15	**246,256**	111,754
Placements with banks	15	**44,784**	63,265
Loans and advances to customers	17	**2,613,962**	2,264,381
Other assets	18	**4,886**	5,788
Derivative assets	16	**31**	482
Intangible assets	19	**19,712**	9,804
Right of use assets	20	**242**	87
Property and equipment	21	**13,573**	7,514
Assets classified as held-for-sale	21	**-**	8,819
Investment in subsidiary	31	**-**	10
Total assets		**2,943,446**	2,471,904
Liabilities			
Customer deposits	22	**2,352,241**	2,227,678
Bank deposits	23	**340,131**	25,063
Provision for customer redress	24	**132**	1,164
Lease liabilities	20	**261**	110
Other liabilities	25	**24,378**	20,937
Derivative liabilities	16	**772**	673
Subordinated loan	26	**29,744**	29,629
Total liabilities		**2,747,659**	2,305,254
Equity			
Share capital	27	**155,000**	146,000
Revaluation reserve		**1,674**	2,435
Accumulated profits		**39,113**	18,215
Total equity		**195,787**	166,650
Total liabilities and equity		**2,943,446**	2,471,904

The notes on pages 61 to 123 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 12th April 2021 and were signed on its behalf by:

N. J. Fahy

Nick Fahy
Chief Executive Officer

Company number 04728421

Statement of changes in equity

For the year ended 31 December 2020

	2020			
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total £000
1 January	**146,000**	**2,435**	**18,215**	**166,650**
Profit for the year after tax	**-**	**-**	**20,828**	**20,828**
Other comprehensive expense	**-**	**(761)**	**70**	**(691)**
Issue of share capital (note 27)	**9,000**	**-**	**-**	**9,000**
31 December	**155,000**	**1,674**	**39,113**	**195,787**

For the year ended 31 December 2019

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

*Property revaluation reserve

The notes on pages 61 to 123 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Operating activities			
Profit before tax		**27,016**	16,571
Adjustments for:			
Allowance for expected credit losses on financial assets	13	**4,986**	292
Depreciation of property and equipment	11	**1,301**	773
Amortisation of intangible assets	11	**3,070**	501
Impairment of fixed and intangible assets	19, 21	**77**	-
Gain on disposal of property		**(30)**	-
Dissolution of subsidiary	31	**10**	-
Interest on subordinated loan	26	**2,406**	2,400
Lease interest	20	**18**	8
Amortisation of issuance costs relating to subordinated loan	26	**115**	105
Tax paid	14	**(5,255)**	(2,087)
Foreign exchange and fair value losses / (gains) on derivative instruments	8, 9	**446**	(424)
Changes in operating assets			
Increase in mandatory deposits with central bank	15	**(1,969)**	(1,081)
Increase in loans and advances to customers	17	**(354,567)**	(595,750)
Decrease in other assets	18	**1,647**	11,245
Decrease / (increase) in derivative assets	16	**451**	(376)
Increase in accrued income and prepaid expenses	18	**(744)**	(602)
Changes in operating liabilities			
Increase in customer deposits	23	**439,631**	489,847
Decrease in other liabilities and provision for customer redress	25	**(4,128)**	(8,660)
Increase in derivative liabilities	16	**99**	420
Increase in accrued expenses	25	**3,329**	2,908
Net cash flow generated from / (used in) operating activities		**117,909**	(83,910)
Investing activities			
Purchase of property and equipment	21	**(230)**	(387)
Purchase and development of intangible assets	19	**(12,992)**	(8,400)
Proceeds of sale of property	21	**531**	-
Net cash flow used in investing activities		**(12,691)**	(8,787)
Financing activities			
Proceeds from issuance of new share capital	27	**9,000**	15,000
Capital repayment from finance lease obligations	20	**(166)**	(58)
Dividend paid		**-**	(300)
Net cash flow generated from financing activities		**8,834**	14,642
Net increase / (decrease) in cash and cash equivalents for the year		**114,052**	(78,055)

Statement of cash flows - continued

For the year ended 31 December 2020	2020 £000	2019 £000
Cash and cash equivalents (see note 15)		
1 January	**171,255**	249,310
Net increase / (decrease) in cash and cash equivalents for the year	**114,052**	(78,055)
31 December	**285,307**	171,255
Operational cash flows from interest		
Interest paid	**24,391**	23,879
Interest received	**95,417**	78,086

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 61 to 123 form an integral part of these financial statements.

Notes to the financial statements

1 Corporate information

Cynergy Bank Limited (the Bank) registered in England and Wales under company number 04728421, with registered office 27-31 Charlotte Street, London W1T 1RP, 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 accounting standards in conformity with the requirements of the Companies Act 2006. They have been prepared on a historical cost basis, except for land and buildings classified as property, share 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. This document contains some statements that refer to forward looking expectations and aspirations of Cynergy Bank, its strategy, and business model. The UK and global business environment has been significantly impacted by Covid during 2020. This uncertainty is likely to continue into 2021 alongside any additional challenges arising from the United Kingdom's exit from the European Union.

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 financial statements were signed. Consideration was given to the following under standard plans and under stressed scenarios: capital requirements, liquidity, profitability, business continuity and reliance on outsourced suppliers, the continuing impact of Covid and the legacy customer remediation provision. 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.

Statement of compliance

The standalone financial statements have been prepared in accordance with international accounting standards in conformity with 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

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

The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

Interest Rate Benchmark Reform (IBOR reform) Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Phase 2 of the IASB's IBOR project (published in August 2020) addresses the wider accounting issues arising from the IBOR reform. Amendments are effective for annual reporting periods beginning on or after 1 January 2021 with early application permitted.

Ahead of the cessation of LIBOR in December 2021 the Bank moved away from LIBOR referenced lending, choosing the Bank of England base rate as its alternative risk free reference rate. Significant work has been completed in adapting systems, methodologies and processes to meet the requirements of the new risk-free rate, with all new lending on this basis from November 2020.

The UK regulators (notably the Bank of England (BoE) and the Financial Conduct Authority) have issued guidance on how market participants are expected to approach transition and work is well advanced with all key milestones being met.

Customer communication is underway and this is expected to be concluded in advance of the LIBOR cessation date at the end of 2021.

The accounting impact is yet to be determined.

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

There have been no new standards or interpretations issued, but not yet adopted, that are mandatory for 31 December 2020 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.

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.

Net 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. Interest expense is recorded on financial liabilities measured at amortised cost 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 where material, 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 has met its performance obligations.

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

3.5 Net interest income

The EIR is calculated after considering all contractual terms excluding expected credit losses. Interest income is calculated by applying the EIR to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL allowance). The online easy access account (OEAA) had been previously included in the Bank EIR calculations, but in 2020 has been removed to better reflect the most appropriate practice in line with IFRS standards. This change resulted in a decrease in net interest income of £309k for 2020. The net impact of this change is not material and comparatives have not been restated.

3.6 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.

3.7 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.

3.8 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 (FVPL):

- 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 3.11. 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 income 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 a 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 would be presented separately in 'Net Investment Income'. This category is not presently applicable to the Bank. 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.

The Bank does not use hedge accounting.

3.9 Financial assets and liabilities

Cash and balances with central banks, Placements with banks, Placements with/by related entities and Loans and advances to customers

The Bank only measures Cash and balances with central banks, Placements with banks, Placements with / by related entities and Loans and advances to customers 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.

Customer deposits and subordinated loan at amortised cost

Customer deposits and subordinated liabilities are the Bank's sources of debt funding. They comprise deposits from retail customers and collateralised loan advances from the BoE under the ILTR and TSFME scheme, and a subordinated loan. These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

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'.

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 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.

The Bank does not currently have any derivatives used for trading purposes.

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.

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 3.9. 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, or the corresponding 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 arrangement.

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. 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.

3.10 Derecognition of financial assets and liabilities

IFRS 9 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 FVPL 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.

3.11 Impairment of financial assets

The impairment of financial assets under IFRS 9 is based on an expected credit loss (ECL) model 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). 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 an increase in credit risk 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 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 four 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 four scenarios: mild upside, baseline, downside and severe downside. Each of these is associated with different PDs, EADs and LGDs, as set out in iii) Use of forward-looking economic information and 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 four 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) Use of forward-looking economic 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. This has been increasingly challenging in 2020 due to the impact of the Covid pandemic and the significant levels of uncertainty this has caused during 2020. Quantitative assessments have been supported by qualitative expert judgement in the management of the Bank's portfolio and to support the identification of SICR in the book and the impact on the Bank's Expected Credit Loss (ECL) assessments. The IFRS 9 model has been updated periodically throughout the year with new macroeconomic forecasts and wider risk monitoring utilised to identify areas of risk that is not fully accounted for in the Bank's modelled outputs.

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 a market leader in global forecasting and quantitative analysis to ensure that the economic updates made to its inputs are aligned to market best practice estimates. During 2020 the Bank added a fourth scenario to its macroeconomic forecasting, the 'severe downside' scenario was added to the 'base', 'mild upside', and 'downside' scenarios strengthening the non-linearity of the Bank's ECL calculation. Further, the Bank reviewed the selection of economic variables in the model as part of the ongoing improvements and validation work.

Scenario	UK economy output in each scenario
Base (50th percentile)	• Risks to the outlook remain skewed to the downside with the UK not reaching a yearly growth of 1.3% (pre-pandemic levels) or having a noticeable recovery until the middle of 2021 with the forecast conditional on medical advances becoming widely available in the middle of 2021 that allow global activity to move towards full capacity. • The forecast represents an incomplete V-shaped recovery, with growth initially recovering but remaining relatively subdued. • The economy experiences permanent scarring, with output forecast to remain around 3.3% below its pre-crisis level in the long run. • Unemployment forecast rises to 6.9% by mid-2021 – the fastest rise since records began which is still below the consensus forecast. A fast increment affected by significant drivers such as: an expected removal of government support schemes, the Brexit withdrawal agreement, uncertainty is also expected to weigh on labour demand etc. • Residential house prices are forecast to see some contraction from next year, however, remain robust in 2021 as recent price momentum has been stronger than expected. The model forecasts a start-to-trough decline of around 8%, reflecting the large hit to incomes and to the labour market and the impact of stamp duty holiday. • The large-scale fiscal easing continues to be integrated with ample monetary policy support. Bank Rate is forecasted to be held flat at its current level of 0.1% until middle of 2024. Thereafter we expect rates to be increased at very slow pace until reaching their terminal rate of 1.75% towards the end of 2030
Mild upside (15th percentile)	• In this GDP recovers its pre-crisis trend by end-2022, supported by more expansionary policy in the form of structurally large fiscal deficits. • Unemployment peaks at 6.3% in Q4 2020 and declines thereafter, reverting to its pre-crisis level by Q3 2023. • Supported by the turnaround in confidence, and only temporary scarring of the labour market, residential house prices avoid a decline in 2021 and only see a mild contraction in 2022. • Thereafter prices start to rebound amid recovering incomes and lower unemployment, which outweigh slightly higher interest rates.
Downside scenario (85th percentile)	• In the downside scenario, UK output recovers slowly and fitfully from the pandemic-inflicted recession. Output falls again in Q4 2020 and in Q1 2021 as consumer confidence remains severely dampened and many businesses remain shut or operate at significantly reduced capacity. • The unemployment rate continues to rise into 2021 and peaks at 8.8% in Q2 2021 - a level last seen around a decade ago in the midst of more austere fiscal policy. • To counter the historic recession, the MPC further eases its policy stance and eventually decides to lower Bank Rate below 0. In Q3 2021 the MPC lowers Bank Rate to -0.25% and only returns it into positive territory six years later. • Despite lower interest rates, increased unemployment introduces forced sellers into the residential property market. House prices fall sharply, by 28% peak-to-trough from Q4 of 2020 until Q4 of 2023 and only recover slowly thereafter.

Scenario	UK economy output in each scenario
Severe downside scenario (95th percentile)	• The severe downside scenario sees a sharp worsening in the contraction in output in Q1 2021 resulting in a decline in output of 8.8%. By the end of the Q4 of 2029 the economy remains nearly 10% smaller compared to the pre-crisis base case, and around 7% smaller compared to the current baseline. • Unemployment surges to over almost 10% in Q2 2021, 2.8% higher than in the baseline and around 1.3% higher than the post-GFC peak. • The MPC decides to cut rates deep into negative territory, lowering Bank Rate to -0.5% by Q4 2021, and keeping rates negative until the end of the decade. • House prices fall by more than 39% peak-to-trough (Q3 of 2019-Q3 of 2023), pushing them below the 2009 trough, reflecting the unparalleled hit to incomes, significantly impaired confidence levels and tighter access to credit.

MIG and Housing Equity

Part of the variables included in current model are Mortgage Interest Gearing and Housing Equity. Mortgage Interest Gearing captures multiple channels that can impact on affordability and creates a Weighted Average Interest Rate for Households regardless of whether they have a mortgage and provides an overview of the level of mortgage debt in the UK economy. Housing Equity is similar to loan-to-value (LTV) and provides a market view of the undrawn equity in the market.

Model Scenario Probability Weightings

The probability weightings assigned to the economic scenarios at December 2020, before the post model adjustment were as follows:

Mild Upside	Base	Downside	Severe Downside
30%	50%	10%	10%

As opposed to the 2019 weightings of:

Mild Upside	Base	Downside
30%	40%	30%

The Bank's ECL model relies on a broad range of forward-looking information as economic inputs and these are reviewed on a regular basis to ensure that they remain representative of the portfolio and provide an appropriate forecast through econometric techniques. These variables were subject to review in 2020 and the model has been updated accordingly. The most significant period-end assumptions used for the ECL estimate as at 31 December 2020 are as follows:

2020		GDP	HPI	CRE	Bank Rate	Unem-ployment	Mortgage Interest Gearing	Equity
Base scenario economic parameters								
5 Year Average increase/decrease	%	14.94	(3.97)	4.2	0.06	(1.35)	0.07	(3.86)
Cumulative growth/(fall) to peak/(trough)	%	2.38	(8.39)	0.74	-	0.66	(4.06)	(0.67)
Mild Upside economic parameters								
5 Year Average increase/decrease	%	19.75	4.98	9.87	0.75	(2.21)	18.92	(2.09)
Cumulative growth/(fall) to peak/(trough)	%	7.66	(2.48)	3.13	0.08	(0.8)	(2.35)	0.14
Downside economic parameters								
5 Year Average increase/decrease	%	9.07	(20.72)	(5.04)	(0.33)	0.92	1.47	(10.62)
Cumulative growth/(fall) to peak/(trough)	%	(3.17)	(4.25)	(9.66)	(0.35)	2.54	(5.17)	(1.89)
Severe Downside economic parameters								
5 Year Average increase/decrease	%	5.81	(29.15)	(10.1)	(0.56)	1.45	(1.22)	(15.62)
Cumulative growth/(fall) to peak/(trough)	%	(6.38)	(6.02)	(15.61)	(0.6)	3.46	14.14	(2.58)

2019		GDP	HPI	CRE	Bank Rate	Unem-ployment	Mortgage Interest Gearing	Equity
Base scenario economic parameters								
5 Year Average increase/decrease	%	4.40	7.00	4.07	0.48	(0.15)	23.32	0.23
Cumulative growth/(fall) to peak/(trough)	%	0.17	0.45	0.10	-	0.04	0.76	(0.07)
Mild Upside economic parameters								
5 Year Average increase/decrease	%	7.43	17.64	10.30	1.01	(0.51)	52.36	2.66
Cumulative growth/(fall) to peak/(trough)	%	0.54	3.15	1.16	-	(0.07)	5.02	0.88
Downside economic parameters								
5 Year Average increase/decrease	%	0.33	(11.33)	(3.78)	(0.23)	1.72	1.67	(4.80)
Cumulative growth/(fall) to peak/(trough)	%	(0.81)	(16.60)	(5.95)	(0.50)	0.23	(5.31)	(1.10)
Severe Downside economic parameters								
5 Year Average increase/decrease	%	(1.87)	(20.71)	(8.09)	(0.56)	2.01	1.68	(8.75)
Cumulative growth/(fall) to peak/(trough)	%	(3.11)	(4.31)	(11.58)	(0.65)	0.30	41.88	(1.75)

The below table demonstrates the gross carrying amount and the effect on ECL resulting from applying a 100% weighting to the scenarios applied in the calculation of our ECL model (base, mild upside and downside and severe downside). The below demonstrates the weighted year end 2020 position is skewed to the downside and beyond our baseline output. This accounts for the downside risks that exist in the market and continued uncertainty that is not fully accounted for in the baseline economics output.

As at 31 December 2020	Weighted	Mild Upside	Baseline	Downside	Severe Downside
Gross exposure £000					
Business	313,070				
Property	2,085,077				
Private	215,815				
ECL £000					
Business	1,331	1,163	1,257	1,620	1,918
Property	6,855	5,445	6,031	8,408	10,766
Private	361	297	333	466	586
Proportion of ECLs in stage 2 (%)					
Business	59%	63%	61%	54%	50%
Property	34%	31%	31%	37%	41%
Private	8%	9%	8%	7%	6%

As at 31 December 2019	Weighted	Mild Upside	Baseline	Downside	Severe Downside
Gross exposure £000					
Business	272,485				
Property	1,804,972				
Private	227,238				
ECL £000					
Business	839	809	832	876	
Property	2,593	2,361	2,534	2,904	
Private	308	285	302	340	
Proportion of ECLs in stage 2 (%)					
Business	3.81%	3.10%	3.55%	4.78%	
Property	11.63%	10.47%	11.26%	13.00%	
Private	1.55%	1.44%	1.54%	1.65%	

The impact on ECL of exposures moving from a 12-month provisioning stage to a lifetime provisioning stage (and vice versa) occur when a loan moves between stage 1 and stage 2. This change in stages between 1 and 2 can also occur due to model economic forecasts. As the Bank's lending is primarily property financing the Bank's ECL modelling is sensitive to changes in the underlying value of the property which it takes as collateral against its loans. To test the Bank's sensitivity to changes in house prices, the macroeconomic variable HPI in the model has been run for all the scenarios, whilst the other macroeconomic variables have been held consistent with the Baseline scenario. This demonstrates the sensitivity changes to house prices could have on the Bank's ECL.

ECL Sensitivity of HPI change relative to Baseline Scenario (Difference) £000			
Stage	HPI Mild Upside	HPI Downside	HPI Severe Downside
Total	(283,867)	849,950	1,451,120

Post-Model Adjustments and Staging

The Bank utilises Post Model Adjustments ("PMA") to account for model limitations or latent risks not captured by modelled ECLs in the modelled outcome of the IFRS 9 ECL provisions. All PMAs and the methodology are subject to challenge and review through the Bank's model governance process and approved by the Board Audit Committee. At year end 2020 the following PMAs were approved to account for any material uncertainties not captured in the model output:

- **Economic judgement PMA** ensures that any material uncertainties for downside impact currently not captured fully in the model are considered in the PMA. The macroeconomic scenarios were updated at early December 2020 prior to the Government's announcements in relation to a third national lockdown, the outcome and impact of Brexit, and any possible disruption that could discourage the success of the Covid vaccine rollout. Whilst the Bank has actively managed SICR in its portfolio during the pandemic and moved exposures through the stages as appropriate, there are still a number of outcomes that remained unknown at the end of 2020 and may not be fully captured in the model. To account for this increased risk the Bank used the change in weights as a proxy for having the slightly outdated scenario before consideration of the three events previously mentioned. Reducing the weighting on the mild upside and baseline by 10% each and applying these to the 2 downsides. The application of a £595k PMA aligns to weighting the model more to a 20% mild upside / 40% baseline / 20% Downside / 20% Severe Downside.
- **Interest only and Amortising Term Loan PMA** is applied to all loans which have a significant final payment on the expiry of their facility. It is calculated by analysing the historic performance of this cohort and applying an adjusted PD to account for the increase in PD risk over the final 12-months of the loan prior to expiry.
- **Bridging Sector PMA** accounts for the increased pressure on this small segment of the Bank's loan book. It is experiencing sector specific liquidity constraints which has delayed and restricted customers refinancing strategies. The Bank believes that this market will open fully once the risk from Covid decreases, however it is in a position where it is holding these short-term loans for a longer period than planned. As this represents a heightened level of risk to the Bank, a PMA is applied to reflect that the customers may exhibit Unlikeliness to Pay (UTP) criteria in the next 12 months and a proportion of the stage 3 ECL is taken based on the Bank's expert assessment that this probability could occur.
- **Consumer Mortgages PMA** is applied to the regulated mortgages portfolio. This portfolio has not undertaken a full economic cycle and currently a new IFRS 9 model is being developed. Historically the Bank has held a 10bps PMA on the total exposure of this portfolio. To address the static methodology, the Bank has increased the PMA commensurate to the increase in the S1 ECL from the Property Finance portfolio which reflects the uplift to a comparable cohort within the modelled portfolio.
- **CBILS PMA** is applied to account for the guarantee provided by the British Business Bank (BBB) and backed by the UK Government which covers 80% of the non-recoverable outstanding amount after default, leaving the Bank liable for the remaining 20% of the non-recoverable exposure. To account for this, an adjustment is made to the loss given default (LGD) to reduce this figure by 80%. This is applied in accordance with accepted industry practice.

The cumulative impact of the PMAs at the end of 2020 is £2.0 million, an uplift of £1.37m on 2019.

Total PMA £000	"Economic judgment"	Interest only and Amortising Term Loan	Bridging Sector	Consumer Mortgages	CBILS
2019	N/A	£245	£123	£214	N/A
2020	£595	£181	£866	£314 (£83 increase in S1)	£38 (£151 decrease)

3.12 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. 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. Residential Property is revalued at least quarterly through indexation, it is also subject to physical revaluation periodically and fully revalued when entering recoveries.

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.

3.13 Write-offs

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. Write-offs are instructed by the Restructuring, Recoveries and Arrears management team ("Restructuring"), which assumed responsibility for the established Recoveries team in 2020. The team was formed in response to the worsening economic environment brought on by the Covid pandemic.

3.14 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans. These modifications can be made for commercial reasons, for example modifications have been made to contracts in relation to the transition from LIBOR as a reference rate to an alternative interest reference rate, or modifications to terms as as a response to the borrower's financial difficulties. 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.

3.15 Expected Credit Loss of financial assets

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with the assets carried at amortised cost and FVOCI and recognises a loss allowance for such losses at each reporting date.

Expected credit losses are driven by changes in credit risk of loans, with an allowance for lifetime expected credit losses recognised where the risk of default of a financial asset has increased significantly. Risk of default and expected credit losses must incorporate forward-looking and macroeconomic information.

We typically group financial assets and assess them for ECL collectively where they share risk characteristics (for example term loans and revolving credit facilities) using one or more statistical models. We calculate separate collective ECLs for financial assets in Stages 1, 2 and 3.

For more on how ECL is calculated, see the Credit Risk section in note 30.

The Bank assesses impairment aligned to its definition of default, this includes criteria such as when repayment is greater than 90 days past due or exhibiting unlikeliness to pay. The definition of default is consistent across regulatory definitions applied in the UK, non-performing loan (NPL) criteria and credit impaired stage 3.

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. The properties were last valued in December 2019, with an additional valuation carried out in December 2020 for the asset transferred back into use. 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. These assets are level 2 in the fair value hierarchy, with inputs including recent comparable evidence applying the comparative and investment methods of valuation. 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 3-5 years;
- furniture and fixtures 3 years.

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. In 2020, useful lives were adjusted for computer equipment from 5 years to 3-5 years, and furniture and fixtures from 10 years down to 3 years. There is no material incremental cost as a result of this change. 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 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.

3.20 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 - 5-10 years.

In 2020, expected useful lives were adjusted for core application software from 10 years to 5-10 years. There is an incremental cost of £1.6m in 2020, as a result of this change. Core application software is presented within computer software in note 19.

3.21 Employee benefits

3.21.1 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.

3.21.2 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.

3.22 Government grants and other assistance

Government grants and other government assistance receivables are recognised in the income statement over the period in which the Bank recognises related expenses for which the grants or other assistance are intended to compensate.

In 2020, the Bank has participated in the Coronavirus Business Interruption Loan Scheme (CBILS).

Year one payments received from British Business Bank (BBB) for CBILS arrangement fees and interest on the facilities are recognised within interest income in the income statement. Receipts are recognised as revenue in line with the contractual terms of the facilities.

The CBILS lender fee is an amount calculated in respect of each CBILS loan facility for each day such facility is outstanding, aggregated and paid to BBB on a quarterly basis, in arrears. The fee reflects the premium benefit of the financial guarantee. This is deemed to be a transaction cost and as such is an integral part of the yield on the facility, which is recognised within net interest income in the income statement.

The Bank has not received any government grants.

4 Significant accounting judgments and estimates

The preparation of the financial statements requires the Bank's management to make judgments and estimates 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 selection and application of accounting policies for the preparation of the financial statements. Critical judgments made in developing accounting estimates are included within the significant estimates section below.

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.

Allowances for credit losses

The measurement of impairment losses under IFRS 9 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 default 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 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;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- Key PMAs are also judgments and assumptions. These are documented under Post-Model Adjustments in section 3.11 Impairment of financial assets (iii) Use of forward-looking economic information.

Forward looking ECL sensitivities are detailed in note 3.11.

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. 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. Sensitivities are shown within note 24.

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 sensitivity relates to the spreading of arrangement fees on the property lending portfolio and increasing and decreasing the behavioural life of the property lending portfolio by 20%, which would result in reducing/increasing income of £1.16m / £1.26m.

Valuation of share 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 post vesting holding period of two years. The valuation of the award is calculated using a market value approach, based on the estimated value of the Bank, 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. With £100m increased lending over target, the 2020 charge would increase by £760k. If the economic conditions of the country deteriorated in line with the 2019 Bank of England's annual cyclic scenario the resultant adjustment would be a reduction to the 2020 charge of £622k.

5 Interest income

	2020 £000	2019 £000
Loans and advances to customers	**103,143**	80,888
Derivative financial instruments	**-**	973
	103,143	81,861
Other elements of interest and similar income	**729**	597
	103,872	82,458

Other elements of 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

	2020 £000	2019 £000
Customer deposits	**23,530**	22,030
Bank deposits	**789**	643
Subordinated loan (note 26)	**2,578**	2,505
Lease liabilities	**18**	8
	26,915	25,186
Derivative financial instruments	**-**	1,162
	26,915	26,348

7 Fee and commission income

Nature of good or service	2020 £000	2019 £000
Service fees for current accounts	**571**	884
Service fees for Debit / Credit cards	**315**	430
Services fees for handling payments	**127**	202
Service fees for credit administration	**84**	85
Foreign exchange	**411**	-
Other fees	**306**	763
	1,814	2,364

8 Foreign exchange (losses) / gains

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

	2020 £000	2019 £000
Foreign exchange (loss) / gain	**(1,626)**	424

9 Fair value gains on derivative instruments

	2020 £000	2019 £000
Net gains arising on derivatives (see note 16)	**1,180**	100

10 Staff costs

	2020 £000	2019 £000
Wages and Salaries	**19,191**	19,674
Social security costs	**2,178**	2,047
Retirement benefit costs - defined contribution scheme	**1,903**	2,094
Other benefits (Long term incentive plan)	**443**	2,200
	23,715	26,015

The average number of staff employed (including two Executive Directors) by the Bank during the year ended 31 December 2020 was 235 (2019: 246).

11 Depreciation, amortisation and impairment

	2020 £000	2019 £000
Depreciation of property and equipment	**1,158**	730
Amortisation of intangible assets	**3,070**	501
Depreciation of right-of-use assets	**143**	43
Impairment	**75**	-
	4,446	1,274

12 Other operating expenses

	2020 £000	2019 £000
Information technology	**6,464**	5,354
Professional fees	**6,529**	3,185
Clearing charges	**1,046**	1,108
Communication	**342**	336
Advertising	**433**	567
Premises	**867**	1,211
Printing and stationery	**81**	115
Other operating expenses – refer to analysis below	**2,400**	2,970
	18,162	14,846

Professional fees include fees payable to the Bank's auditors of £551,000 (2019: £489,000) which are analysed below (amounts excluding VAT):

Audit fees payable to the Bank's auditors for the audit of the Bank's annual accounts	**515**	465
Other assurance services	**35**	24
Other non-audit services	**1**	-
	551	489

Other non-audit services relates to subscription services permissible under the FRC Ethical Standard.

Other operating expenses are further analysed below:

Subscriptions and publications	**598**	394
Directors' fees	**399**	371
Recruitment	**475**	486
Training	**56**	187
Travel and entertaining	**205**	281
Rebranding	**113**	11
Management fees	**120**	182
Financial Services Compensation Scheme levy	**(4)**	287
Other insurances	**318**	305
Other operating expenses	**120**	466
	2,400	2,970

13 Credit loss on financial assets

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

	2020			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	**2,081**	**2,779**	**(114)**	**4,746**
Undrawn	**15**	**-**	**-**	**15**
Recoveries	**-**	**-**	**225**	**225**
Total impairment loss	**2,096**	**2,779**	**111**	**4,986**

	2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	479	(12)	(565)	(98)
Undrawn	(63)	-	-	(63)
Recoveries	-	-	453	453
Total impairment loss	416	(12)	(112)	292

14 Income tax expense

	2020 £000	2019 £000
UK corporation tax		
Charge for the year	**5,411**	3,190
Adjustments in respect of prior year	**493**	(196)
	5,904	2,994
Deferred tax		
Charge for the year	**358**	34
Adjustment in respect of prior year	**(74)**	24
Tax charge for the year	**6,188**	3,052

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 2019: 19.00%) is presented below:

Profit before tax	**27,016**	16,571
Tax calculated at 19.00% plus 8% surcharge (December 2019: 19.00%)	**5,325**	3,148
Tax effect of:		
Expenses not deductible for tax purposes	**151**	83
Tax rate change	**(56)**	(7)
Property revaluation	**349**	-
Adjustment in respect of prior year - Corporation Tax	**493**	(196)
Adjustment in respect of prior year - Deferred Tax	**(74)**	24
Tax charge for the year	**6,188**	3,052

	2020 £000	2019 £000
The net deferred tax liability arises from:		
Difference between capital allowances and depreciation	**481**	454
Property revaluation	**(916)**	(1,103)
Provision	**38**	-
Net deferred tax liability	**(397)**	(649)
The movement in the net deferred tax liability is set out below:		
1 January	**(649)**	(695)
Revaluation of properties	**536**	105
Deferred tax recognised in the income statement	**(284)**	(59)
31 December	**(397)**	(649)
The analysis of the net deferred tax charge recognised in the income statement is set out below:		
Difference between capital allowances and depreciation	**137**	(42)
Other temporary differences	**(202)**	-
Change in tax rates	**56**	7
Adjustment in respect of prior years	**74**	(24)
Deferred tax on property revaluation	**(349)**	-
Deferred tax charge for the year	**(284)**	(59)

The Bank has no unrecognised deferred tax assets.

On 3 March 2021, the Chancellor of the Exchequer confirmed as part of the Budget 2021 announcement that the corporation tax rate will increase from 19% to 25% from April 2023. This increase is expected to be enacted in the year ending 31 December 2021 and is a non-adjusting post balance sheet event. However, the Chancellor also indicated that the Government intends to legislate in Finance Bill 2021-22 to ensure that the combined rate of tax on banks' profits, which comprises the standard corporation tax rate and banking surcharge, does not increase substantially from its current level. The impact of this amendment has not yet been quantified.

15 Cash, balances with central banks and placements with banks

	2020 £000	2019 £000
Cash in hand	**1**	326
Balances with the Bank of England	**246,255**	111,428
	246,256	111,754
Placements with banks	**44,784**	63,265
Cash and cash equivalents	**291,040**	175,019

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 £5,732,865 (31 December 2019: £3,763,768) 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:

	2020 £000	2019 £000
Cash	**1**	326
Balances with the Bank of England	**246,255**	111,428
Less: Mandatory deposits with the central bank	**(5,733)**	(3,764)
Placements with banks	**44,784**	63,265
Cash and cash equivalents per the Statement of cash flows	**285,307**	171,255

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 and the preceding 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:

	2020 £000	2019 £000
Gains from change in fair value of derivatives	**1,180**	100
	1,180	100

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.

	2020			2019		
	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	**48,957**	29	(772)	51,166	480	(673)
Foreign exchange spots	**230**	2	-	84	2	-
Total exchange rate contracts	**49,187**	31	(772)	51,250	482	(673)
By maturity						
Up to 1 year	**49,187**	31	(772)	51,250	482	(673)
1 - 5 years	-	-	-	-	-	-
Over 5 years	-	-	-	-	-	-
Total exchange rate contracts	**49,187**	31	(772)	51,250	482	(673)
By counterparty						
Banks and building societies	**49,057**	29	(772)	51,166	480	(673)
Customers	**130**	2	-	84	2	-
Total exchange rate contracts	**49,187**	31	(772)	51,250	482	(673)

There were no interest rate contracts as at 31st December 2020.

17 Loans and advances to customers

	2020 £000	2019 £000
Loans	**2,609,986**	2,253,544
Overdrafts	**12,523**	14,577
	2,622,509	2,268,121
Less: Allowance for ECL/impairment losses	**(8,547)**	(3,740)
	2,613,962	2,264,381

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 £000	2020			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	**2,401,085**	**72,511**	**-**	**2,473,596**
Watch list medium risk	**-**	**111,309**	**-**	**111,309**
Impaired	**-**	**-**	**25,081**	**25,081**
Total	**2,401,085**	**183,820**	**25,081**	**2,609,986**

Overdrafts £000	2020			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	**8,490**	**228**	**-**	**8,718**
Watch list medium risk	**-**	**3,797**	**-**	**3,797**
Impaired	**-**	**-**	**8**	**8**
Total	**8,490**	**4,025**	**8**	**12,523**

Loans £000	2019			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	2,156,086	66,081	-	2,222,167
Watch list medium risk	-	11,597	-	11,597
Impaired	-	-	19,780	19,780
Total	2,156,086	77,678	19,780	2,253,544

Overdrafts £000	2019			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	13,908	593	-	14,501
Watch list medium risk	-	56	-	56
Impaired	-	-	20	20
Total	13,908	649	20	14,577

The reconciliations of movements of the loss allowance and gross carrying amounts provide insight into the movements in ECL and the charge to the income statement. It should be noted that the Bank's product mix has remained consistent throughout the year with no significant changes at a business level within the Bank. The shift in the benign economic environment to the stress of Covid has seen ECLs uplift significantly at stage 2 due to SICR.

Loans	2020							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 2020	**2,156,086**	**1,830**	**77,678**	**328**	**19,780**	**1,533**	**2,253,544**	**3,691**
New assets originated	633,201	1,536	11,204	266	180	-	644,585	1,802
Assets derecognised or repaid	(220,964)	(376)	(12,794)	(38)	(3,900)	(97)	(237,658)	(511)
Transfers to Stage 1	32,136	39	(32,653)	(140)	(182)	(69)	(699)	(170)
Transfers to Stage 2	(141,626)	(140)	140,436	2,255	(148)	-	(1,338)	2,115
Transfers to stage 3	(12,264)	(42)	(649)	-	10,943	670	(1,970)	628
Within Stage movements	(45,484)	1,073	598	279	(1,592)	(385)	(46,478)	967
Write offs	-	-	-	-	-	(179)	-	(179)
At 31 December 2020	**2,401,085**	**3,920**	**183,820**	**2,950**	**25,081**	**1,473**	**2,609,986**	**8,343**

Overdrafts	2020							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 2020	**13,908**	**30**	**649**	**10**	**20**	**9**	**14,577**	**49**
New assets originated	1,026	2	233	1	1	-	1,260	3
Assets derecognised or repaid	(4,188)	(5)	(407)	(3)	(9)	(4)	(4,604)	(12)
Transfers to Stage 1	30	-	(37)	(2)	-	(3)	(7)	(5)
Transfers to Stage 2	(3,852)	(10)	3,645	153	-	-	(207)	143
Transfers to stage 3	(12)	-	(5)	-	1	(1)	(16)	(1)
Within Stage 1 movements	1,578	19	(53)	8	(5)	-	1,520	27
Write offs	-	-	-	-	-	-	-	-
At 31 December 2020	**8,490**	**36**	**4,025**	**167**	**8**	**1**	**12,523**	**204**

Within stage movements include changes in economic assumptions, model parameter changes, and any additional drawings made on current exposures.

Loans	2019							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 2019	1,567,247	1,418	73,283	335	20,208	1,734	1,660,738	3,487
New assets originated	856,947	849	25,569	100	954	35	883,470	984
Write offs	-	-	-	-	-	(99)	-	(99)
Transfers to Stage 1	20,033	17	(18,125)	(79)	(2,618)	(68)	(710)	(130)
Transfers to Stage 2	(22,572)	(15)	22,229	141	(686)	-	(1,029)	126
Transfers to stage 3	(3,437)	(1)	(5,345)	(81)	8,323	927	(459)	845
Within Stage movements	(37,949)	55	(1,965)	(34)	(710)	(683)	(40,624)	(662)
Assets derecognised or repaid	(224,183)	(493)	(17,968)	(54)	(5,691)	(313)	(247,842)	(860)
At 31 December 2019	2,156,086	1,830	77,678	328	19,780	1,533	2,253,544	3,691

Overdrafts	2019							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 2019	9,738	25	1,868	15	125	20	11,731	60
New assets originated	3,462	4	9	-	2	1	3,473	5
Assets derecognised or repaid	(1,631)	(2)	(393)	(2)	(110)	(40)	(2,134)	(44)
Transfers to Stage 1	345	1	(426)	(1)	(9)	(1)	(90)	(1)
Transfers to Stage 2	(123)	-	109	2	-	-	(14)	2
Transfers to stage 3	(2)	-	(31)	(1)	11	5	(22)	4
Within Stage movements	2,119	2	(487)	(3)	1	1	1,633	0
Write offs	-	-	-	-	-	-	-	-
At 31 December 2019	13,908	30	649	10	20	(14)	14,577	26

We have represented the tables from 2019 to achieve a fairer representation of the ECL movements during the year according to the disclosure requirements under IFRS 7 and the enhanced disclosure guidelines.

18 Other assets

	2020 £000	2019 £000
Debtors	**47**	601
Receivable from the Bank of Cyprus Public Company Limited towards redress payments	**166**	1,685
Prepayments and accrued income	**2,595**	1,851
Receivables from payment service provider	**1,708**	1,616
Other	**370**	35
	4,886	5,788

In 2020, the Bank has separately presented derivative assets from other assets to achieve a fairer presentation.

19 Intangible assets

	2020		
	Computer software £000	Assets under construction £000	Total £000
Cost as at 1 January	**9,790**	**8,066**	**17,856**
Additions	**45**	**12,948**	**12,993**
Disposals and write-offs	**-**	**(15)**	**(15)**
Transfers	**9,789**	**(9,789)**	**-**
Cost at 31 December	**19,624**	**11,210**	**30,834**
Accumulated amortisation at 1 January	**(8,052)**	**-**	**(8,052)**
Amortisation charge for the year	**(3,070)**	**-**	**(3,070)**
Accumulated amortisation at 31 December	**(11,122)**	**-**	**(11,122)**
Net book value at 31 December	**8,502**	**11,210**	**19,712**

	2019		
	Computer software £000	Assets under construction £000	Total £000
Cost as at 1 January	8,561	-	8,561
Transfer from Other assets	-	896	896
Additions	1,229	7,170	8,399
Cost at 31 December	9,790	8,066	17,856
Accumulated amortisation at 1 January	(7,551)	-	(7,551)
Amortisation charge for the year	(501)	-	(501)
Accumulated amortisation at 31 December	(8,052)	-	(8,052)
Net book value at 31 December	1,738	8,066	9,804

The majority of the Bank's intangible assets are internally generated. The Bank has entered into a contract with a third party for the development of a new core banking platform. In 2020, the Bank undertook a review of all asset useful lives which resulted in a reduction of intangibles asset useful lives to 3-10 years, the useful lives are stated in note 3.20. This change resulted in an increase to amortisation for the year of £1.6m. The Bank is developing a new banking platform, the cost of which is £8.136m to date and is included in assets under construction. As this asset is not yet in use, no amortisation has been charged.

20 Leases

	2020 £000	2019 £000
Right of use assets		
Buildings	**242**	87
	242	87
Lease liabilities		
Current	**174**	53
Non-current	**87**	57
	261	110

During the year, the expected period of occupation for three leases were remeasured. As a result of this, the value of the lease liability balance has increased by £204k and the value of the right of use asset has increased by £199k.

All leased assets utilised by the Bank include extension and termination options. Management have evaluated whether these options shall be exercised and have reflected this in the estimation of the lease liability and right of use asset.

	2020 £000	2019 £000
Depreciation charge of right-of-use assets		
Buildings	**143**	43
	143	43
Interest expense (included in interest expense)	**18**	8
Expense relating to short term leases (included in other operating costs)	**95**	292
Expense relating to low value assets that are not shown above as short term leases (included in other operating costs)	**63**	101
	176	401

The total cash outflow for leases in 2020 was £323,894 (2019: £450,652).

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

	£000
Within 1 year	**184**
Between 2 to 5 years	**89**
More than 5 years	**-**

21 Property and equipment

	2020				
	Freehold property £000	Leasehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000
Cost or valuation at 1 January.	**6,100**	**-**	**5,085**	**7,918**	**19,103**
Additions	**-**	**-**	**230**	**-**	**230**
Disposals and write-offs	**-**	**-**	**-**	**(62)**	**(62)**
Reclassifications from assets held-for-sale	**8,317**	**-**	**-**	**-**	**8,317**
Revaluation	**(1,317)**	**-**	**-**	**-**	**(1,317)**
Cost or valuation at 31 December	**13,100**	**-**	**5,315**	**7,856**	**26,271**
Accumulated depreciation at 1 January	**-**	**-**	**(3,684)**	**(7,905)**	**(11,589)**
Depreciation charge for the year	**(185)**	**-**	**(973)**	**-**	**(1,158)**
Disposals, write-offs and impairments	**-**	**-**	**-**	**49**	**49**
Accumulated depreciation at 31 December	**(185)**	**-**	**(4,657)**	**(7,856)**	**(12,698)**
Net book value at 31 December	**12,915**	**-**	**658**	**-**	**13,573**

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

Property includes land amounting to £6,880,000, which relates to two freehold properties. No depreciation is charged for land. The net book value of freehold properties on a cost less accumulated depreciation basis, as at 31 December 2020 would have amounted to £4,644,999 (2019: £4,773,333) excluding properties classified as held-for-sale.

At the year end 2019 one freehold and leasehold property were reclassified as held for sale due to third party interest in their acquisition at an acceptable price level. The sale of the properties was expected to complete during the year ending 31 December 2020. Leasehold property was sold in 2020. Freehold property was brought back in to use in 2020 and revalued. The revaluation decrease is shown partially in reserves (£1,227k), with £90k presented in the income statement. Within the statement of comprehensive income, revaluation reserves contains a gain of £761,526 related to these properties. This represents the gross gain less deferred tax payable.

There are no contractual commitments for the acquisition of property and equipment.

In 2020, the Bank undertook a review of all asset useful lives which resulted in a reduction of asset useful lives; computer equipment reduced from 5 years to 3-5 years, furniture and equipment reduced from 10 to 5 years, property remained the same. All useful lives are stated in note 3.17. This change did not result in any material change to the depreciation charge for 2020.

22 Customer deposits

	2020 £000	2019 £000
Customer deposits by category		
Demand	**1,021,750**	1,224,326
Notice	**-**	-
Term	**1,330,491**	1,003,352
	2,352,241	2,227,678
Customer deposits by geographical area		
United Kingdom	**2,131,126**	1,905,067
Cyprus	**180,662**	258,510
Greece	**35,151**	49,885
Other countries	**5,302**	14,216
	2,352,241	2,227,678

As part of the UK's withdrawal from the European Union the Bank is in the process of exiting all deposits which are linked to EU residents.

23 Bank deposits

	2020 £000	2019 £000
Bank deposits by category		
Demand	**340,131**	25,063
Bank deposits by geographical area		
United Kingdom	**340,131**	25,063

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 only provision of this nature as at 31 December 2020 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 Public Company Limited.

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 below.

Sensitivity analysis based on customer opt-in rates	
Customer Opt-in Rate*	Total Provision £000
80%	**56,802**
81%	**57,090**
82%	**57,379**
85%	**58,245**

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

Over the course of 2020, the Bank reassessed the level of provision that was considered appropriate and concluded that a further charge of £0.24m (2019: £1.7m) was required, incorporating the new estimate based on new information that became available. There is no charge (2019: nil) to be booked in the Bank while the full balance of £0.24m (2019: £1.7m) is to be booked in Bank of Cyprus Public Company Limited with a corresponding booking as a receivable in the accounts of the Bank (see note 18). There would be no further 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 Public Company Limited.

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 position.

The total redress cost was estimated at £56.24m (2019: £56m) as at the reporting date of 31 December 2020, of which £56.1m has been settled and £0.1m remains within the provision held by the Bank.
The Bank has funded £2.9m of this with the balance funded by Bank of Cyprus Public Company Limited.

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

	2020 £000	2019 £000
Provision for customer redress		
At 1 January	**1,164**	12,221
Arising during the year:		
Charged in the Bank's statement of comprehensive income	**-**	-
Provided for by Bank of Cyprus Public Company Limited under the Deed of Support	**241**	1,685
Payments made during the year	**(1,273)**	(12,742)
At 31 December	**132**	1,164

The redress cost paid to date totals £56.1m.

25 Other liabilities

	2020 £000	2019 £000
Trade creditors	(25)	917
Accruals	12,445	9,115
Accrued interest payable incl. subordinated debt	7,279	4,887
Financial Services Compensation Scheme levy (note 29)	40	135
PAYE and NI settlement	1,087	830
Items in the course of settlement	290	89
Deferred tax liability (note 14)	396	649
Tax payable (note 14)	2,261	1,612
Tax deduction scheme for interest	-	1
Amounts owed to parent (note 33)	-	10
Other	604	2,692
Total	24,378	20,937

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

In 2020, the Bank has separately presented derivative liabilities from other liabilities to achieve a fairer presentation.

26 Subordinated loan

	2020 £000	2019 £000
Unsecured subordinated loan	29,744	29,629

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.

The 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 2020	1 January 2020 £000	Cash flows £000	Conversion to equity £000	Other £000	31 December 2020 £000
Unsecured subordinated loan	29,629	-	-	115	29,744

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

27 Share capital

	31 December 2020		31 December 2019	
	Number of shares	£000	Number of shares	£000
Authorised, issued and fully paid:				
Ordinary shares of £1 each	**155,000,000**	**155,000**	146,000,000	146,000

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, 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:

	2020 £000	2019 £000
Acceptances, guarantees and cashing facilities	**1,007**	1,253
Commitments to advance	**219,132**	337,607
Total	**220,139**	338,860

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		2020		
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Standard grade	**977**	**30**	**-**	**1,007**
Watch list medium risk	**-**	**-**	**-**	**-**
Watch list high risk	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**
Total	**977**	**30**	**-**	**1,007**

Acceptances, guarantees and cashing facilities				
	2019			
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Standard grade	1,152	101	-	1,253
Watch list medium risk	-	-	-	-
Watch list high risk	-	-	-	-
Individually impaired	-	-	-	-
Total	1,152	101	-	1,253

Commitments to advance				
	2020			
Internal rating grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Standard grade	219,132	-	-	219,132
Watch list medium risk	-	-	-	-
Watch list high risk	-	-	-	-
Impaired	-	-	-	-
Total	219,132	-	-	219,132

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

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

Acceptances, guarantees and cashing facilities				
	2020			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2020	1,152	101	-	1,253
Net new exposures	141	30	-	171
Exposure derecognised or matured / lapsed	(316)	(101)	-	(417)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written-off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	977	30	-	1,007

Acceptances, guarantees and cashing facilities	2019			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2019	1,148	130	-	1,278
Net new exposures	1,152	-	-	1,152
Exposure derecognised or matured / lapsed	(1,148)	(29)	-	(1,177)
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

Commitments to advance	2020			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2020	337,607	-	-	337,607
Net new exposures	219,132	-	-	219,132
Exposure derecognised or matured / lapsed	(337,607)	-	-	(337,607)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written-off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Total	219,132	-	-	219,132

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

The ECLs relating to acceptances, guarantees and cashing facilities and commitments to advance round to a non-reportable level.

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.

29 Financial Services Compensation Scheme levy

The Bank is a member of the statutory deposit insurance and investors compensation scheme for customers of UK authorised banks, building societies and credit unions. The scheme protects up to £85,000 per depositor in the event of the firms insolvency.

30 Risk management

The Bank's Approach to Risk

The Board of Cynergy Bank is responsible for establishing and ensuring maintenance of a sound system of risk management and internal controls and approving the Bank's risk appetite. The risk appetite supports the Bank to fulfil its regulatory requirements in the pursuit of its strategy to become a recognised challenger bank for entrepreneurs and business owners. It is therefore essential that effective risk management is at the centre of the future aspirations of the Bank.

It is the role of senior management to ensure that the Bank is able to fulfil its strategy both under business as usual and stressed conditions and ensure that the risks it is subject to are identified, managed, monitored and reported within the Bank's governance structure. The Bank's Enterprise Risk Management Policy and Corporate Governance Policy establishes an effective and clear framework and governance structure to ensure that potential risks to the Bank's business model and future performance are appropriately mitigated.

Through its normal operations the Bank is exposed to a number of risks, the most significant of which are credit risk, liquidity 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 Risk Committee, Asset & Liability Committee and the Board Audit and Risk Committees[1].

[1]from December 2020 the Executive Risk Committee was rebranded to the Conduct and Risk Committee.

Cynergy Bank's Risk Objectives

Identifying and assessing risk and control activities provides reasonable assurance that the Bank's business objectives will be met.

Cynergy Bank has clear risk objectives to ensure that the level of risk undertaken by the Bank is consistent with the approved Risk Appetite and business strategy. These objectives aim to:

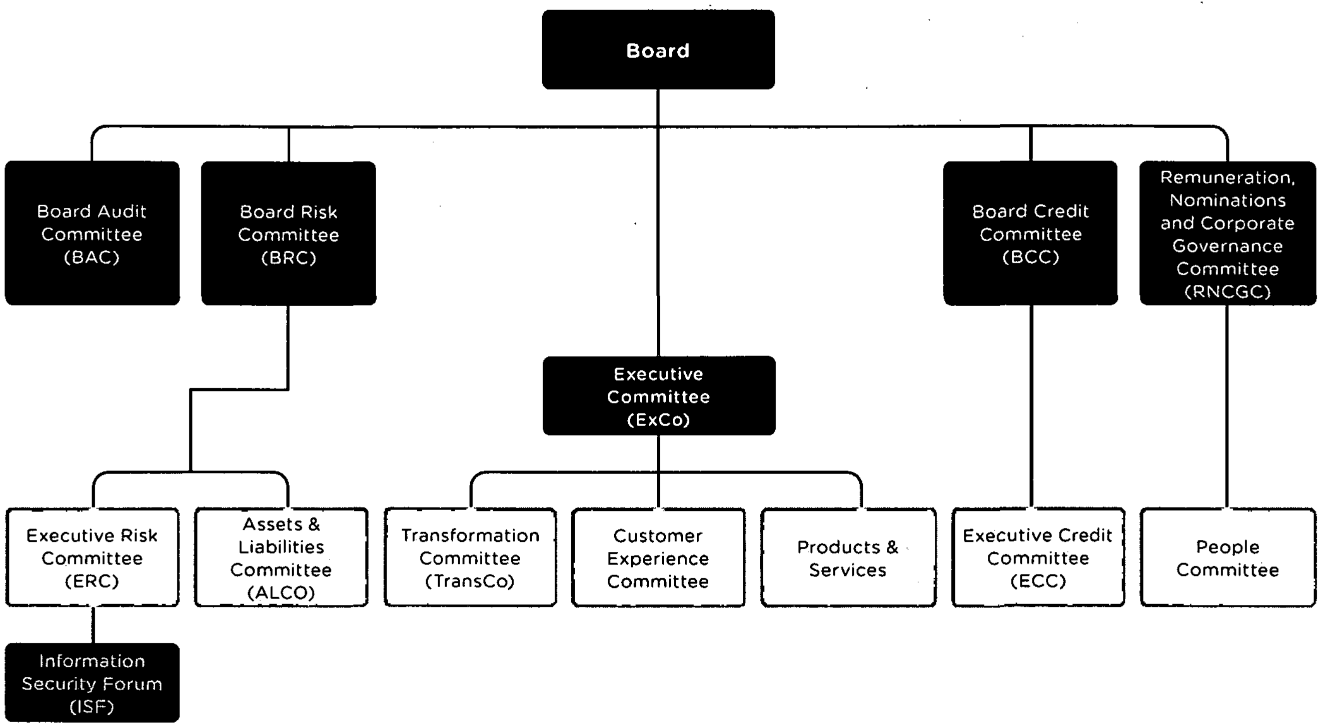
- Identify significant risks to the Bank's strategy and ensure that the appropriate mitigating activities are in place
- Ensure that risk management is an integral part of the Bank's process of strategic decision making and capital planning
- Support business decision making by taking a balanced view on risk, while establishing strong independent review and challenge
- Assist the business lines to improve control and coordination of risk taking
- To drive organisational learning by understanding the root cause of incidents minimising the likelihood of recurrence
- Develop a risk aware workforce by embedding good risk management practices across the Bank

Risk Management and Internal Control

The Bank's Risk Management Framework supports the "Three Lines of Defence Model" and sets out the infrastructure established to ensure that exposure to risk remains within the risk appetite set by the Board. It provides an overview of Risk Management, Risk Strategy and Control, Risk Culture and Risk Governance. Policies and procedures in the Bank are aligned to the risk taxonomy which sets out key risk indicators that are monitored to provide snapshots of risk exposure and early warning of adverse trends.

Risk Committee Structure

The Executive Risk Committee (ERC), chaired by the Chief Risk Officer, reports to the Board Risk Committee which in turn provides advice to the Board.

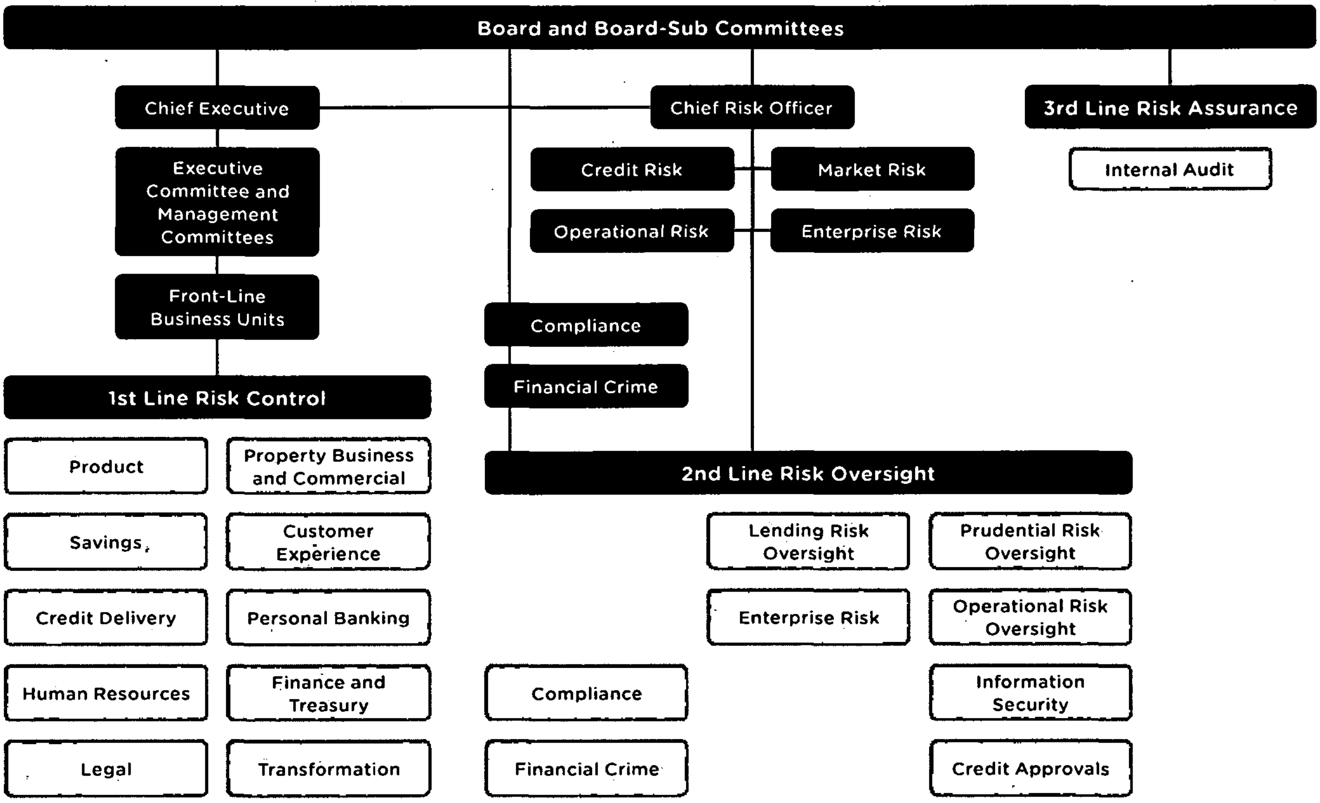


Notes:

Executive Risk Committee comprises:

- Credit
- Conduct
- Enterprise

The ERC ensures that the Bank maintains a co-ordinated approach across all risks and communicates to the Board Risk Committee on risk environment and specific areas of challenge that it has made to the management of Bank-wide risk and key decisions. It has oversight for all principal risks and the sub-risk committees that feed into it.



Risk Committee Structure

The first line of defence against impending risks lies with the front line. Front line includes all units that on-board risk into the Bank including those that enter into business transactions with the customers or other client facing areas as well as all associated support functions including Finance, Treasury, Technology and Operations. Front lines are responsible to:

- Identify all the risks in their activities and develop appropriate policies, procedures and controls to govern these activities
- Operate within all limits applicable to their operations as cascaded from the Risk Appetite Framework
- Escalate risk events through their management hierarchy to Risk Oversight or Compliance as appropriate

Business Heads have the primary accountability for the day-to-day management, control and reporting of risk exposures in accordance with the policies and parameters set by the Board. They may receive support and advice from control SMEs, be overseen by the second line and be audited by the third line, but their decisions are ultimately their own, subject to approval from senior management where required.
The Board, supported by ERC, monitors the overall risk profile of the Bank and ensures that adequate resources are maintained.

Second line of Defence - Risk Oversight

The second line of defence consists of the Risk Oversight and Compliance units of the Bank, which are responsible for:

- Developing and maintaining an effective risk and compliance framework to support management in the delivery of its business and strategic objectives whilst being consistent with the risk appetite of the Bank
- Monitoring the performance of the first line and ensure their adherence to policies, limits or other mandates in place
- Taking additional measures, if required, to reduce existing, new or evolving risks

Third line of Defence - Independent Assurance

Internal Audit (IA) comprises the third line of defence. IA provides independent assurance to the Board and Executive Management over the effectiveness of governance, risk management and control over current, systemic and evolving risks.

Response to Covid

Due to the Covid pandemic, the Bank invoked its Business Continuity plans at the beginning of 2020, and the majority of its staff and activities have continued to run remotely during this period with minimal disruption to daily activities, however the propensity for credit risk to crystallise has increased as business models and lending has been placed under continued stress. The opening and closing of the economy to avoid transmission of the virus has put pressure on cashflows at both a commercial level and individual basis. Measures have been put in place by the Bank, the Government and the Regulators to support customers and the wider UK economy and ensure that credit pressure and escalating defaults in so far as possible can be controlled.

This has been successful through 2020 and the impact has been well managed within the Bank noting that increased credit losses and expected credit loss through provisions have not materialised in the real economy - however as the stress continues through 2021 we are likely to see defaults increase as government support is withdrawn and the true impact of the pandemic in realised.

Supporting our customers

In the current pandemic environment, the Bank is supporting both its current and new to bank customers in a number of ways aligned to regulatory and government guidelines. The Bank established a new Restructuring, Recoveries and Arrears management team. This team has led the customer response to those most impacted by the pandemic, has provided support that includes regulated mortgage payment holidays, extending this to landlords whose tenants are experiencing financial difficulties due to Covid, and the waiver of interest on personal overdrafts and penalty free deposit withdrawals on fixed term savings products. The Bank was also quick to launch its own specific moratorium scheme which supported customers who were not directly eligible under the Government schemes. As with the Government schemes these provided interest payment holidays, covenant waivers and minor payment terms restructures. Collectively, the 'schemes' have been highly successful in supporting our customer base by flexing contractual agreements, and whilst we haven't seen many customers going in to stage 3 and therefore causing a significant impact to RWAs, the Bank has been increasing its impairment charges commensurate to the increased risk. (see Cost of risk and the impact of Covid.)

Over the course of 2020, the Bank has called and discussed financial assistance on payment holidays with 450 customers covering £540m of debt, both regulated and unregulated and at year-end 2020 60 customers and £104m debt continued to require support. Those customers that have suffered short-term liquidity constraints due to the impact of Covid have been granted concessions on the repayment and aligned to the guidelines avoided the automatic classification of forborne or as defaulted under distressed restructuring.

Cost of risk and the impact of Covid

Throughout 2020 the impact of Covid on the Bank and its customers has been supported and managed through the active provision of payment holidays and increased use of forbearance. Further the use of macroeconomic forecasts have been used to assess the impact on the portfolio and reflected in the Bank's impairment charges under IFRS 9 to account for a forward-looking expected credit loss. At YE 2020 the Bank held credit provisions of £8.55 million (2019: £3.7 million) a year on year increase of c£4.8 million. This has seen the Bank's cost of risk increase from 16bps to 32bps as gross carrying amount. This position includes specific adjustments made post-model output that may not account for the level of uncertainty that exists in the market and may not be fully reflected in the pure output of the model. These adjustments are made on the basis of both quantitative and expert judgement qualitative based assessments and subject to internal challenge and governance; they are detailed below.

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 2020		31 December 2019	
	Notes	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets					
Cash and balances with central banks	(a, Level 1)	**246,256**	**246,256**	111,754	111,754
Placements with banks	(b, Level 1)	**44,784**	**44,784**	63,265	63,265
Derivative financial assets	(e, see below)	**31**	**31**	482	482
Loans and advances to customers	(c, Level 3)	**2,613,962**	**2,629,702**	2,264,381	2,298,418
Financial liabilities					
Bank deposits	(b, Level 1)	**340,131**	**340,131**	25,063	25,063
Customer deposits	(d, Level 3)	**2,352,241**	**2,338,834**	2,227,678	2,211,252
Derivative financial liabilities	(e, see below)	**772**	**772**	673	673
Subordinated loan	(f, Level 3)	**29,744**	**29,572**	29,629	29,629

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 fair value is calculated by discounting the cash flows using prevailing market interest rates. In 2019, the carrying value approximated 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 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total fair value £000
Derivative financial assets	-	31	-	31
Derivative financial liabilities	-	(772)	-	(772)
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)

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 but are calculated using a discounted cash flow model, with relevant prevailing market discount rates for each product maturity.

The following table summarises the valuation inputs and relationships to fair value:

	Fair value at		Range of inputs		
Description	31 Dec 2020 £000	31 Dec 2019 £000	2020	2019	Relationship of discount rate input to fair value
Loans and advances to customers	**2,629,702**	2,298,418	**(0.01%) - 0.42%**	0.67% - 1.03%	A shift in discount rate of +/-10bps results in a change of fair value of £3.4m (2019: £3.3m)
Customer deposits	**2,338,834**	2,211,252	**(0.01%) - 0.42%**	0.67% - 1.03%	A shift in discount rate of +/-10bps results in a change of fair value of £80k (2019: £47k)
Subordinated debt	**29,572**	29,629	**0.08%**	-	A shift in discount rate of +/-10bps results in a change of fair value of £0.2m (2019: £nil)

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 to meet the liquidity requirements of the PRA and the Bank's internal policies.

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 1 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 2020 was 330% (2019: 362%), and is in excess of the current minimum requirement of 100% set by the PRA (unaudited). 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 2020	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	**246,256**	**240,523**	**-**	**5,733**	**-**	**-**
Placements with banks	**44,784**	**44,784**	**-**	**-**	**-**	**-**
Loans and advances to customers	**2,613,962**	**12,322**	**160,589**	**185,887**	**1,664,003**	**591,161**
Total assets	**2,905,002**	**297,629**	**160,589**	**191,620**	**1,664,003**	**591,161**
Liabilities and equity:						
Bank deposits	**340,131**	**-**	**-**	**90,074**	**250,057**	**-**
Customer deposits	**2,352,241**	**1,568,401**	**179,333**	**475,434**	**129,073**	**-**
Other liabilities	**25,739**	**-**	**-**	**25,739**	**-**	**-**
Subordinated loan	**29,744**	**-**	**-**	**-**	**29,744**	**-**
Total liabilities	**2,747,855**	**1,568,401**	**179,333**	**591,247**	**408,874**	**-**
Acceptances and guarantees	**1,007**	**1,007**	**-**	**-**	**-**	**-**

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	-	-
Investment in subsidiary	10	-	-	-	10	-
Loans and advances to customers	2,264,381	14,577	64,170	151,346	1,490,636	543,652
Total assets	2,376,145	121,090	64,170	156,587	1,490,646	543,652
Liabilities and equity:						
Bank deposits	25,063	25,063	-	-	-	-
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	-
Acceptances and guarantees	1,253	1,253	-	-	-	-

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	2020					
	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	**340,131**	**-**	**-**	**90,074**	**250,057**	**-**
Customer deposits	**2,352,241**	**1,568,401**	**179,333**	**475,434**	**129,073**	**-**
Subordinated loan	**37,023**	**7,279**	**-**	**-**	**29,744**	**-**

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	-

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 in excess of £10m fall outside credit policy.

The Bank assesses credit risk throughout its activities applying various industry standards and techniques to ensure that the underlying risk are quantified and appropriate ECLs applied in accordance with IFRS 9. The key components are outlined below:

i) The Bank's internal rating and PD estimation process

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 Bank's macroeconomic scenarios are then applied to assess a weighted ECL output at an exposure level.

ii) Treasury, trading and interbank relationships

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) Corporate, small business lending and property financing

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 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) 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.

v) Loss given default

The revaluation of the underlying collateral to a credit exposure is reviewed aligned to the Bank's Valuation policy. 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.

vi) 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 placed on the Watch List;
- The exposure is forborne;
- 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.

As noted in the tables below, during 2020 significant increase in credit risk has been driven by customers being added to the Bank's Watch List and instances where the Bank has provided customers with forbearance. The increase in these circumstances is a direct consequence of Covid and the Bank's active relationship management and risk oversight, which has ensured that credit risk is identified early and mitigating actions taken prior to customer default or detriment, and increased monitoring applied to support this. In certain cases, the Bank may also consider that events explained in note 3.11 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.

As at 31st December 2020	Business			Private			Property		
£000	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage
PD movement[1]	3,818	37	0.97%	387	3	0.78%	32,799	187	0.57%
Forbearance support provided	17,869	34	0.19%	-	-	-	10,175	84	0.83%
Watchlist or other qualitative reasons[2]	22,435	718	3.20%	1,396	26	1.86%	84,400	1,789	2.12%
30 Days past due	-	-	-	-	-	-	12,566	242	1.93%
Total	**44,122**	**789**	**1.79%**	**1,783**	**29**	**1.63%**	**139,940**	**2,302**	**1.64%**

As at 31st December 2019 £000	Business			Private			Property		
	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage
PD movement[1]	10,335	30	0.29%	73	2	2.26%	55,107	221	0.40%
Forbearance support provided	49	-	0.04%	-	-	-	866	-	0.02%
Watchlist or other qualitative reasons[2]	1,010	2	0.16%	225	3	1.39%	10,418	80	0.77%
30 Days past due	245	-	0.08%	-	-	-	-	-	-
Total	**11,639**	**32**	**0.27%**	**298**	**5**	**1.68%**	**66,391**	**301**	**0.45%**

[1]PD movement; includes cases that moved due to staging criteria in our IFRS 9 model e.g. two notch downward internal grading, expired loans, unauthorised overdraft

[2]Watchlist or Other qualitative reason; Watchlist (WL) cases that are classified Stage 2 following internal process including WL addition.

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 1.06% 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.

vii) Annual Review Process

All borrowers with exposure over £100,000 are subject to an annual review of lending, collaterals and performance against the customers broader market sector..

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

	2020 £000	2019 £000
Business sector		
Property investment	**2,021,143**	1,743,322
Property development	**70,790**	53,689
Hotels, catering and leisure	**224,463**	174,984
Manufacturing	**10,514**	10,672
Retail and wholesale	**9,420**	9,983
Other business sectors	**65,218**	50,656
Personal sector	**220,961**	224,815
	2,622,509	2,268,121
Less: Allowance for ECL / impairment losses	**(8,547)**	(3,740)
Carrying amount	**2,613,962**	2,264,381

Forbearance

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.

Forborne exposures increased in the second half of the year as the effects of government restrictions due to the pandemic were felt by borrowers. The Bank offered support via a number of options including government moratorium schemes for residential BTL, regulated owner-occupied mortgages & loans captured under CCA regulations. Private schemes were also initiated by the Bank to help Commercial BTL & SME borrowers and those in the student accommodation sector.

Forbearance is usually a trigger for accounts to be moved into stage 2 or stage 3. Where payment holidays have been provided in relation to Covid the accounts have been retained in stage 1. Risk continues to monitor these cases closely.

Where cases are deemed to be forborne and non-performing they are considered as Stage 3 and must complete an 18-month cure period followed by a 24-month monitoring period (probation period) as performing forborne before these accounts would be returned to the good book, a total of 42 months. In the case of a performing forborne they would not go through the 18 month cure period and would only have to meet the 24-month probation period.

31 December 2020	Total £000	Stage 2 £000	Stage 3 £000
Interest-only conversion	**1,368**	**-**	**1,368**
Extension of repayment period	**19,601**	**16,753**	**2,848**
Payment holidays	**34,348**	**31,478**	**2,870**
Amortisation profile change	**814**	**-**	**814**
Refinance	**533**	**471**	**62**
Other	**174**	**-**	**174**
Total	**56,838**	**48,702**	**8,136**

31 December 2019	Total £000	Stage 2 £000	Stage 3 £000
Interest-only conversion	2,048	664	1,384
Extension of repayment period	452	49	403
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

Stage 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.

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 (UTP) criteria. 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.

Cynergy Bank aligns its definition of default across multiple regulatory and market definitions: credit impaired, non-performing loans and default. All criteria will trigger the exposure to be considered stage 3 under IFRS 9. If the exposure subsequently ceases to exhibit indicators of being credit-impaired, it will remain in stage 3 for a period (known as a 'cure period') so that the apparent improvement of credit-status can be confirmed. 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.

Default vs Credit Impaired

Non-Performing Loans (NPLs) are defined as customers who do not make a payment for three months or more, or if we have data to make us doubt they can maintain their payments. The definition of default we use to identify NPLs is aligned to the definition of default we use to identify stage 3 exposures. The only difference relates to mortgages. For NPLs, we classify a mortgage customer as bankrupt for at least two years after first being declared bankrupt before we reassess their position. Our categorisation of credit impaired and NPL as demonstrated on the tables below is aligned and consider both assessments as stage 3:

31 December 2020	Gross carrying amount £000	Allowance for ECL £000	Coverage
Description			
Credit-impaired not in cure period	**3,264**	**66**	**2.05%**
No longer credit-impaired but in cure period that precedes transfer to stage 2	**21,825**	**1,407**	**6.45%**

31 December 2019	Gross carrying amount £000	Allowance for ECL £000	Coverage
Description			
Credit-impaired not in cure period	3,728	84	2.25%
No longer credit-impaired but in cure period that precedes transfer to stage 2	16,071	1,459	9.08%

Stage 3 analysis 31 December 2020	Gross carrying amount £000
NPL[1]	25,089

Stage 3 analysis 31 December 2019	Gross carrying amount £000
NPL[1]	19,799

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.

	£000											
	Gross carrying amount			Property Collateral			Cash Collateral			Net exposure		
December 2020	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
Business	314,401	44,122	6,870	600,859	97,092	16,267	2,034	488	-	(288,492)	(53,458)	(9,397)
Private	216,176	1,782	391	469,569	4,200	813	227	41	-	(253,620)	(2,459)	(422)
Property	2,091,932	141,941	17,828	3,820,147	245,899	37,339	674	17	-	(1,728,889)	(103,975)	(19,511)
Total	2,622,509	187,845	25,089	4,890,575	347,191	54,419	2,935	546	-	(2,271,001)	(159,892)	(29,330)

	£000											
	Gross carrying amount			Property Collateral			Cash Collateral			Net exposure		
December 2019	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
Business	261,802	11,638	8,542	540,996	27,966	17,412	1,000	36	-	(280,194)	(16,364)	(8,870)
Private	224,815	298	843	482,841	2,097	1,410	338	20	-	(258,364)	(1,819)	(567)
Property	1,781,504	66,391	10,415	3,262,152	114,082	19,308	782	141	-	(1,481,430)	(47,832)	(8,893)
Total	2,268,121	78,327	19,800	4,285,989	144,145	38,130	2,120	197	-	(2,019,988)	(66,015)	(18,330)

At 31 December 2020, 99% of the gross loans to customers were secured on cash and property collateral. The impairment charge of £5.0 million for 2020 was driven by a combination of a deteriorating macroeconomic environment due to Covid and our forecast for real estate valuations through 2021, which is weighted to the downside. The impact of the pandemic will become clearer as 2021 progresses, however there is an expectation that more customers will suffer a significant increase in credit risk (SICR) due to the impact of the pandemic on business performance and the continued ability of customers to meet payment obligations.

Provisions as a percentage of risk elements in lending increased from 16bps in 2019, to 32bps in 2020.

[1]These customers would be considered bankrupt for the purpose of IFRS 9 staging but not for the definition of a NPL.

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

- Mortgages over residential properties;
- 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 following table provides the distribution of LTV ratios for the Bank's portfolio:

December 2020 £000	Stage 1		Stage 2		Stage 3		Total	
LTV	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash Covered	-	-	51	-	-	-	51	-
Less than 50%	501,504	274	22,937	114	7,345	19	531,786	407
50% to 59%	681,782	1,105	41,795	468	12,542	594	736,119	2,167
60% to 69%	987,718	1,757	69,327	1,105	2,813	213	1,059,858	3,075
70% to 79%	156,825	495	49,497	1,316	-	-	206,322	1,811
80% to 89%	60,703	214	844	16	104	-	61,651	230
90% to 99%	14,431	48	-	-	-	-	14,431	48
100% and more	2,791	29	262	15	2,225	603	5,278	647
Unsecured	3,821	34	3,132	83	60	45	7,013	162
Total	**2,409,575**	**3,956**	**187,845**	**3,117**	**25,089**	**1,474**	**2,622,509**	**8,547**

December 2019 £000	Stage 1		Stage 2		Stage 3		Total	
LTV	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash Covered	82	-	62	-	-	-	144	-
Less than 50%	481,986	123	8,483	6	4,609	99	495,078	228
50% to 59%	511,290	307	17,440	36	10,060	335	538,790	678
60% to 69%	797,642	759	41,564	179	1,809	163	841,015	1,101
70% to 79%	291,196	378	3,923	18	101	-	295,220	396
80% to 89%	35,091	97	-	-	-	-	35,091	97
90% to 99%	8,233	25	2,855	24	2,048	569	13,136	618
100% and more	29,041	138	-	-	853	120	29,894	258
Unsecured	15,433	33	4,000	75	320	256	19,753	364
Total	**2,169,994**	**1,860**	**78,327**	**338**	**19,800**	**1,542**	**2,268,121**	**3,740**

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. The Bank tracks and analyses all events which represent a risk of loss, whether or not it crystallises, and takes appropriate remedial action to prevent future re-occurrence.

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. 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 2020	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	291,040	-	285,307	5,733	-	-
Loans and advances to customers	2,613,962	-	172,911	185,887	1,664,003	591,161
Total assets	2,905,002	-	458,218	191,620	1,664,003	591,161
Liabilities:						
Bank deposits	340,131	-	90,074	-	250,057	-
Customer deposits	2,352,241	192,239	1,555,495	475,434	129,073	-
Other liabilities	25,739	25,739	-	-	-	-
Subordinated loan	29,744	-	-	-	29,744	-
Total liabilities	2,747,855	217,978	1,645,569	475,434	408,874	-
Interest rate gap	(157,147)	217,978	1,187,351	283,814	(1,255,129)	(591,161)

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
Total assets	2,439,410	10	248,526	156,587	1,490,635	543,652
Liabilities:						
Bank deposits	25,063	-	25,063	-	-	-
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	134,156	(351,053)	(939,244)	(430,337)	1,311,138	543,652

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:

	2020 £000	2019 £000
Increase of 0.6% (prior year: 0.6%)	**2,684**	5,473
Decrease of 0.6% (prior year: 0.6%)	**983**	(4,449)

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 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 not material at the reporting date.

Set-off

When the Bank has a legal and enforceable right to do so, it is able to 'set-off' the financial assets and financial liabilities on the balance sheet and presents its intention to either settle on a net basis or to realise the asset and settle the liability simultaneously as a net position. The Bank is party to a number of arrangements that give it the right to set-off financial assets and financial liabilities, however where it does not intend to settle the amounts net or simultaneously, the positions of 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.

	2020			2019		
	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	**44,784**	**-**	**44,784**	63,265	-	63,265
Loans and advances to customers	**2,613,962**	**60,691**	**2,553,271**	2,264,381	68,807	2,195,574
Financial liabilities						
Bank deposits	**340,131**	**-**	**340,131**	25,063	-	25,063
Customer deposits	**2,352,241**	**60,691**	**2,291,550**	2,227,678	68,807	2,158,871

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.

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

The Bank is the immediate owner of 100% of the £100 ordinary shares of a UK company, Cynergy Connect Technologies Ltd, incorporated on 30 July 2020 in England and Wales, company number 12779777, registered office 27-31 Charlotte Street, London, W1T 1RP. The company is not yet operating. On 3 November 2020, the subsidiary Bank of Cyprus Financial Services Limited (BOCFS) company number 00893303, registered office 27-31 Charlotte Street, London, W1T 1RP, a previously appointed representative of Legal & General Partnership Services Limited was dissolved.

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. Credit risk stress testing is performed every year and 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 for review in years where there is an SREP (Supervisory Review and Evaluation Process). The PRA reviews the Internal Capital Adequacy Assessment Process document and issues Total Capital Requirements (TCR) plus Buffers setting out the minimum capital requirements for the Bank.

The Bank manages its capital with a view to ensuring that it will have adequate capital resources to support its plans and to meet the regulatory requirements as set out in the TCR plus Buffers, 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.

The unaudited 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.

Capital Resources	2020 £000	2019 £000
Ordinary Share Capital	**155,000**	146,000
Retained Earnings and Other Reserves	**39,113**	20,650
IFRS9 Transitional Relief	**2,929**	-
Regulatory Deductions	**(14,198)**	(9,814)
Total Eligible Tier 1 Capital (CET1)	**182,844**	156,836
Subordinated Debt	**29,744**	29,629
Total Tier 2 Capital	**29,744**	29,629
Total Eligible Regulatory Capital	**212,588**	186,465

33 Related party transactions

The Bank's ultimate controlling entity is Cynergy Capital Ltd, which owns 100% of the ordinary share capital.

Directors and key management personnel

Our Directors and 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

	2020 £000	2019 £000
Short-term benefits	**1,710**	1,821
Long-term benefits	**153**	1,080
Post employment benefits	**143**	96
Termination benefits	**313**	25
Total compensation for key management personnel	**2,319**	3,022

Directors' compensation

	2020 £000	2019 £000
Short-term benefits	**2,301**	2,204
Long-term benefits	**289**	1,120
Post employment benefits	**101**	17
Total compensation for Directors	**2,691**	3,341

The total remuneration of the highest paid Director was £1,612,109, (2019: £1,483,640). The amount of pension contributions paid by the Bank to the pension scheme on behalf of the highest paid Director was £4,000 (2019: £10,000). The highest paid Director did not exercise any share options during the period. The highest paid Director was not awarded, and did not exercise, any shares under a long term incentive scheme in respect of qualifying services.

In January 2021, an agreement was entered into between an Executive Director, and the Board of the parent company Cynergy Capital Limited, in relation to the provision of services. Under that agreement the Director is eligible to receive remuneration based on the value of the parent company.

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.

There were 5 loans outstanding at 31 December 2020 totalling £29.6m (31st December 2019: £29.3m). During the year, loans with related parties totalling £3,387,866 were fully repaid, and a new loan drawn for £2,900,000. All loans are commercial mortgages secured on property and were provided on normal commercial terms. There were no other loan transactions during the year or balances outstanding at the year end for key management personnel.

Deposits totalling £6.0m were held as at 31st December 2020 (31st December 2019: £0.7m).

Other transactions with related parties

	2020 £000	2019 £000
Amounts owed to related entities:		
Balance owed to subsidiary	-	10
Balance owed to parent (Cynergy Capital Limited)	-	10
Total	-	20
Transactions with related parties:		
Management fees paid to parent	**120**	180
Total	**120**	180

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 2020 totalling £31,683 (2019: £212,255). 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 post vesting holding period of two years. 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.

Set out below is a summary of awards granted under the plan:

	2020 Number of shares	2019 Number of shares
As at 1 January	**3,735**	-
Granted during the year	**994**	3,735
Forfeited during the year	**(371)**	-
As at 31 December	**4,358**	3,735

For the year ended 2020 the fair value of the awards granted was assessed and a charge of £442,610 is included in the income statement. A corresponding liability of £2,642,610 is included within accruals in other liabilities.

35 Events after the reporting period

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

Alternative Performance Measures (unaudited)

Figures quoted in the strategic report are unaudited unless stated otherwise.

Reconciliation of Headline and Alternative Performance Measures	2020 Actuals £m	2019 Actuals £m
Headline Profit Before Tax:	**27.0**	**16.6**
- Operational Investment		
- Regulatory & Mandatory Costs (e.g. LIBOR, PSD2)	1.8	0.7
- Strategic Investment		
- Processes, Systems and People	2.0	0.6
- New Product Investment	0.4	-
- Other Adjustment	(1.2)	2.2
Underlying Profit Before Tax:	**30.0**	**20.1**

Definitions:

Return on Equity: reported profit after tax expressed as a percentage of 2 point average equity

Cost Income ratio: total reported costs expressed as a percentage of reported income

Net Interest margin (NIM): interest income earned from customer lending and cash at bank less interest paid on customer deposits, subordinated tier 2 debt and Sterling Monetary framework expressed as a percentage of 2 point average interest earning assets

Loan / Deposit ratio: total customer lending expressed as a percentage of total funding, being customer placed deposits and monies drawn down from Sterling Monetary Framework

Underlying profit before tax: reported profit before tax adjusted to remove one-offs, including multi-year investments supporting strategic and regulatory projects and the cost of long term incentive plans, to provide an operational performance metric which is comparable between reporting periods

Underlying Return on Equity: Underlying profit before tax less tax calculated as a percentage from income statement expressed as a percentage of the 2 point average equity

Underlying Cost / Income ratio: reported costs adjusted for one off items as detailed in the reconciliation above expressed as a percentage of reported income

CET 1 ratio: regulatory CET 1 capital expressed as a percentage of total risk weighted assets

Total Capital Ratio: regulatory total capital expressed as a percentage of risk weighted assets

Leverage Ratio: regulatory CET 1 capital expressed as a percentage of total assets

Liquidity Coverage Ratio: The value of high-quality liquid assets held by the bank expressed as a percentage of net cash outflows over the next 30 days

Cynergy Bank