CYNERGY CAPITAL LTD

Consolidated financial statements for the year ended 31 December 2019

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Definitions

The "Company"	Cynergy Capital Ltd
"Bank Company"	Cynergy Bank Limited
The "Group"	Cynergy Capital Ltd and its controlled entities
The "Bank"	Cynergy Bank Limited and its controlled entities
"BOC CY"	Bank of Cyprus Public Company Limited
"BOC UK"	Bank of Cyprus UK Limited
"FCA"	Financial Conduct Authority
"FSCS"	Financial Services Compensation Scheme
"IAS"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRS"	International Financial Reporting Standards
"PRA"	Prudential Regulation Authority

Corporate information

Directors – the Company
Pradip Dhamecha, OBE - Executive Director
Balbinder Sohal - Executive Director

Principal Banker
HSBC Bank plc
26 Broad St
Reading
Berkshire RG1 2BU

Independent auditor
Ernst & Young LLP – resigned February 2020
25 Churchill Place
London E14 5EY

PricewaterhouseCoopers LLP – appointed February 2020
7 More London Riverside
London SE1 2RT

Registered office
97 Park Lane Mayfair, London, United Kingdom, W1K 7TG

Registered in England and Wales under company number 11368222

Strategic Report

Business review

The Company was incorporated in the United Kingdom under the Companies Act 2006 on 17 May 2018 with its principal activity being that of a holding company.

On 23 November 2018, the Company completed the purchase of Bank of Cyprus UK Limited from Bank of Cyprus Public Company Limited following the receipt of regulatory approvals from the Prudential Regulation Authority and European Central Bank. The effective date of the sale was 30 September 2018. On 7 December 2018 "Bank of Cyprus UK Limited" rebranded to "Cynergy Bank Limited".

A new strategic plan to 2023 for the Bank was approved in November 2019 reinforcing the Group's desire to be a bank of choice for medium business owners with a diversified customer base and product set, whilst being a great place to work and to be a contributor to society.

The focus for 2020 is to grow the customer franchise and lending book, and bring to market new products enhancing the current offering and meeting our clients' demands.

Key performance indicators

The Group key performance indicators at 31 December were as follows:

	2019 £'m
Comprehensive income after tax for the year	11.9
Loans and advances to customers	2,264.4
Equity attributable to shareholders	176.1

Lending assets at £2.26bn are marginally below the full year plan of £2.36bn, despite the headwind of Brexit. The pipeline is growing and remains strong.

Principal risks and uncertainties

The Board has ultimate responsibility for ensuring that the Group's principal risks are identified and managed. The Group operates an Enterprise Risk Management Policy and Corporate Governance Policy, establishing a clear risk framework and governance structure to ensure potential risks to the business model and future performance are identified, managed and monitored on an ongoing basis.

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

Conduct Risk	**The risk that any action by the Bank or an individual that leads to customer detriment, has an adverse effect on market stability or effective market competition**
The Group has introduced a number of policies and frameworks to ensure that conduct risk is managed as a core component of the strategic plans. Conduct risks and controls are reviewed on a monthly basis by business units and management information from first line risk owners is presented to the Executive Risk Committee on a monthly basis for challenge and review by senior management. The implementation of the Conduct Risk framework during 2019 included enhancements in monitoring and a thorough review of the Group'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 Group's governance structure during 2019 to deliver clear oversight of fair customer outcomes and regulatory compliance associated with implementation, changes and ongoing review of products. With the cessation of Libor by the end of 2021 the Group has been monitoring market development during 2019 and has established plans to replace the suite of Libor referenced lending products and transition the legacy GBP Libor referenced portfolio, throughout 2020, to an alternative reference rate appropriate for our customers.	
Lending Risk	**The risk to earnings and capital arising from a customer's failure to meet the terms of their lending contract or perform as agreed**
Property lending: The Bank has continued to grow its balance sheet in the property investment sector over 2019, an area of core competency in the business. This has been done whilst maintaining effective risk management in line with the Bank's appetite. The portfolio's profile has remained low risk, there were no material impairments during the year and improving credit quality of the portfolio over the year is reflected in the provisions charges. The Bank opened several UK regional offices in 2019 to support its strategic plan to diversify the existing portfolio of assets across the wider UK region and decrease concentration in London and the South East. The Bank successfully entered the market as a Bridging lender in 2019. The Bridging loan product is aimed primarily at professional property investors, who require short term funding for a specific project and can demonstrate a feasible exit strategy. Close ongoing monitoring during the term of the loan ensures that any emerging risks are identified and managed. Business & Commercial: The Bank maintains a core portfolio of Small to Medium Enterprises within the owner managed business space. During 2019 this was extended to focusing on offering both long term finance and working capital solutions for SMEs within the Hospitality, Healthcare & Leisure sectors for businesses based in the UK, with the focus reflected in the lending growth for Business and Commercial.	

The Bank has an established track record of managing loans and cashflow based lending to owner managed businesses. The additional focus on these sectors remains within the Bank's established risk management processes and experience.
Private Banking: The Bank launched a Private Client offering during 2019 to High Net Worth borrowers who require financing to assist with the purchase of UK property, either as their primary residence or as an investment. All borrowing is subject to our standard credit parameters.
Concentration Risk: The lending portfolio for all business pillars remains significantly concentrated towards London and the South East. The Bank has expanded its geographical footprint by opening offices in Bristol (South West), Manchester (North) and Edinburgh (Scotland), and increasing its presence in Birmingham (Midlands). These strategic decisions are producing reductions in the Bank's concentration risk.
COVID-19: As the pandemic spreads throughout the globe, it has created uncertainty and disruption for the people and businesses everywhere. Inevitably the UK economy is expected to be impacted in different ways and levels. The financial services sector could therefore be adversely impacted as a consequence of deteriorating credit risk portfolios, liquidity shortage and reduced operational capacity.
Although Government actions have been announced, these may take time to implement and embed.
The credit portfolio quality could be adversely impacted with a prolonged stress eroding customer affordability (both from a personal and business perspective). Consequently, this could increase the level of defaults and reduce the value of security within our loan book, impacting the Bank's forbearance measures, provisioning levels and write-offs, and resulting in increased capital requirements. We are proactively managing our lending portfolio and monitoring the measures announced by the PRA closely i.e. reducing the countercyclical buffer to 0% and allowing financial institutions to dip into the capital buffers.
Withdrawal from EU: The Bank continues to monitor the economic uncertainty associated with the UK's withdrawal from the EU. The Bank's strategy for 2020 accounts for the expectation of a subdued economic environment that may have an indirect impact on the credit risk of the portfolio.

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

The PRA has confirmed that, since Cynergy Capital is a non-trading organisation, there is no need to prepare a separate ICAAP at a consolidated level as the outcomes will not be materially different. Capital resources are assessed through the Bank's ICAAP and frequent stress testing of the Bank's portfolios to ensure adequate capital resources for both business as usual and a stressed environment. The consolidated capital position is monitored at board level on a regular basis in tandem with the Bank's

Subsequent to the 2018 year end, the Directors identified that the Group was required to issue additional capital instruments in order to comply with the Prudential Regulation Authority's (PRA's) Rulebook for consolidated groups. The Directors informed the PRA as soon as they became aware and subsequently on 6 September 2019, following a further £15m preference share issuance on 11 February 2019, the Company reclassified £89m of preference shares owned by related parties to ordinary share capital. On 27 September 2019, 19 November 2019 and 16 December 2019 the Company issued a further £46m, £7m and £5m, respectively, of Ordinary share capital instruments to those same related parties. These actions ensured that there was sufficient capital in cash terms within the group. Following completion of these actions and review by the PRA, formal written notice was received permitting the usage of these CET1 instruments for eligible capital purposes taking effect from 21st January 2020.

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

The Bank maintains a moderate market risk appetite, with oversight exercised through ALCO, to ensure that interest rate risk in the banking book is managed and monitored to prevent instability of earnings and the net present value of the balance sheet.
This is primarily monitored through the following indicators:
• Earnings at Risk – sensitivity of earnings to a +/- 100bps and to a +/- 60bps change in interest rates over a 12 month period.
• Net Present Value – The maximum impact of the EBA's multiple shock scenario on NPV over a five-year horizon.
Conservative limits are maintained for Foreign Exchange risk to support the FX requirements of our customers and is hedged where necessary to remain within limits.
The Bank does not operate a trading book.

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

The Bank continues to provide instant access and longer term savings products to the UK retail deposit market. Liquidity is managed with an internal methodology and in line with the regulatory Liquidity Coverage Ratio (LCR). The LCR has exceeded regulatory requirements throughout the period and the business continues to hold more than adequate liquid assets to meet its liabilities. For further details on liquidity risk management see page 47.
EU withdrawal: The Bank continues to engage with Central Banks where deposits are from EU residents to manage the implications of the UK's withdrawal from the EU and the potential impact on our customers. The Bank primarily operates in the UK retail deposit market, so we do not expect a significant impact to liquidity from the withdrawal process.
COVID-19: As the Bank is funding its operations through retail deposits any possible change in depositor behaviour could have a negative impact on funding, and this has the potential to be more volatile under the current COVID-19 stress. The escalation of this risk is largely mitigated through existing and newly initiated government and central bank schemes, which continue to support market liquidity and of which the Bank is already participating.

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

The Bank's processes and standards are established through the Operational Risk management framework and are aligned to the Basel Committee on Banking Supervision requirements for sound risk management.
A risk management information system is maintained for monitoring of all the key risks and incidents across the business. These are reassessed at a minimum on an annual basis, as part of risk and control self-assessments by first-line risk owners with input from relevant stakeholders.
The following are key themes throughout 2019:

Information Security and Cyber Risk: The Bank is subject to the ongoing risk of actual or attempted security breaches by increasingly sophisticated actors.
The Bank has invested in its information security controls to ensure that detection and anti-penetration measures remain robust in preventing and mitigating the impact of a security breach of the IT network, while staff members are provided with regular training and information relating to information security.
Vendor Management: The Bank utilises a number of third-party suppliers as part of its operational processes and has enhanced the management and control framework around these suppliers to ensure customers continue to be provided with a quality and resilient service.
Strategy Implementation: The Bank is cognisant of investing in the quality of our people to ensure the right skills are evident to continue delivering the strategic agendas and that change management is delivered in a sustainable way, with oversight of strategic initiatives through the Transformation Committee that reports directly to Exco.
During Q1 2020 the impact of COVID-19 has been felt across the whole economy and has represented a challenge to the financial industry's business continuity planning, with the possibility of negative impacts on employees and operational resilience as a key risk mitigation priority. During 2018/19 the Bank invested in its technology to support arrangements for the majority of staff to work from home as part of its business continuity planning and is in the process of further adapting plans to ensure all staff can safely work from home during this period. The Bank is already operating in line with the guidelines set by regulators and central government, and a significant proportion of the Bank's employees are able to work from home with minimal disruption to our day to day activities. The Bank continues to provide services that are critical to our customers and ensure adequate processes are in place to support customers that are facing a financial impact from these events.

Outlook for 2020

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

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

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

By order of the Board

Pradip Dhamecha
Director

Directors' report

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

Cynergy Capital Ltd (registered number: 11368222) was incorporated in the United Kingdom under the Companies Act 2006 on 17 May 2018 with its year end being 31 December.

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

Principal activity
The principal activity of the Company is that of a financial holding company. The principal activity of the Group, through its direct subsidiary, Cynergy Bank Limited is business and personal banking.

Financial results
The results of the Group for the year ended 31 December 2019 are set out in the income statement and statement of comprehensive income on page 11. The Directors endorse the information and views set out in the Chairman's statement and Chief Executive Officer's review and strategic report in the Bank Company financial statements, published on the Bank Company's website www.cynergybank.co.uk.

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

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 these financial statements have been approved. Consideration was given to the following: the change in ownership, the conduct programme, capital, the current economic environment and the uncertainties being faced in view of COVID-19, and the projected operating performance of the Group. The Directors are satisfied that the Group 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 8.

Capital
The regulatory capital is shown in note 32 of the financial statements.

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

Dividends
The Directors paid a small dividend of £28,167 in 2019, at 0.1% on the preference shares held as at April 2019. They do not expect to pay dividends in the near future.

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

Events after the reporting period
In January 2020, the Group issued 9,000,000 ordinary shares at their par value of £1 each, with a total cash consideration of £9,000,000.

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

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

Financial instruments
The Group, where appropriate, uses interest rate swaps to hedge against interest rate risk and foreign exchange contracts to hedge against foreign exchange rate risk. Details of financial instruments are provided in notes 16 and 30 of the financial statements.

Human resources
The Group employed an average of 246 permanent employees during 2019 (2018: 242).

Board of Directors
Full details of the Board of Directors, including appointments and resignations during the year are shown on page 2.

Directors and their interests

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the share capital or debentures of the Company or related corporations, except as follows:

		Holdings registered in name of director	*Holdings in which a director is deemed to have an interest**
	Class of shares – The Company	**At 31 December 2019**	**At 31 December 2019**
Pradip Dhamecha	Ordinary A shares of £1 each	29,860,001	-
Pradip Dhamecha	Ordinary B shares of £1 each	-	29,860,001
Balbinder Sohal	Ordinary B shares of £1 each	-	29,860,001

Pradip Dhamecha and Balbinder Sohal are directors in the Company.
* Shares held in Cynergy Capital Ltd, registered in the name of a legal entity in which the directors have an interest.

No other Director had any beneficial interest in the share capital of the Company at any time during the year.

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

Independent Auditors
Ernst & Young LLP *resigned as auditors of the Company in February* 2020. PricewaterhouseCoopers LLP was appointed as auditors in February 2020. The Group consists of private limited companies and under the Companies Act 2006 are not required to appoint auditors annually.

Charitable donations
During the year under review the Group made charitable donations totalling £6,533 (2018: £5,001).

Political donations
During the year under review the Group did not make any political donations (2018: £nil).

Third party indemnity provisions for the benefit of Directors
The Group has taken out Directors' and Officers' liability insurance. This has been in force for the duration of the year and continues to be in place at the point of signing these financial statements.

By Order of the Board

Pradip Dhamecha
Director

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Section 172 statement

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

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

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

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

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

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

Finally, the Board is very aware of the Group and Bank's responsibilities towards the communities in which the Group operates and to the environment. Apart from supporting Charitable causes like our current support for the Noah's Ark Children's Hospice we regularly support local initiatives in the Southgate area. The Bank has a "green Forum" and a designated member of the Senior Executive team who heads up this initiative. During the year to January 2020 initiatives by the Bank resulted in recycling of 16,755kg of materials with zero waste to landfill and a saving of 32 tonnes of $CO2$.

Further details of our engagement with customers, employees and our communities can be found in the accounts of Cynergy Bank Limited.

Independent auditors' report to the members of Cynergy Capital Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cynergy Capital Limited's group financial statements and company financial statements (the "financial statements"):

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

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

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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which include the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 8, 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 group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Darren Meek (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2020

Income statement and statement of comprehensive income

For the year ended 31 December 2019

	Notes	*Consolidated 2019 £000*	*Company 2019 £000*	*Consolidated 2018 £000*	*Company 2018 £000*
Interest income calculated using the effective interest method	5	**78,051**	**-**	18,142	-
Other interest and similar income	5	**4,412**	**5**	471	1
Interest expense calculated using the effective interest method	6	**(29,181)**	**-**	(5,619)	-
Other interest and similar expense		**-**	**-**	(514)	-
Net interest income		**53,282**	**5**	12,480	1
Fee and commission income	7	**2,364**	**-**	571	-
Management fee income		**-**	**150**	-	33
Dividend income		**-**	**300**	-	-
Foreign exchange gains	8	**424**	**-**	65	-
Fair value gain on hedging instruments	9	**100**	**-**	261	-
Gain on bargain purchase	35	**-**	**-**	17,482	-
Total operating income		**56,171**	**455**	30,859	34
Staff costs	10	**(26,095)**	**(80)**	(6,711)	-
Depreciation, amortisation and impairment	11	**(1,274)**	**-**	(2,296)	-
Other operating expenses	12	**(14,724)**	**(59)**	(5,963)	(65)
Total operating income / (expense) before conduct and legal provision		**14,077**	**317**	15,889	(31)
Profit / (loss) before credit loss expense on financial assets		**14,077**	**317**	15,889	(31)
Credit loss on financial assets	13	**(292)**	**-**	(772)	-
Profit / (loss) before tax		**13,785**	**317**	15,117	(31)
Income tax (expense) / credit	14	**(3,053)**	**(1)**	(164)	3
Profit / (loss) after tax		**10,732**	**316**	14,953	(28)
Other comprehensive income		**1,129**	**-**	-	-
Total comprehensive profit for the period attributable to the equity holders		**11,861**	**316**	14,953	(28)

The 2018 consolidated comparatives reflect the results for the period from acquisition of the Bank. The effective date of acquisition was 30 September 2018.

The notes on pages 15 to 58 form an integral part of these financial statements.

Statements of financial position

As at 31 December 2019

	Notes	*Consolidated* **2019** **£000**	*Company* **2019** **£000**	*Consolidated* 2018 £000	*Company* 2018 £000
Assets					
Cash and balances with central banks	15	**111,754**	**-**	196,454	-
Placements with banks	15	**95,807**	**32,542**	56,399	861
Loans and advances to customers	17	**2,264,381**	**-**	1,668,923	-
Other assets	18	**6,727**	**33**	18,245	419
Intangible assets	19	**9,804**	**-**	1,010	-
Right of use assets	20	**87**	**-**	-	-
Property and equipment	21	**7,514**	**-**	15,652	-
Assets classified as held for sale	21	**8,819**	**-**	-	-
Investment in subsidiary		**-**	**142,848**	-	127,848
Total assets		**2,504,893**	**175,424**	1,956,683	129,128
Liabilities					
Customer deposits	22	**2,227,678**	**-**	1,762,654	-
Bank deposits	23	**25,063**	**-**	240	-
Provision for customer redress	24	**1,164**	**-**	12,221	-
Lease liabilities	20	**110**	**-**	-	-
Other liabilities	25	**45,195**	**25,865**	60,553	52,618
Subordinated loan	26	**29,629**	**-**	29,524	-
Total liabilities		**2,328,839**	**25,865**	1,865,192	52,618
Equity					
Share capital	27	**149,300**	**149,300**	76,348	76,348
Capital redemption reserve		**48**	**48**	-	-
Share premium		**190**	**190**	190	190
Revaluation and other reserves		**1,129**	**-**	-	-
Retained earnings / accumulated losses		**25,388**	**21**	14,953	(28)
Total equity		**176,055**	**149,559**	91,491	76,510
Total liabilities and equity		**2,504,893**	**175,424**	1,956,683	129,128

The notes on pages 15 to 58 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 26|6|20 and were signed on its behalf by:

Pradip Dhamecha
Director

Statement of changes in equity

For the year ended 31 December 2019

Consolidated

	Share capital	***Capital redemption reserve***	***Share premium***	***Revaluation and other reserves***	***Retained earnings***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
As at 1 January	**76,348**	**-**	**190**	**-**	**14,953**	**91,491**
Impact of adopting IFRS16	**-**	**-**	**-**	**-**	**(30)**	**(30)**
Purchase of own shares	**(48)**	**48**	**-**	**-**	**(239)**	**(239)**
Preference share dividend	**-**	**-**	**-**	**-**	**(28)**	**(28)**
Share Capital issued	**73,000**	**-**	**-**	**-**	**-**	**73,000**
Other comprehensive income	**-**	**-**	**-**	**1,129**	**-**	**1,129**
Profit for the period after tax	**-**	**-**	**-**	**-**	**10,732**	**10,732**
31 December	**149,300**	**48**	**190**	**1,129**	**25,388**	**176,055**

Company

	Share capital	***Capital redemption reserve***	***Share premium***	***Revaluation and other reserves***	***Accumulated losses / retained earnings***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
As at 1 January	**76,348**	**-**	**190**	**-**	**(28)**	**76,510**
Purchase of own shares	**(48)**	**48**	**-**	**-**	**(239)**	**(239)**
Preference share dividend	**-**	**-**	**-**	**-**	**(28)**	**(28)**
Share Capital issued	**73,000**	**-**	**-**	**-**	**-**	**73,000**
Profit for the period after tax	**-**	**-**	**-**	**-**	**316**	**316**
31 December	**149,300**	**48**	**190**	**-**	**21**	**149,559**

For the period ended 31 December 2018

Consolidated

	Share capital	*Share premium*	*Retained earnings*	*Total*
	£000	*£000*	*£000*	*£000*
As at 17 May	-	-	-	-
Share Capital issued	76,348	190	-	76,538
Profit for the period after tax	-	-	14,953	14,953
31 December	76,348	190	14,953	91,491

Company

	Share capital	*Share premium*	*Accumulated losses*	*Total*
	£000	*£000*	*£000*	*£000*
As at 17 May	-	-	-	-
Share Capital issued	76,348	190	-	76,538
Loss for the period after tax	-	-	(28)	(28)
31 December	76,348	190	(28)	76,510

The notes on pages 15 to 58 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019

	Consolidated	***Company***	*Consolidated*	*Company*
	2019	***2019***	*2018*	*2018*
	£000	***£000***	*£000*	*£000*
Operating activities				
Profit / (loss) before tax	**13,785**	**317**	15,117	(31)
Adjustments for:				
Provisions for credit loss expense	**292**	-	772	-
Depreciation of property and equipment	**773**	-	239	-
Amortisation of intangible assets	**501**	-	354	-
Impairment of fixed assets	-	-	1,703	-
Gain on bargain purchase	-	-	(17,482)	-
Lease interest	**8**	-	-	-
Interest on subordinated loan	**2,400**	-	705	-
Amortisation of issuance costs relating to subordinated loan	**105**	-	13	-
Tax paid	**(2,087)**	-	-	-
Foreign exchange gains	**(424)**	-	-	-
Discount unwind on deferred consideration	**2,833**	-	-	-
Changes in operating assets				
Increase in mandatory deposits with central bank	**(1,081)**	-	-	-
Increase in loans and advances to customers	**(595,750)**	-	(39,786)	-
Decrease / (increase) in other assets	**11,518**	**386**	28,108	(416)
Changes in operating liabilities		-	-	-
Decrease / (increase) in customer deposits	**465,024**	-	(4,786)	-
Increase in bank deposits	**24,823**	-	240	-
(Decrease) / increase in other liabilities and provision for customer redress	**(31,902)**	**(26,751)**	10,249	52,618
Net cash flow (used in) / from operating activities	**(109,180)**	**(26,048)**	(4,554)	52,171
Investing activities				
Purchase of property and equipment	**(387)**	-	(958)	-
Purchase of intangible assets	**(8,400)**	-	(1,035)	-
Investment in subsidiary, net of cash acquired	-	**(15,000)**	182,862	(127,848)
Net cash flow used in investing activities	**(8,787)**	**(15,000)**	180,869	(127,848)
Financing activities				
Proceeds from issuance of new share capital	**73,000**	**73,000**	76,538	76,538
Capital repayment from finance lease obligations	**(58)**	-	-	-
Share repurchase	**(267)**	**(267)**	-	-
Net cash flow from financing activities	**72,675**	**72,733**	76,538	76,538
Net (decrease) / increase in cash and cash equivalents for the year	**(45,292)**	**31,681**	252,853	861
Cash and cash equivalents (see note 15)				
1 January 2019 / 17 May 2018	**252,853**	**861**	-	-
Net (decrease) / increase in cash and cash equivalents for the year	**(45,292)**	**31,681**	252,853	861
31 December	**207,561**	**32,542**	252,853	861

Operational cash flows from interest	**2019**	**2019**	*2018*	*2018*
	£000	***£000***	*£000*	*£000*
Interest paid	**23,879**	**-**	5,391	-
Interest received	**78,091**	**5**	17,672	1

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 15 to 58 form an integral part of these financial statements.

Notes to the financial statements

1 Corporate information

Cynergy Capital Ltd (registered number: 11368222), incorporated in England and Wales on 17 May 2018, is a private company limited by shares with its registered office at 97 Park Lane Mayfair, London, United Kingdom, W1K 7TG. The Company year end is 31 December. Cynergy Capital Ltd (the Company) together with its subsidiaries (the Group) provides business and personal banking services in the UK and is incorporated in the United Kingdom under the Companies Act 2006.Cynergy Bank Limited (the Bank Company) is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

Cynergy Capital Ltd owns 100% of the ordinary shares of Cynergy Bank Limited.

2 Basis of preparation and consolidation

2.1 Basis of preparation

The consolidated and Company financial statements have been prepared on a historical cost basis, except for land and buildings classified as property 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. The accounts are prepared on a going concern basis.

Statement of compliance

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

Presentation of financial statements

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

The Group 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 Group.

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).

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.
If the Group loses control over a subsidiary, it derecognises the related assets, liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The relationship between the Company and the Bank Company is one of principal, with 100% ownership of the Bank Company. There are no restrictions in place with regard to the ability of the Company to access assets and settle liabilities of the Group or transfer cash or other assets to and from the Bank Company, although Board approval is required. There is a charge held by Bank of Cyprus Public Company Limited, over the share capital of the Group, which restricts dividends, until the deferred consideration has been settled in full. The second and final payment is due October 2020.

3. Accounting policies

3.1 Accounting standards and interpretations adopted during the period

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

3.1.1 IFRS 16 Leases

The Group leases various offices. Rental contracts are typically made for fixed periods of either 1 year or up to 20 years. The Group 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 Company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held.

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

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

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

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

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

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

• IFRIC 23 'Uncertainty over Income Tax Treatments'

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

3.3 Segmental information

The Group 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 Group and the revenue can be reliably measured.

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

Dividend income
Dividend income is recognised when the shareholder's right to income has been established, upon declaration of the dividend.

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

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

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

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

3.5 Provisions

Provisions are recognised when the Group 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 Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses. Detailed disclosures are provided in Note 24.

3.6 Taxation

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

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

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

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

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

3.7 Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e. the date that the Group 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 Group recognises balances due to customers when funds are transferred to the Group.

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 Group accounts for the Day 1 profit or loss, as described below.

Measurement categories of financial assets and liabilities

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

- Amortised Cost: Assets that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest ('SPPI') and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by an expected credit loss allowance recognised and measured as described in 3.10. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instruments' amortised cost which are recognised in the profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of the hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Total operating income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net Investment Income'. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

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

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

3.8 Financial assets and liabilities

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

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

i) Business model assessment

The Group'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 Group's balance sheet are tightly evaluated at origination and undergo a structured review cycle and monitoring. They are reported to the Group's key management personnel through the appropriate committee and escalation framework to ensure that early intervention can be taken where necessary;

• Aligned to the Group'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 Group's portfolio providing trend analysis and book segmentation to identify and consequently manage emerging risks;

• The Group 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 Group'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 Group's original expectations, the Group 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 Group 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 Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than '*de minimis*' exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL.

Derivatives recorded at fair value through profit or loss

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variables, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying');

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors;

- It is settled at a future date.

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

Embedded derivatives

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

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

From 1 January 2018, with the introduction of IFRS 9, the Group 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 Group classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in 'Total operating income'. Interest and dividend income or expense is recorded in 'Total operating income' according to the terms of the contract, or when the right to payment has been established.

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

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

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 3.10. Where the Group 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 Group 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 Group 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 Group 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 Group 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, 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 contain 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 Group'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, 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 Group 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 Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 - an ECL provision as set out in Note 28. The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the guarantee.

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

3.9 De-recognition of financial assets and liabilities

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

3.10 Impairment of financial assets

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

i) Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loan loss approach with a forward-looking ECL approach. The Group 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 Group'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 Group groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

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

For financial assets for which the Group 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) de-recognition of the financial asset.

ii) The Calculation of ECLs

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

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

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

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

The mechanics of the ECL method are summarised below:

- Stage 1: The 12m ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group 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 Group 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 Group 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 Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at the expected EIR on the loan.
- Overdrafts: The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is five years for corporate and seven years for retail products. The interest rate used to discount the ECLs for overdrafts is based on the average EIR that is expected to be charged over the life of the instrument.

iii) Forward looking information

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

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

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

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

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

The weightings assigned to each economic scenario at 31 December 2019 were as follows:
Base - 40%
Mild Upside - 30%
Downside - 30%

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:
- GDP growth;
- Unemployment rates;
- Central Bank base rates;
- House price indices.

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

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

For comparison the ECL derived by applying a 100% weighting to each of the economic scenarios is:
Base (100%) - 4,344
Mild Upside (100%) - 4,145
Downside (100%) - 4,763

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

3.11 Collateral valuation

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

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

3.12 Write-offs

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

3.13 Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group 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 Group 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 Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. De-recognition 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 Group also reassesses whether there has been a significant increase in credit risk, as set out in Note 30. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

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

3.14 Impairment of financial assets (applied prior to adoption of IFRS9)
The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event or events have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

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

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

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

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

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

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

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

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

Changes after recognition of impairment

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

3.15 Funding for Lending Scheme ('FLS')

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

3.16 Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition.

3.17 Property and equipment

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

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

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

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

3.18 Non-current assets held-for-sale

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

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

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

3.19 Intangible assets

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

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

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

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:
- Computer software – 3 years
- Core application software – 10 years
- Core deposits systems – 5 years

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

3.20.2 Share-based payments
The Group 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 Group also estimates the number of awards that are expected to vest based on the nonmarket service and performance conditions. The total expense is recognised over the vesting period. At the end of each financial period, the Group 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.

3.21 Investment in subsidiary
Cynergy Bank Limited, whose principal place of business is England and Wales and whose registered office is 27-31 Charlotte Street, London, W1T 1RP, is a wholly owned subsidiary of Cynergy Capital Ltd. The investment in subsidiary is accounted for at cost less any provision for impairment.

In the Group accounts the acquisition has been fair valued under IFRS 3, with no material adjustments, save for the value of deferred consideration, which has been discounted using the Company's cost of borrowing as a discount rate.

In the Company accounts, the deferred consideration payable on the acquisition of the Bank Company is also shown within other liabilities. The investment is held at cost under IAS 27, and therefore the deferred consideration is not discounted.

4 Significant accounting judgments, estimates and assumptions

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

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

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

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

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

Impairment losses on financial assets
The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group'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 Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

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

Forward looking ECL sensitivities are detailed in note 3.10.

Provision for conduct risk, customer remediation and litigation
The Group 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 Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group 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 Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group 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 Group 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 Group 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 judgement 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.

The effective interest method
The Group'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 Group 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 Group's and the Central Bank base rate and other fee income / expense that are integral parts of the instrument. The key judgment sensitivity is completed through increasing and decreasing the behavioural life of the property lending portfolio, which if adjusted by plus or minus three months, would result in reducing/increasing income of £36k/£42k.

Valuation of shared based payment liability
The Board and the Remuneration, Nominations and Corporate Governance Committee of the Bank Company 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 50% of the award will be satisfied following the vesting date, 30% will be subject to a holding period of one year and 20% of the award will be subject to a holding period of two years. Upon maturity of the plan, the valuation of the award is calculated using a market value approach, assuming there is no quoted price available at this point. The valuation method considers comparable companies and comparable transactions to derive a comparable P/E ratio and book multiple. The final award is at the discretion of the Bank Company's Board in consideration of satisfaction of the performance conditions.

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

5 Interest income	**Group 2019 £000**	*Group 2018 £000*	**Company 2019 £000**	*Company 2018 £000*
Loans and advances to customers	**75,647**	17,659	-	-
Placements with banks and central banks	**1,431**	411	-	-
Placements with related entities	-	72	-	-
Derivative financial instruments	**973**	-	-	-
	78,051	18,142	-	-
Other interest and similar income	**4,412**	471	**5**	1
	82,463	18,613	**5**	1

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

6 Interest expense	**2019 £000**	*2018 £000*
Group		
Customer deposits	**22,030**	4,720
Placements by related entities	-	98
Bank deposits	**643**	96
Subordinated loan (note 26)	**2,505**	705
Lease liabilities	**8**	-
Deferred consideration discount unwind	**2,833**	-
	28,019	5,619
Derivative financial instruments	**1,162**	514
	29,181	6,133

7 Fee and commission income

Group

	2019 £000	2018 *£000*
Service fees for current accounts	**884**	212
Service fees for Debit / Credit cards	**430**	113
Services fees for handling payments	**202**	60
Service fees for credit Administration	**85**	20
Early repayment charges	-	166
Ad hoc fees	**763**	-
	2,364	571

8 Foreign exchange gains

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

Group	**2019**	2018
	£000	*£000*
Foreign exchange gain	**424**	65

9 Net gain on derivatives

Group	**2019**	2018
	£000	*£000*
Net gain arising on derivatives (see note 16)	**100**	261

10 Staff costs

	Group	*Group*	***Company***	*Company*
	2019	*2018*	***2019***	*2018*
10 Staff costs	***£000***	*£000*	***£000***	*£000*
Salaries and wages	**19,744**	5,788	**70**	-
Social security costs	**2,057**	476	**10**	-
Other pension costs	**2,094**	447	**-**	-
Other benefits – long term incentive plan	**2,200**	-	**-**	-
	26,095	6,711	**80**	-

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

11 Depreciation, amortisation and impairment

	2019 £000	2018 £000
Group		
Depreciation	**730**	239
Amortisation of intangible assets	**501**	354
Depreciation of right-of-use assets	**43**	-
Impairment	**-**	1,703
	1,274	2,296

12 Other operating expenses

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Information technology	**5,354**	1,168	**-**	-
Professional fees	**3,243**	2,325	**58**	45
Clearing charges	**1,108**	274	**-**	-
Communication	**336**	66	**-**	-
Advertising	**567**	147	**-**	-
Premises	**1,211**	324	**-**	-
Printing and stationery	**115**	75	**-**	-
Other operating expenses – refer to analysis below	**2,790**	1,584	**1**	20
	14,724	5,963	**59**	65

Professional fees include fees payable (excluding VAT) to the Group's auditor are analysed below:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Audit of the Bank's financial statements	**438**	164	**-**	-
Audit of the Company's financial statements	**45**	45	**45**	45
Other assurance related expenses	**24**	-	**-**	-
	507	209	**45**	45

The 2018 audit fee quoted has been apportioned to the relevant period.

Other operating expenses are further analysed below:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Subscriptions and publications	**394**	-	**-**	-
Directors' fees	**371**	62	**-**	-
Recruitment	**486**	253	**-**	-
Training	**187**	67	**-**	-
Travel and entertaining	**281**	137	**-**	-
Strategic initiatives	**21**	327	**-**	-
Rebranding	**11**	680	**-**	-
Financial Services Compensation Scheme levy	**287**	-	**-**	-
Other insurances	**305**	68	**-**	-
Other operating expenses	**445**	-	**-**	-
Miscellaneous	**2**	(13)	**1**	20
	2,790	1,584	**59**	65

13 Credit loss on financial assets

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

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

	2018			
	Stage 1	Stage 2	Stage 3	Total
Group	*£000*	*£000*	*£000*	*£000*
Loans advances to customers	221	23	528	772
Total impairment loss	221	23	528	772

14 Income tax (expense) / credit

	2019	*2018*	***2019***	*2018*
	£000	*£000*	***£000***	*£000*
	Group	Group	**Company**	Company
UK corporation tax				
Charge for the year	**3,191**	199	**1**	-
Adjustments in respect of prior year	**(196)**	-	-	-
	2,995	199	**1**	-
Deferred tax				
(Credit) / charge for the year	**34**	(35)	-	(3)
Adjustments in respect of prior year	**24**	-	-	-
Tax charge for the year	**3,053**	164	**1**	(3)

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% is presented below:

Profit / (loss) before tax	**13,785**	15,117	**317**	(31)
Tax calculated at 19.00%	**2,619**	2,872	**60**	(6)
Tax effect of:				
Income not chargeable to Corporation Tax	**(8)**	(2,764)	**(59)**	-
Expenses not deductible for tax purposes	**621**	-	-	3
Tax rate change	**(7)**	56	-	-
Adjustment in respect of prior year – Corporation Tax	**(196)**	-	-	-
Adjustment in respect of prior year – Deferred Tax	**24**	-	-	-
Tax charge for the year	**3,053**	164	**1**	(3)

The net deferred asset (liability) arises from:

Difference between capital allowances and depreciation	**352**	517	**3**	3
Property revaluation	**105**	-	-	-
Net deferred tax asset / (liability)	**457**	517	**3**	3

The movement in the net deferred tax asset is set out below:

	2019 £000 Group	2018 £000 Group	2019 £000 Company	2018 £000 Company
1 January	**517**	482	**3**	-
Deferred tax recognised in the income statement	**(60)**	35	**-**	3
31 December	**457**	517	**3**	3

The analysis of the net deferred tax charge recognised in the income statement is set out below:

Difference between capital allowances and depreciation	**(42)**	102	**-**	-
Other temporary differences	**(1)**	(11)	**-**	3
Change in tax rates	**7**	(56)	**-**	-
Adjustment in respect of prior years	**(24)**	-	**-**	-
Deferred tax credit / (charge) for the year	**(60)**	35	**-**	3

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

15 Cash, balances with central banks and placements with banks

	Group 2019 £000	*Group 2018 £000*	*Company 2019 £000*	*Company 2018 £000*
Cash	**326**	457	**-**	-
Balances with the Bank of England	**111,428**	195,997	**-**	-
	111,754	196,454	**-**	-
Placements with banks	**95,807**	56,399	**32,542**	861
Cash and cash equivalents	**207,561**	252,853	**32,542**	861

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 the Bank of England include mandatory deposits of £3,763,768 (December 2018: £2,682,295) which are not available for use in the Group'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.

16 Derivative financial instruments

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group'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 Group'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 Group has not applied hedge accounting in the current financial year.

The Group 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:

Group	2019	2018
	£000	*£000*
Gains / (losses) from change in fair value of derivatives	**100**	(22)
Losses from change in fair value of hedging instruments	**-**	(102)
Gains from change in fair value of hedged items	**-**	385
	100	261

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.

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

Group	**2019**			2018		
		Fair value			Fair value	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Interest rate contracts	**£000**	**£000**	**£000**	£000	£000	£000
By type						
Interest rate swaps	-	-	-	205,000	356	-
Total interest rate contracts	-	-	-	205,000	356	-
By maturity						
Up to 1 year	-	-	-	205,000	356	-
Total interest rate contracts	-	-	-	205,000	356	-
By counterparty						
Banks and building societies	-	-	-	205,000	356	-
Total interest rate contracts	-	-	-	205,000	356	-
By hedging status						
Economic	-	-	-	205,000	356	-
Total interest rate contracts	-	-	-	205,000	356	-

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

17 Loans and advances to customers

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

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

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

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

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

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

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

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

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

Loans	2018			
Group	Stage 1	Stage 2	Stage 3	Total
	£000	*£000*	*£000*	*£000*
17 May	-	-	-	-
Acquisition of a subsidiary	1,490,017	94,606	23,070	1,607,693
New assets originated	149,936	1,266	2,232	153,434
Assets derecognised or repaid	(59,785)	(29,113)	(11,164)	(100,062)
Transfers to Stage 1	15,105	(14,892)	(213)	-
Transfers to Stage 2	(27,349)	28,637	(1,287)	-
Transfers to Stage 3	(676)	(7,221)	7,897	-
Modifications	-	-	-	-
Amounts written off	-	-	(413)	(413)
Foreign exchange adjustments	-	-	-	-
Total	1,567,247	73,283	20,122	1,660,652

Overdrafts	2018			
Group	Stage 1	Stage 2	Stage 3	Total
	£000	*£000*	*£000*	*£000*
17 May	-	-	-	-
Acquisition of a subsidiary	16,111	1,535	330	17,977
New assets originated	498	3	1	502
Assets derecognised or repaid	(5,875)	(661)	(122)	(6,657)
Transfers to Stage 1	78	(78)	-	-
Transfers to Stage 2	(1,074)	1,074	-	-
Transfers to Stage 3	-	(6)	6	-
Modifications	-	-	-	-
Amounts written off	-	-	(5)	(5)
Foreign exchange adjustments	-	-	-	-
Total	9,738	1,868	211	11,817

An analysis of changes in the ECL is as follows:

Loans		**2019**		
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£000	***£000***	***£000***	***£000***
ECL allowance as at 1 January 2019 under IFRS9	**1,418**	**335**	**1,647**	**3,400**
New assets originated	**851**	**99**	**35**	**985**
Assets derecognised or repaid	**(192)**	**577**	**(1,059)**	**(674)**
Transfers to Stage 1	**14**	**(14)**	**-**	**-**
Transfers to Stage 2	**(123)**	**123**	**-**	**-**
Transfers to Stage 3	**(87)**	**(804)**	**890**	**(1)**
Modifications	**-**	**-**	**-**	**-**
Amounts written off	**-**	**-**	**(80)**	**(80)**
Foreign exchange adjustments	**-**	**-**	**-**	**-**
Total	**1,881**	**316**	**1,433**	**3,630**

Overdrafts		**2019**		
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£000	***£000***	***£000***	***£000***
ECL allowance as at 1 January 2019 under IFRS9	**25**	**14**	**107**	**146**
New assets originated	**3**	**-**	**1**	**4**
Assets derecognised or repaid	**5**	**(1)**	**(21)**	**(17)**
Transfers to Stage 1	**1**	**(1)**	**-**	**-**
Transfers to Stage 2	**(3)**	**3**	**-**	**-**
Transfers to Stage 3	**-**	**(5)**	**5**	**-**
Modifications	**-**	**-**	**-**	**-**
Amounts written off	**-**	**-**	**(23)**	**(23)**
Foreign exchange adjustments	**-**	**-**	**-**	**-**
Total	**31**	**10**	**69**	**110**

Loans		2018		
Group	Stage 1	Stage 2	Stage 3	Total
	£000	*£000*	*£000*	*£000*
17 May	-	-	-	-
Acquisition of a subsidiary	1,200	315	1,525	3,040
New assets originated	505	2	187	694
Assets derecognised or repaid	(157)	494	(473)	(136)
Transfers to Stage 1	10	(10)	-	-
Transfers to Stage 2	(102)	103	(1)	-
Transfers to Stage 3	(38)	(569)	607	-
Modifications	-	-	-	-
Amounts written off	-	-	(413)	(413)
Foreign exchange adjustments	-	-	-	-
Total	1,418	335	1,432	3,185

Overdrafts		2018		
Group	Stage 1	Stage 2	Stage 3	Total
	£000	*£000*	*£000*	*£000*
17 May	-	-	-	-
Acquisition of a subsidiary	21	13	117	151
New assets originated	-	-	-	-
Assets derecognised or repaid	7	-	(7)	-
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(4)	4	-	-
Transfers to Stage 3	-	(2)	2	-
Modifications	-	-	-	-
Amounts written off	-	-	(5)	(5)
Foreign exchange adjustments	-	-	-	-
Total	25	14	107	146

18 Other assets

	Group	*Group*	***Company***	*Company*
	2019	*2018*	***2019***	*2018*
	£000	*£000*	***£000***	*£000*
Debtors	**604**	575	**33**	419
Receivable from the Bank of Cyprus Public Company Limited towards redress payments (note 23)	**1,685**	12,845	**-**	-
Prepayments and accrued income	**1,851**	1,249	**-**	-
Receivables from payment service provider	**1,616**	1,701	**-**	-
Assets under construction	**-**	895	**-**	-
Derivatives	**482**	461	**-**	-
Deferred tax asset (note 14)	**457**	517	**-**	-
Other	**33**	2	**-**	-
Cash and cash equivalents	**6,727**	18,245	**33**	419

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

19 Intangible assets

Group		*2019*		*2018*
	Computer software	**Assets under construction**	**Total**	Total
	£000	***£000***	***£000***	*£000*
Cost at 1 January 2019 / 17 May 2018	**2,869**	**-**	**2,869**	-
Acquisition of subsidiary	**-**	**-**	**-**	1,649
Transfer from other assets	**-**	**896**	**896**	-
Additions	**1,229**	**7,170**	**8,399**	1,052
Disposals and write offs	**-**	**-**	**-**	-
Reclassifications	**-**	**-**	**-**	168
Cost at 31 December	**4,098**	**8,066**	**12,164**	2,869
Accumulated amortisation at 1 January 2019 / 17 May 2018	**(1,859)**	**-**	**(1,859)**	-
Amortisation charge for the year / period	**(501)**	**-**	**(501)**	(348)
Disposals, write-offs and impairments	**-**	**-**	**-**	(1,343)
Reclassifications	**-**	**-**	**-**	(168)
Accumulated amortisation at 31 December	**(2,360)**	**-**	**(2,360)**	(1,859)
Net book value at 31 December	**1,738**	**8,066**	**9,804**	1,010

20 Leases

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

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

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

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

The undiscounted cash payments that will be made until the end of the lease term are as follows:
Within 1 year - £58,000
Between 2 to 5 years - £116,000
More than 5 years - £nil

21 Property and equipment

Group	Freehold property £000	Leasehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000	Total £000
	2019					2018
Cost or valuation at 1 Jan 2019 / 17 May 2018	**13,797**	**476**	**1,525**	**460**	**16,258**	-
Acquisition of subsidiary	-	-	-	-	-	15,293
Revaluation	**(617)**	**(41)**	-	-	**(658)**	-
Additions	**1,237**	**67**	**378**	**8**	**1,690**	964
Disposals and write offs	-	-	-	-	-	-
Assets classified as held for sale	**(8,317)**	**(502)**	-	-	**(8,819)**	-
Reclassifications	-	-	-	-	-	-
Cost or valuation at 31 December	**6,100**	-	**1,903**	**468**	**8,471**	16,257
Accumulated depreciation at 1 January	**(72)**	**(4)**	**(79)**	**(450)**	**(605)**	-
Depreciation charge for the year	**(286)**	**(16)**	**(423)**	**(5)**	**(730)**	(245)
Revaluation	**358**	**20**	-	-	**378**	-
Disposals, write-offs and impairments	-	-	-	-	-	(360)
Assets classified as held for sale	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Accumulated depreciation at 31 December	-	-	**(502)**	**(455)**	**(957)**	(605)
Net book value at 31 December	**6,100**	-	**1,401**	**13**	**7,514**	15,652

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

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

22 Customer deposits

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

23 Bank deposits

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

24 Provision for customer redress

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

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

In October 2016, after a review of an issue which had been a source of complaints and litigation against the Bank Company, *and following a clarification of the legal situation in an Appeal Court Decision in June 2016 (Alexander vs West Bromwich Mortgage Company)*, the Bank Company 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 Company 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 judgement 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%	56,010
81%	56,249
82%	56,491
85%	57,215

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

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

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

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

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

Provision for customer redress	*2019*	*2018*
	£000	*£000*
Group		
At 1 January 2019 / 17 May 2018	**12,221**	-
Acquisition of subsidiary	**-**	14,455
Arising during the year:		
Charged in the Bank Company statement of comprehensive income	**-**	-
Provided for by BOC CY under the Deed of Support (note 18)	**1,685**	3,894
Payments made during the year	**(12,742)**	(6,128)
At 31 December	**1,164**	12,221

25 Other liabilities

	2019	***2019***	*2018*	*2018*
	£000	***£000***	*£000*	*£000*
	Group	**Company**	Group	Company
Trade creditors	**917**	**-**	828	-
Accruals	**9,235**	**120**	6,597	390
Accrued interest payable incl. subordinated debt	**4,887**	**-**	2,531	-
Financial Services Compensation Scheme levy (note 28)	**136**	**-**	-	-
Derivatives	**673**	**-**	253	-
PAYE and NI settlement	**830**	**-**	614	-
Items in the course of settlement	**89**	**-**	427	-
Corporation Tax payable	**1,612**	**-**	706	-
Tax deduction scheme for interest	**1**	**-**	63	-
Amounts owed to Bank of Cyprus Public Company Limited	**24,292**	**25,750**	47,210	51,500
Amounts owed to Cynergy Investments Ltd	**-**	**-**	500	500
Amounts owed to Dhamecha Foods Limited	**-**	**-**	238	238
Other	**2,523**	**(5)**	586	(10)
Total	**45,195**	**25,865**	60,553	52,618

26 Subordinated loan

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

With the prior consent of the Prudential Regulation Authority, the subordinated loan due to the previous parent was converted into share capital during May 2017 generating 30,000,000 new ordinary shares of £1 each.

In December 2017, the Bank Company 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 Company has the option to redeem the loan on 21 December 2022. The loan is unlisted.

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

Changes in liabilities arising from financing activities

2019	**1 January 2019**	**Acquisition of subsidiary**	**Cash flows**	**Conversion to equity**	**Other**	**31 December 2019**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Unsecured subordinated loan	**29,524**	**-**	**-**	**-**	**105**	**29,629**

2018	17 May 2018	Acquisition of subsidiary	Cash flows	Conversion to equity	Other	31 December 2018
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Unsecured subordinated loan	-	29,511	-	-	13	29,524

27 Share capital

The Company	*31 December 2019*		31 December 2018	
	Number of shares	***£000***	*Number of shares*	*£000*
Issued and fully paid:				
Issued at incorporation on 17 May 2018: 1 Ordinary A Share at nominal value of £1 each	-	-	1	-
Issued on 8 October 2018: 4 Ordinary A Share at nominal value of £1 each	-	-	4	-
Subdivision on 23 November 2018: 5 ordinary A shares of £1 each into 500 ordinary A shares of £0.01 each	-	-	495	-
Reclassification on 23 November 2018: 200 ordinary A shares of £0.01 each into 200 ordinary B shares of £0.01 each	-	-	-	-
Issued on 23 November 2018:				
138.0m Ordinary A Shares at nominal value of £0.01 each	-	-	137,999,500	1,380
92.0m Ordinary B Shares at nominal value of £0.01 each	-	-	92,000,000	920
2.25m Ordinary C Shares at nominal value of £0.01 and a premium of £0.04 each	-	-	2,250,000	23
2.5m Ordinary D Shares at nominal value of £0.01 and a premium of £0.04 each	-	-	2,500,000	25
74.0m Preferred Ordinary Shares at nominal value of £1 each	-	-	74,000,000	74,000
Issued 11 February 2019:				
15.0m Preferred Ordinary Shares at nominal value of £1 each	***15,000,000***	***15,000***	-	-
All Converted to £1 shares on 6 September 2019:				
54,780,003 Ordinary A shares at nominal value of £1 each	**54,780,003**	**54,780**	-	-
36,520,002 Ordinary B shares at nominal value of £1 each	**36,520,002**	**36,520**	-	-
Issued 26 September 2019:				
27.6m Ordinary A shares at nominal value of £1 each	**27,600,000**	**27,600**	-	-
18.4m Ordinary B shares at nominal value of £1 each	**18,400,000**	**18,400**	-	-
Issued on 19 November 2019:				
4.2m Ordinary A shares at nominal value of £1 each	**4,200,000**	**4,200**	-	-
2.8m Ordinary B shares at nominal value of £1 each	**2,800,000**	**2,800**	-	-
Issued 16 December 2019:				
3.0m Ordinary A shares at nominal value of £1 each	**3,000,000**	**3,000**	-	-
2.0m Ordinary B shares at nominal value of £1 each	**2,000,000**	**2,000**	-	-
	149,300,005	**149,300**	308,750,000	76,348

On 11 February 2019, 15.0m Preferred Ordinary shares at nominal value £1.00 were issued for cash consideration.

On 6 September 2019, the 89.0m Preferred Ordinary shares in issue were redeemed by the Company, at par, and 53.4m new Ordinary A shares and 35.6m new Ordinary B shares were issued, to the same related parties.

On 6 September 2019, 138,000,300 Ordinary A Shares at nominal value £0.01 were consolidated into 1,380,003 Ordinary A Shares at nominal value £1.00. Additionally, 92,000,200 Ordinary B Shares at nominal value £0.01 were consolidated into 920,002 Ordinary B Shares at nominal value £1.00.

On 6 September 2019, 2.25m of Ordinary C Shares at nominal value £0.01 and 2.5m of Ordinary D Shares at a nominal value of £0.01 were repurchased and subsequently cancelled.

On 26 September 2019, 46.0m of Ordinary Shares at nominal value £1.00 were issued for cash consideration.

On 19 November 2019, 7.0m of Ordinary Shares at nominal value £1.00 were issued for cash consideration.

On 16 December 2019, 5.0m of Ordinary Shares at nominal value £1.00 were issued for cash consideration.

Each Ordinary A and B shareholder shall have equal right to vote. Ordinary shareholders are entitled to dividends and have the right to participate in any distribution upon winding up.

28 Contingent liabilities and commitments

28.1 Guarantees and commitments

As part of the services provided to its customers, the Group 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 Group 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 Group's maximum exposure should contracts be fully drawn upon and customers default without taking account of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held:

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

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

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

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

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

Acceptances, guarantees and cashing facilities	2019				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Group	***£000***	***£000***	***£000***	***£000***	*£000*
Gross carrying amount as at 1 January 2019 / 17 May 2018	**1,148**	**130**	**-**	**1,278**	-
Acquisition of a subsidiary	**-**	**-**	**-**	**-**	1,278
New assets originated	**1,152**	**-**	**-**	**1,152**	4
Assets derecognised or repaid	**(1,148)**	**(29)**	**-**	**(1,177)**	(4)
Transfers to Stage 1	**-**	**-**	**-**	**-**	-
Transfers to Stage 2	**-**	**-**	**-**	**-**	-
Transfers to Stage 3	**-**	**-**	**-**	**-**	-
Modifications	**-**	**-**	**-**	**-**	-
Amounts written off	**-**	**-**	**-**	**-**	-
Foreign exchange adjustments	**-**	**-**	**-**	**-**	-
Total	**1,152**	**101**	**-**	**1,253**	1,278

Commitments to advance	2019				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Group	***£000***	***£000***	***£000***	***£000***	*£000*
Gross carrying amount as at 1 January 2019 / 17 May 2018	**265,923**	**-**	**-**	**265,923**	-
Acquisition of a subsidiary	**-**	**-**	**-**	**-**	208,775
New assets originated	**337,607**	**-**	**-**	**337,607**	59,238
Assets derecognised or repaid	**(265,923)**	**-**	**-**	**(265,923)**	(2,090)
Transfers to Stage 1	**-**	**-**	**-**	**-**	-
Transfers to Stage 2	**-**	**-**	**-**	**-**	-
Transfers to Stage 3	**-**	**-**	**-**	**-**	-
Modifications	**-**	**-**	**-**	**-**	-
Amounts written off	**-**	**-**	**-**	**-**	-
Foreign exchange adjustments	**-**	**-**	**-**	**-**	-
Total	**337,607**	**-**	**-**	**337,607**	265,923

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

Contingent obligations and commitments are managed in accordance with the Group'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 Group.

28.2 Conduct risk related matters

There continues to be significant uncertainty and thus judgement required in determining the quantum of conduct risk related liabilities with note 24 reflecting the Group's current position in relation to redress provisions in respect of the remediation programme. The final amount required to settle the Group's potential liability for this, including any consequential and / or reputational loss is materially uncertain.

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

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

29 Financial Services Compensation Scheme levy

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

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

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

30 Risk management

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

Fair value of financial assets and liabilities

The following tables analyse the Group'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.

Group	Notes	***31 December 2019*** Carrying value	Fair value	*31 December 2018* Carrying value	Fair value
		£000	***£000***	*£000*	*£000*
Financial assets					
Cash and balances with central banks	(a, Level 1)	**111,754**	**111,754**	196,454	196,454
Placements with banks	(b, Level 1)	**95,807**	**95,807**	56,399	56,399
Placements with related entities	(b, Level 1)	-	-	-	-
Derivative financial assets	(e, see below)	**482**	**482**	461	461
Loans and advances to customers	(c, Level 3)	**2,264,381**	**2,298,418**	1,668,923	1,684,723
Financial liabilities					
Bank deposits	(b, Level 1)	**25,063**	**25,063**	240	240
Placements by related entities	(b, Level 1)	-	-	-	-
Customer deposits	(d, Level 3)	**2,227,678**	**2,211,252**	1,762,654	1,761,792
Derivative financial liabilities	(e, see below)	**673**	**673**	253	253
Subordinated loan	(f, Level 3)	**29,629**	**29,629**	29,524	29,524

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

(a) The carrying amounts of these financial assets are largely due to the short term maturities of these instruments approximating 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 Group.
(d) The carrying value of customer deposits is calculated by discounting the cash flows using prevailing market interest rates. The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand.
(e) The fair value of derivatives (including foreign exchange contracts and interest rate swaps) designated as being carried at fair value through profit or loss are based on quoted market prices and data or valuation techniques based on observable market data as appropriate to the nature and type of the underlying instrument.
(f) The subordinated loan is non-traded and the carrying value approximates fair value.

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

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

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

Liquidity risk

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

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

The Group's LCR as at 31 December 2019 was 362%, and is in excess of the current minimum requirement of 100% set by the PRA (unaudited). The Group has continued to maintain a significant level of HQLA throughout the year. In March 2019 the Bank Company 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

Group **31 December 2019**	**Carrying value**	**Demand**	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Assets:						
Cash and balances with central banks	**111,754**	**106,513**	-	**5,241**	-	-
Placements with banks	**95,807**	**95,807**	-	-	-	-
Loans and advances to customers	**2,264,381**	**14,577**	**64,170**	**151,346**	**1,490,636**	**543,652**
Property and equipment	**16,420**	-	-	**8,819**	**87**	**7,514**
Intangible assets	**9,804**	-	-	-	**9,804**	-
Other assets	**6,727**	**1,616**	-	**5,111**	-	-
Total assets	**2,504,893**	**218,513**	**64,170**	**170,517**	**1,500,527**	**551,166**
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	**46,469**	-	-	**46,469**	-	-
Subordinated loan	**29,629**	-	-	-	**29,629**	-
Total liabilities	**2,328,839**	**1,339,195**	**176,754**	**633,393**	**179,497**	-
Total equity	**176,055**	-	-	-	-	**176,055**
Total liabilities and equity	**2,504,893**	**1,339,195**	**176,754**	**633,393**	**179,497**	**176,055**
Acceptances and guarantees	**1,253**	**1,253**	-	-	-	-

Group *31 December 2018*	*Carrying value*	*Demand*	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Assets:						
Cash and balances with central banks	196,454	193,772	-	2,682	-	-
Placements with banks	56,399	56,399	-	-	-	-
Loans and advances to customers	1,668,923	21,161	58,578	78,897	1,079,880	430,407
Property and equipment	15,652	-	-	-	-	15,652
Intangible assets	1,010	-	-	-	1,010	-
Other assets	18,245	1,992	-	16,253	-	-
Total assets	1,956,683	273,324	58,578	97,832	1,080,890	446,059
Liabilities and equity:						
Bank deposits	240	240	-	-	-	-
Customer deposits	1,762,654	856,859	227,676	530,532	147,587	-
Other liabilities	72,774	-	-	72,774	-	-
Subordinated loan	29,524	-	-	-	29,524	-
Total liabilities	1,865,192	857,099	227,676	603,306	177,111	-
Total equity	91,491	-	-	-	-	91,491
Total liabilities and equity	1,956,683	857,099	227,676	603,306	177,111	91,491
Acceptances and guarantees	1,278	1,278	-	-	-	-

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

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

Non-derivative financial liabilities

Group	2019 Total	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
	£000	**£000**	**£000**	**£000**	**£000**	**£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**	**-**

Group	2018 Total	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
	£000	£000	£000	£000	£000	£000
Bank deposits	240	240	-	-	-	-
Customer deposits	1,762,654	848,908	227,406	534,819	151,521	-
Subordinated loan	31,996	2,472	-	-	29,524	-

Credit risk

Credit risk arises principally from lending activities, but also from other on and off balance sheet transactions where there is a risk that the counterparty may not meet its obligations to the Group. Credit risk occurs mainly in customer advances. To control credit risk, the Group 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 Bank Company's Board of Directors on recommendation from the Executive Risk Committee, which has management oversight of credit risk. The Group maintains a dedicated credit risk function with responsibility for managing credit risk and monitoring management of advances by the Group's business units.

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

Definition of default and cure

From a quantitative perspective a key trigger of default and therefore Stage 3 (credit-impaired) for ECL calculations, is when the borrower becomes 90 days past due on its contractual payments. The Group 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 Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group 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 Group;
- 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 Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application / protection.

It is the Group'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 eighteen 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 Group's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in note 3.14.

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

Each of the Group'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 Group's macroeconomic scenarios are then applied to assess a weighted ECL output at an exposure level.

ii) Treasury, trading and interbank relationships

The Group's counterparties comprise financial services institutions and central banks. For these relationships, the Group'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 and small business lending

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

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

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

iv) Consumer lending and retail mortgages

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

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

v) Exposure at default

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

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

vi) Loss given default

The revaluation of the underlying collateral to a credit exposure is reviewed aligned to the Group's valuation policy, which is consistent with the UK's application of the Capital Requirements Regulation (CRR). The calculation of the LTV is a core component of the LGD which takes into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral for which the Group 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 Group's experience of recoveries 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 Group's experience and based on the Group'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. The Group estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each asset class.

vii) Significant increase in credit risk

The Group 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 Group assesses whether there has been a significant increase in credit risk since initial recognition. For example, the Group considers an exposure to have significantly increased in credit risk when any of the following has occurred:

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

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

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

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

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

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

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

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

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

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

Maximum exposure to credit risk and collateral and other credit enhancements

The table below shows the maximum exposure to credit risk and the tangible and measurable collateral held. It also shows the net exposure to credit risk, which is the exposure after taking into account the impairment loss and tangible and measurable collateral held. Where guarantees are held the collateral shown below includes any collateral supporting the guarantee. In normal circumstances the Group 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 Group'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.

31 December 2019	***Maximum exposure***	***Fair value of collateral held by the Group***			***Net exposure***
Group		***Cash***	***Property***	***Net collateral***	
	£000	***£000***	***£000***	***£000***	***£000***
Assets:					
Cash and balances with central banks	**111,754**	-	-	-	**111,754**
Placements with banks	**95,807**	-	-	-	**95,807**
Placements with related entities	-	-	-	-	-
Loans and advances to customers	**2,264,381**	**1,844**	**3,878,795**	**2,247,658**	**16,723**
Other assets	**6,727**	**1,685**	-	**1,685**	**5,042**
On-balance sheet total	**2,478,669**	**3,529**	**3,878,795**	**2,249,343**	**229,326**
Contingent liabilities:					
Acceptances, guarantees and *cashing facilities*	**1,253**	**7**	**5,400**	**1,253**	-
Commitments to advance	**337,607**	**275**	**635,605**	**335,114**	**2,493**
Off-balance sheet total	**338,860**	**282**	**641,005**	**336,367**	**2,493**
Total credit risk exposure	**2,817,529**	**3,811**	**4,519,800**	**2,585,710**	**231,819**

31 December 2018 Group	Maximum exposure	Fair value of collateral held by the Group			Net exposure
		Cash	Property	Net collateral	
	£000	£000	£000	£000	£000
Assets:					
Cash and balances with central banks	196,454	-	-	-	196,454
Placements with banks	56,399	-	-	-	56,399
Placements with related entities	-	-	-	-	-
Loans and advances to customers	1,668,923	2,298	2,970,150	1,654,891	14,032
Other assets	18,245	12,845	-	12,845	5,400
On-balance sheet total	1,940,021	15,143	2,970,150	1,667,736	272,285
Contingent liabilities:					
Acceptances, guarantees and cashing facilities	1,278	21	4,944	1,278	-
Commitments to advance	265,924	366	894,242	263,688	2,236
Off-balance sheet total	267,202	387	899,186	264,966	2,236
Total credit risk exposure	2,207,223	15,530	3,869,336	1,932,702	274,521

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

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

All new origination is required to meet the Group's Valuation Policy which provides requirements to ensure that the Group's interests are protected by an appropriate level of security. The Group'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 Group maintains a low LTV in its lending activities ensuring that its loan loss allowances remain at the lower end of the market, and this practice is central to the Group's risk appetite and the calculation of the Group's expected credit loss model. The following table provides the distribution of LTV ratios for the Group's credit-impaired portfolio:

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

Operational risk

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

Market risk

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

The Group 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 Group aims to manage this risk through controlling such mismatches within limits set by reference to the maximum potential loss of earnings under given changes of interest rates. Interest rate risk arising from the mismatch between the Group's lending and deposit rates is actively managed. The majority of the advances and deposits are priced off market rates and margins are closely monitored and evaluated. In managing these mismatches the Group makes use of appropriate interest rate derivative contracts including interest rate swaps. The exposure to interest rate changes and sensitivity is regularly reported to and reviewed by the Asset & Liability Committee, which manages the overall exposure within an agreed limit.

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

31 December 2019	***Carrying value £000***	***Non-interest bearing £000***	***Up to 3 months £000***	***3 months to 1 year £000***	***1 year to 5 years £000***	***Over 5 years £000***
Assets:						
Cash and bank advances	**207,561**	**-**	**202,320**	**5,241**	-	-
Loans and advances to customers	**2,264,381**	-	**78,748**	**151,346**	**1,490,635**	**543,652**
Fixed assets	**16,420**	**16,420**	-	-	-	-
Other assets	**16,531**	**16,531**	-	**-**	-	-
Total assets	**2,504,893**	**32,951**	**281,068**	**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	**46,469**	**46,469**	-	**-**	-	-
Subordinated loan	**29,629**	-	-	-	**29,629**	-
Total liabilities	**2,328,839**	**376,648**	**1,187,770**	**586,924**	**179,497**	**-**
Interest rate gap	**176,054**	**(343,697)**	**(906,702)**	**(430,337)**	**1,311,138**	**543,652**

31 December 2018	*Carrying value £000*	*Non-interest bearing £000*	*Up to 3 months £000*	*3 months to 1 year £000*	*1 year to 5 years £000*	*Over 5 years £000*
Assets:						
Cash and bank advances	252,853	1,318	248,852	2,683	-	-
Loans and advances to customers	1,668,923	-	79,740	78,898	1,079,880	430,405
Fixed assets	16,662	16,662	-	-	-	-
Other assets	18,245	-	-	18,245	-	-
Total assets	1,956,683	17,980	328,592	99,826	1,079,880	430,405
Liabilities:						
Bank deposits	240	-	240	-	-	-
Customer deposits	1,762,654	233,170	857,050	525,752	146,682	-
Other liabilities	77,064	-	-	77,064	-	-
Subordinated loan	29,524	-	-	-	29,524	-
Total liabilities	1,869,482	233,170	857,290	602,816	176,206	-
Interest rate gap	87,201	(215,190)	(528,698)	(502,990)	903,674	430,405

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

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

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

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

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

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

The Group is exposed to foreign currency risk as a result of mismatches between assets and liabilities in foreign currencies arising from the Group'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 Company's treasury department is responsible for managing currency risk within intra-day and overnight limits.
The Group's currency net exposures remain low at the balance sheet date. The potential impact on profit after tax and on equity of a change in currency exchange rates is negligible at the reporting date.

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

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

	2019			*2018*		
	Gross amounts presented in the balance sheet	***Offset amounts***	***Net amounts***	*Gross amounts presented in the balance sheet*	*Offset amounts*	*Net amounts*
<u>*Group*</u>	***£000***	***£000***	***£000***	*£000*	*£000*	*£000*
Financial assets						
Placements with banks	**95,807**	**-**	**95,807**	56,399	-	56,399
Loans and advances to customers	**2,264,381**	**68,807**	**2,195,574**	1,668,923	54,584	1,614,339
Financial liabilities						
Bank deposits	**25,063**	**-**	**25,063**	240	-	240
Customer deposits	**2,227,678**	**68,807**	**2,158,871**	1,762,654	54,584	1,708,070

Conduct risk

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

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

As set out in note 24, the Group has made a provision for customer redress. Remediation principles were agreed and in 2016 the Bank Company 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

Cynergy Bank Limited, whose principal place of business is England and Wales and whose registered office is 27-31 Charlotte Street, London, W1T 1RP, is a wholly owned subsidiary of Cynergy Capital Ltd. The investment in subsidiary is accounted for at cost less any provision for impairment.

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

32 Capital management

The Group is supervised by the PRA 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 Company carries out a full annual review 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. The review is documented in the Internal

Capital Adequacy Assessment Process document, which is approved by the Board of Directors and submitted to the PRA. The PRA reviews the Internal Capital Adequacy Assessment Process document and issues Individual Capital Guidance (ICG) setting out the minimum capital requirements for the Group.

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

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

Capital Resources - Group	***2019***	*2018*
	£000	*£000*
Ordinary share capital	**149,300**	76,348
Share premium	**190**	190
Capital redemption reserve	**48**	-
Retained earnings	**25,388**	14,953
Regulatory deductions	**(9,804)**	(1,010)
Total eligible Tier 1 capital (CET1)	**165,122**	90,481
Subordinated debt	**29,629**	29,524
Total Tier 2 capital	**29,629**	29,524
Total eligible regulatory capital	**194,751**	120,005

33 Related party transactions

Key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management personnel are identified as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Group and Company. The Directors of the Company and the Bank, and members of the Bank's Executive Committee are considered to be the key management personnel of the Group for disclosure purposes. The Directors of the Company are considered to be key management personnel for the Company.

Key management compensation

	Group	*Group*	***Company***	*Company*
	2019	*2018*	***2019***	*2018*
	£000	*£000*	***£000***	*£000*
Short-term benefits	**4,105**	718	**80**	-
Long-term benefits	**2,200**	-	-	-
Post employment benefits	**113**	-	-	-
Termination benefits	**25**	404	-	-
	6,443	1,122	**80**	-

Key management compensation shown for the Group for 2018 relates to post acquisition remuneration. The Directors of Cynergy Capital Ltd did not receive remuneration in respect of qualifying services to the Group or Company during the year to 31 December 2019 (2018: £nil)

We provide banking services to Directors and other key management personnel and persons connected to them. A connected person is a person or corporate entity connected to a director, such as a member of the director's family or a company controlled by the director. Loan transactions during the year and the balances outstanding at 31 December 2019 were as follows:

	2019	*2018*

Group	***£000***	*£000*
Loans and overdrafts:		
Loans and overdrafts outstanding at 1 January 2019 / 17 May 2018	**6,434**	-
Loans and overdrafts issued during the year / period	**24,547**	6,800
Loans and overdrafts repayments during the year / period	**(1,695)**	(366)
Loans and overdrafts outstanding at 31 December	**29,286**	6,434
Interest expense on Loans and overdrafts payable to the Group	**939**	280

Deposit accounts and current account credit balances:		
Deposits outstanding at 1 January 2019 / 17 May 2018	**426**	340
Net movements in the year / period	**292**	86
Deposits outstanding at 31 December	**718**	426

There were eight loans outstanding at 31 December 2019 totalling £29.3m. All loans are commercial mortgages secured on property and were provided on normal commercial terms.

Other transactions with related parties – the Company

	2019	*2018*
Balance receivable from Subsidiary	**30**	120
Total	**30**	120

During the year, as part of the share reclassification, shares were repurchased from one shareholder.

Transactions with related parties

	2019	*2018*
Management fees received from Subsidiary paid to parent	**150**	40
Total	**150**	40

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The ultimate parent of the Group is Cynergy Capital Ltd.

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

34 Share-based payments

The Board and the Remuneration, Nominations and Corporate Governance Committee approved the Long Term Incentive Plan (LTIP) for senior executives, including Executive Directors, in February 2019. The LTIP is designed to provide long-term incentives for senior executives to deliver long-term shareholder returns.

Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions, including financial measures, customer NPS, employee engagement, risk measures and relevant personal objectives. Awards are granted on the basis that 50% of the award will be satisfied following the vesting date, 30% will be subject to a holding period of one year and 20% of the award will be subject to a holding period of two years. Upon maturity of the plan, the valuation of the award is calculated using a market value approach, assuming there is no quoted price available at this point. The valuation method considers comparable companies and comparable transactions to derive a comparable P/E ratio and book multiple. The final award is at the discretion of the Board in consideration of satisfaction of the performance conditions.

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

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

35 Business Combinations

Acquisitions in 2018

Acquisition of Cynergy Bank Limited

On 23 November 2018, the Company completed the purchase of Bank of Cyprus UK Limited from Bank of Cyprus Public Company Limited following the receipt of regulatory approvals from the Prudential Regulation Authority and European Central Bank. The effective date of the purchase was 30 September 2018. On 7 December 2018 "Bank of Cyprus UK Limited" rebranded to

"Cynergy Bank Limited". The reason for the acquisition is to unlock the significant opportunities for growth and to better address the needs of small businesses in the UK banking sector, including those of the Cypriot community.

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

The acquisition has been fair valued under IFRS3, with no material adjustments, save for the value of deferred consideration.

Assets acquired and liabilities assumed at fair value

Assets	***£000***
Cash and cash equivalents	285,248
Loans and advances to customers	1,629,909
Other assets	46,318
Intangible assets	1,672
Property and equipment	15,293
Liabilities	
Customer deposits	1,767,440
Provision for customer redress	14,455
Other liabilities	47,166
Subordinated loan	29,511
Total identifiable net assets at fair value	**119,869**
Gain on bargain purchase *	(17,482)
Purchase consideration transferred	**102,386**
Purchase consideration (There are no contingent consideration arrangements)	
Purchase price	98,710
Purchase price adjustment	3,676
	102,386

No further intangible assets have been separately identified or recognised.
Deferred consideration of £25.75m was paid November 2019 and £25.75m is payable November 2020.

If the acquisition would have been taken place on 17 May 2018 the consolidated revenue and profit would have been £30.0m and £10.7m respectively. The revenue and loss of the Bank Company in 2018 since acquisition (1 October 2018 to 31 December 2018) were £11.6m and £1.3m respectively.

* Bank of Cyprus Public Company Limited sold Bank of Cyprus UK Limited primarily to raise capital to support its recovery plans as the biggest lender in Cyprus. Bank of Cyprus was rescued by European authorities after the Cyprus debt crisis five years ago.

36 Events after the reporting period

In January 2020, the Company issued 9,000,000 ordinary shares at their par value of £1 each, with a total cash consideration of £9,000,000.

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

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

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