CYNERGY CAPITAL LTD

Annual Report for the year ended 31 December 2022

Contents

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
The Directors of the company who were in office during the period and up to the date of signing the financial statements were:

Pradip Dhamecha, OBE - Executive Director
Balbinder Sohal - Executive Director

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

Independent auditors
PricewaterhouseCoopers LLP
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".

Cynergy Bank was founded in 2018. Our purpose is this: Supporting UK businesses and savers to succeed.

Our vision is to empower entrepreneurs, business owners and mass affluent professionals to achieve their dreams. We do this by offering tailored banking solutions, delivered by humans enabled by the latest technology.

Key performance indicators

The key performance indicators for Cynergy Capital Ltd for the year ended and at 31 December 2022 were as follows:

	2022	2021
	£'m	£'m
Comprehensive income after tax for the year	42.39	21.50
Loans and advances to customers	3,254.23	2,949.58
Equity attributable to shareholders	309.09	224.19

Profitability grew to £52.6m in 2022, amid a challenging macro-economic environment. Net lending growth of 10% including CBF, the relaunch of fixed rate lending alongside margin improvement all contributed to a 95% PBT growth over 2022.

Principal risks and uncertainties

The Board has ultimate responsibility for ensuring that the Group's principal risks are identified and managed, which are driven by the Group's banking activities through the Bank.

At the Company level the key risk is associated with the investment in the Bank, which is therefore also managed through the management of the principal risks at the Bank level.

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

Full details of the Bank's approach to risk management and principal risks and uncertainties are included in the Bank's published 2022 financial statements available here: https://www.cynergybank.co.uk/about-cynergy-bank/company-performance

Section 172 statement

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

The Companies Act 2006 S172(1) requires Directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

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

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

The activities of the Bank represent the significant portion of the Group's operations and therefore the governance framework of the Bank is considered vital to the success of the Group.

The Bank's governance framework governs the conduct of the Bank's Board and Executive team. The Bank's Board undertakes an annual self-evaluation of its performance, and a tri-yearly external assessment takes place as recommended by the UK Corporate Governance Code. An action plan is subsequently agreed by the Bank's Board after each review. Additionally, the Bank's Chairman reviews individual Bank Directors' performance and the Bank's Senior Independent Non-Executive Director reviews the Bank's Chairman's performance each year.

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

Customers

2022 presented challenges to our customers, coming after two years of Covid-related restrictions in the market and the continuing economic challenges with rising interest rates and cost of living impacts for tenants and customers alike.

Following an increase in complaints during the previous year, both the Executive team and the Bank's Board devoted a significant amount of time to identifying the root causes and reviewing improvements in the Group's interaction with its customers. Following transitions such as the Customer Contact Centre and Back Office Operations being moved, it is really pleasing to see an increase in our NPS score which increased to an above UK average of +49, a substantial uplift in the year from +25 in 2021.

In 2022, we continued our digital transformation programme, recruited Sharon Maguire as Chief Product and Brand Officer and Managing Director Private Banking as well as Rana Bhattacharya as Chief Digital and Information Officer to give extra impetus to this area of our growing business.

As the phased deployment of this programme starts being rolled out, customers will start to see the benefits of the considerable hard work put in by staff and the Group's technical development team with a market-leading customer experience.

Cynergy Business Finance Limited continues to grow our offering to our customer base providing asset-based lending to SMEs through an experienced management team.

Suppliers

In May 2022, the Bank's Board approved the Modern Slavery Statement which is reviewed annually and published on the website. Regular relationship meetings are held with all major suppliers where performance against key performance indicators are discussed, as are any operational issues or improvements. The procurement team provide regular reports to both the Bank's Executive Risk Committee and the Bank's Board Risk Committee on any issues in relation to the supply chain. During the year, the Group undertook work to comply with new regulatory requirements in respect of Material Outsourcing and Operational Resilience to ensure that all suppliers within these categories have compliant contractual provisions.

Staff

Staff are key to the Group's success. During the year staff numbers increased to 324 employees. The Group continues to work on a hybrid basis, with most staff working at least three days in the office; in the meantime, the Bank's Board and Executive team have been working hard to get a better office environment for staff in order that everyone can work in the most efficient manner. To that end, the Group completed the sale of both the Southgate office and the Charlotte Street office and entered into a lease in respect of premises at One New Change overlooking St Paul's Cathedral in the heart of the London business community. Fit-out work is progressing well and it's hoped that staff will be able to work from this location from the end of April 2023.

The CEO has continued with monthly video briefing sessions for all staff, with Non-Executive members of the Bank's Board joining as appropriate.

Through Remuneration, Nominations and Corporate Governance Committee (RNCGC), the Bank's Board is kept appraised of matters relevant to staff and staff engagement scores. A staff survey was undertaken in December 2022 and resulted in 94% of staff stating they would recommend Cynergy Bank as a good place to work. Work continues on both the Bank's Board diversity targets and those of the Group as a whole. As of December 2022, we had female representation on the Bank's Board of 33%, female representation in senior leadership of 19% and two Directors of ethnic minority background on the Bank's Board.

Environment

Climate change continues to be a major focus of the Group due to the significant risk to the finance sector. Cynergy Bank is committed to addressing environmental matters in all aspects of our business and will work jointly with our customers, colleagues and suppliers to achieve these goals.

During 2022, we launched our online environmental, social and governance (ESG) training programme for all employees, as well as continuing our modules on Code of Conduct, Equal Opportunities, and Inclusion and Diversity (I&D). We appointed both Board and ExCo sponsors for I&D and ensured our policies support staff's work-life balance and caring responsibilities, as well as monitoring gender and ethnic diversity across our senior leadership group, and continuing the focus on reducing our gender pay gap.

We engage a waste provider to ensure zero to landfill, we have been Carbon Neutral Plus since 2020 and use 100% renewable electricity in our London offices. In 2023, we will move our central London offices to One New Change, a building with impressive environmental credentials.

We have significantly invested in training and education opportunities for our employees during the year and created our first 'Building Leaders at Cynergy Bank' programme embracing a diverse cohort of high-performing and aspiring leaders. The programme entails 1-2-1 mentoring and external coaching, leadership masterclasses, personal development planning and engagement of the cohort on a selection of business-focused projects on I&D, ESG and Cynergy Bank Values and Retention.

The Group enhanced its carbon footprint monitoring capabilities and began to include employee travel choices as part of the Group's overall carbon footprint calculation.

The Bank retained its Carbon Neutral Plus certification in 2022, offsetting a carbon footprint of c230 tonnes. We selected the same projects again this year and for each tonne of CO2 offset, one tree was planted in the UK and an additional tonne of CO2 was offset through the Brazilian Amazon Verified Carbon Standard (VCS) Reduced Emissions from Deforestation and Degradation (REDD) project.

We continued our partnership with First Mile and again met our 'zero waste to landfill' target.

Streamlined Energy & Carbon Reporting (SECR)

The total emissions attributable to the Group in compliance with the SECR guidelines were calculated to be 139.72 tCO2e between the reporting period of 1 January 2022 and 31 December 2022.

Methodology

The GHG emissions have been assessed following the ISO 14064-1:2018 standard and using the latest emission conversion factors published by the Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The operational control approach has been used.

		2022	**2021**	**% change**
Energy	Total energy use for emissions calculations (kWh)	540,813	510,884	6%
Emissions (tCO2e)	Emissions from heating and own transport (Scope 1)	11.7	51.26	-77%
	Emissions from the use of purchased electricity (Scope 2)	96.32	80.28	20%
	Total emissions (Scope 1 and 2)	**108.02**	**131.54**	**-18%**
	Scope 3 emissions from business travel	31.70	3.74	748%
	Total Scope 1, 2 and 3 emissions	**139.72**	**135.28**	**3%**
Intensity metrics	Scope 1 and 2 emissions (tCO2e) per £m operating income	0.85	1.07	-21%
	Scope 1 and 2 emissions (tCO2e) per FTE	0.33	0.59	-43%

Scope 2 emissions have been reported on a location basis, reflecting the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data).

Principal measures taken to increase energy efficiency

The Group is focused on minimising its scope 1 and 2 emissions. The principal measure taken during 2022 to achieve this has been to ensure the new office location, which will replace our existing two London offices, will be more environmentally friendly than the sites it will replace. Scope 1 emissions relating to our existing offices have reduced year on year primarily through the reduced top-up of refrigerants used in air conditioning systems.

The Group is working to develop its measurement of scope 3 emissions to build a broader picture of its environmental impact, including emissions relating to its customer lending activities (financed emissions), and put appropriate emission reduction plans in place. The increase in scope 3 emissions relating to business travel in 2022 is a result of more face-to-face activities resuming after Covid.

Communities

We continue to partner with Noah's Ark Children's Hospice, and this year raised over £77k for the charity. This money went towards the continuing build of the Sensory Garden the charity is constructing as well as the continued funding of a nurse to provide individual care and support for the children and their families.

Regulators

The Group, as a dual regulated firm, has good working relationships with both the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) as well as with bodies such as the Bank of England and the Financial Services Ombudsman. Senior members of the Executive brief the regulators on key issues and the Compliance team manage the day-to-day relationships. The Board are kept appraised of key regulatory developments and interactions with regulators at each Board meeting. Over the course of the year, the Group has had dialogue with both regulators which were overseen by the Board in respect of several topics, such as the annual periodic summary meeting, asset quality review, operational resilience review and liquidity review.

As a result of suggestions made by the PRA, work has been ongoing in the second half of 2022 to strengthen the Group's Prudential Risk capabilities and processes including the recruitment of extra staff in this area to ensure that the second-line capability is enhanced as the Group continues to grow.

Members of the Board are provided with regular updates on regulatory developments, and both Board members and senior staff attend regulatory training sessions. The Executive team also subscribe to key industrial groups and participate in activities organised by such groups as UK Finance.

Shareholders

We maintain close contact with our shareholders throughout the year. In addition, two shareholder representatives of the parent company Cynergy Capital Ltd sit on the Board and also take part as members of RNCGC. Regular briefings with the shareholder representatives take place throughout the year on matters of strategic importance.

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

The Strategic Report was approved by the Board of Directors on 28 April 2023 and was signed on its behalf by:

Balbinder Sohal
Director
28 April 2023

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2022.

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 87.5% of the £1000 ordinary shares of a UK company, Cynergy Business Finance Limited, incorporated on 08 April 2021 in England and Wales, company number 13322121, registered office 27-31 Charlotte Street, London, W1T 1RP.

Cynergy Bank Limited is the immediate owner of 100% of the £100 ordinary shares of a UK company, Cynergy Connect Technologies Limited, incorporated on 30 July 2020 in England and Wales, company number 12779777, registered office 27-31 Charlotte Street, London, W1T 1RP. The company is not yet operating.

Principal activities
The principal activity of the Company is that of a financial holding company. The principal activity of the Group, through its subsidiaries is business, personal banking and asset-based lending.

Financial results
The results of the Group for the year ended 31 December 2022 are set out in the income statement and statement of comprehensive income on page 13. 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's Annual Report & Accounts 2022, published on the Bank's website www.cynergybank.co.uk.

Going concern

In preparing the Going Concern statement, the Directors considered all information of which we were aware about the future, which was at least, but not limited to, 12 months from the date that the financial statements were signed.

Consideration was given to the following: capital requirements, liquidity, profitability, business continuity and reliance on outsourced suppliers.

The 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 9.

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

Liquidity
The Group manages liquidity with an internal methodology which fully meets the regulatory Liquidity Coverage Ratio (LCR) measure. During 2022 the Group fully met all its regulatory liquidity requirements including the LCR and Net Stable Funding Ratio (NSFR).

Dividends
The Company did not pay a dividend in 2022 (2021: £nil).

Future developments
Following the adoption of a new strategic plan in 2019, the Board reviewed and updated the plan in 2022 taking the plan to 2025 with a continued emphasis on delivery of the human digital banking platform.

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

Financial instruments
The Company does not use any financial instruments.

The Bank, where appropriate, uses interest rate swaps to hedge against interest rate risk and foreign exchange contracts to hedge against foreign exchange rate risk. Derivatives are used for hedging purposes only, not for trading or taking speculative positions. Details of financial instruments are provided in note 16 of the financial statements.

Human resources
The Group employed an average of 299 permanent employees during 2022 (2021: 224). During the year, the Group invested £269k (2021: £198k) in staff development.

Board of Directors
Full details of the Board of Directors 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 2022**	**At 31 December 2022**
Pradip Dhamecha	Ordinary B shares of £1 each	-	63,320,002
Balbinder Sohal	Ordinary B shares of £1 each	-	31,660,001

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 auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Group's auditors, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors
PricewaterhouseCoopers LLP continue as auditors of the Group. The Group consists of private limited companies and under the Companies Act 2006 are not required to appoint auditors annually.

Charitable donations
During 2022 the Group made charitable donations totalling £106,945 (2021: £11,088).

Political donations
During the year under review the Group did not make any political donations (2021: £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.

On behalf of the Board

Balbinder Sohal
Director
28 April 2023

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 the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 UK-adopted international accounting standards 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's 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.

Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

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 parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's and parent company's profit and the group's and parent company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: statements of financial position as at 31 December 2022; income statement and statement of comprehensive income, statements of changes in equity, consolidated and company statements 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 includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 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 parent 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 Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 parent 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.

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, regulations stipulated by the PRA and FCA including regulatory reporting requirements and conduct of business, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias in significant accounting estimates, in order to manipulate the financial information and position of the group. Audit procedures performed by the engagement team included:

- Enquiries of the Directors, the Board Audit Committee of Cynergy Bank Limited, Internal Audit of Cynergy Bank Limited ('the Bank') and key members of the company's and Bank's executive management team, to determine whether there are any instances of known or suspected fraud;
- Challenging assumptions and judgements made by management to critically assess for bias in the significant accounting estimates, in particular in relation to the expected credit loss allowance for loans and advances to customers, and revenue recognition from the effective interest rate adjustments;
- Identifying and testing journal entries based on risk-based criteria, in particular any journal entries posted by senior management and journals whose description indicate a higher level of risk; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

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

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent 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 parent 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

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 April 2023

Income statement
For the year ended 31 December 2022

	Notes	*Consolidated* **2022** **£000**	*Company* **2022** **£000**	*Consolidated* 2021 £000	*Company* 2021 £000
Interest income calculated using the effective interest method	5	**167,199**	**-**	105,716	-
Other interest and similar (expense) / income	5	**1,610**	**-**	(187)	-
Interest expense calculated using the effective interest method	6	**(45,681)**	**-**	(18,356)	-
Net interest income		**123,128**	**-**	87,173	-
Fee and commission income	7	**1,667**	**-**	1,193	-
Management fee income		**-**	**105**	-	100
Foreign exchange (losses) / gains	8	**(1,194)**	**-**	1,853	-
Fair value gain / (loss) on derivative instruments	17	**3,983**	**-**	(2,190)	-
Total operating income		**127,584**	**105**	88,029	100
Staff costs	9	**(36,200)**	**2,133**	(32,338)	(3,464)
Depreciation, amortisation and impairment	10	**(5,758)**	**-**	(3,447)	-
Other operating expenses	11	**(33,137)**	**(109)**	(19,876)	(63)
Total operating expense		**(75,095)**	**2,024**	(55,661)	(3,527)
Gain on sale of property	21	**9,230**	**-**	-	-
Profit / (loss) before credit loss expense on financial assets		**61,719**	**2,129**	32,368	(3,427)
Credit loss on financial assets	12	**(9,100)**	**-**	(5,396)	-
Profit / (loss) before tax		**52,619**	**2,129**	26,972	(3,427)
Income tax expense	13	**(10,233)**	**-**	(5,477)	(6)
Profit / (loss) after tax		**42,386**	**2,129**	21,495	(3,433)
Profit/(loss) attributable to:					
Owners of the Company		**42,429**	**2129**	21,644	-
Non-controlling interest		**(43)**	**-**	(149)	-
Profit / (loss) for the year		**42,386**	**2,129**	21,495	(3,433)

Statement of comprehensive income
For the year ended 31 December 2022

	Notes	*Consolidated* **2022** **£000**	*Company* **2022** **£000**	*Consolidated* 2021 £000	*Company* 2021 £000
Other comprehensive income					
Profit for the year		**42,386**	**2,129**	21,495	(3,433)
Other comprehensive income not to be reclassified to profit or loss					
Revaluation of own properties		**1,474**	**-**	-	-
***Total comprehensive profit / (loss) for the period* attributable to the equity holders**		**43,860**	**2,129**	21,495	(3,433)

The notes on pages 18 to 65 form an integral part of these financial statements.

Statements of financial position

As at 31 December 2022

	Notes	*Consolidated* 2022 £000	*Company* 2022 £000	*Consolidated* 2021 £000	*Company* 2021 £000
Assets					
Cash and balances with central banks	14	**553,007**	-	324,982	-
Placements with banks	14	**103,117**	**797**	61,328	6,799
Loans and advances to customers	15	**3,254,230**	-	2,949,578	-
Other assets	16	**42,079**	**48**	11,500	-
Derivative assets	17	**12,404**	-	54	-
Investment in securities	18	**113,377**	-	137,782	-
Intangible assets	19	**27,469**	-	26,513	-
Right of use assets	20	**11,891**	-	220	-
Property and equipment	21	**914**	-	12,875	-
Assets classified as held for sale	21	**7,070**			
Investment in subsidiary	32	-	**198,848**	-	151,848
Total assets		**4,125,558**	**199,693**	3,524,832	158,647
Liabilities					
Customer deposits	22	**3,336,442**	-	2,832,564	-
Bank deposits	23	**390,170**	-	400,125	-
Provision for customer redress	24	**716**	-	261	-
Lease liabilities	20	**12,065**	-	278	-
Derivative liabilities	17	**3,838**	-	429	-
Other liabilities	25	**73,426**	**1,469**	37,266	3,552
Subordinated loan	26	-	-	29,868	-
Total liabilities		**3,816,657**	**1,469**	3,300,791	3,552
Equity					
Share capital	27	**199,300**	**199,300**	158,300	158,300
Capital redemption reserve		**48**	**48**	48	48
Share premium		**190**	**190**	190	190
Revaluation and other reserves		**2,680**	-	1,206	-
Retained earnings / accumulated losses		**106,875**	**(1,314)**	64,446	(3,443)
Equity attributable to owners of the Company		**309,093**	**198,224**	224,190	155,095
Non-controlling interest		**(192)**	-	(149)	-
Total equity		**308,901**	**198,224**	224,041	155,095
Total liabilities and equity		**4,125,558**	**199,693**	3,524,832	158,647

The notes on pages 18 to 65 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 28 April 2023 and were signed on its behalf by:

Balbinder Sohal
Director

Statements of changes in equity

For the year ended 31 December 2022

Consolidated

	Share capital	***Capital redemption reserve***	***Share premium***	***Revaluation and other reserves***	***Retained earnings***	***Total attributable to owners of the company***	***Non-controlling interests***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
1 January 2022	**158,300**	**48**	**190**	**1,206**	**64,446**	**224,190**	**(149)**	**224,041**
Share Capital issued	**41,000**	-	-	-	-	**41,000**	-	**41,000**
Other comprehensive Income	-	-	-	**1,474**	-	**1,474**	-	**1,474**
Profit for the period after tax	-	-	-	-	**42,429**	**42,429**	**(43)**	**42,386**
31 December 2022	**199,300**	**48**	**190**	**2,680**	**106,875**	**309,093**	**(192)**	**308,901**

Company

	Share capital	***Capital redemption reserve***	***Share premium***	***Revaluation and other reserves***	***Accumulated losses***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
1 January 2022	**158,300**	**48**	**190**	-	**(3,443)**	**155,095**
Share Capital issued	**41,000**	-	-	-	-	**41,000**
Other comprehensive expense	-	-	-	-	-	-
Profit for the period after tax	-	-	-	-	**2,129**	**2,129**
31 December 2022	**199,300**	**48**	**190**	-	**(1,314)**	**198,224**

For the year ended 31 December 2021

Consolidated

	Share capital	*Capital redemption reserve*	*Share premium*	*Revaluation and other reserves*	*Retained earnings*	*Total attributable to owners of the company*	*Non-controlling interests*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
1 January 2021	158,300	48	190	367	44,799	203,704	-	203,704
Share Capital issued	-	-	-	-	-	-	-	-
Other comprehensive expense	-	-	-	839	(1,997)	(1,158)	-	(1,158)
Profit for the period after tax	-	-	-	-	21,644	21,644	(149)	21,495
31 December 2021	158,300	48	190	1,206	64,446	224,190	(149)	224,041

Company

	Share capital	*Capital redemption reserve*	*Share premium*	*Revaluation and other reserves*	*Accumulated losses*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
1 January 2021	158,300	48	190	-	(10)	158,528
Share Capital issued	-	-	-	-	-	-
Other comprehensive expense	-	-	-	-	-	-
Loss for the period after tax	-	-	-	-	(3,433)	(3,433)
31 December 2021	158,300	48	190	-	(3,443)	155,095

The notes on pages 18 to 65 form an integral part of these financial statements.

Consolidated and Company statements of cash flows

For the year ended 31 December 2022

	Note	*Consolidated* **2022**	*Company* **2022**	Consolidated 2021	Company 2021
		£000	***£000***	£000	£000
Operating activities					
Profit / (loss) before tax		**52,619**	**2,129**	26,972	(3,427)
Adjustments for:					
Provisions for credit loss expense	12	**9,100**	-	5,396	-
Depreciation of property and equipment and right of use assets	10	**378**	-	1,018	-
Amortisation of intangible assets	10	**3,876**	-	2,429	-
Impairment of fixed assets	19	**1,215**	-	-	-
Gain on disposal of property	21	**(9,230)**	-	-	-
Deferred gain on disposal of property		**(277)**	-	-	-
Lease interest	20	**81**	-	29	-
Interest on subordinated loan	6	**2,328**	-	2,400	-
Interest on asset backed securities	18	**(2,570)**	-	(76)	-
Amortisation of issuance costs relating to subordinated loan	26	-	-	125	-
Tax paid	13	**(9,944)**	-	(6,410)	(1)
Foreign exchange gains		**977**	-	68	-
Fair value gains on derivative instruments	17	**(3,983)**	-	-	-
Changes in operating assets					
Increase in mandatory deposits with central bank	14	**(1,576)**	-	(1,491)	-
Increase in loans and advances to customers	15	**(313,752)**	-	(341,012)	-
(Increase) / decrease in other assets	16	**(23,497)**	**(48)**	827	-
Increase in derivative assets	17	**(12,350)**	-	(23)	-
Increase in accrued income and prepayments	16	**(4,072)**	-	(6,391)	-
Changes in operating liabilities			-		-
Increase in customer deposits	22	**493,923**	-	540,317	-
Increase / (decrease) in derivative liabilities	17	**3,409**	-	(344)	-
(Decrease) / increase in accrued expenses	25	**(786)**	**(2,078)**	8,304	-
Increase / (decrease) in other liabilities and provision for customer redress	25	**4,915**	**(4)**	2,251	3,474
Net cash flow generated from / (used in) operating activities		**190,784**	**(1)**	234,389	46
Investing activities					
Purchase of property and equipment	21	**(877)**	-	(72)	-
Purchase of intangible assets	19	**(6,048)**	-	(9,230)	-
Purchase of asset-backed securities	18	**26,975**	-	(137,782)	-
Investment in subsidiary	32	-	**(47,000)**	-	-
Proceeds of sale of property	21	**16,370**	-	-	-
Net cash flow generated from / (used in) investing activities		**36,420**	**(47,000)**	(147,084)	-

	Note	2022	2022	2021	2021
Financing activities					
Proceeds from issuance of new share capital	27	**41,000**	**41,000**	-	-
Capital repayment from finance lease obligations	20	**34**	**-**	(238)	-
Net cash flow generated from / (used in) financing activities		**41,034**	**41,000**	(238)	-
Net increase / (decrease) in cash and cash equivalents for the year		**268,238**	**(6,001)**	87,067	46

Cash and cash equivalents (see note 14)				
1 January	**379,087**	**6,798**	292,019	6,752
Net increase / (decrease) in cash and cash equivalents for the year	**268,238**	**(6,001)**	87,067	46
31 December	**647,325**	**797**	379,087	6,798

Operational cash flows from interest	***2022***	***2022***	2021	2021
	£000	***£000***	£000	£000
Interest paid	**45,681**	-	15,647	-
Interest received	**167,199**	-	102,481	-

Refer to notes 14 and 26 for disclosures of cash and cash equivalents and changes in liabilities arising from financing activities respectively. The notes on pages 18 to 65 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.

During 2022 the Bank is the immediate owner of 100% of the £100 ordinary shares of a UK company, Cynergy Connect Technologies Limited, incorporated on 30 July 2020 in England and Wales, company number 12779777, registered office 27-31 Charlotte Street, London, W1T 1RP. The company never traded and is being dissolved during 2023. At 31 December 2022 the Bank was also the immediate owner of 87.5% of the £1,000 ordinary shares of a UK company, Cynergy Business Finance Limited, incorporated on 8 April 2021 in England and Wales, company number 13322121, registered office 27-31 Charlotte Street, London, W1T 1RP. Both subsidiaries are consolidated within these financial statements. The accounting policies used by the Group that are relevant to an understanding of the financial statements are stated in note 3.

2 Basis of preparation

These consolidated and company financial statements, including the accounting policies, are prepared on a going concern basis and in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006. They have been prepared on a historical cost basis, except for land and buildings classified as property, share based transaction liabilities and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. This document contains some statements that refer to forward looking expectations and aspirations of Cynergy Bank, its strategy, and business model.

In preparing the Going Concern statement, we took into account all information of which we were aware about the future, which was at least, but not limited to, 12 months from the date that the financial statements were signed. Consideration was given to the following: capital requirements, financial plans and forecast performance, capital and liquidity requirements and stress testing performed under the ICAAP and ILAAP and operational risk, including operational resilience and reliance on outsourced suppliers. The Directors are satisfied that the Company and Group are able to meet their working capital liabilities through the normal cyclical nature of receipts and payments. Due to its current financial position, Cynergy Bank Limited has committed to support its subsidiary Cynergy Business Finance Limited for at least, but not limited to, 12 months from the date that the financial statements were signed. The Directors are satisfied that the capital and liquidity positions of the Company and Group more than meet regulatory requirements and are adequate for the foreseeable future.

Statement of compliance

The Consolidated financial statements have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

Presentation of financial statements

The financial statements are presented in sterling, which is the 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 31.

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).

3. Accounting policies

3.1 Accounting standards and interpretations adopted during the period

There were no new standards or interpretations relevant to the Group's operations which were adopted during the period. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not effective.

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

There have been no new standards or interpretations issued, but not yet adopted, that are mandatory for accounting periods beginning on or after 1 January 2022, 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.

3.3 Segmental information

The principal activity of the Company is that of a financial holding company. The principal activity of the Group, through its subsidiaries is business, personal banking and asset-based lending. There is no requirement for Segmental reporting under IFRS 8.

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.

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

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, invoice discounting service fees and early redemption fees. The recognition of these fees (together with any incremental costs) forms an integral part of the corresponding financial instruments and is recognised as interest income through an adjustment to the EIR.

Banking fees and commissions
Revenue from banking fees and commissions as well as invoice discounting related fees such as for the monitoring of the associated sales ledger is measured based on the consideration specified in the contract with the customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it has met its performance obligations.

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

Nature of good or service	Timing of Recognition	Timing of billing & payment	Geographical region
Service fees for current accounts	Monthly	Quarterly	UK
Service fees for Debit / Credit cards	At point of delivery	At point of delivery	UK
Services fees for handling payments	At point of delivery	At point of delivery	UK
Service fees for credit administration	At point of delivery	At point of delivery	UK
Invoice discounting fees for audit and monitoring	At point of delivery	At point of delivery	UK

Management fees

Management fees is revenue received from the Group's subsidiary for management and oversight services provided to them..

3.5 Effective interest rate

The EIR is calculated after considering all contractual terms excluding expected credit losses. Interest income is calculated by applying the EIR to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL allowance).

3.6 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.

3.7 Taxation

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

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

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

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

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

3.8 Financial instruments

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers, trade and other receivables 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 sale 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 and trade and other receivables are recognised when funds are transferred to customers' accounts. The Group recognises balances due to customers when funds are received by 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 (FVPL):

- Amortised Cost: Assets that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest ('SPPI') and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by an expected credit loss allowance recognised and measured as described in 3.10. 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 a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Total operating income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held-for-trading, in which case they would be presented separately in 'Net Investment Income'.

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.

Hedge accounting policy

The Group exercised the accounting policy choice to continue using IAS 39 for portfolio assets being hedged by applying fair value hedge accounting where the required criteria under the standard are met, as permitted by IFRS 9.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective, the strategy in undertaking the hedge and the method used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship, as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the movements in the fair value of the respective hedged items during the period for which the hedge is designated.

The Group also uses exchange rate contracts to hedge the changes in 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.

Fair value hedge accounting for portfolio hedges of interest rate risk

The Group applies fair value hedge accounting for portfolio hedges of interest rate risk on loans and advances to customers. The Group analyses the identified portfolio into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Group designates, as the hedged item, an amount of the assets from the selected portfolio that it wishes to hedge.

The amount to hedge is determined based on a movement in the present value of a portfolio of assets for a one basis point shift in the yield curve used to value the instruments ("PV01"), to ensure the mismatches in expected repricing buckets are within the limits set by the Bank's Board on the sensitivity analysis approach using a hypothetical parallel shift in interest rates.
The Group measures monthly the movements in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Group recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as an adjustment to the carrying value of the hedged item.

The Group measures the fair value of each hedging instrument at least monthly. The value is included in derivatives held for risk management in either assets or liabilities as appropriate, with the change in value recorded in fair value gain / (loss) on derivative instruments in the income statement. Any hedge ineffectiveness is recognised in net gains from derivatives and other financial instruments at fair value through profit or loss in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised through the income statement immediately.

3.9 Financial assets and liabilities

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

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

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

Trade and other receivables at amortised cost

Trade and other receivables are recognised when cash is advanced to a borrower and are derecognsied when either the borrower repays its obligations, or the receivables are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transactions costs and are subsequently measured at amortised cost less impairment allowances.

Customer deposits and Subordinated loan at amortised cost

Customer deposits and subordinated liabilities are the Group's sources of debt funding. They comprise deposits from retail customers and collateralised loan advances from the BoE under the Indexed Long Term Repo (ILTR) scheme and Term Funding scheme with additional incentives for SMEs (TSFME). These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

Derivatives recorded at fair value through profit or loss
The Group classifies and measures its derivative portfolio at FVPL. 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 UK Bank PLC are recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in note 17. Changes in the fair value of derivatives are included in 'Total operating income'.

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, or the corresponding ECL provision as set out in note 28. The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the arrangement.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in note 28.

3.10 Derecognition of financial assets and liabilities

IFRS 9 contains specific guidance for the accounting when the modification of a financial instrument not measured at FVPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying FVPL of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

3.11 Impairment of financial assets

The impairment of financial assets under IFRS 9 is based on an expected credit loss (ECL) model. IFRS 9 requires a 12 month (Stage 1) ECL calculation where financial assets have not experienced a significant increase in credit risk since origination; and a lifetime ECL calculation where it has been demonstrated that there has been a significant increase in credit risk (Stage 2). The lifetime ECL calculation is further refined into separate stages depending on whether the financial asset is credit-impaired or not.

i) Overview of the ECL principles
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 31. The Group's policies for determining if there has been a significant increase in credit risk are set out in note 31.

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 derecognition of the financial asset.

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

- *Probability of Default (PD):* The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.
- *Exposure at Default (EAD):* The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 31.
- *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 31.

When estimating the ECLs, the Group considers four scenarios: mild upside, baseline, downside and severe downside. Each of these is associated with different PDs, EADs and LGDs, as set out in iii) Use of forward-looking economic information in note 31. 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: When a loan is originated or purchased, ECLs resulting from default events that are possible within the next 12 months are recognised (12m ECL) and a loss allowance is established. On subsequent reporting dates, 12m ECL also applies to existing loans with no significant increase in credit risk since their initial recognition. Interest revenue is calculated on the loan's gross carrying amount (that is, without deduction for ECLs). 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 four scenarios and used within the Group's macroeconomic scenarios, as explained above.

  In determining whether a significant increase in credit risk has occurred since initial recognition, a bank is to assess the change, if any, in the risk of default over the expected life of the loan (that is, the change in the probability of default, as opposed to the amount of ECLs).

- 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. The calculation of interest revenue is the same as for Stage 1.

- Stage 3: If the loan's credit risk increases to the point where it is considered credit-impaired, the PD is set at 100%. Interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). LTECLs are recognised, as in Stage 2.

- 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 four 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 Bank'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 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) Use of forward-looking economic information

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information using key economic variables which impact on the credit risk and credit losses of the lending portfolio. Whilst the environment continued to be challenging through 2021, we have seen the UK successfully deploy a Covid vaccination programme that has supported a significant degree of economic recovery. The Group has continued to deploy quantitative assessments supported by qualitative expert judgement in the management of the Group's portfolio and to support the identification of SICR in the book. The IFRS 9 model has been updated periodically throughout the year with new macroeconomic forecasts and wider risk monitoring utilised to identify areas of risk that are not fully accounted for in the Group's modelled outputs.

The variables of the Group's economic modelling are deployed to forecast the PD, LGD and EAD across different scenarios and the Group partners with a market leader in global forecasting and quantitative analysis to ensure that the economic updates made to its inputs are aligned to market best practice estimates. The Group uses four scenarios in its macroeconomic forecasting, 'baseline', 'mild upside', 'downside' and a 'severe downside' scenario which provide an appropriate degree of non-linearity within the Group's ECL calculation. The economic scenarios applied within the IFRS 9 forecasting at year end are outlined below:

Scenario	UK economy output in each scenario
Base (50th percentile)	• Rising inflation coupled with aggressive monetary policy has resulted in stretched affordability and diminished consumer demand and confidence. The UK economy is expected to see a recession next year, contracting on average by 0.9%. • House price growth forecasted to slow and tip into negative territory in 2023 as falling real incomes and higher interest rates take their toll, adding to the drag from stretched affordability. House prices are projected to see a correction in 2023-24 (11.5% peak-to-trough). • Inflation is expected to remain elevated in the near term and will only unwind slowly. The baseline forecast envisages Bank of England base rate ("Base Rate") peaking at 4% in early 2023. This is some way below market expectations which are still pricing in a peak of close to 4.5%, down from even higher rate expectations around the announcement of the 'minibudget' in late September. • Given the downward revision to growth and increased pressure on firms from tighter monetary policy and high energy prices, the unemployment rate is forecasted to rise in the short run and to peak at 4.7% by mid-2023.
Mild upside (15th percentile)	• The mild upside scenario can be thought of as an alternative, more optimistic base case. Households run down savings accumulated during the pandemic at a faster pace than assumed in the baseline, permanent scars to the supply side are avoided, and the economy reverts to its pre-crisis trajectory within a couple of years. • In this scenario UK GDP will record growth of 1.4% in 2023 and 3% in 2024. • The labour market still deteriorates in the near-term, as higher interest rates and lower real incomes take their toll on employment growth, but the unemployment rate recovers swiftly and falls back to its recent decade-low of 3.6% by late 2027. • Supported by the turnaround in confidence, incomes and employment, residential house prices only see a mild fall in 2023-24 and recover thereafter. • Inflation also accelerates further in the scenario, reflecting cost-push pressures from higher commodity prices and demand-pull forces from stronger demand, inducing the Bank of England to tighten policy faster than assumed in our baseline forecast. Bank Rate reaches a peak of 5.25% by mid-2023 and converges to a higher terminal rate thereafter. Amid increased demand for loans and higher interest rates, gearing in the economy picks up faster than expected in the baseline.
Downside scenario (85th percentile)	• The downside scenario results in a global recession in the near-term. The downside scenario captures the current risks from higher inflation, higher interest rates, weakening domestic and global demand and continued supply chain disruptions. The subsequent recovery in this scenario is subdued, as the combination of increased risk aversion, lower real incomes, and long-term scarring weigh heavily on the global economy. • UK output sees a return to sustained weakness, contracting sharply in 2023 and recovering only gradually from the recession. UK GDP falls around 5.6% start-to-trough as both consumer and business spending is sharply scaled back, and with external demand much weaker than in the baseline. • Employment is severely hit in this scenario as jobs are cut with much lower demand leading to freezes in hiring plans and inducing firms to lay off staff. The unemployment rate rises sharply over 2023 and 2024 reaching a peak of more than 7% in 2025 - a level last seen more than a decade ago during the global financial crisis (GFC). • House prices fall sharply, seeing a start-to-trough fall of around 23%. • To counter the downturn in the economy, the MPC swiftly abandons its tightening cycle and starts lowering Bank Rate again. Despite the reduced pressure from interest rates when compared to the baseline forecast, lower incomes and increased unemployment introduce forced sellers into the residential property market.
Severe downside scenario (95th percentile)	• The effects of the severe downside scenario on UK GDP are similar to the magnitude of the shock during the GFC. • The severe downside scenario sees a sharp and immediate drop in UK output (-3.9% q/q in Q1 2023, compared to -0.3% in the baseline) and GDP does not recover over the following 12 months as financial stress remains elevated. • Unemployment in the UK surges to 6.3% by end-2023 and peaks at 7.5% in 2025, 3.5ppts higher than in the baseline. • House prices collapse - at the trough they are around 31% below their starting level, erasing all growth seen since 2016, reflecting the unparalleled hit to incomes, significantly impaired confidence levels and tighter access to credit. • The MPC abandons its policy rate tightening in short order, and begins to aggressively cut Bank Rate again, to 0.5 by early 2026, as the impairment to the supply side and labour market remains considerable.

Model Scenario Probability Weightings

To support the Group's view of a more negative outlook for the UK, and to account for the increased risk of prolonged inflation and the impact this will have on the cost of living and affordability across the UK, the Group has adjusted the weightings of its economic scenarios to the downside. This downward adjustment will be reviewed on a quarterly basis and maintained until the Group is comfortable that the heightened risk to the economy and the loan book has receded.

	Mild Upside	Base	Downside	Severe Downside
Previous	30%	50%	10%	10%
Updated	10%	60%	20%	10%

The baseline and downside scenario have increased by 10% and the mild upside scenario reduced by 20%. This change to scenario weightings has increased the weighted average Expected Credit Loss (ECL) output and at 31 December 2022 is creating an uplift in ECL of £0.8m compared to the model outputs prior to any scenario weighting adjustment.

The Group's ECL model relies on a broad range of forward-looking information as economic inputs and these are reviewed on a regular basis to ensure that they remain representative of the portfolio and provide an appropriate forecast.

The Group uses various macroeconomic variables to forecast asset movements, default rates and economic impacts such as a house price index, CRE index, unemployment forecasts and interest rates. The Group also uses Mortgage Interest Gearing and Housing Equity. Mortgage Interest Gearing captures multiple channels that can impact on affordability and creates a Weighted Average Interest Rate for Households regardless of whether they have a mortgage and provides an overview of the level of mortgage debt in the UK economy. Housing Equity is similar to loan-to-value (LTV) and provides a market view of the undrawn capacity and the level of consumer leverage in the market.

All the macroeconomic variables mentioned above are also applied in the IFRS 9 model developed for Cynergy Business Finance. Bank Rate within the CBF model is used to forecast interest rates for the Cashflow, Property, Plant and Machinery loans. The Commercial Real Estate Index is used to index the property collateral. Lastly, Mortgage Interest Gearing, Unemployment and Housing Equity play the same role as in the IFRS 9 Business and Property Actuals Model supporting the estimation of default rates in the portfolio.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2022 are as follows:

2022	**GBP**	**HPI**	**CRE**	**Bank Rate**	**Unemployment**	**Mortgage Interest Gearing**	**Equity**
Base scenario economic parameters							
5 Year Average increase/decrease (%)	1.58	0.42	2.20	(0.22)	0.00	0.17	(0.53)
Cumulative growth/(fall) to peak/(trough) (%)	(0.99)	(11.45)	(0.21)	1.17	0.93	1.21	(4.05)
Mild Upside economic parameters							
5 Year Average increase/decrease (%)	2.53	1.86	3.49	(0.12)	(0.02)	0.25	(0.28)
Cumulative growth/(fall) to peak/(trough) (%)	19.12	0.31	20.27	2.42	0.54	1.98	(2.68)
Downside economic parameters							
5 Year Average increase/decrease (%)	0.54	(2.62)	0.91	(0.32)	0.55	0.16	(0.92)
Cumulative growth/(fall) to peak/(trough) (%)	(5.36)	(23.47)	(8.95)	0.67	3.38	1.35	(8.29)
Severe Downside economic parameters							
5 Year Average increase/decrease (%)	(0.07)	(4.27)	0.19	(0.47)	0.62	0.07	(1.42)
Cumulative growth/(fall) to peak/(trough) (%)	(7.73)	(30.58)	(13.91)	0.55	3.75	1.12	(11.43)

2021	GBP	HPI	CRE	Bank Rate	Unemployment	Mortgage Interest Gearing	Equity
Base scenario economic parameters							
5 Year Average increase/decrease (%)	16.91	1.34	2.66	0.73	(0.39)	0.59	(2.14)
Cumulative growth/(fall) to peak/(trough) (%)	1.7	(1.10)	0.70	0.12	-	2.97	(0.15)
Mild Upside economic parameters							
5 Year Average increase/decrease (%)	13.41	11.33	8.83	1.45	(0.72)	1.04	0.29
Cumulative growth/(fall) to peak/(trough) (%)	0.55	2.65	3.14	0.25	(1.04)	2.76	0.65
Downside economic parameters							
5 Year Average increase/decrease (%)	8.30	(5.78)	(7.69)	0.14	1.75	0.38	(8.30)
Cumulative growth/(fall) to peak/(trough) (%)	(2.64)	(22.13)	(7.69)	(0.13)	1.99	4.34	(1.29)
Severe Downside economic parameters							
5 Year Average increase/decrease (%)	5.58	(24.67)	(9.45)	(0.22)	2.08	0.21	(13.26)
Cumulative growth/(fall) to peak/(trough) (%)	(4.15)	(4.86)	(12.56)	(0.38)	2.30	5.20	(1.94)

The below table demonstrates the gross carrying amount and the effect on ECL resulting from applying a 100% weighting to the scenarios applied in the calculation of our ECL model (base, mild upside and downside and severe downside). The below demonstrates the weighted year end 2022 position is skewed to the downside and beyond our baseline output. This accounts for the downside risks that exist in the market and continued uncertainty that is not fully accounted for in the baseline economics output.

As at 31 December 2022 Gross exposure £000	Weighted	Mild Upside	Baseline	Downside	Severe Downside
Business	633,775	-	-	-	-
Property	2,241,966	-	-	-	-
Private	302,642	-	-	-	-
ECL					
Business	3,956	3,542	3,782	4,318	4,687
Property	16,921	15,793	16,433	18,041	19,278
Private	462	345	402	581	705
Proportion of ECLs in stage 2 (%)					
Business	48%	46%	47%	49%	50%
Property	17%	14%	16%	20%	23%
Private	26%	24%	25%	28%	29%

As at 31 December 2021 Gross exposure £000	Weighted	Mild Upside	Baseline	Downside	Severe Downside
Business	427,551	-	-	-	-
Property	2,274,502	-	-	-	-
Private	253,792	-	-	-	-
ECL					
Business	2,394	2,066	2,260	3,021	3,601
Property	11,273	10,307	10,845	12,861	14,725
Private	257	47	237	50	419

Proportion of ECLs in stage 2 (%)					
Business	47%	42%	45%	53%	57%
Property	9%	6%	8%	12%	15%
Private	23%	4%	22%	5%	24%

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

ECL Sensitivity of HPI change relative to Baseline Scenario (Difference) £000

Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(131)	341	576
Stage 2	(250)	786	1,329
Stage 3	(318)	684	1,064
Total	(699)	1,811	2,969

ECL Sensitivity of CRE change relative to Baseline Scenario (Difference) £000

Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(7)	35	41
Stage 2	(42)	173	198
Stage 3	-	-	-
Total	(49)	208	239

ECL Sensitivity of Unemployment change relative to Baseline Scenario (Difference) £000

Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(209)	307	518
Stage 2	(423)	616	1,021
Stage 3	(528)	651	1,005
Total	(1,160)	1574	2,544

Post-Model Adjustments and Management Overlays

The Group utilises Post Model Adjustments ("PMA") to account for model limitations or latent risks not captured by modelled ECLs in the modelled outcome of the IFRS 9 ECL provisions and Management Overlays ("Overlay") where management's expert judgment is applied to assess an appropriate ECL when the underlying data may not provide a true reflection of the risk from a modelled output. All PMA and Overlay methodology applied are subject to challenge and review through the Group's model governance process and approved by the Bank's Board Audit Committee. The following PMA and Overlays were applied at 31 December 2022:

- **Interest only and Amortising Term Loan PMA**: This is applied to all loans which have a significant final payment on the expiry of their facility. It is calculated by analysing the historic performance of this cohort and applying an adjusted PD to account for the increase in PD risk over the final 12-months of the loan prior to expiry.
- **Bridging Sector Overlay**: This segment of the Group's loan book has been under pressure since the pandemic began. Reduced appetite and liquidity constraints has resulted in a devalue of assets and reduced refinancing opportunities in the market. Whilst the Group has supported clients' refinancing plans where possible, some exposures have remained with the Group longer than expected. These remaining loans are designated as Stage 3 loans under IFRS 9 and are going through the Group's recovery process. ECLs for these loans have been assessed outside of the model to ensure that the individual circumstances of each of these loans is considered and appropriate provisions are applied based on the characteristics of each of the loans.
- **CBILS and RLS PMA:** This is applied to account for the guarantee provided by the British Business Bank (BBB) and backed by the UK Government which covers 80% of the non-recoverable outstanding amount after default, leaving the Group liable for the remaining 20% of the non-recoverable exposure. To account for this, an adjustment is made to the loss given default (LGD) to reduce this figure by 80%. This is applied in accordance with accepted industry practice.
- **Individual Assessments Overlay:** This is the segment of the Bank's loan book where expert judgment is applied to assess the appropriate ECL. Individual Assessments are applied when the underlying data may not provide a true reflection of the risk from a modelled output. These are discussed and challenged through the relevant Bank forums and committees with focus concentrated to the more high-risk profile accounts within Business Support and Recoveries.

PMAs applied at year end 2021 and removed in 2022:

- **Sector Uncertainty PMA:** To account for the broader risk of a rising inflationary environment and the pressure this places on customers and payment affordability, the Group adjusted the macroeconomic weightings in the model to be more skewed to the downside economics. This was applied in Q3 2022 and remained in place at year end. The Group's Sector uncertainty PMA has been deemed suitably covered within the new weightings of the macroeconomic scenarios and the PMA has been removed.

- **Cynergy Business Finance (CBF) Overlay:** This PMA was applied to the CBF portfolio prior to the development of full IFRS 9 modelled approach. Through 2022 the Group developed and deployed an IFRS 9 modelled approach to calculating the ECL on this portfolio. The PMA was removed in December 2022.

- **PD and Macroeconomics Calibration PMA:** Applied at year end 2021 to account for the annual PD and Macroeconomic validation work which commenced in Q4 2021 and was completed in Q1 2022. Following deployment of the updated PD and macroeconomic variables into the model for 2022 this PMA was removed.

The cumulative impact of the PMAs and Overlays at 31 December 2022 is £13.25 million (of total ECL provision £22.34 million), an uplift of £7.29 million on 2021, driven primarily by the enhanced individual assessments which are applied to the bridging portfolio and single named exposures where the circumstances of the exposure are not fully accounted for in the data used for modelling.

£000	Sector Uncertainty	PD & Macro-economic Calibration	Interest only Amortising Term Loan	Bridging sector Overlay	CBILS & RLS PMA	Individual Assessments Overlay	Cynergy Business Finance
2021	£125	£214	£213	£6,036	(£609)	N/A	£63
2022	Removed	Removed	£449	£6,949	(£809)	£6,660	Removed

3.12 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. 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. Commercial and residential property is revalued at least quarterly through indexation, it is also subject to physical revaluation periodically and fully revalued when entering the Group's Business Support team or Recoveries.

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.

3.13 Write-offs

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.

3.14 Forborne and modified loans

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

The Group has modified loans over recent years to support customers due to COVID and due to the persistent volatile economic conditions, and in its work to migrate customers away from LIBOR to Bank of England base rate ("Bank Rate").

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 Group's Credit Risk Department.

Forbearance may involve extending the payment arrangements or 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. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk, as set out in note 31. The Group also considers whether the assets should be classified as Stage 3 credit-impaired. 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 exposure must complete a probation period of 24-month where it must be considered a 'performing' loan;
- Regular and significant payments of principal or interest must have been made during at least half of the probation period;
- The customer must not have any contract that is more than 30 days past due.

3.15 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.

3.16 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. These assets are level 2 in the fair value hierarchy, with inputs including recent comparable evidence applying the comparative and investment methods of valuation. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

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

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

Depreciation of buildings and equipment is calculated on a straight line basis over the estimated useful life, as follows:

- buildings 30 years;
- computer equipment 3-5 years;
- *furniture and fixtures 3 years.*

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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.

3.17 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.

3.18 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.

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 Group.

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 Group 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 leases. 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 Group 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.

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 – 5-10 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 Bank also estimates the number of awards that are expected to vest based on the non-market service and performance conditions. The total expense is recognised over the vesting period. At the end of each financial period, the Bank revises its estimate of fair value as well as its estimate of the number of awards that are expected to vest. The impact of these revisions is recognised in the profit and loss, with a corresponding adjustment to the liability. The expense is finalised with reference to formal external valuation at the end of the plan period.

Cynergy Bank Limited (CBL) has also entered into a shareholder agreement with its subsidiary Cynergy Business Finance Limited (CBF). Under that agreement, CBL has the right to exercise an option to purchase the minority shareholding held by the managers in CBF, equally, the managers can request CBL to purchase the shares. In these consolidated financial statements, the fair value of this option is recognised as a cash settled share-based payment expense and corresponding contingent liability. The fair value is equal to the fair value of the shares at each balance sheet date. In the Company financial statements, the share-based payment contingent liability represents the obligation to settle the option arrangement, with the corresponding entry in investment in subsidiary.

3.21 Government grants and other assistance

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

The Group has participated in the Coronavirus Business Interruption Loan Scheme (CBILS).

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

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

The Group has also participated in the Recovery Loan Scheme (RLS) which replaced CBILS. The terms and accounting treatment remain the same under the new scheme.

The Group has not received any government grants.

3.22 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.

Cynergy Bank Limited owns 100% of the ordinary shares of Cynergy Connect Technologies Limited and Cynergy Bank Limited owns 87.5% of the ordinary shares of Cynergy Business Finance Limited.

In the Group financial statements the acquisition has been fair valued under IFRS 3, with no material adjustments.

In the Company financial statements, the investment is held at cost less any provision for impairment under IAS 27.

All intercompany transactions, balances, income and expenses are eliminated on consolidation. Where the Parent company transacts with a subsidiary of the Group, profits and losses are eliminated to the extent of the Parent's interest in the subsidiary.

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 within this note.

Critical judgments

There have been no critical judgments needed in the selection and application of accounting policies for the preparation of the financial statements.

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 effective interest rate and valuation of share-based payment liability included in these accounts.

Allowances for credit losses

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining default and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The 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 criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis;

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- Key PMAs are also judgments and assumptions. These are documented under Post-Model Adjustments in section 3.11 Impairment of financial assets.

Sensitivities to the above elements are detailed in note 3.11.

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. 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 Bank of England base rate and other fee income / expense that are integral parts of the instrument. The key sensitivity relates to the spreading of arrangement fees on the lending portfolio and increasing and decreasing the behavioural life of the lending portfolio by 20%, would result in reducing/increasing income by £1.5m / £1.5m.

Valuation of shared based payment liability

The Bank's Board and the Remuneration, Nominations and Corporate Governance Committee of the Bank approved a new Long-Term Incentive Plan (LTIP) for senior leaders of the Bank in February 2022, replacing the previous scheme which ran from 2019 to 2021. The LTIP is designed to provide long-term incentives for senior leaders of the Bank to deliver long-term shareholder returns. Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions. Awards are granted on the basis that only 50% of the award will be satisfied following the vesting date, 30% will be subject to a holding period of one year and 20% of the award will be subject to a post vesting holding period of two years. An independent valuation of the award is obtained which uses a market value approach, based on the estimated value of the Group, 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'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.

Cynergy Bank Limited (CBL) has also entered into a shareholder agreement with its subsidiary Cynergy Business Finance Limited (CBF). Under that agreement, CBL has the right to exercise an option to purchase the minority shareholding held by the managers in CBF, equally, the managers can request CBL to purchase the shares. Cynergy Business Finance Limited commenced trading late in 2021, and has recorded a loss in its first and second periods. The fair value of this option is nil as at 31 December 2022.

	2022	*2021*
5 Interest income	***£000***	*£000*
Group		
Loans and advances to customers	**167,199**	105,529
Interest rate swaps	**1,548**	
Other interest income	**62**	
	168,809	105,529

6 Interest expense	***2022***	*2021*
	£000	*£000*
Group		
Customer deposits	**35,615**	15,258
Bank deposits	**22**	230
Subordinated loan	**2,328**	2,525
Lease liabilities	**81**	29
Interest rate swaps	**1,578**	-
	39,624	18,042
Government Funding Scheme	**6,057**	314
	45,681	18,356

7 Fee and commission income

Group	2022 £000	2021 £000
Service fees for current accounts	**418**	450
Service fees for debit / credit cards	**163**	150
Services fees for handling payments	**40**	44
Foreign exchange	**218**	269
Invoice finance fees	**570**	2
Other fees	**258**	278
	1,667	1,193

8 Foreign exchange (losses) / gains

Foreign exchange gains and losses arise from the re-translation of monetary assets in foreign currency at the balance sheet date.

Group

	2022 £000	2021 £000
Foreign exchange (losses) / gains	**(1,194)**	**1,853**

9 Staff costs	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Wages and Salaries	**31,459**	22,213	-	-
Social security costs	**3,242**	2,384	-	-
Retirement benefit costs - defined contribution scheme	**2,139**	1,748	-	-
Other benefits	**(640)**	5,993	**(2,133)**	3,464
	36,200	32,338	**(2,133)**	3,464

The monthly average number of staff employed (including two Executive Directors of the Bank Company) by the Group during the year ended 31 December 2022 was 299 (2021: 224).

10 Depreciation, amortisation and impairment

Group	2022 £000	2021 £000
Depreciation	**378**	770
Amortisation of intangible assets	**3,876**	2,429
Depreciation of right-of-use assets	**289**	248
Impairment	**1,215**	-
	5,758	3,447

11 Other operating expenses

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Information technology	**8,693**	5,788	-	-
Professional fees	**15,615**	8,453	**109**	63
Clearing charges	**1,174**	1,042	-	-
Communication	**281**	288	-	-
Advertising	**715**	576	-	-
Premises	**805**	737	-	-
Printing and stationery	**60**	30	-	-
Other operating expenses – refer to analysis below	**5,794**	2,962	-	-
	33,137	19,876	**109**	63

Fees payable to the Group's auditors for the audit of the Group's annual financial statement:

Audit fees payable to the Company's auditors for the audit of the *Company's annual financial statements*	**68**	57	**68**	57
Fees payable to the Group's auditors for the audit of the subsidiaries' annual financial statements:				
Audit of the Cynergy Capital Ltd's subsidiaries	**712**	575	-	-
Total audit fees	**780**	632	**68**	57
Other assurance services	**55**	-	**8**	-
Other non-audit services	**4**	1	-	-
	839	633	**76**	57

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

Other operating expenses are further analysed below:

Subscriptions and publications	**1,588**	521	-	-
Fees for Non-Executive Directors of the Bank	**463**	450	-	-
Recruitment	**1,712**	1,039	-	-
Training	**269**	198	-	-
Travel and entertaining	**640**	179	-	-
Financial Services Compensation Scheme levy	**328**	173	-	-
Other insurances	**301**	229	-	-
Other operating expenses	**493**	173	-	-
	5,794	2,962	-	-

12 Credit loss on financial assets

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

2022

Group	Stage 1	Stage 2	Stage 3	Total
	£000	**£000**	**£000**	**£000**
Loans advances to customers	**1,221**	**3,147**	**968**	**5,336**
Undrawn	**(9)**	**-**	**-**	**(9)**
Recoveries	**-**	**-**	**3,773**	**3,773**
Total impairment loss	**1,212**	**3,147**	**4,741**	**9,100**

2021

Group	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Loans advances to customers	(1,841)	(944)	1,817	(968)
Undrawn	13	-	-	13
Recoveries	-	-	6,351	6,351
Total impairment loss	(1,828)	(944)	8,168	5,396

13 Income tax expense

	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
	Group	Group	**Company**	Company
UK corporation tax				
Charge for the year	**9,082**	7,440	-	6
Adjustments in respect of prior year	**(632)**	(1,066)	-	-
	8,450	6,374	-	6
Deferred tax				
(Credit) / charge for the year	**1,971**	(840)	-	-
Adjustments in respect of prior year	**(188)**	(5)	-	-
Change in tax rates	-	(52)	-	-
Tax charge for the year	**10,233**	5,477	-	6

A reconciliation of the tax charge in the income statement for the year and the accounting profit multiplied by the standard rate of corporation tax in the United Kingdom of 19.00% (December 2020: 19.00%) is presented below:

	2022	*2021*	**2022**	*2021*
	£000	*£000*	***£000***	*£000*
	Group	Group	**Company**	Company
Profit / (loss) before tax	**52,619**	26,972	**2,129**	(3,427)
Tax calculated at 19.00% (2020: 19.00%):	**9,998**	5,125	**405**	(651)
Tax effect of:				
Banking Surcharge	**1,311**	793	-	-
Income not chargeable to Corporation Tax	-	-	-	-
Income and expenses not deductible for tax purposes	**(385)**	682	**(405)**	657
Tax rate change	**(73)**	(52)	-	-
R&D expenditure credit	**(73)**	-	-	-
Property revaluation	**(128)**	-	-	-
Property sale	**403**	-	-	-
Adjustment in respect of prior year – Corporation Tax	**(632)**	(1,066)	-	-
Adjustment in respect of prior year – Deferred Tax	**(188)**	(5)	-	-
Tax charge for the year	**10,233**	5,477	-	6

The net deferred liability arises from:

Difference between capital allowances and depreciation	**(2,202)**	46	-	-
Property revaluation	**(1,166)**	(1,294)	-	-
Losses to be used against future profits	**406**	206	-	-
Other provisions	**1,602**	1,466	-	-
Net deferred tax liability	**(1,360)**	424	-	-

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

	2022	*2021*	**2022**	*2021*
	£000	*£000*	***£000***	*£000*
	Group	Group	**Company**	Company
1 January	**424**	709	-	-
Revaluation of properties	-	(1,174)	-	-
Deferred tax recognised in the income statement	**(1,784)**	889	-	-
31 December	**(1,360)**	424	-	-

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

	2022	2021	2022	2021
	£000	£000	£000	£000
	Group	Group	Company	Company
Difference between capital allowances and depreciation	(2,435)	69	-	-
Losses to be used against future profits	199	206		
Other temporary differences	136	565	-	-
Change in tax rates	-	52	-	-
Adjustment in respect of prior years	188	(3)	-	-
Deferred tax on property revaluation	128	-	-	-
Deferred tax (charge) / credit for the year	(1,784)	889	-	-

14 Cash, balances with central banks and placements with banks

	Group	Group	Company	Company
	2022	2021	2022	2021
	£000	£000	£000	£000
Cash	-	1	-	-
Balances with the Bank of England	553,007	324,981	-	-
	553,007	324,982	-	-
Placements with banks	103,117	61,328	797	6,799
Cash and cash equivalents	656,124	386,310	797	6,799

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 central banks include mandatory deposits of £8,799,015 (31 December 2021: £7,223,474) 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.

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

Group	2022	2021
	£000	£000
Cash	-	1
Balances with the Bank of England	553,007	324,981
Less: Mandatory deposits with the central bank	(8,799)	(7,223)
Placement with banks	103,117	61,328
Cash and cash equivalents per the Statement of cash flows	647,325	379,087

15 Loans and advances to customers

	2022	2021
Group	£000	£000
Loans	3,261,855	2,954,046
Overdrafts	14,714	9,456
	3.276,569	2,963,502
Less: Allowance for ECL/impairment losses	(22,339)	(13,924)
	3,254,230	2,949,578

The following two tables 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 31.

Loans £000			**2022**	
	Stage 1	**Stage 2**	**Stage 3**	**Total Sum of Gross Carrying amount**
Group				
Internal rating grade				
Standard grade	**2,812,294**	**199,008**	**-**	**3,011,302**
Watch list medium risk.	**-**	**185,906**	**-**	**185,906**
Credit impaired	**-**	**-**	**64,647**	**64,647**
Total	**2,812,294**	**384,914**	**64,647**	**3,261,855**

Overdrafts £000			**2022**	
	Stage 1	**Stage 2**	**Stage 3**	**Total Sum of Gross Carrying amount**
Group				
Internal rating grade				
Standard grade	**13,867**	**80**	**-**	**13,947**
Watch list medium risk	**-**	**156**	**-**	**156**
Individually impaired	**-**	**-**	**611**	**611**
Total	**13,867**	**236**	**611**	**14,714**

Loans *£000*			**2021**	
	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying amount
Group				
Standard grade	2,678,503	126,822	-	2,805,325
Watch list medium risk	-	105,068	-	105,068
Individually impaired	-	-	43,653	43,653
Total	2,678,503	231,890	43,653	2,954,046

Overdrafts *£000*				
	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying amount
Group				
Internal rating grade				
Standard grade	8,550	411	-	8,961
Watch list medium risk	-	487	-	487
Individually impaired	-	-	8	8
Total	8,550	898	8	9,456

The reconciliations of movements of the loss allowance and gross carrying amounts provide insight into the movements in ECL and the charge to the income statement. The increase in ECL over 2022 is primarily related to the Group's bridging portfolio moving to recovery and Stage 3 during the year. This uplift is visible in the 'Transfers to Stage 3' movement.

Loans

	2022							
Group	**Stage 1** Gross carrying amount	ECL	**Stage 2** Gross carrying amount	ECL	**Stage 3** Gross carrying amount	ECL	**Total** Gross carrying amount	ECL
£000								
At 1 January 2022	**2,678,503**	**2,101**	**231,890**	**2,156**	**43,653**	**9,624**	**2,954,046**	**13,881**
New assets originated	1,128,278	1,772	50,165	820	556	230	1,179,001	2,822
Assets derecognised or repaid	(723,339)	(629)	(73,019)	(556)	(20,985)	(1,166)	(817,343)	(2,351)
Transfers to Stage 1	40,718	54	(42,707)	(92)	(466)	(8)	(2,455)	(46)
Transfers to Stage 2	(265,398)	(215)	219,138	2,958	(716)	(1)	(46,976)	2,742
Transfers to Stage 3	(9,622)	(4)	(35,773)	(570)	44,310	4,803	(1,085)	4,229
Within Stage Modifications	(36,846)	232	35,220	586	(649)	770	(2,277)	1,588
Write offs	-	-	-	-	(1,056)	(687)	(1,056)	(687)
At 31 December 2022	**2,812,294**	**3,311**	**384,914**	**5,302**	**64,647**	**13,565**	**3,261,855**	**22,178**

Overdrafts

	2022							
Group	**Stage 1** Gross carrying amount	ECL	**Stage 2** Gross carrying amount	ECL	**Stage 3** Gross carrying amount	ECL	**Total** Gross carrying amount	ECL
£000								
At 1 January 2022	**8,547**	**23**	**898**	**19**	**8**	**2**	**9,453**	**44**
New assets originated	5,044	5	43	-	2	1	5,089	6
Assets derecognised or repaid	(790)	(2)	(618)	(4)	(6)	(1)	(1,414)	(7)
Transfers to Stage 1	4	-		-	-	-	4	-
Transfers to Stage 2	(169)	(1)	164	9	-	-	(5)	8
Transfers to Stage 3	-	-	(249)	(1)	607	113	358	112
Within Stage 1 Modifications	1,231	2	(2)	(4)	-	-	1,229	(2)
Write offs	-	-	-	-	-	-		-
At 31 December 2022	**13,867**	**27**	**236**	**19**	**611**	**115**	**14,714**	**161**

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

Loans

Group	Stage 1 Gross carrying amount	ECL	Stage 2 Gross carrying amount	ECL	Stage 3 Gross carrying amount	ECL	Total Gross carrying amount	ECL
				2021				
£000								
At 1 January 2021	**2,401,085**	**3,920**	**183,820**	**2,950**	**25,081**	**1,473**	**2,609,986**	**8,343**
New assets originated	847,459	690	18,909	46	5,350	102	871,718	838
Assets derecognised or repaid	(375,065)	(973)	(41,572)	(733)	(12,955)	(291)	(429,592)	(1,997)
Transfers to Stage 1	35,847	31	(55,150)	(968)	(25)	(11)	(19,328)	(948)
Transfers to Stage 2	(153,612)	(305)	150,817	1,588	(62)	-	(2,857)	1,283
Transfers to Stage 3	(9,706)	(129)	(16,188)	(310)	26,777	6,374	883	5,935
Within Stage Modifications	(67,505)	(1,133)	(8,746)	(417)	(444)	1,994	(76,695)	444
Write offs	-	-	-	-	(69)	(17)	(69)	(17)
At 31 December 2021	**2,678,503**	**2,101**	**231,890**	**2,156**	**43,653**	**9,624**	**2,954,046**	**13,881**

Overdrafts

Group	Stage 1 Gross carrying amount	ECL	Stage 2 Gross carrying amount	ECL	Stage 3 Gross carrying amount	ECL	Total Gross carrying amount	ECL
				2021				
£000								
At 1 January 2021	**8,490**	**36**	**4,025**	**167**	**8**	**1**	**12,523**	**204**
New assets originated	5,975	11	200	2	1	-	6,176	13
Assets derecognised or repaid	(5,525)	(13)	(3,810)	(160)	(7)	(1)	(9,342)	(174)
Transfers to Stage 1	21	-	(46)	-	-	-	(25)	-
Transfers to Stage 2	(1,460)	(3)	596	12	-	-	(864)	9
Transfers to Stage 3	(6)	-	(10)	(1)	6	2	(10)	1
Within Stage 1 Modifications	1,055	(8)	(56)	(2)	1	1	1,000	(9)
Write offs	-	-	(1)	-	(1)	(1)	(2)	(1)
At 31 December 2021	**8,550**	**23**	**898**	**18**	**8**	**2**	**9,456**	**43**

16 Other assets

	Group **2022** **£000**	*Group* *2021* *£000*	*Company* **2022** **£000**	*Company* *2021* *£000*
Debtors	**71**	65	**48**	-
Receivable from the Bank of Cyprus Public Company Limited towards redress payments	**1,013**	413	-	-
Prepayments	**7,385**	6,618	-	-
Accrued income	**1,684**	2,369	-	-
Receivables from payment service provider	**1,686**	1,596	-	-
Cash pledged as collateral	**30,007**	-	-	-
Vat receivable	**228**	15	-	-
Deferred tax asset (note 12)	-	424	-	-
Other	**5**	-	-	-
Total	**42,079**	11,500	**48**	-

17 Derivative financial instruments

Derivatives are used by the Bank to manage its own exposure to fluctuations in interest rates and exchange rates. The use of derivatives is therefore an integral part of the Group's overall activities. The Group classifies and measures its derivative portfolio at fair value through profit or loss (FVPL).

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.

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

Group	***2022*** ***£000***	2021 £000
Gain / (loss) from change in fair value of derivatives	**3,983**	(2,190)
	3,983	(2,190)

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	**2022**			2021		
		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	**34,809**	**790**	**(157)**	91,071	53	(429)
Foreign exchange spots	**32**	**1**	**-**	54	1	-
Total exchange rate contracts	**34,841**	**791**	**(157)**	91,125	54	(429)
By maturity						
Up to 1 year	**34,809**	**791**	**(157)**	91,125	54	(429)
1-5 years	**32**	**-**	**-**	-	-	-
Over 5 years	**-**	**-**	**-**	-	-	-
Total exchange rate contracts	**34,841**	**791**	**(157)**	91,125	54	(429)
By counterparty						
Banks and building societies	**34,809**	**790**	**(157)**	91,071	53	(429)
Customers	**32**	**1**	**-**	54	1	-
Total exchange rate contracts	**34,841**	**791**	**(157)**	91,125	54	(429)
Interest rate contracts						
By type						
Interest rate swaps	**550,000**	**11,613**	**(3,681)**	-	-	-
Total interest rate contracts	**550,000**	**11,613**	**(3,681)**	-	-	-
By maturity						
Up to 1 year	**-**	**-**	**-**	-	-	-
1-5 years	**320,000**	**11,613**	**-**	-	-	-
Over 5 years	**230,000**	**-**	**(3,681)**	-	-	-
Total interest rate contracts	**550,000**	**11,613**	**(3,681)**	-	-	-
By counterparty						
Banks and building societies	**550,000**	**11,613**	**(3,681)**	-	-	-
Total interest rate contracts	**550,000**	**11,613**	**(3,681)**	-	-	-
Total derivative contracts	**584,851**	**12,404**	**(3,838)**	91,125	54	(429)

Hedge accounting

The Group launched a new fixed rate loan product in 2022 to address growing customer demand due to the rising interest rate environment. Interest rate swaps were entered into to hedge the interest rate risk of the increased volume of fixed rate lending. The Bank applied fair value hedge accounting for portfolio hedges of interest rate risk on loans and advances to customers, with initial application during the year ended 31 December 2022.

There were no accounting hedges designated during the year to 31 December 2021.

The amounts relating to items designated as hedging instruments at 31 December 2022 were as follows:

	Notional	Carrying amount of the hedging instrument (fair value)		Gain/(loss) in fair value used for calculating hedge ineffectiveness for 2022
		Assets	Liabilities	
	£000	£000	£000	£000
Fair value hedges of interest rate risk:				
Interest rate swaps	550,000	11,613	(3,681)	4,738

The amounts relating to items designated as hedged items at 31 December 2022 were as follows:

	Carrying amount of the hedged item (fair value)		Accumulated amount of fair value hedge adjustments on the hedged item	Gain/(loss) in fair value used for calculating hedge ineffectiveness for 2022
	Assets	Liabilities		
	£000	£000	£000	£000
Fair value hedges of interest rate risk:				
Fixed rate loans*	659,455	-	4,733	4,451

*Fixed rate loans are included in the line item "Loans and advances to customers" within the Statement of Financial Position.

The amounts recognised as hedge ineffectiveness at 31 December 2022 were as follows:

	Ineffectiveness recognised in profit or loss
	£000
Fair value hedges of interest rate risk:	
Fixed rate loans**	287

**Hedge ineffectiveness is included in the line item "Fair value gain/(loss) on derivative instruments" within the Income Statement.

18 Investment in securities held at amortised cost

Group	2022 £000 Amortised Cost	2022 £000 Fair Value	2021 £000 Amortised Cost	2021 £000 Fair Value
Asset-backed securities	**113,377**	**111,572**	137,782	137,529
	113,377	**111,572**	137,782	137,529

Maturities of investments in asset-backed securities at their carrying amount and weighted average yields

Group

	2022 £000 Amortised Cost	2021 £000 Amortised Cost
By type		
Asset-backed securities	**113,377**	137,782
Total at 31 December	**113,377**	137,782
By maturity		
Up to 1 year	**42,811**	20,271
1 - 5 years	**70,566**	117,511
Over 5 years	-	-
Total at 31 December	**113,377**	137,782

The weighted average yield on asset-backed securities during the year ended 31 December 2022 was 2.27% (2021: 0.51%).

19 Intangible assets

Group	2022 Computer software £000	2022 Assets under construction £000	2022 Total £000	2021 Computer software £000	2021 Assets under construction £000	2021 Total £000
Cost at 1 January	**12,712**	**19,934**	**32,646**	12,206	11,210	23,416
Additions	**22**	**6,026**	**6,048**	-	9,230	9,230
Disposals and write offs	**(95)**	**(1,142)**	**(1,237)**	-	-	-
Transfers	**10,854**	**(10,854)**	-	506	(506)	-
Cost at 31 December	**23,493**	**13,964**	**37,457**	12,712	19,934	32,646
Accumulated amortisation at 1 January	**(6,134)**	-	**(6,134)**	(3,704)	-	(3,704)
Amortisation charge for the year	**(3,876)**	-	**(3,876)**	(2,429)	-	(2,429)
Disposals and write-offs	**22**	-	**22**	-	-	-
Accumulated amortisation at 31 December	**(9,988)**	-	**(9,988)**	(6,133)	-	(6,133)
Net book value at 31 December	**13,505**	**13,964**	**27,469**	6,579	19,934	26,513

20 Leases

Group	*2022* £000	*2021* £000
Right of use assets		
Buildings	**11,891**	220
	11,891	220
Lease liabilities		
Current	**308**	247
Non-current	**11,757**	31
	12,065	278

During the year, there was one addition in relation to our new office premises at One New Change, and three disposals within the right of use assets.

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

Group	*2022* £000	*2021* £000
Depreciation charge of right of use assets		
Buildings	**289**	249
	289	249
Interest expense (included in interest in interest expense)	**81**	29
Expense relating to short term leases (included in other operating costs)	**26**	-
Expense relating to low value assets that are not shown above as short term leases (included in other operating costs)	**(16)**	29
	91	58

The total cash outflow for leases in 2022 was £531,168 (2021: £197,150).

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

	£000
Within 1 year	32
Between 2 to 5 years	8,481
More than 5 years	8,481

21 Property and equipment

Group	*Freehold property* £000	*Computer equipment* £000	*Furniture & equipment* £000	*Total* £000
Cost or valuation at 1 Jan	13,100	1,774	-	14,874
Classification of property as held for sale	(6,100)	-	-	(6,100)
Additions	-	521	355	876
Disposals and write offs	(7,000)	-	-	(7,000)
Cost or valuation at 31 December	-	2,295	355	2,650
Accumulated depreciation at 1 January	(444)	(1,555)	-	(1,999)
Depreciation charge for the year	(196)	(181)	-	(377)
Classification of property as held for sale	504	-	-	504
Disposals, write-offs and impairments	136	-	-	136
Accumulated depreciation at 31 December	-	(1,736)	-	(1,736)
Net book value at 31 December	-	559	355	914

Group	*Freehold property*	*Computer equipment*	*Furniture & equipment*	*Total*
	£000	*£000*	*£000*	*£000*
Cost or valuation at 1 Jan	13,100	1,756	-	14,856
Additions	-	69	3	72
Disposals and write offs	-	(51)	(3)	(54)
Cost or valuation at 31 December	13,100	1,774	-	14,874
Accumulated depreciation at 1 January	(185)	(1,098)	-	(1,283)
Depreciation charge for the year	(259)	(508)	(3)	(770)
Disposals, write-offs and impairments	-	51	3	54
Accumulated depreciation at 31 December	(444)	(1,555)	-	(1,999)
Net book value at 31 December	12,656	219	-	12,875

During 2022 freehold property with total cost £7.00m and accumulated depreciation of £0.14m was sold subject to leaseback for a term of 10 months. A gain on sale of £9.23m was recognised and is presented in the Income Statement within the line item "Gain on sale of property".

The remaining freehold property and land with a total cost of £6.10m and accumulated depreciation of £0.50m was reclassified as held for sale as at 31 December 2022. On classification to held for sale the property was revalued to fair value, less costs to sell, of £7.07m, with the resulting gain recognised in reserves.

The Group has leased a new property which is reflected in Note 20.

22 Customer deposits

	2022	*2021*
Group	**£000**	*£000*
Customer deposits by category		
Demand	**2,160,499**	1,347,454
Notice	**16,002**	-
Term	**1,159,941**	1,485,110
	3,336,442	2,832,564
Customer deposits by geographical area		
United Kingdom	**3,206,366**	2,685,335
Cyprus	**105,554**	117,792
Greece	**22,614**	25,616
Other countries	**1,908**	3,821
	3,336,442	2,832,564

23 Bank deposits

Group	**2022**	*2021*
	£000	*£000*
Bank deposits by category		
Demand	**7,513**	-
Term	**382,657**	400,125
Bank deposits by geographical area		
United Kingdom	**390,170**	400,125

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 2022 is the conduct and legal risk provision for customer redress relating to historic conduct issues within the Bank (2008 to 2012). This provision is underwritten by Bank of Cyprus Public Company Limited.

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

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

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

Sensitivity analysis based on customer opt-in rates

Customer Opt-in Rate*	Total Provision £000
80%	56,321
81%	56,593
82%	56,869
85%	57,695

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

The provision for customer redress as at 31 December 2022 is £0.7m (2021: £0.3m) which represents the total current remaining commitment. There remains a corresponding receivable (see note 16). There would be no further impact of any increase in the provision up to the agreed caps as set out within the Deed of Support agreed with the Bank of Cyprus Public Company Limited.

The receivable noted above has been included as a separate asset on the balance sheet (see note 16), and it has not been offset against the conduct provision which is presented gross as a liability on the face of the statement of financial position.

The total redress cost was estimated at £56.7m (2021: £56.2m) as at the reporting date of 31 December 2022, of which £56.0m has been settled and £0.7m remains within the provision held. The Bank has funded £2.9m of this with the balance funded by Bank of Cyprus Public Company Limited.

25 Other liabilities

	2022	*2022*	*2021*	*2021*
	£000	***£000***	*£000*	*£000*
	Group	**Company**	Group	Company
Accruals	**17,889**	**131**	15,357	60
Accrued interest payable	**1,503**	**-**	8,929	-
Subordinated loan - amounts to be repaid (note 26)	**41,082**	**-**	-	-
Deferred income	**-**	**-**	17	17
PAYE and NI settlement	**1,367**	**-**	932	-
Items in the course of settlement	**2,000**	**-**	619	-
Share-based payment liability	**5,248**	**1,331**	8,635	3,464
Deferred tax liability (note 13)	**1,360**	**-**	-	-
Tax payable	**2,959**	**7**	2,183	6
Vat Liability	**-**	**-**	5	5
Other	**18**	**-**	589	-
Total	**73,426**	**1,469**	37,266	3,552

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

26 Subordinated loan

<u>*Group*</u>	***2022*** ***£000***	*2021* *£000*
Unsecured subordinated loan	**-**	29,868

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, at which point subject to meeting contractual notice conditions the Bank Company had the option to redeem the loan.

On 21 December 2022, following receipt of permission from the PRA to reduce the Bank Company's eligible regulatory Own Funds by the Tier 2 loan amount, the Bank Company took the option to redeem the loan. Since the payment of amounts due under the Tier 2 facility with Lamesa Investment Ltd is currently subject to UK sanctions and US secondary sanctions, and accordingly amounts due cannot be paid, the amount to be repaid (including accrued interest) of £41,082k has been classified as an other liability as at 31 December 2022.

Changes in liabilities arising from financing activities

2022	**1 January 2022**	**Redemptions**	**Other**	**31 December 2022**
	£000	***£000***	***£000***	***£000***
Unsecured subordinated loan	**29,868**	**(30,000)**	**132**	**-**

2021	1 January 2021	Redemptions	Other	31 December 2021
	£000	*£000*	*£000*	*£000*
Unsecured subordinated loan	29,744	-	124	29,868

27 Share capital

The Company	*31 December 2022*		*31 December 2021*	
	Number of shares	***£000***	*Number of shares*	*£000*
Authorised, issued and fully paid:				
Ordinary Shares of £1 each	**199,300,005**	**199,300**	158,300,005	158,300

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. Ordinary A and B shareholders have equal rights in all regards.

In June 2022, 9,000,000 Ordinary "A" shares and 6,000,000 Ordinary "B" shares were issued. In October 2022, 10,400,000 "A" shares and 10,400,000 "B" shares were issued.

During December 2022 34,660,001 Ordinary "A" shares owned by Pradip Dhamecha were transferred to Hathaway Capital Limited after approval from PRA. Immediately upon transfer, the shares were redesignated as "B" shares.

In December 2022 Hathaway Capital Limited further subscribed for 5,200,000 Ordinary "B" shares.

All shares issued due the year were issued at their par value of £1 each, with considerations for the shares paid fully in cash.

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:

Group	**2022**	*2021*
	£000	*£000*
Acceptances, guarantees and cashing facilities	**649**	841
Commitments to advance	**167,728**	127,283
Total	**168,377**	128,124

The balances above represent the Bank's maximum exposure to credit risk under these arrangements.

As at 31 December 2022, and at 31 December 2021, all exposures are assessed as standard grade under the Bank's internal rating grade system.

Details of the Bank's internal grading system are explained in note 31.

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

Acceptances, guarantees and cashing facilities

Group

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£000	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2021	**816**	**25**	**841**	**1,007**
Net new exposures	-	**7**	-	**7**
Exposure derecognised or matured / lapsed	**(174)**	**(25)**	-	**(199)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2022	**642**	**7**	-	**649**

Commitments to advance

Group

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£000	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2021	**127,283**	-	-	**127,283**
Net new exposures	**167,728**	-	-	**167,728**
Exposure derecognised or matured / lapsed	**(127,283)**	-	-	**(127,283)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2022	**167,728**	-	-	**167,728**

Acceptances, guarantees and cashing facilities

Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
	£000	**£000**	**£000**	**£000**
Gross carrying amount as at 1 January 2020	977	30	-	1,007
Net new exposures	-	25	-	25
Exposure derecognised or matured / lapsed	(161)	(30)	-	(191)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2022	816	25	-	841

Commitments to advance

Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
	£000	**£000**	**£000**	**£000**
Gross carrying amount as at 1 January 2020	219,132	-	-	219,132
Net new exposures	127,283	-	-	127,283
Exposure derecognised or matured / lapsed	(219,132)	-	-	(219,132)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2022	- 127,283	-	-	127,283

The ECLs relating to acceptances, guarantees and cashing facilities and Commitments to advance are zero when rounded to the nearest thousand.

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.

29 Financial Services Compensation Scheme levy

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

30 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 2022***		*31 December 2021*	
		Carrying value	***Fair value***	*Carrying value*	*Fair value*
		£000	***£000***	*£000*	*£000*
Financial assets					
Cash and balances with central banks	(a, Level 1)	**553,007**	**553,007**	324,982	324,982
Placements with banks	(b, Level 1)	**103,117**	**103,117**	61,328	61,328
Derivative financial assets	(e, see below)	**12,404**	**12,404**	54	54
Investment in securities	(g, Level 1)	**113,377**	**113,377**	137,782	137,529
Loans and advances to customers	(c, Level 3)	**3,254,230**	**3,254,230**	2,949,578	3,199,469
Financial liabilities					
Bank deposits	(b, Level 1)	**390,170**	**390,170**	400,125	400,125
Customer deposits	(d, Level 3)	**3,336,442**	**3,336,442**	2,832,564	2,801,143
Derivative financial liabilities	(e, see below)	**3,838**	**3,838**	429	429
Subordinated loan	(f, Level 3)	**-**	**-**	29,868	29,735

Company	Notes	***31 December 2022***		*31 December 2021*	
		Carrying value	***Fair value***	*Carrying value*	*Fair value*
		£000	***£000***	*£000*	*£000*
Financial assets					
Placements with banks	(b, Level 1)	**797**	**797**	6,799	6,799

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 12 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.

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

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

(f) The subordinated loan is non-traded and the fair value is calculated by discounting the cash flows using prevailing market interest rates.

(g) The carrying value of investment in securities is measured at amortised cost based on principal and coupon amount.. The estimated fair value of investment in securities is based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the debt in issue is valued using valuation techniques, the inputs for which are either based on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments.

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

31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Group	**£000**	**£000**	**£000**	**£000**
Derivative financial assets	**-**	**12,404**	**-**	**12,404**
Derivative financial liabilities	**-**	**(3,838)**	**-**	**(3,838)**
31 December 2021	Level 1	Level 2	Level 3	Total fair value
	£000	£000	£000	£000
Derivative financial assets	-	54	-	54
Derivative financial liabilities	-	(429)	-	(429)

Level 1 inputs are those with quoted prices for similar instruments, level 2 inputs have directly observable market inputs other than level 1 inputs and level 3 inputs are not based on observable market data but are calculated using a discounted cash flow model, with relevant prevailing market discount rates for each product maturity.

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

	Fair value at		**Range of inputs**		
	31 Dec 2022	31 Dec 2021			**Relationship of discount rate input to**
Description	**£000**	£000	**2022**	2021	**fair value**
Loans and advances to customers	**3,190,786**	3,199,469	**3.15% - 4.40%**	0.19% - 1.24%	A shift in discount rate of +/-10bps results in a change of fair value of £12m (2021: £8m-£11m)
Customer deposits	**3,300,150**	2,801,143	**3.62% - 4.20%**	0.19% - 1.24%	A shift in discount rate of +/-10bps results in a change of fair value of £1m (2021: £4m)
Investment in securities	**111,572**	137,529	**2.10% - 0.22%**	0.01% - 0.46%	Based on quoted prices
Subordinated debt	**-**	29,735	**n/a**	1.04%	A shift in discount rate of +/-10bps results in a change of fair value of £nil (2021: £0.01m)

31. Risk management

Liquidity risk

Liquidity risk is the risk of failure to realise assets or raise funds to meet current and future commitments. Liquidity risk is managed each day by the Bank's Treasury department under the supervision of the Asset & Liability Committee. To manage liquidity risk the Bank maintains a portfolio of high quality liquid and marketable assets to meet the liquidity requirements of the PRA and the Bank's internal policies. These assets can be converted into cash to meet its liquidity needs for a 30 calendar day liquidity stress scenario, and the Bank must ensure it maintains this LCR in adherence with its regulatory requirements.

Analysis of assets and liabilities by expected maturity

Group 31 December 2022	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	**553,007**	**544,208**	**-**	**8,799**	**-**	**-**
Placements with banks	**103,117**	**103,117**	**-**	**-**	**-**	**-**
Loans and advances to customers	**3,254,230**	**42,324**	**210,117**	**176,509**	**2,302,125**	**523,155**
Derivative assets	**12,404**	**-**	**791**	**-**	**11,613**	**-**
Investment in securities	**113,377**	**-**	**4,201**	**38,610**	**70,566**	**-**
Total assets	**4,036,135**	**689,649**	**215,109**	**223,918**	**2,384,304**	**523,155**
Liabilities:						
Customer deposits	**3,336,442**	**2,160,499**	**128,936**	**805,155**	**241,852**	**-**
Bank deposits	**390,170**	**7,513**	**-**	**-**	**382,657**	**-**
Derivative liabilities	**3,838**	**-**	**157**	**-**	**-**	**3,681**
Subordinated loan	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**3,730,450**	**2,168,012**	**129,093**	**805,155**	**624,509**	**3,681**

Group 31 December 2021	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	324,982	317,759	-	7,223	-	-
Placements with banks	61,328	61,328	-	-	-	-
Investment in securities	137,782	-	13,185	7,179	117,418	-
Loans and advances to customers	2,949,578	9,414	163,057	183,429	1,826,150	767,528
Total assets	3,473,670	388,501	176,242	197,831	1,943,568	767,528
Liabilities:						
Bank deposits	400,125	-	-	-	400,125	-
Customer deposits	2,832,564	2,145,414	132,176	407,666	147,308	-
Other liabilities	37,266	3,464	-	33,802	-	-
Subordinated loan	29,868	-	-	-	29,868	-
Total liabilities	3,299,823	2,148,878	132,176	441,468	577,301	-

Company 31 December 2022	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:						
Placements with banks	**797**	**797**	**-**	**-**	**-**	**-**
Liabilities:						
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Company 31 December 2021	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:						
Placements with banks	6,799	6,799	-	-	-	-
Liabilities:						
Other liabilities	3,552	3,464	-	88	-	-

The contractual maturities of non-derivative financial liabilities are the same as their expected maturities presented above.

Credit risk

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

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

The Executive Risk Committee meets monthly and reviews reports on credit concentration, portfolio performance and provisions. The Executive Credit Committee, a sub-committee of the Executive Risk Committee, approves credit facilities within its authority or makes recommendations to the Bank's Board of Directors for approval at Bank's Board Credit Committee where on an exception basis facilities in excess of £10m fall outside credit policy or where lending proposals are outside of the Bank's risk appetite statement.

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

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

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

ii) Treasury, trading and interbank relationships

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

iii) Corporate, small business lending and property financing

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

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties.

- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Bank's performance.

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

iv) Exposure at default

The 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.

v) Loss given default

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

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

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

Further, LGDs under IFRS 9 incorporate recent data and forward-looking macroeconomic variables in order to determine a rate across multiple scenarios. Examples of key inputs involve changes in collateral values including property prices for mortgages, payment status or other factors that are indicative of losses in the Bank. The Bank 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.

vi) Significant increase in credit risk

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

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

Regardless of the qualitative measures outlined above, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. The following table shows a breakdown of exposures by Stage 2 trigger event:

As at 31st December 2022 £000	Business Gross carrying amount	Business ECL	Business Coverage	Private Gross carrying amount	Private ECL	Private Coverage	Property Gross carrying amount	Property ECL	Property Coverage
PD movement[1]	**49,700**	**287**	**0.58%**	**1,822**	**18**	**0.99%**	**94,581**	**547**	**0.58%**
Forbearance support provided	**2,189**	**24**	**1.10%**	**-**	**-**	**0.00%**	**3,348**	**2**	**0.06%**
Watchlist or other qualitative reasons[2]	**43,511**	**1,570**	**3.61%**	**3,857**	**91**	**2.36%**	**135,411**	**2,348**	**1.73%**
30 Days past due	**-**	**-**	**0.00%**	**1,168**	**11**	**0.94%**	**12,236**	**9**	**0.07%**
Total	**95,400**	**1,881**	**1.97%**	**6,847**	**120**	**1.75%**	**245,576**	**2,906**	**1.18%**

As at 31st December 2021 £000	Business Gross carrying amount	Business ECL	Business Coverage	Private Gross carrying amount	Private ECL	Private Coverage	Property Gross carrying amount	Property ECL	Property Coverage
PD movement[1]	35,573	313	0.88%	13	1	7.69%	76,903	398	0.52%
Forbearance support provided	21,225	43	0.20%	-	-	-	2,031	3	0.15%
Watchlist or other qualitative reasons[2]	47,659	773	1.63%	2,043	57	2.79%	47,046	587	1.25%
30 Days past due	-	-	-	-	-	-	386	-	0.11%
Total	104,367	1,129	1.08%	2,056	58	2.82%	126,366	988	0.78%

For connected group borrowers with exposure less than £250,000 there is no specific annual review and borrowers are subject to a review on the trigger of an exception. Therefore, should symptoms of credit weakness, such as arrears be identified the credit quality of the customer will be re-assessed. For these accounts (which account for 1.06% of total customer advances), a separate assessment of the evidence of a significant deterioration and an adjustment is made to the ECL estimate as a management overlay, if appropriate.

vii) Annual Review Process

All borrowers with exposure over £250,000 are subject to an annual review of lending, collaterals and performance against the customers broader market sector.

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

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

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

Group	**2022**	2021
	£000	£000
Business sector		
Property investment	**2,193,376**	2,211,642
Property development	**48,591**	62,860
Hotels, catering and leisure	**327,377**	256,903
Manufacturing	**39,183**	4,128
Retail and wholesale	**52,675**	7,716
Other business sectors	**311,587**	164,361
Personal sector	**303,780**	255,892
	3,276,569	2,963,502
Less: Allowance for ECL / impairment losses	**(22,339)**	(13,924)
Carrying amount	**3,254,230**	2,949,578

Forbearance
Forbearance means the active agreement by the Bank with the customer to vary the terms of a loan agreement, either temporarily or permanently, to assist a customer to overcome financial stress and repay a loan. Forbearance is usually a trigger for accounts to be moved into stage 2 or stage 3 under IFRS 9, however due to the ongoing support required to mitigate some of the challenges presented by Covid, exceptional measures were put in place by governments, regulators and the Bank to minimise this impact at a UK and global level.

Where cases are considered to be forborne and non-performing they are considered as stage 3 and must complete an 18-month cure period followed by a 24-month monitoring period (probation period) as a performing forborne loan before these accounts would be returned to the good book, a total of 42 months. In the case of a performing forborne they would not go through the 18-month cure period and would only have to meet the 24-month probation period. An outline of the forbearance and the trigger for this is provided in the table below and 2021 position is presented for comparison.

31 December 2022	**Total**	**Stage 2**	**Stage 3**
Group	**£000**	**£000**	**£000**
Interest-only conversion	**4,321**	**3,017**	**1,304**
Extension of repayment period	**11,594**	**-**	**11,594**
Payment holidays	**16,611**	**3,476**	**13,136**
Amortisation profile change	**39**	**-**	**39**
Refinance	**223**	**223**	**-**
Others	**153**	**-**	**153**
Total	**32,941**	**6,716**	**26,226**

31 December 2021	Total	Stage 2	Stage 3
Group	£000	£000	£000
Interest-only conversion	3,339	1,923	1,416
Extension of repayment period	15,308	-	15,308
Payment holidays	41,939	32,595	9,344
Amortisation profile change	1,094	-	1,094
Refinance	506	506	-
Others	161	-	161
Total	62,347	35,024	27,323

Definition of default and cure

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

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

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

Once an exposure becomes credit-impaired it triggers Stage 3 under IFRS 9. If the exposure subsequently ceases to exhibit indicators of being credit-impaired, it will remain in Stage 3 for a period (known as a 'cure period') so that the apparent improvement of credit-status can be confirmed. It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 18 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in note 3.11.

Non-Performing Loans vs Credit Impaired

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

31 December 2022	**Gross carrying amount £000**	**Allowance for ECL £000**	**Coverage**
Description			
Credit-impaired not in cure period	**62,272**	**13,315**	**21.38%**
No longer credit-impaired but in cure period that precedes transfer to stage 2	**2,419**	**146**	**6.03%**

31 December 2021	Gross carrying amount £000	Allowance for ECL £000	Coverage
Description			
Credit-impaired not in cure period	32,574	8,254	25.34%
No longer credit-impaired but in cure period that precedes transfer to stage 2	11,087	1,371	12.37%

Stage 3 analysis **31 December 2022**	***Gross carrying amount*** ***£000***
NPL[3]	**64,691**

Stage 3 analysis 31 December 2021	Gross carrying amount *£000*
NPL	43,661

Maximum exposure to credit risk and collateral and other credit enhancements

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

	Gross carrying amount			**Property Collateral**			**Cash Collateral**			**Receivables Collateral**	**Net exposure**		
December 2022 ***£000***	***Total***	***Stage 2***	***Stage3***	***Total***	***Stage 2***	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**	***Total***	**Stage 2**	***Stage 3***
Business	633,775	95,400	9,348	1,170,864	166,151	14,994	1,621	1,620	-	-	(537,089)	(70,751)	(5,646)
Private	302,642	6,847	423	635,873	13,938	1,670	1	1	-	-	(333,231)	(7,091)	(1,247)
Property	2,241,967	245,576	54,921	4,202,567	429,209	83,052	326	1	-	-	(1,960,600)	(183,633)	(28,131)
Cynergy Business Finance	98,185	37,326	565	9,036	1,380	-	-	-	-	153,901	(64,752)	(28,926)	(405)
Total	3,276,569	385,149	65,257	6,018,340	610,678	99,716	1,948	1,622	-	153,901	(2,895,672)	(290,401)	(35,429)

	Gross carrying amount			**Property Collateral**			**Cash Collateral**			**Receivables Collateral**	**Net exposure**		
December 2021 **£000**	**Total**	**Stage 2**	**Stage3**	**Total**	**Stage 2**	**Stage 3**	**Total**	**Stage 2**	**Stage 3**	**Total**	**Total**	**Stage 2**	**Stage 3**
Business	427,551	104,368	7,277	814,600	181,911	13,245	1,373	1.372	-	-	(388,422)	(78,915)	(5,968)
Private	253,792	2,055	413	523,187	4,654	1,193	53	1	-	-	(269,448)	(2,600)	(780)
Property	2,274,502	126,366	35,971	4,209,042	215.513	59,952	346	2	-	-	(1,934,886)	(89.149)	(23.981)
Cynergy Business Finance	7,657	-	-	1,180	-		-	-		20,160	(13,683)	-	-
Total	2,963,502	232,789	43,661	5,548,009	402.078	74.390	1.772	1,375	-	20,160	(2,606,439)	(170,664)	(30,729)

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

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

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

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

December 2022 £000	Stage 1		Stage 2		Stage 3		Total	
LTV	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash Covered	-	-	1	-	-	-	1	-
Less than 50%	815,299	319	70,834	415	11,636	222	899,026	956
50% to 59%	1,013,174	1,126	129,791	1,612	5,299	496	1,141,464	3,234
60% to 69%	796,837	1,211	115,664	1,389	9,263	495	915,841	3,096
70% to 79%	112,433	323	52,389	1,600	-	-	169,406	1,923
80% to 89%	45,835	140	22,344	64	412	131	53,047	335
90% to 99%	7,227	40	1,383	27	5,704	1,070	15,251	1,137
100% and more	19,517	32	228	9	29,705	9,958	49,445	9,999
Unsecured	15,840	147	15,827	205	3,238	1,308	33,088	1,659
Total	**2,826,162**	**3,338**	**408,461**	**5,321**	**65,257**	**13,680**	**3,276,569**	**22,339**

December 2021 £000	Stage 1		Stage 2		Stage 3		Total	
LTV	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash Covered	-	-	47	1	-	-	47	1
Less than 50%	637,441	135	33,293	24	6,544	47	677,278	206
50% to 59%	909,298	537	70,051	366	7,315	458	986,664	1,361
60% to 69%	943,049	928	68,255	632	12,405	540	1,023,709	2,100
70% to 79%	114,628	199	34,437	774	2,227	248	151,292	1,221
80% to 89%	46,602	109	11,505	72	-	-	58,107	181
90% to 99%	1,033	2	1,102	12	-	-	2,135	14
100% and more	21,205	115	243	9	12,528	6,743	33,976	6,867
Unsecured	13,796	99	13,856	286	2,642	1,588	30,294	1,973
Total	2,687,052	2,124	232,789	2,176	43,661	9,624	2,963,502	13,924

Operational risk

Operational risk is the risk of loss or reputational damage arising from inadequate systems, errors, poor management, internal control breaches, fraud and external events. The Bank tracks and analyses all events which represent a risk of loss, whether or not it crystallises, and takes appropriate remedial action to prevent future re-occurrence.

Market risk

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

The Bank is exposed to interest rate risk as a result of mismatches in its balance sheet between the dates on which interest receivable on assets and interest payable on liabilities next reset to market rates or the dates on which the assets and liabilities mature. The Bank aims to manage this risk through controlling such mismatches within limits set by reference to the maximum potential loss of earnings under given changes of interest rates. The exposure to interest rate changes and sensitivity is regularly reported to and reviewed by the Asset & Liability Committee, which manages the overall exposure within an agreed limit set by the Bank's Board.

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 2022	***Carrying value***	***Non-interest bearing***	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
Group	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Assets:						
Cash and balances with central banks	**553,007**	**-**	**553,007**	**-**	**-**	**-**
Placements with banks	**103,117**	**-**	**103,117**			
Loans and advances to customers	**3,254,230**	**-**	**2,474,702**	**23,860**	**695,789**	**59,879**
Investment in securities	**113,377**	**-**	**4,201**	**38,610**	**70,566**	**-**
Total assets	**4,023,731**	**-**	**3,135,027**	**62,470**	**766,355**	**59,879**
Liabilities:						
Customer deposits	**3,336,442**	**167,626**	**2,121,810**	**805,155**	**241,851**	**-**
Bank deposits	**390,170**	**-**	**390,170**	**-**	**-**	**-**
Subordinated loan	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**3,726,612**	**167,626**	**2,511,980**	**805,155**	**241,851**	**-**
Interes rate derivatives	**-**	**-**	**550,000**	**-**	**(320,000)**	**230,000)**
Interest rate gap	**297,119**	**(167,626)**	**1,173,047**	**(742,685)**	**204,504**	**(170,121)**

31 December 2021	***Carrying value***	***Non-interest bearing***	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
Group	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Assets:						
Cash and bank advances	386,310	-	379,087	7,223	-	-
Investment in securities	137,782	-	137,782	-	-	-
Loans and advances to customers	2,949,578	-	2,695,374	53,162	198,620	2,422
Total assets	3,473,670	-	3,212,243	60,385	198,620	2,422
Liabilities:						
Bank deposits	400,125	-	-	-	400,125	-
Customer deposits	2,832,564	207,346	2,070,244	407,666	147,308	-
Other liabilities	37,266	37,266	-	-	-	-
Subordinated loan	29,868	-	-	-	29,868	-
Total liabilities	3,299,823	244,612	2,070,244	407,666	577,301	-
Interest rate gap	177,314	(244,612)	1,141,999	(347,281)	(378,681)	2,422

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	***2022***	*2021*
	£000	*£000*
Increase of 0.6% (prior year 0.6%)	**7,228**	3,436
Decrease of 0.6% (prior year 0.6%)	**2,228**	3,393

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

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

Set-off

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

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

	2022			2021		
	Gross amounts presented in the balance sheet	**Offset amounts**	**Net amounts**	Gross amounts presented in the balance sheet	Offset amounts	Net amounts
Group	**£000**	**£000**	**£000**	£000	£000	£000
Financial assets						
Loans and advances to customers	**3,254,230**	**69,578**	**3,184,652**	2,949,578	72,638	2,876,940
Financial liabilities						
Customer deposits	**3,336,442**	**69,578**	**3,266,864**	2,832,564	72,638	2,759,926

Conduct risk

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

As set out in note 24, the Bank has made a provision for customer redress.

32 Investment in subsidiary

As at 31 December 2022, the Group includes the following subsidiary companies whose results are included in the consolidated financial statements:

Name	**Parent Company**	**Country of Incorporation**	**Class of Shares**	**Ownership (%)**	**Principal Activity**
Cynergy Bank Limited	Cynergy Capital Ltd	United Kingdom	Ordinary	100	Banking services to business and personal customers.
Cynergy Business Finance Limited	Cynergy Bank Limited	United Kingdom	Ordinary	87.5	Invoice financing and asset-based lending
Cynergy Connect Technologies Limited	Cynergy Bank Limited	United Kingdom	Ordinary	100	To be dissolved

All subsidiaries have the same registered office as the Bank as detailed in note 1.

The percentage ownership is valid for both the Parent Company and Group for all subsidiaries.

Ordinary shares have ordinary voting rights. Shareholders participate pari passu in any dividends. Shareholders have the right to participate in any distribution upon winding up.

Changes to the Group's subsidiaries during the year ended 31 December 2022 are as follows:

	2022	2021
	£000	£000
Shares at net book value		
As at 1 January	**151,848**	151,848
Additions	**47,000**	-
Impairment	**-**	-
Disposal	**-**	-
As at 31 December	**198,848**	151,848

33 Capital management

The Group is supervised by the PRA, as a UK authorised bank, this requires it to satisfy the liquidity and capital requirements as prescribed the PRA.

The Group uses the Standardised Approach for Credit Risk. It is required to demonstrate to the PRA that it can withstand liquidity and capital stresses; and carries out regular reviews of the adequacy of its capital to support its current and future activities, including during periods of stress. Credit risk stress testing is performed every year and full reviews are documented in the ICAAP document, which is approved by the Bank's Board of Directors and submitted to the PRA for review in years where there is an SREP (Supervisory Review and Evaluation Process). The PRA reviews the ICAAP and issues Total Capital Requirements (TCR) plus Buffers setting out the minimum capital requirements for the Group.

The Group manages its capital with a view to ensuring that it will have adequate capital resources to support its plans and to meet the regulatory requirements as set out in the TCR plus Buffers, including during periods of stress. The Group maintains a corridor of capital 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.

Capital Resources - Group	***2022***	*2021*
	£000	*£000*
Ordinary share capital	**199,300**	158,300
Share premium	**190**	190
Capital redemption reserve	**48**	48
Retained earnings	**106,875**	64,446
Property revaluation reserve	**3,148**	2,770
Regulatory deductions	**(22,191)**	(24,630)
Total eligible Tier 1 capital (CET1)	**287,373**	201,124
Subordinated debt	-	29,868
Total Tier 2 capital	-	29,868
Total eligible regulatory capital	**287,370**	230,992

34 Related party transactions

Directors and 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 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 personnel compensation

	Group	Group	**Company**	Company
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Short-term benefits	**4,924**	3,342	-	-
Long-term benefits	**1,176**	2,528	-	-
Post employment benefits	**237**	189	-	-
Termination benefits	**834**	327	-	-
Total compensation for key management personnel	**7,171**	6,386	-	-

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 2022 (2021: £nil)

The total remuneration of the highest paid Director at Bank level for the qualifying service to the Bank was £2,034,830 (2021: £1,352,083). The amount of pension contributions payable by the Bank to the pension scheme on behalf of the highest paid Director was £4,000 (2021: £4,000). The highest paid Director did not exercise any share options during the period. The highest paid Director was not awarded, and did not exercise, any shares under a long term incentive scheme in respect of qualifying services. Payments to key management during 2022 included cash settled awards under the 2019 to 2021 Long-Term Incentive Plan totalling £2.4m (2021: £ -). Total key management compensation, including Directors, for the period is £7,169,821 (2021: £6,386,448).

In January 2021, an agreement was entered into between an Executive Director of the Bank, and the Board of Cynergy Capital Ltd. Under that agreement the Director is eligible to receive remuneration based on the value of the Company. The arrangement has been treated as a fully vested share-based payment, with the full cost and liability recorded as of 31 December 2022. The cost and liability has been calculated as £1.331m as at 31 December 2022 (2021: £3.464m) based on a third party valuation.

Cynergy Bank provide banking services to Directors and persons connected to them. A connected person is a person or corporate entity connected to a Director, such as a member of the Director's family or a company controlled by the Director.

As at 31 December 2022, there are five such loans outstanding between the Bank and related parties totalling £29.5m (31st December 2021: £30.7m). All loans are commercial mortgages secured on property. There were no other loan transactions during the year or balances outstanding at the year end for key management personnel.

Deposits totalling £0.7m were held as at 31st December 2022 (31st December 2021: £1.5m).

Other transactions with related parties - the Company

	2022 £000	*2021 £000*
Amounts owed related entities:		
Balance receivable from subsidiary	-	-
Total	-	-

Transactions with related parties

	2022 £000	*2021 £000*
Management fees received from Subsidiary	**126**	120
Total	**126**	120

Outstanding balances in relation to management fees 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 no contributions to an employee savings plan during the year ended 31 December 2022 (2021: £4,281). The contributions are held as a deposit in the Bank.

35 Share-based payments

The Bank's Board and the Remuneration, Nominations and Corporate Governance Committee approved the Long-Term Incentive Plan (LTIP) for senior executives, including Executive Directors, in February 2019.

The LTIP is designed to provide long-term incentives for senior executives to deliver long-term shareholder returns. Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions, including financial measures, customer NPS, employee engagement, risk measures and relevant personal objectives.

Awards are granted on the basis that only 50% of the award will be satisfied following the vesting date, 30% will be subject to a holding period of one year and 20% of the award will be subject to a post vesting holding period of two years. The valuation of the award is calculated using a market value approach; assuming there is no quoted price available at this point.

The valuation method considers comparable companies and comparable transactions to derive a comparable P/E ratio and book multiple. The final award is at the discretion of the Bank's Board in consideration of satisfaction of the performance conditions.

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

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

	2022 Number of Shares	*2021 Number of Shares*
As at 1 January	**4,363**	4,358
Granted during the year	**2,948**	665
Exercised during the year	**(2,312)**	
Forfeited during the year	-	(660)
Total	**4,999**	4,363

For the year ended 2022 the fair value of the awards granted was assessed and a charge of £2,133,443 is included in the income statement. A corresponding liability is included within other liabilities. The intrinsic value of vested awards as at 31 December 2022 is £2,129,442 (2021: £4,544,099).

In January 2021, an agreement was entered into between an Executive Director of the Bank Company, and the Board of Cynergy Capital Ltd. Under that agreement the Director is eligible to receive remuneration based on the value of the Company. This has been calculated as £1.331m as at 31 December 2022 (2021: £3,464m) based on a third party valuation. As the agreement is with a Director of the Bank it is also disclosed in the Bank financial statements as a related party transaction.

Cynergy Bank Limited (CBL) has also entered into a shareholder agreement with its subsidiary Cynergy Business Finance Limited (CBF). Under that agreement, CBL has the right to exercise an option to purchase the minority shareholding held by the managers in CBF, equally, the managers can request CBL to purchase the shares. Cynergy Business Finance Limited commenced trading late in 2021, and has recorded a loss in its first period. The fair value of this option is nil as at 31 December 2022.

36 Events after the reporting period

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