CYNERGY CAPITAL LTD

Annual Report for the year ended 31 December 2021

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Definitions

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

Corporate information

Directors – the Company
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".

Following the adoption of a new strategic plan in 2019 the Board reviewed and updated the plan in July 2021 taking the plan to 2025 with an emphasis on building out the human digital banking platform with its strategic partners such that in 2022 we should see the first phase of that project delivered for the benefit of customers.

Key performance indicators

The key performance indicators for Cynergy Capital Ltd for the year ended and at 31 December 2021 were as follows:

	2021 **£'m**	2020 £'m
Comprehensive income after tax for the year	21.50	18.65
Loans and advances to customers	2,949.58	2,613.96
Equity attributable to shareholders	224.19	203.7

Lending assets at £2.95bn demonstrate 13% growth from £2.6bn, which reflected a cautious return to scaling the Bank as the market recovered from the implications of Covid restrictions. Core non-performing exposures, defined as loans which are impaired or defaulted, have only marginally increased year on year despite the on-going impact of recovery from Covid on the economy. The pipeline has recovered to pre-pandemic levels and continues to grow.

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 Company. At the Company level the key risk is associated with the investment in the Bank Company, 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.

The economic uncertainty resulting from the Covid pandemic remained a notable feature in 2021 with the Bank continuing to focus on measures to ensure that asset quality remained stable. Operational resilience remained a key area as we ensured business continuity measures remained appropriate and we saw further investment in operational improvements in back and middle office functions. Investment in IT capacity and capability continued with 2021 laying the foundations for our digital transformation.

Change Management continued as a key risk in 2021. The multi-year digital transformation programme which aims to deliver *on the Group's strategy of the Human Digital Bank alongside updating back-office infrastructure made good progress.* 2021 also saw significant preparation for the launch of a new lending subsidiary, Cynergy Business Finance, for asset-based lending which went live towards the end of the year. This broadens out the Group's lending offering beyond the core property book.

Given the above, Strategic Risk, Credit Risk and Operational Risk remained prominent risk themes for the year. The Bank's risk taxonomy has been refreshed to ensure that it continues to capture the broad range of risks the Bank faces. A refresh and update to the Risk and Controls Self-Assessment process was carried out which will see the launch, in 2022, of new Operational Risk management software to support the expansion of product offering and the balance sheet.

Strategic Risk	**Strategic risk is the risk that failed business decisions, or lack thereof, create unintended financial or non-financial losses to the Bank.**
Strategic risk stems from the Bank's business strategy and whether the advancement of the strategy is aligned to the risk appetite and the associated risks inherent in the execution of the strategy. It is the role of the Board and the Executive Committee (ExCo) to ensure that the execution of the strategy aligns with the risk appetite of the Bank. *Human Digital Bank: 2021 has seen the Bank progress its digital transformation programme. The plan to provide a new* platform to build out its Human Digital Bank is well underway. The execution of this strategy will redefine the delivery of service to customers and is a key pillar for the Bank's future. Environment, Social and Governance (ESG) Framework: The Bank has been working extensively on the impact of climate change through 2021 and expanded its approach to capture climate risk within an overarching ESG framework. Throughout 2021, the Bank has continued to dedicate resources to develop its approach and ensure that the Bank is positioned to better meet the needs of its customers and society in the future. In line with the Prudential Regulation Authority (PRA)'s expectations, the Bank has defined its approach to managing climate-related financial risk in 2021, analysing both physical and transition risk from climate risk on the Bank's portfolio. The Bank will continue to build on and embed progress through 2022.	

Credit Risk	**The risk to earnings and capital arising from a customer's failure to meet the terms of their lending contract or failure to perform as agreed. In relation to the Bank's treasury activities, there is a risk that acquired securities of cash deposits with other banks are not fully repaid.**

The management of credit risk remains a principal risk for Cynergy Bank. The Bank closely manages the quality of its book with its relationship manager approach ensuring we are close to our customers. We have seen a steady improvement in credit quality since mid-year as the wider UK economy began to recover as the roll out of the Covid vaccination programme supported a reduction in economic and social restrictions. Over the year the Bank continued to increase the size of its loan advances to £2.95bn at year end, and undertook a full review of lending policies and guidelines to ensure that these remain appropriate in the current economic environment and the credit quality of its lending is maintained.

Economic uncertainty remained following the winding down of government support for business through CBILS, and the tapering of the Covid furlough scheme, with the propensity for credit risk to increase remaining a constant theme throughout 2021. While some customers' business models and their lending exposures have seen increased stress throughout 2021, the Bank has seen overall stability in the arrears across its core loan portfolio, with an increase in impairments as additional provisions were taken against the bridging portfolio as it transferred to Recoveries during the pandemic. The Bank has continued to support customers impacted by the Covid pandemic, ensuring that its supportive approach is applied consistently and appropriately in its interaction with its customers.

A key challenge for the Bank has been the bridging loans portfolio which was launched just months before the onset of the pandemic. It was identified as an increased source of credit risk early on and was closed for new business origination early in the pandemic. The portfolio has been managed down and at year end 2021 only four exposures remain on the book. All loans are at varying stages of refinance with interested parties and the Bank has ensured that it is adequately covered with appropriate provisioning.

Since the onset of the pandemic the Bank has put in place extensive measures to support its customers, providing lending under CBILS in 2020 and latterly in 2021 the Recovery Loan Scheme (RLS). This has ensured that the Bank was positioned to continue to lend safely against an uncertain backdrop. At year end we had supported 133 customers through the pandemic with a lending value of £303m through CBILS, and 21 customers with £45m of lending under the RLS.

Capital, Liquidity and Funding Risk	***The risk that the Bank's financial and funding structure fails to meet minimum regulatory standards and/or results in an inability of the Bank to deliver its corporate strategy or meet its commitments as they fall due.***

Cynergy Bank remains adequately capitalised both for a stable environment and a stressed economic environment. The capital resources of the Bank are formally assessed annually via the Internal Capital Adequacy Assessment Process (ICAAP) and are subject to constant review and monitoring through Asset & Liability Committee (ALCO) and Board level oversight. The capital ratios are monitored and managed with reporting monthly to ALCO.

The PRA implemented measures in 2020 to reduce the minimum capital requirements of lending institutions by releasing capital buffers and reinforcing and accelerating capital relief. The PRA approach continued through 2021 and this has supported Cynergy Bank's capital position reducing the Bank's minimum capital requirements and enabling the Bank to continue to lend prudently and support the UK economy.

As the regulatory and government support unwinds through 2022 the Bank has made provision for these measures in its capital planning.

Liquidity and funding risk are monitored through ALCO in line with the outcomes of the Bank's annual ILAAP. The Bank primarily operates in the UK retail deposit market and has continued to provide instant access and longer term savings products to the UK retail deposit market. The Liquidity Coverage Ratio (LCR) has continued to be in excess of the regulatory requirements throughout 2021.

The Bank has arrangements in place to maintain adequate liquid assets to meet its liabilities. For further details on liquidity risk management see note 31.

Liquidity has remained stable during 2021 and deposits continue to be attracted to Cynergy Bank's market leading products offering consistent and stable returns in the current uncertain and low rate environment.

Market Risk	*The risks to earnings and capital arising from adverse movements in the prices of interest rate instruments, foreign exchange, and any exposure to prices of other financial instruments.*

Interest rates remained at an historic low through 2021, until the Monetary Policy Committee raised rates by 0.15% in December 2021 and again in February 2022 by a further 0.25%. These rate rises have been applied to offset the escalating rate of inflation that hit 5.5% in December 2021. Geo-political issues may impact inflation and interest rates markedly in 2022.

These interest rate increases will have a positive impact on income generation for the Bank but could also exert pressure on the Bank's customers who may be impacted by an increase in interest costs, but also an increase in input costs through inflation. During 2021 the Bank has materially completed its work on reference rate reform, transitioning the loan book from LIBOR to Bank of England Base rate, with a small balance of lending still to transition at year end 2021.

These challenges continue to be closely managed by the Bank, and it maintains a market risk appetite which ensures that interest rate risk in the banking book is managed and monitored to prevent instability of earnings.

Operational Risk	**Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business lines, from all activities carried out by the Bank, and are thus diverse in nature.**

Operational Risk remained a key area of focus for the Bank throughout 2021.

During the year, several enhancements were made to the Bank's Operational Risk Management Framework updating the Bank's risk taxonomy, the existing risk appetite statements and metrics, and completing a Bank wide refresh of risk and control registers.

A risk management information system is maintained for recording and tracking of key risks and incidents across the Bank and its subsidiaries albeit this will be upgraded in 2022. In addition to identifying operational risks across their respective businesses lines, Senior Management also assess the effectiveness of controls that mitigate those risks using a defined Risk and Control Self-Assessment (RCSA) process. The Bank monitors the operational risk profile versus risk appetite using Metrics and KRIs, reporting and escalating to Conduct and Risk Committee and Board Risk Committee any triggers, adverse trends or breaches.

The following operational risk themes had prioritised focus on the agenda through 2021:

- Operational Resilience: The Bank has a defined Operational Resilience Policy as well as Business Continuity Plans in place that are tested regularly. In addition, the Bank has set out recovery time objectives for critical business services where a sustained operational failure would result in customer detriment. The Bank maintained its business continuity certification (ISO 223001:2019) in 2021.
- Supplier / Outsourcing: During 2021, the Bank entered material outsource arrangements with third party providers of IT services and Customer Operations which progresses a core element of its Human Digital Bank strategy. Further, the Bank enhanced its Vendor Management and Outsourcing Framework to ensure its oversight and risk management of these third party relationships.
- Change Management: Following the delays due to Covid in 2020, the Bank has made significant progress with its digital transformation programme in 2021 to deliver the Human Digital Bank. The programme is supported by a comprehensive governance structure and risk oversight which ensures that all issues impacting the delivery of the programme are tracked and reported through the Bank's governance structure. This governance extends to change control processes for all material projects.
- Information Security / Cyber Risk: The Bank operates a series of tools that have been designed and deployed to identify and prevent network/system intrusions. The effectiveness of the implemented controls is overseen by a dedicated IT Security Forum, with specialist IT security staff employed by the Bank. The Bank has dedicated second line Cyber Risk oversight. Investment has continued in information security controls to ensure that detection and anti-penetration measures remain robust in preventing and mitigating the impact of a security breach of the IT network. Additionally, staff members are provided with regular training and information relating to information security.
- People Risk: The number of staff recruited by the Bank grew significantly in 2021 with 56 permanent staff hired. The Bank maintained its hybrid working model throughout 2021 with staff setup to work remotely. The Bank operated a two tier process with staff separated into two main categories: 'core staff' i.e., staff who attend the office premises as required to maintain operational capability and 'secondary staff' i.e., staff who can work effectively from home and will only attend the office if required and can do so safely in line with guidelines set by regulators and central government.

Conduct Risk	**Conduct Risk is defined as any action of the Bank or individual identified with the Bank that leads to customer detriment, or has an adverse effect on market stability or effective competition.**

The Bank has no tolerance for behaviours or activities that knowingly promote poor customer outcomes, leads to customer detriment, or has an adverse impact on market stability or effective competition. To this end the Bank has implemented a robust Conduct Risk Management Framework supported by relevant policies and procedures to ensure that conduct risk is managed as a core component of our strategic plans. New and emerging regulatory driven changes are overseen through a formal horizon scanning (emerging risks) process.

In 2021 the Bank continued to enhance its Conduct Risk Appetite metrics and KRIs by introducing a broader range of metrics covering all outcomes relating to Treating Customer Fairly. Conduct risks and controls are reviewed monthly by business units and management information from first line risk owners is presented at the Conduct and Risk Committee for challenge and review by Senior Management.

The Bank operates a Products and Services Committee to deliver clear oversight of fair customer outcomes and regulatory compliance associated with the implementation, changes to, and ongoing review of products. Product sales are reviewed against expectation and forecasts, and where these are materially different, reviews undertaken to assess the appropriateness of new products and the use of specific delivery channels to ensure that they meet customer target markets.

Increasing customer complaint volumes has been identified as a theme in 2021 and the Bank has rolled out several strategic actions to address the problem. The Bank records and uses root cause analysis to investigate risk events and complaints that result in poor customer outcomes.

Legal, Compliance and Financial Crime Risk	**The risk of legal or regulatory sanctions, material financial loss or reputational damage as a result of a failure to comply with legislation or regulation applicable to the Bank's activities.**

The Bank continues to ensure that it adopts all regulatory, legal and compliance requirements in a proportionate way that satisfies the requirements of the regulatory organisations providing oversight of its activities.

In 2021, the Bank's exposure to regulatory risk remains high due to ongoing and new regulatory change which informs the Bank's growth aspirations, strategic change and transformation agenda.
With regards to financial crime, the Bank actively tracks and reports against the following risk categories: money laundering, tax evasion, sanctions, terrorist financing, fraud and bribery & corruption.

The financial crime risk for the Bank has remained stable following a programme of enhancement and investment. Overall fraud continues to increase in line with levels that are seen across the market.

Risk Appetite Statement

The Bank acts in line with the Board approved risk appetite to achieve its strategic goals in the pursuit of its vision "to empower entrepreneurs and business owners to achieve their dreams". The Bank's appetite for risk is defined by the Board's

Risk Appetite Statement:

'Cynergy Bank targets sustainable growth through diversified lending activities, promoting a culture of responsible banking which cultivates long-term customer relationships. Cynergy Bank employs sound and prudent risk management throughout its operations to ensure that it maintains and controls a moderate appetite for lending risk, and supports this with strong fundamentals which are capable of delivering its medium to long term objectives in both periods of stability and economic stress'

To achieve this, the Bank operates a Risk Appetite Framework (RAF) to define the types and quantum of risk that the Board choose to accept in pursuit of the Bank's strategy.

Risk Appetite Framework

The RAF considers the Bank's risk capacity, its financial position, the strength of its core earnings and the resilience of its reputation and brand. The Board set detailed appetites for risk structured around the Bank's Principal Risks:

- Strategic Risk
- Credit Risk
- Capital, Liquidity & Funding Risk
- Market Risk
- Operational Risk
- Conduct Risk
- Legal, Compliance and Financial Crime Risk

Each Principal Risk is supplemented by a suite of more granular supporting risks. For each supporting risk, the Bank articulates a Risk Appetite Statement with limits that are monitored via the use of specific Risk Appetite Metrics and Key Risk Indicators (KRIs). The Risk Appetite Metrics are measurable against the Strategic Plan, are actionable and have an assigned *limit to monitor performance against the Risk Appetite. The KRIs are more outcome driven with negative trends reported* monthly to the relevant risk committees.

Performance against all Risk Appetite Metrics is monitored via the Conduct and Risk Committee and reported to the Board Risk Committee. In addition the RAF;

- ensures that business activity is guided, controlled and aligned to the Bank's appetite for risk. It identifies, in both qualitative and quantitative terms, the type and level of risk that the Bank is willing to accept;
- describes the risks that the Bank is willing to take (and those that it will not) in pursuit of its strategic objectives;
- establishes a framework for decision-making based on statements and metrics;
- enables a view of risks across the whole Bank;
- dovetails with and/or informs other key processes, such as the ICAAP, ILAAP, and Recovery & Resolution Plans.

The Board is responsible for ensuring that the Bank's Risk Appetite is consistent with Shareholders' appetite and tolerance for risk.

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

Emerging Risks

The Bank recognises the dynamic nature of risk management and follows a structured approach to the identification and monitoring of Emerging Risks that could, in the future, affect its business model. The Bank is monitoring the following Emerging Risks:

Risk	Assessment	Approach
Geo-Political Risks - Uncertain outcome for the UK economy	The events taking place in Ukraine and the repercussions, political and financial, are uncertain in terms of where they may lead. The short and medium term impacts on the UK economy and the read across into global impacts remains unclear. Prolonged periods of uncertainty within the UK and global economies may impact on the performance of some segments of the Bank's portfolio. The impact of sanctions, higher energy prices, higher inflation, combined with monetary policy responses bring credit and operational challenges.	The Bank's stress testing has considered a range of severe, but plausible, scenarios and these have informed our capital, liquidity and funding plans. The Bank will continue to monitor its lending book and review its lending policies and underwriting guidelines to ensure that they consider the effects of various future geo-political and economic scenarios on its customer's ability to meet debt repayments.

Environment, Social, Governance (ESG) Agenda (including Climate Change)	The significance of Environment Social Governance (ESG) expectations will continue to grow and may manifest themselves in several ways, including the likely issuance of more specific requirements to analyse and disclose, for example, the climate impacts of the Bank's lending and operating activities. Incentives and/or Regulatory rules designed to address diversity, fairness, and the expansion of access to financial services to economically disadvantaged populations, will also be an increasing feature of the Bank's future operating environment. Climate change (as one element of ESG) and society's response to it, also presents financial risks which impact the Bank's objectives. Climate risks arise through: 1. the physical effects of climate change; 2. the impact of changes associated with the transition to a lower carbon economy; and 3. the UK's increased drive to align to either net zero or temperature targets. From January 2022, the PRA started to actively supervise firms against the expectations set in its Climate Risk Supervisory Statement, SS3/19.	The Bank has completed an assessment of its exposure to climate change risks as part of a wider review of its overall Environmental, Social, Governance (ESG) strategy. ESG and Climate Change have been included in the Bank's Risk Taxonomy and an appetite for ESG Risk is being developed. In relation to Climate Risk specifically, modelling is being undertaken on the Bank's lending book to quantify: 1. its potential future credit risk exposure to customers in sectors most exposed to both physical and transition risk; and 2. physical assets held as security where valuations may be at risk as a result of a combination of both geographical location and Representative Concentration Pathway (RCP) of emissions. This work will continue through 2022 and be refined, although the current impact is not considered to be material based on the composition of the portfolio at year end 2021. Regulatory guidance and industry best practice will continue to be used to refine the Bank's response to ESG and related Risks. (The level of refinement achieved will align to the accessibility of new methodologies and data). The Bank will continue to review its own operating model to ensure that climate and environmental risks are minimised, and that it operates in a carbon neutral/ carbon negative manner.
Post-Covid impacts and Societal changes	Covid remains active across the UK, and it is likely to remain so throughout 2022 and the legacy of the pandemic may result in several societal changes. Depending on the rate and severity of infections, a return to lockdown arrangements cannot be discounted if vaccine resistant mutations emerge. The Government's furlough and lending support schemes have been tapered, increasing the likelihood of business failures as these, and agreed forbearance arrangements, start to expire. Structural societal changes to working patterns are also likely to have been accelerated during the pandemic and the long-term impact on the Bank operations and the needs of its customers may need to be evaluated as a result.	The Bank acted swiftly at the onset of the pandemic and put in place extensive measures to support its customers, ensuring that the Bank was positioned to continue to lend safely against an uncertain backdrop. Underwriting guidelines and requirements were enhanced to support lending through the pandemic aligned to the regulatory guidance provided on temporary forbearance. The Bank also became a member of the CBILS initiative and has been supporting new and existing customers with this offering. The Bank also established a new Business Support and Recoveries function to work with those customers needing more intensive support. The Bank has established working practices that have created more flexible working patterns for staff. The Bank will continue to closely monitor its lending book and review its lending policies and underwriting guidelines to ensure that they consider the residual effects of the pandemic on its customers.
PRA regulations on Outsourcing and Third Party Risk Management	Securing Operational Resilience remains a key regulatory and operational consideration. PRA Supervisory Statement 1/21 (Operational Resilience: Impact Tolerance for Important Business Services) and SS2/21 (Outsourcing and Third Party Risk Management) published as complementary documents set out the	The Bank continues to maintain effective controls and governance over its supplier management arrangements. However, a full gap analysis has been completed comparing the regulatory requirements to the Bank's existing practices. Where appropriate, tactical solutions have been identified to ensure

	expectations on the Bank to look beyond normal measures to prevent incidents and plan and test its response to, recovery from, and contingency arrangements for, disruptions that would impact customer access to important business services. This affects all material third party contracts, but requirements placed on the Bank relating to its use and oversight of outsourced arrangements are more demanding. As several of the Bank's key services are outsourced, and outsourcing arrangements will continue to increase as part of the Human Digital Bank strategy, satisfactory performance of its service providers is an essential part of ensuring Operational Resilience. This will be paramount in the Bank's compliance with the new regulatory requirements.	that the Bank will be compliant with regulatory expectations. The Bank will be developing and implementing an Operational Resilience roadmap that will include actions to ensure that it meets the emerging PRA requirements. Any gaps identified have been, or will be, documented and closed. In addition, the Bank is strengthening its vendor risk assessment process; developing a metric for assessing aggregate material contract risk; improving vendor incident reporting; and establishing clear expectations and responsibilities for the outsourcing of material activities. The Bank is developing non-distressed and distressed exit plans for all material contracts. To provide assurance, we have engaged an independent consultancy firm, who will be undertaking review work in relation to the services outsourced to critical vendors; and we will assess the outcome of that work to ensure that the wider outsourced vendor management framework is aligned to any recommendations that are made.
Broader range of competitors and intermediation	Competition in the Bank's selected markets arises from a range of sources, including traditional challenger banks and mainstream lenders. However, the emergence and growth of fintechs, nonbank lenders, and new entrants from outside of the Financial Services sector in particular, with increasingly sophisticated digital offerings, heightens competition. This competition could lead to margin compression and lower growth, both of which are key drivers of the Bank's profitability.	The Bank has continued to invest in ongoing customer, market, competitor and industry insight to ensure it has a robust understanding of its customers' needs and how it benchmarks versus peer group competitors. The Bank has recognised the pace of change in the banking industry, including the consequential impact on customer expectations, and is in the early stages of a transformation programme that will provide infrastructure with enhanced capability and the ability to adapt and launch new products, features and services in an agile and cost-efficient manner. The Bank's focus over the next 12 months is the safe, phased roll-out of the initial deliverables of its Human Digital Bank, plus preparation and planning for further roll-outs in 2023 and beyond.
Cyber sophistication and digital pace of change	Cyber Risk is an ongoing risk for the Bank. However, the emergence of increasingly sophisticated, targeted and destructive ransomware attacks, combined with the increasingly rapid deployment of digital solutions for the delivery of the Bank's products and services means that it is also classed as an 'emerging' risk. Cyber security also continues to be a focus area for our regulators, with the likelihood that further regulatory requirements around operational resilience will emerge. Furthermore, the increasingly rapid deployment of digital solutions in our markets creates a number of potentially wider digital risks: 1.Digital technologies; inability to upskill staff for new technologies. Labour shortages could exist; 2.The pace of digital transformation and the threat of emerging digital disruption; 3.Overall security & privacy visibility.	To keep pace with the ever changing cyber security landscape, the Bank has enhanced its cyber security position via the introduction of new security services from our outsourced IT services provider including, amongst other things, a 24/7 Security Event Information Management system (SEIM) & Security Operations Centre (SOC). To support our staff, new cyber security training has also been introduced. The risks associated with the rapid adoption of digital technologies has been mitigated using robust reviews by our Technical Design Authority and Security service to ensure any new technology introduction is transitioned in a secure and supportable manner. We will continue with the rollout and enhancements of further cyber security tools, actively engage in cyber security event simulations to hone our response to any perceived cyber security incident, and complement this with further cyber security awareness training for our employees.

Section 172 statement

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

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

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

As part of their induction, all new Directors are briefed on the activities of the Group and their duties and responsibilities as a director.

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

The Group's governance framework governs the conduct of the Board and the Executive team and is vital to the success of the Group. The 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 Board after each review. An external review was undertaken in December 2021 and the recommendations will be implemented in the forthcoming year. Additionally, the Chairman reviews individual Directors' performance and the Senior Independent Non-Executive Director reviews the Chairman's performance each year.

When making decisions the Board always looks at any impacts on stakeholders. This is not always easy and sometimes requires a degree of balancing between the competing interests of different stakeholders 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

2021 continued to present challenges for a number of our customers due to the continuing impact of Covid and the Board has provided oversight and review of the Banks' participation in the Coronavirus Business Interruption Loan Scheme (CBILS) and the Recovery Loan Scheme (RLS) during the year.

Following an increase in complaints during the year both the Executive team and the Board devoted a significant amount of time in identifying the root causes and reviewing improvements in the Bank's interaction with its customers. We moved the Customer Contact Centre and Back Office Operations to a new strategic partner to enhance customer experience and increase capacity for flexible growth. The improvement this is bringing has been monitored throughout the year by both the Board and the Board Risk Committee, and these measures are now starting to bear fruit with a move from a five day to a seven day service with longer opening times as well as several other efficiency measures.

As set out in the CEO review considerable resources have been deployed on the digital transformation programme, and the Board has received regular updates and presentations from our transformation strategic partners, and the Chief Operating Officer throughout the year. 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.

The Group continues to take feedback from existing customers to develop new product offerings as well as improve existing products and services. 2021 saw the creation of Cynergy Business Finance Limited as a subsidiary company of the Bank providing asset-based lending to SME's through an experienced management team.

The Board considered and approved the LIBOR transition plans to move customers from LIBOR to Bank of England Base Rate by the regulatory deadline. This resulted in 81% of customers moving to the new reference rate and further work will continue in 2022 in line with regulatory requirements.

Suppliers

In April 2021 the 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 Executive Risk Committee and the 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 Bank's success. During the year the Board reviewed the regulatory requirements in respect of working from home such as data protection as advised by the FCA as well as considering staff views on the subject. As a result we put in place a hybrid working model, the pandemic having demonstrated that with modern technology working remotely can be effective and efficient provided adequate safeguards are in place. The Board were particularly concerned during this period to ensure that staff's mental wellbeing was being monitored and appropriate assistance provided where needed.

The CEO has continued with monthly video briefing sessions for all staff, started during the first Covid lockdown. Board members, e.g. the Chairman or the Chair of the Remuneration, Nomination and Corporate Governance Committee (RNCGC), attend when appropriate to update staff on key decisions made by the Board such as remuneration.

Through RNCGC, the Board is kept appraised of matters relevant to staff and staff engagement scores. A staff survey was undertaken in December 2021 and resulted in 88% of staff stating they would recommend Cynergy as a good place to work. During the year the Board also commissioned and reviewed an external review on culture within the Group and the new Diversity & Inclusion Group presented to the RNCGC. That group also helped promote "The Big Promise" encouraging staff to commit to deliver real impact on race inequality in the Group. The Board recognises that there is further work to do both on its own diversity targets and those of the Group as a whole. As of December 2021, we had female representation on the Board of 33%, female representation in senior leadership of 26% and 2 Directors of ethnic minority background on the Board.

Environment

Climate change represents the single biggest risk to the finance sector because it will disrupt existing economic models and expose financial institutions to a range of issues for which there is no historic precedent. 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.

As a specialist bank – focused on empowering business owners to help them meet their goals sustainably – we are developing methodologies to measure the impact of the Group's operations. This includes: ensuring all our activities are conducted within a strong governance framework; supporting societal matters and the communities in which we operate; and helping to facilitate the UK's transition to net zero carbon emissions.

In 2021, the Group established an Environmental, Social & Governance Project, and in 2022, the continuing delivery and enhancement of the Group's environmental commitments will be the responsibility of this project across a number of workstreams including Risk Management, Public Disclosures, Green Financing, and the setting of wider environmental targets.

Progress made to date includes:

- The Group retained its Carbon Neutral Plus certification in the first half of 2021, offsetting a carbon□footprint of 150 tonnes. For each tonne of CO_2 offset one tree was planted in the UK and an additional tonne of CO_2 was offset through the Brazilian Amazon Verified Carbon Standard (VCS) Reduced Emissions from Deforestation and Degradation (REDD) project;
- Following the re-certification of our carbon neutral status the Group took steps to increase this, pledging to implement a "profit-planting" initiative which will, at a minimum, double our carbon-footprint offsetting to 300 tonnes per year. This means that the Group is moving from a carbon-neutral state to carbon-negative;
- We retained our ISO 14001 certification following an audit in the second half of 2021, which confirmed that the Bank has an appropriate framework in place to allow for the adherence to an effective Environmental Management System and provided assurance that the Group has in place the appropriate processes to measure and improve environmental impact;
- The Group enhanced its carbon footprint monitoring capabilities including specific targets in its Environmental Management Policy and began to include employee travel choices as part of the Group's overall carbon footprint calculation;
- We continued our partnership with First Mile and again met our "zero waste to landfill" target;
- The Group's usage of utilities, paper and refrigerants was naturally reduced year on year as staff worked predominantly from home due to Covid, but we continue to seek means to reduce usage of these, with a particular focus on achieving a near-zero use of paper.

Communities

We continue to partner with Noah's Ark Children's Hospice, and this year held the inaugural 'Cynergy Games' to raise over £50,000 for the charity. This money went towards a Sensory Garden the charity is constructing. The games involved team fund raising activities by departments and individuals with matched funding by the Bank. Various initiatives took place such as sponsored walks, runs, silences etc with individual Board members also either contributing or undertaking fund raising activities.

Regulators

The Group, as a dual regulated firm, has good working relationships with both the FCA and the PRA as well as with bodies such as the Bank of England and the Financial Services Ombudsman. Senior members of the Executive brief the regulators on key issues 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 Bank 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.

Members of the Board are provided with regular updates on regulatory developments and both Board members and senior staff attend training initiatives organised by the regulators. The Executive team also subscribe to key industrial groups and participate in activities 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 the Bank's Remuneration, Nominations and Corporate Governance Committee (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 focusses on achieving long-term, sustainable growth rather than short-term profits.

The Strategic Report was approved by the Board of Directors on 28 April 2022 and was signed on its behalf by:

Balbinder Sohal
Director
28 April 2022

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2021.

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 2021 are set out in the income statement and statement of comprehensive income on page 18. 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 2021, published on the Bank's website www.cynergybank.co.uk.

Going concern
The assessment of the Bank represents the key driver for the Group going concern conclusion. In preparing the Going Concern statement, we took into account all information of which we were aware about the future, which was at least, but not limited to, 12 months from the date that the financial statements were signed. Consideration was given to the following: capital requirements, liquidity, profitability, business continuity and reliance on outsourced suppliers, the emerging situation in Russia and Ukraine and the continuing impact of Covid. 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 their current financial position, Cynergy Bank Limited has committed to support its subsidiaries Cynergy Business Finance Limited and Cynergy Connect Technologies 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. A statement of responsibilities of the Directors in relation to the financial statements is shown on page 14.

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 2021 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 2021 (2020: £nil).

Future developments
Following the adoption of a new strategic plan in 2019 the Board reviewed and updated the plan in July 2021 taking the plan to 2025 with an emphasis on building out the human digital banking platform with its strategic partners such that in 2022 we should see the first phase of that project delivered for the benefit of customers.

Events after the reporting period
In March 2022, the Bank company issued 6,000,000 ordinary shares at their par value of £1 each to Cynergy Capital Ltd, with a total consideration of £6,000,000.

In late February 2022 Russia invaded Ukraine resulting in sanctions being introduced on certain Russian banks, industries and individuals. This has resulted in a dislocation in supply chains, particularly for products such as precious metals, and a significant increase in the price of oil.
We recognise that this will have an impact on the economic recovery in the UK.
We were already seeing inflationary pressures in the UK, and this will be exacerbated by the situation in Russia. Although the Bank has minimal exposure, directly or indirectly, to Russian banks, corporates or individuals the increased rate of inflation will impact on our customer base from the higher cost of living and likely lead to a shift in spending patterns and add pressure on savings. Depending on the depth and duration of sanctions imposed this could lead to increased loan defaults and an outflow of deposits. At the present time, there has been no discernible impact on the Bank. The Board will continue to monitor the situation closely and take action to mitigate any adverse impacts on the Bank, as appropriate. At this stage it is too early to quantify reliably any financial impact.

There are no other 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 224 permanent employees during 2021. (2020: 235). During the year, the Group invested £198,238 (2020: £55,590) 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 2021**	**At 31 December 2021**
Pradip Dhamecha	Ordinary A shares of £1 each	31,660,001	-
Pradip Dhamecha	Ordinary B shares of £1 each	-	31,660,001
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 2021 the Group made charitable donations totalling £11,088 (2020: £8,957).

Political donations
During the year under review the Group did not make any political donations (2020: £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 2022

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 Ltd

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit, the company's loss and the group's and 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 2021; Income statement and statement of comprehensive income, Statements of changes in equity, and the 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 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 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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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 to breaches of banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical or prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias through judgements and assumptions in significant accounting estimates, in order to manipulate the financial information and position of the group. Audit procedures performed by the engagement team included:

- Enquiries of the Board Audit Committee, Internal Legal Counsel, Chief Compliance Officer, 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;
- Testing performed around the identification of undisclosed related party transactions, including testing related entities and family members against the loan and deposits and expenses listings at year end to obtain comfort over the completeness of the provided related parties listings;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss allowance for loans and advances to customers, and revenue recognition from the effective interest rate adjustments;
- 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 company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the 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 2022

Income statement and statement of comprehensive income

For the year ended 31 December 2021

	Notes	*Consolidated* **2021** **£000**	*Company* **2021** **£000**	*Consolidated* 2020 £000	*Company* 2020 £000
Interest income calculated using the effective interest method	5	**105,716**	-	103,143	-
Other interest and similar (expense) / income	5	**(187)**	-	729	-
Interest expense calculated using the effective interest method	6	**(18,356)**	-	(28,372)	-
Net interest income		**87,173**	-	75,500	-
Fee and commission income	7	**1,193**	-	1,814	-
Management fee income		-	**100**	-	100
Foreign exchange gains / (losses)	8	**1,853**	-	(1,626)	-
Fair value (loss) / gain on derivative instruments	9	**(2,190)**	-	1,180	-
Total operating income		**88,029**	**100**	76,868	100
Staff costs	10	**(32,338)**	**(3,464)**	(23,715)	-
Depreciation, amortisation and impairment	11	**(3,447)**	-	(4,446)	-
Other operating expenses	12	**(19,876)**	**(63)**	(18,186)	(125)
Profit / (loss) before credit loss expense on financial assets		**32,368**	**(3,427)**	30,521	(25)
Credit loss on financial assets	13	**(5,396)**	-	(4,986)	-
Profit / (loss) before tax		**26,972**	**(3,427)**	25,535	(25)
Income tax expense	14	**(5,477)**	**(6)**	(6,195)	(6)
Profit / (loss) after tax		**21,495**	**(3,433)**	19,340	(31)
Profit/(loss) attributable to:					
Owners of the Company		**21,644**	-	-	-
Non-controlling interest		**(149)**	-	-	-
Other comprehensive (expense) / income		-	-	(691)	-
Total comprehensive profit / (loss) for the period attributable to the equity holders		**21,495**	**(3,433)**	18,649	(31)

The notes on pages 23 to 79 form an integral part of these financial statements.

Statements of financial position

As at 31 December 2021

	Notes	*Consolidated* **2021** **£000**	*Company* **2021** **£000**	Consolidated 2020 £000	Company 2020 £000
Assets					
Cash and balances with central banks	15	**324,982**	-	246,256	-
Placements with banks	15	**61,328**	**6,799**	51,536	6,752
Loans and advances to customers	17	**2,949,578**	-	2,613,962	-
Other assets	18	**11,500**	-	5,594	1
Derivative assets		**54**	-	31	-
Investment in securities	19	**137,782**	-	-	-
Intangible assets	20	**26,513**	-	19,712	-
Right of use assets	21	**220**	-	242	-
Property and equipment	22	**12,875**	-	13,573	-
Investment in subsidiary	32	-	**151,848**	-	151,848
Total assets		**3,524,832**	**158,647**	2,950,906	158,601
Liabilities					
Customer deposits	23	**2,832,564**	-	2,352,241	-
Bank deposits	24	**400,125**	-	340,131	-
Provision for customer redress	25	**261**	-	132	-
Lease liabilities	21	**278**	-	261	-
Derivative liabilities		**429**	-	772	-
Other liabilities	26	**37,266**	**3,552**	23,921	73
Subordinated loan	27	**29,868**	-	29,744	-
Total liabilities		**3,300,791**	**3,552**	2,747,202	73
Equity					
Share capital	28	**158,300**	**158,300**	158,300	158,300
Capital redemption reserve		**48**	**48**	48	48
Share premium		**190**	**190**	190	190
Revaluation and other reserves		**1,206**	-	367	-
Retained earnings / accumulated losses		**64,446**	**(3,443)**	44,799	(10)
Equity attributable to owners of the Company		**224,190**	**155,095**	203,704	158,528
Non-controlling interest		(149)	-	-	-
Total equity		**224,041**	**155,095**	203,704	158,528
Total liabilities and equity		**3,524,832**	**158,647**	2,950,906	158,601

The notes on pages 23-79 form an integral part of these financial statements.
These financial statements were approved by the board of directors on 28 April 2022 and were signed on its behalf by:

Balbinder Sohal
Director

Statements of changes in equity

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***
As at 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***
As at 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**

Consolidated

	Share capital	*Capital redemption reserve*	*Share premium*	*Revaluation and other reserves*	*Retained earnings*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
As at 1 January 2020	149,300	48	190	1,129	25,388	176,055
Share Capital issued	9,000	-	-	-	-	9,000
Other comprehensive expense	-	-	-	(762)	71	(691)
Profit for the period after tax	-	-	-	-	19,340	19,340
31 December 2020	158,300	48	190	367	44,799	203,704

Company

	Share capital	*Capital redemption reserve*	*Share premium*	*Revaluation and other reserves*	*Retained earnings / (Accumulated losses)*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
As at 1 January 2020	149,300	48	190	-	21	149,559
Share Capital issued	9,000	-	-	-	-	9,000
Loss for the period after tax	-	-	-	-	(31)	(31)
31 December 2020	158,300	48	190	-	(10)	158,528

The notes on pages 23 to 79 form an integral part of these financial statements.

Consolidated and Company statements of cash flows

For the year ended 31 December 2021

	Note	***Consolidated 2021 £000***	***Company 2021 £000***	Consolidated 2020 £000	Company 2020 £000
Operating activities					
Profit / (loss) before tax		**26,972**	**(3,427)**	25,535	(25)
Adjustments for:					
Provisions for credit loss expense	13	**5,396**	-	4,986	-
Depreciation of property and equipment and right of use assets	11	**1,018**	-	1,301	-
Amortisation of intangible assets	11	**2,429**	-	3,070	-
Impairment of fixed assets	20, 22	-	-	77	-
Gain on disposal	22	-	-	(30)	-
Lease interest	21	**29**	-	18	-
Interest on subordinated loan	27	**2,400**	-	2,406	-
Interest on asset backed securities	19	**(76)**	-	-	-
Amortisation of issuance costs relating to subordinated loan	27	**125**	-	115	-
Tax paid	14	**(6,410)**	**(1)**	(5,256)	-
Foreign exchange gains	8, 9	**68**	-	446	-
Discount unwind on deferred consideration	34	-	-	1,458	-
Changes in operating assets					
Increase in mandatory deposits with central bank	15	**(1,491)**	-	(1,969)	-
Increase in loans and advances to customers	17	**(341,012)**	-	(354,567)	-
(Increase) / decrease in other assets	18	**597**	-	651	33
(Increase) / decrease in derivative assets	16	**(23)**	-	451	-
Increase in accrued income and prepayments	18	**(6,391)**	-	(744)	-
Changes in operating liabilities			-	-	-
Increase in customer deposits	24	**540,317**	-	439,631	-
(Decrease) / increase in derivative liabilities	16	**(344)**	-	99	-
Increase in accrued expenses	26	**8,304**	-	3,329	-
(Increase) / decrease in other liabilities and provision for customer redress	26	**2,481**	**3,474**	(26,919)	(25,798)
Net cash flow generated from / (used in) operating activities		**234,389**	**46**	94,088	(25,790)
Investing activities					
Purchase of property and equipment	22	**(72)**	-	(230)	-
Purchase of intangible assets	20	**(9,230)**	-	(12,992)	-
Investment in subsidiary, net of cash acquired	34	-	-	-	(9,000)
Purchase of asset-backed securities	19	**(137,782)**	-	-	-
Proceeds of sale of property	22	-	-	531	-
Net cash flow used in investing activities		**(147,084)**	-	(12,691)	(9,000)

Financing activities					
Proceeds from issuance of new share capital	28	**-**	**-**	9,000	9,000
Capital repayment from finance lease obligations	21	**(238)**	**-**	(166)	-
Share repurchase		**-**	**-**	-	-
Net cash flow (used in) / generated from financing activities		**(238)**	**-**	8,834	9,000
Net increase / (decrease) in cash and cash equivalents for the year		**87,067**	**46**	90,231	(25,790)

Cash and cash equivalents (see note 15)				
1 January	**292,019**	**6,752**	201,788	32,542
Net increase / (decrease) in cash and cash equivalents for the year	**87,067**	**46**	90,231	(25,790)
31 December	**379,087**	**6,798**	292,019	6,752

Operational cash flows from interest	***2021***	***2021***	2020	2020
	£000	***£000***	£000	£000
Interest paid	**15,647**	**-**	24,391	-
Interest received	**102,481**	**-**	95,417	-

Refer to notes 15 and 27 for disclosures of cash and cash equivalents and changes in liabilities arising from financing activities respectively. The notes on pages 23 to 79 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.

The Bank Company 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 trading. The Bank is 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. The company commenced trading on 13th December 2021. Both subsidiaries are consolidated within these financial statements. The accounting policies used by the Bank that are relevant to an understanding of the financial statements are stated in note 3.

2 Basis of preparation and consolidation

2.1 Basis of preparation

These 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. The UK and global business environment has continued to be significantly impacted by Covid during 2021.This uncertainty is likely to continue into 2022, albeit to a lesser extent, alongside any additional challenges arising from the United Kingdom's exit from the European Union.

In preparing the Going Concern statement, we took into account all information of which we were aware about the future, which was at least, but not limited to, 12 months from the date that the financial statements were signed. Consideration was given to the following: capital requirements, liquidity, profitability, business continuity and reliance on outsourced suppliers, the emerging situation in Russia and Ukraine and the continuing impact of Covid. 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. 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 Group and Company 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).

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

The relationship between the Company and the Bank Company is one of principal, with 100% ownership of the Bank Company. There are no restrictions in place with regard to the ability of the Company to access assets and settle liabilities of the Group or transfer cash or other assets to and from the Bank Company, although Board approval is required.

3. Accounting policies

3.1 Accounting standards and interpretations adopted during the period

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

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

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

The Bank company has taken a consensual approach to changing the contractual terms we have with our customers by providing customers with the information they need to be able to make an informed decision on the matter.

All impacted customers have been contacted to make them aware of the cessation of LIBOR and the Bank company's chosen replacement risk free rate, and to obtain written agreement that customers are happy to transition. Only when consent is received, have we transitioned customers from LIBOR to the Bank of England base rate.

The customer outreach is still underway and as at the year end the Bank company has transitioned 91% of LIBOR linked debt, this equates to a response rate of 79%. We currently have 415 facilities who have yet to accept the transition, which equates to £180m of debt. We will continue to contact these customers in line with our customer contact strategy.

Where customers have not accepted the revised contractual terms, they have been handled in line with our legacy strategy, and have been moved to the synthetic LIBOR rate. We will continue to transition customers beyond the end of 2021 when they confirm acceptance of the revised contractual terms.
Statement in *italics* are unaudited
The only exposure is to LIBOR and the majority of the exposure has now been transitioned to Bank of England base rate. The Group has adopted the practical expedient allowing for any minor amendments to be absorbed within an updated effective interest rate on all modified contracts.

There were no other new standards or interpretations relevant to the Group's operations which were adopted during the period. The Group has not early adopted any other 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 by the EU

There have been no new standards or interpretations issued, but not yet adopted, that are mandatory for 31 December 2021 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 or Company.

The impact of IFRIC 38 has been considered by the Bank. The Bank has determined that the cloud-based computing software is not a lease under IFRS 16 as the Bank does not hold the right to decide how and when to update or reconfigure the underlying software, or on what hardware platform it should run. Therefore, the cloud-based computing software, as an intangible asset, will fall under the scope of IAS 38 with the capitalisation of the cost of the asset including all directly attributable costs of preparing the software for its intended use. We therefore conclude that the impact is not material to the Group or Company.

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

Fee and commission income integral to the effective interest rate

Fees that the Group considers to be an integral part of the corresponding financial instruments include: loan origination fees and early redemption fees. The recognition of these fees (together with any incremental costs) forms an integral part of the corresponding financial instruments and where material, 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 Bank recognises revenue when it has met its performance obligations.

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

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

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).

3.5 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses. Detailed disclosures are provided in note 25.

3.6 Taxation

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

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

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

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

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

3.7 Financial instruments – initial recognition

Date of recognition

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

Initial measurement of financial instruments

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

Measurement categories of financial assets and liabilities

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

The Group has elected not to apply hedge accounting.

3.8 Financial assets and liabilities

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

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

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

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

The details of these conditions are outlined below.

i) Business model assessment

The business model assessment is performed having regard to the following considerations:

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

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

ii) The SPPI test

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

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 ILTR and TSFME scheme, and a subordinated loan. These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

Derivatives recorded at fair value through profit or loss

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

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

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

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

Under IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments. Embedded derivatives are not separated from financial assets.

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

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

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

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

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

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

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

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

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

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

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

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

Or

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

Or

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

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

Financial guarantees, letters of credit and undrawn loan commitments
The Group issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within provisions) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, or the corresponding ECL provision as set out in note 29. 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 29. The Group occasionally issues loan commitments at below market interest rates at drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

3.9 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 Bank will recalculate the gross carrying FVPL of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

3.10 Impairment of financial assets

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

i) Overview of the ECL principles
The 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:

Base (50th percentile)	**UK economy output**
• The UK GDP forecast reflects escalating supply chain disruption, inflationary pressures, and an increased likelihood of simultaneous monetary and fiscal tightening. • House price momentum is to continue to slow as the effects of the stamp duty holiday begin to fade. In 2022 and 2023 we expect a small decline in prices, returning these towards pre-tax relief levels with a decrease of c.10% over the two years. • As a result of a surge in inflationary pressures and more hawkish communications from the MPC, Bank of England continues to increase rates in February, with Bank Rate reaching 0.5% by the end of 2022. • We continue to expect the unemployment rate to continue to decline from then onwards. This is due to the robust demand for labour as reflected by the significant number of job vacancies and labour supply shortages in particular industries	
Mild upside (15th percentile)	**UK economy output**
• 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 • GDP recovers pre-crisis trend by late 2022 with improved stability and gradual return to growth, supported by more expansionary policy. • Unemployment declines quickly, falling to 3.3% in Q2 2022, and then remains at its pre-crisis level over the following years of 3.5-4% • Supported by the turnaround in confidence, incomes and employment, residential house prices see mild increases over the course of 2022. Thereafter prices start to rebound amid recovering incomes and lower unemployment, which outweigh slightly higher interest rates. • Bank of England tightens policy faster than assumed in our baseline forecast, reaching a higher terminal rate of 2% by the end of 2024. Reflecting increased demand for loans amid stronger asset prices and higher interest rates, gearing in the economy picks up faster than expected in the baseline.	
Downside scenario (85th percentile)	**UK economy output**
• The near-term shock to the economy in the downside scenario is comparable to the downturn seen in Q1 2021, when lockdown restrictions were reimposed in the UK. The recovery is comparable to a U-shaped curve characterised by slower growth, higher unemployment and lower asset prices. • GDP growth remains much lower than in the base case forecast for the coming years, resulting in a larger long-term scarring of the economy. • The unemployment rate rises sharply in 2022 – to 6% with many people not able to return to their previous work, and with job creation remaining subdued, the unemployment rate remains high by recent standards and only falls below 5% in the early 2030s. • MPC further eases its policy stance in 2022, lowering Bank Rate to 0 and only lifts it again above the zero in 2023. • Even with the lower interest rates, unemployment introduces forced sellers into the residential property market. House prices fall sharply, by 22% peak-to-trough, and only recover slowly thereafter.	
Severe downside scenario (95th percentile)	***UK economy output***
• The severe downside scenario sees a sharp worsening in the outlook for output in Q1 2022 resulting in a renewed quarter on quarter fall in output of 3.9%, compared to growth of 0.8% in the baseline. By the end of the scenario the economy remains over 8% smaller compared to the pre-crisis base case, and over 7% smaller compared to the current baseline. • Unemployment surges to 6.4% over 2022 and reaches a new high of almost 6.6% in by 2024, 2.8ppts higher than in the baseline. The unemployment rate only falls below 6% towards the end of the decade. • Rates are cut deep into negative territory, lowering Bank Rate to -0.5% by Q4 2022, and keeping rates negative until mid-2024. • House prices fall by more than 33% peak-to-trough, pushing them to levels not seen since the drawn-out recovery in the aftermath of the GFC reflecting the unparalleled hit to incomes, significantly impaired confidence levels and tighter access to credit.	

Model Scenario Probability Weightings

The probability weightings assigned to the economic scenarios at December 2021, before the post model adjustment were as follows:

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

The weightings remained the same as December 2020.

Macroeconomic Variables used for IFRS 9 Forecasting for Expected Credit Loss

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

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 through econometric techniques. The most significant period-end assumptions used for the ECL estimate as at 31 December 2021 are as follows:

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)

2020	**GBP**	**HPI**	**CRE**	**Bank Rate**	**Unemployment**	**Mortgage Interest Gearing**	**Equity**
Base scenario economic parameters							
5 Year Average increase/decrease (%)	14.94	(3.97)	4.2	0.06	(1.35)	0.07	(3.86)
Cumulative growth/(fall) to peak/(trough) (%)	2.38	(8.39)	0.74	-	0.66	(4.06)	(0.67)
Mild Upside economic parameters							
5 Year Average increase/decrease (%)	19.75	4.98	9.87	0.75	(2.21)	18.92	(2.09)
Cumulative growth/(fall) to peak/(trough) (%)	7.66	(2.48)	3.13	0.08	(0.8)	(2.35)	0.14

Downside economic parameters							
5 Year Average increase/decrease (%)	9.07	(20.72)	(5.04)	(0.33)	0.92	1.47	(10.62)
Cumulative growth/(fall) to peak/(trough) (%)	(3.17)	(4.25)	(9.66)	(0.35)	2.54	(5.17)	(1.89)
Severe Downside economic parameters							
5 Year Average increase/decrease (%)	5.81	(29.15)	(10.1)	(0.56)	1.45	(1.22)	(15.62)
Cumulative growth/(fall) to peak/(trough) (%)	(6.38)	(6.02)	(15.61)	(0.6)	3.46	14.14	(2.58)

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 2021 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 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%

As at 31 December 2020 Gross exposure £000	**Weighted**	**Mild Upside**	**Baseline**	**Downside**	**Severe Downside**
Business	313,070				
Property	2,085,077				
Private	215,815				
ECL					
Business	1,331	1,163	1,257	1,620	1,918
Property	6,855	5,445	6,053	8,408	10,766
Private	361	297	333	466	586
Proportion of ECLs in stage 2 (%)					
Business	59%	63%	61%	54%	50%
Property	34%	31%	31%	37%	41%
Private	8%	9%	8%	7%	6%

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	(147)	536	988
Stage 2	(85)	263	497
Stage 3	(549)	2,048	3,792
Total	(781)	2,847	5,277

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

Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(84)	183	299
Stage 2	(256)	550	911
Stage 3	(112)	197	306
Total	(452)	930	1,516

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

Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(93)	158	227
Stage 2	(57)	173	224
Stage 3	-	-	-
Total	(150)	331	451

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 Board Audit Committee. At year end 2021 the following PMAs and Overlays were approved to account for any material uncertainties or other matters not captured in the model output:

- **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:** 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.

- **Sector Uncertainty PMA:** The macroeconomic scenarios were updated in December 2021 prior to the UK government imposing measures requiring masks to be worn in most indoor locations and on public transport, and more importantly issued a work from home advisory that saw already depressed commuter numbers fall dramatically on the run up to Christmas 2021. The Bank assessed that these measures were likely to have an impact on the hospitality sectors in the Bank's portfolio and therefore analysis was conducted to assess the need for holding an increased ECL for any additional risk.

- **Cynergy Business Finance (CBF) Overlay:** Cynergy Business Finance (CBF) commenced business in December 2021 and as a new business is establishing itself in the market and has written £16mn of lending at year end 2021. The Bank applies 60bps for drawn and 20bps for undrawn exposures to provide a weighted ECL equivalent at YE. The Bank will develop an IFRS 9 model for this book during 2022, but in the interim will apply an Overlay to estimate ECLs.

- **PD and Macroeconomics Calibration PMA:** Applied for the annual PD and Macroeconomic validation work which commenced in Q4 2021 and was completed in Q1 2022. This recalibrates the signature PD curves in the model and adjusts the macroeconomic model. These changes will be deployed in Q1 2022 once approved through the Bank's governance. To ensure that the impact on the model is captured in the year end position PMA has been applied. This will be removed once the model code has been through governance and deployed in the model.

PMAs applied at year end 2020 and removed in 2021

- **Economic judgement PMA:** This was applied at year end 2020 and accounted for uncertainties for downside impact not captured fully in the model. As the macroeconomic scenarios were updated at early December 2020 prior to a third national lockdown, the outcome and impact of Brexit, and any possible disruption that could discourage the success of the Covid vaccine rollout it was deemed necessary to hold a PMA for this increased risk. This PMA was removed at June 2021 as the UK's economic recovery was able to demonstrate two quarters of positive performance and the modelled economics were updated.

- **Consumer Mortgages PMA:** This PMA was applied to the regulated mortgages portfolio prior to the development of full IFRS 9 modelled approach. Through 2021 the Bank developed and deployed an IFRS 9 modelled approach to calculating the ECL on this portfolio. The PMA was removed in October 2021.

The cumulative impact of the PMAs at the end of 2021 is £5.73 million, an uplift of £3.79 million on 2020, this is driven by the bridging portfolio where the ECL is being held outside of the IFRS 9 model.

Total PMA and Overlays £000	**'Economic judgment'**	**Sector Uncertainty**	**PD & Macro-economic Calibration**	**Interest only Amortising Term Loan**	**Bridging sector Overlay**	**Consumer Mortgages**	**CBILS PMA**	**RLS PMA**	**Cynergy Business Finance**
2020	£595	N/A	N/A	£181	£866	£314(£83 increase in S1)	£38 (£151 decrease)	£38 (£151 decrease)	N/A
2021	N/A	£125	£214	£213	£6,036	N/A	£215 (£856 decrease)	£16 (£65 decrease)	£63

3.11 Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral where possible. The collateral comes in various forms, such as real estate, cash, securities, letters of credit / guarantees, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. 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. Residential Property is revalued at least quarterly through indexation, it is also subject to physical revaluation periodically and fully revalued when entering recoveries.

To the extent possible, the 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.

3.12 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.

3.13 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 due to these conditions throughout 2021 as it has migrated the reference rate of its loans from LIBOR to Bank of England Base Rate, and continued to support customers through Covid.

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 Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the 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-months 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.

3.14 Expected Credit Loss of financial assets

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

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

We typically group financial assets and assess them for ECL collectively where they share risk characteristics (for example term loans and revolving credit facilities/overdrafts) using one or more statistical models. We calculate separate collective ECLs for financial assets in Stages 1, 2 and 3 prior to making adjustments in relation to Stage 3 exposures following individual case ECL assessment.

For more on how ECL is calculated, see the Credit Risk section in note 31.

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

3.15 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. Placements by related entities which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the Statement of cash flows.

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. The properties were valued in December 2019, with an additional valuation carried out in December 2020 for the asset transferred back into use. Management reassesses the carrying amount to ensure that it does not differ materially from the fair value at the end of each intervening reporting period. These assets are level 2 in the fair value hierarchy, with inputs including recent comparable evidence applying the comparative and investment methods of valuation. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

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

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

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

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

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. In 2020, useful lives were adjusted for computer equipment from 5 years to 3-5 years, and furniture and fixtures from 10 years down to 3 years. There is no material incremental cost as a result of this change. Gains or losses on the disposal of property and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

3.17 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

In 2020, expected useful lives were adjusted for core application software from 10 years to 5-10 years. There is an incremental cost of £1.6m in 2020, as a result of this change. Core application software is presented within computer software in note 20.

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

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 is calculated at each balance sheet date based on a third party valuation. As the agreement is with a Director of the Bank it is also disclosed in the Bank Company 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. 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.

In 2021 and 2020, 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.

In 2021, the Group participated in the new Recovery Loan Scheme (RLS),replacing 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 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 below.

Critical judgments

The contractual arrangement entered into with the CEO of the Bank for valuation creation activities, under which he is entitled to remuneration based on a share of the value of the Group, has been evaluated and interpreted as requiring accounting treatment as a share-based award. There have been no other 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 Bank's financial affairs are those related to impairment, the effective interest rate and valuation of share-based payment liability included in these financial statements.

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 3.10 Impairment of financial assets (iii) Use of forward-looking economic information.

Forward looking ECL sensitivities are detailed in note 3.10.

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

The Group recognises interest income at a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgment regarding the expected behaviour and life-cycle of the instruments, as well as expected changes to the Group's and the 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 property lending portfolio and increasing and decreasing the behavioural life of the property lending portfolio by 20%, which would result in reducing/increasing income by £1.28m / £1.54m.

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

The final award is capped at 1.5x incremental growth in value, such that the liability is also capped. As the plan has ended and has been formally valued, there is certainty over the liability included within these financial statements.

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. The value of the award is calculated as 2% of the value of the Group less any capital injections. The Group valuation is assessed at each balance sheet date through a formal valuation conducted by a big four accountancy firm.

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 2021.

	2021	*2020*
5 Interest income	***£000***	*£000*
<u>*Group*</u>		
Loans and advances to customers	**105,529**	103,872

6 Interest expense

	2021	2020
	£000	*£000*
Group		
Customer deposits	**15,258**	23,530
Bank deposits	**230**	789
Subordinated loan	**2,525**	2,521
Lease liabilities	**29**	18
Deferred consideration discount unwind	**-**	1,457
	18,042	28,315
Government Funding Scheme	**314**	57
	18,356	28,372

7 Fee and commission income

	2021	2020
Group	***£000***	*£000*
Service fees for current accounts	**450**	571
Service fees for debit / credit cards	**150**	315
Services fees for handling payments	**44**	127
Service fees for credit Administration	**-**	84
Foreign exchange	**269**	411
Invoice finance fees	**2**	-
Other fees	**278**	306
	1,193	1,814

8 Foreign exchange gains / (losses)

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

Group	**2021**	2020
	£000	*£000*
Foreign exchange gain / (loss)	**1,853**	(1,626)

9 Fair value (loss) / gain on derivative instruments

Group	**2021**	2020
	£000	*£000*
Net (losses) / gains arising on derivatives (see note 16)	**(2,190)**	1,180

10 Staff costs	***Group***	*Group*	***Company***	*Company*
	2021	*2020*	***2021***	*2020*
	£000	*£000*	***£000***	*£000*
Wages and Salaries	**22,213**	19,191	**-**	-
Social security costs	**2,384**	2,178	**-**	-
Retirement benefit costs - defined contribution scheme	**1,748**	1,903	**-**	-
Other benefits	**5,993**	443	**3,464**	-
	32,338	23,715	**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 2021 was 224 (2020: 235).

11 Depreciation, amortisation and impairment

	2021 ***£000***	*2020* *£000*
Group		
Depreciation	**770**	1,158
Amortisation of intangible assets	**2,429**	3,070
Depreciation of right-of-use assets	**248**	143
Impairment	**-**	75
	3,447	4,446

12 Other operating expenses	**Group 2021 £000**	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Information technology	**5,788**	6,464	**-**	-
Professional fees	**8,453**	6,554	**63**	125
Clearing charges	**1,042**	1,046	**-**	-
Communication	**288**	342	**-**	-
Advertising	**576**	433	**-**	-
Premises	**737**	867	**-**	-
Printing and stationery	**30**	81	**-**	-
Other operating expenses – refer to analysis below	**2,962**	2,400	**-**	-
	19,876	18,187	**63**	125

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	**57**	45	**57**	45
Fees payable to the Group's auditors for the audit of the subsidiary's annual financial statements:				
Audit of the Cynergy Capital Ltd's subsidiaries	**575**	515	**-**	-
Total audit fees	**632**	560	**57**	45
Other assurance services	**-**	40	**-**	-
Other non-audit services	**1**	1	**-**	-
	633	601	**57**	45

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

Other operating expenses are further analysed below:

Subscriptions and publications	**521**	598	-	-
Non-Executive Directors' fees	**450**	399	-	-
Recruitment	**1,039**	475	-	-
Training	**198**	56	-	-
Travel and entertaining	**179**	205	-	-
Financial Services Compensation Scheme levy	**173**	(4)	-	-
Other insurances	**229**	·318	-	-
Other operating expenses	**173**	353	-	-
	2,962	2,400	-	-

13 Credit loss on financial assets

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

		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**

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

14 Income tax expense

	2021	*2020*	***2021***	*2020*
	£000	*£000*	***£000***	*£000*
	Group	Group	**Company**	Company
UK corporation tax				
Charge for the year	**7,440**	5,416	**6**	1
Adjustments in respect of prior year	**(1,066)**	495	**-**	2
	6,374	5,911	**6**	3
Deferred tax				
(Credit) / charge for the year	**(840)**	358	**-**	-
Adjustments in respect of prior year	**3**	(74)	**-**	-
Change in tax rates	**(52)**	-	**-**	-
Tax charge for the year	**5,485**	6,195	**6**	3

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

Profit / (loss) before tax	**26,972**	25,535	**(3,427)**	(25)
Tax calculated at 19.00% (2020: 19.00%):	**5,125**	4,852	**(651)**	(5)
Tax effect of:				
Banking Surcharge	**793**	192	**-**	
Income not chargeable to Corporation Tax	**-**	-	**-**	-
Expenses not deductible for tax purposes	**682**	438	**657**	6
Tax rate change	**(52)**	(56)	**-**	-
Property revaluation	-	349	**-**	-
Adjustment in respect of prior year – Corporation Tax	**(1,066)**	494	**-**	2
Adjustment in respect of prior year – Deferred Tax	**3**	(74)	**-**	-
Tax charge for the year	**5,485**	6,195	**6**	3

The net deferred asset (liability) arises from:				
Difference between capital allowances and depreciation	**46**	484	**-**	-
Property revaluation	**(1,294)**	187	**-**	-
Losses to be used against future profits	**206**	-	**-**	-
Other provisions	**1,466**	38	**-**	-
Net deferred tax asset	**424**	709	**-**	-

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

	2021	*2020*	***2021***	*2020*
	£000	*£000*	***£000***	*£000*
	Group	Group	**Company**	Company
1 January	**709**	457	-	-
Revaluation of properties	**(1,174)**	536	-	-
Deferred tax recognised in the income statement	**889**	(284)	-	-
31 December	**424**	709	-	-

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

Difference between capital allowances and depreciation	**69**	137	-	-
Losses to be used against future profits	**206**	-		
Other temporary differences	**565**	(202)	-	-
Change in tax rates	**52**	56	-	-
Adjustment in respect of prior years	**(3)**	74	-	-
Deferred tax on property revaluation	-	(349)	-	-
Deferred tax (charge) / credit for the year	**889**	(284)	-	-

15 Cash, balances with central banks and placements with banks

	Group	*Group*	***Company***	*Company*
	2021	*2020*	***2021***	*2020*
	£000	*£000*	***£000***	*£000*
Cash	**1**	1	-	-
Balances with the Bank of England	**324,981**	246,255	-	-
	324,982	246,256	-	-
Placements with banks	**61,328**	51,536	**6,799**	6,752
Cash and cash equivalents	**386,310**	297,792	**6,799**	6,752

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 £7,233,474 (31 December 2020: £5,732,865) 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:

<u>*Group*</u>	***2021***	*2020*
	£000	*£000*
Cash	**1**	1
Balances with the Bank of England	**324,981**	246,255
Less: Mandatory deposits with the central bank	**(7,223)**	(5,773)
Placement with banks	**61,328**	51,536
Cash and cash equivalents per the Statement of cash flows	**379,087**	292,019

16 Derivative financial instruments

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

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

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

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

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

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

The Group has not applied hedge accounting in the current financial year and the preceding year.

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

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

Group	***2021***	2020
	£000	£000
(Loss) / gain from change in fair value of derivatives	**(2,190)**	1,180
	(2,190)	1,180

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	**2021**			2020		
		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	**91,071**	**53**	**(429)**	48,957	29	(772)
Foreign exchange spots	**54**	**1**	**-**	230	2	-
Total exchange rate contracts	**91,125**	**54**	**(429)**	49,187	31	(772)
By maturity						
Up to 1 year	**91,125**	**54**	**(429)**	49,187	31	(772)
1-5 years	**-**	**-**	**-**	-	-	-
Over 5 years	**-**	**-**	**-**	-	-	-
Total exchange rate contracts	**91,125**	**54**	**(429)**	49,187	31	(772)
By counterparty						
Banks and building societies	**91,071**	**53**	**(429)**	49,057	29	(772)
Customers	**54**	**1**	**-**	130	2	-
Total exchange rate contracts	**91,125**	**54**	**(429)**	49,187	31	(772)

There were no interest rate contracts as at 31st December 2021 or 31st December 2020.

17 Loans and advances to customers

	2021	*2020*
<u>*Group*</u>	***£000***	*£000*
Loans	**2,954,046**	2,609,986
Overdrafts	**9,456**	12,523
	2,963,502	2,622,509
Less: Allowance for ECL/impairment losses	**(13,924)**	(8,547)
	2,949,578	2,613,962

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.

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

			2021	
Overdrafts *£000*	**Stage 1**	**Stage 2**	**Stage 3**	**Total Sum of Gross Carrying amount**
<u>*Group*</u>				
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**

			2020	
Loans *£000*	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying amount
<u>*Group*</u>				
Standard grade	2,401,085	72,511	-	2,473,596
Watch list medium risk	-	111,309	-	111,309
Individually impaired	-	-	25,081	25,081
Total	2,401,085	183,820	25,081	2,609,986

Overdrafts *£000*	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying amount
<u>*Group*</u>				
Internal rating grade				
Standard grade	8,490	228	-	8,718
Watch list medium risk	-	3,797	-	3,797
Individually impaired	-	-	8	8
Total	8,490	4,025	8	12,523

The reconciliations of movements of the loss allowance and gross carrying amounts provide insight into the movements in ECL and the charge to the income statement. It should be noted that other than the introduction of Cynergy Business Finance Limited to the consolidated Group, the Group's product mix has remained consistent throughout the year. The increase in ECL over 2021 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 — **2021**

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 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 — **2021**

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 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**

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

Loans — **2020**

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

Overdrafts

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

18 Other assets

	Group	*Group*	***Company***	*Company*
	2021	*2020*	***2021***	*2020*
	£000	*£000*	***£000***	*£000*
Debtors	**65**	48	-	1
Receivable from the Bank of Cyprus Public Company Limited towards redress payments	**413**	166	-	-
Prepayments	**6,618**	2,266	-	-
Accrued income	**2,369**	696	-	-
Receivables from payment service provider	**1,596**	1,708	-	-
Vat receivable	**15**	-	-	-
Deferred tax asset (note 14)	**424**	709	-	-
Other	-	1	-	-
Total	**11,500**	5,594	-	1

19 Investment in securities held at amortised cost

Group	2021 £000 Amortised Cost	2021 £000 Fair Value
Asset-backed securities	**137,782**	**137,529**
	137,782	**137,529**

Maturities of investments in asset-backed securities at their carrying amount

	Group 2021 £000 Amortised Cost
By type	
Asset-backed securities	**137,782**
Total at 31 December 2021	**137,782**
By maturity	
Up to 1 year	**20,271**
1 - 5 years	**117,511**
Over 5 years	**-**
Total at 31 December 2021	**137,782**

Contractual maturities and weighted average yields of asset-backed securities

	2021					
Group	Up to 1 year Amount £000	Yield %	1 - 5 years Amount £000	Yield %	Over 5 years Amount £000	Yield %
Asset-backed securities	**20,271**	**0.46**	**117,511**	**0.79**	**-**	**-**
Total carrying value at 31 December 2021	**20,271**		**117,511**		**-**	

20 Intangible assets

Group	2021			2020		
	Computer software ***£000***	**Assets under construction** ***£000***	**Total** ***£000***	Computer software *£000*	Assets under construction *£000*	Total *£000*
Cost at 1 January	**12,206**	**11,210**	**23,416**	2,466	8,066	10,532
Additions	**-**	**9,230**	**9,230**	45	12,948	12,993
Disposals and write offs	**-**	**-**	**-**	(94)	(15)	(109)
Transfers	**506**	**(506)**	**-**	9,789	(9,789)	-
Cost at 31 December	**12,712**	**19,934**	**32,646**	12,206	11,210	23,416
Accumulated amortisation at 1 January	**(3,704)**	**-**	**(3,704)**	(728)	-	(728)
Amortisation charge for the year	**(2,429)**	**-**	**(2,429)**	(3,070)	-	(3,070)
Disposals and write-offs	**-**	**-**	**-**	94	-	94
Accumulated amortisation at 31 December	**(6,133)**	**-**	**(6,133)**	(3,704)	-	(3,704)
Net book value at 31 December	**6,579**	**19,934**	**26,513**	8,502	11,210	19,712

The majority of the Group's intangible assets are internally generated. The Group has entered into a contract with a third party for the development of a new core banking platform. In 2020, the Group undertook a review of all asset useful lives which resulted in a reduction of intangibles asset useful lives to 3-10 years, the useful lives are stated in note 3.19. This change resulted in an increase to amortisation for the year of £1.6m. The Group is developing a new banking platform, the cost of which is £15.504m to date (2020: £8.136m) and is included in assets under construction. As this asset is not yet in use, no amortisation has been charged. In 2021, the Group has restated the prior year comparatives to reflect the disposal of assets previously carried at £nil net book value, which were determined to be no longer in use in the comparative period and prior to the comparative period. The impact of this is a reduction in the opening cost as at 1 January 2020 of £7,324k, an increase in the cost of disposals and write-offs of £94k for the year ended 31 December 2020, a reduction in opening accumulated amortisation as at 1 January 2020 of £7,324k and the addition of amortisation on disposal and write-offs of £94k for the year ended 31 December 2020. Closing net book value remains unaffected.

21 Leases

	2021	*2020*
Group	***£000***	*£000*
Right of use assets		
Buildings	**220**	242
	220	242
Lease liabilities		
Current	**247**	174
Non-current	**31**	87
	278	261

During the year, there was one addition and one disposal 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.

	2021	*2020*
Group	***£000***	*£000*
Depreciation charge of right of use assets		
Buildings	**249**	143
	249	143
Interest expense (included in interest in interest expense)	**29**	18
Expense relating to short term leases (included in other operating costs)	**-**	95
Expense relating to low value assets that are not shown above as short term leases (included in other operating costs)	**29**	63
	58	176

The total cash outflow for leases in 2021 was £197,150 (2020: £323,894).

The undiscounted cash payments that will be made until the end of the lease term are as follows:
Within 1 year - £255,000 (2020: £184,000)
Between 2 to 5 years - £32,000 (2020: £89,000)
More than 5 years - £nil (2020: £nil)

22 Property and equipment

Group	Freehold property £000	Leasehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000
			2021		
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**

Group	Freehold property £000	Leasehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000
			2020		
Cost or valuation at 1 Jan	6,100	-	1,710	62	7,872
Revaluation	(1,317)	-	-	-	(1,317)
Additions	-	-	230	-	230
Disposals and write offs	-	-	(184)	(62)	(246)
Reclassifications from assets held-for-sale	8,317	-	-	-	8,317
Cost or valuation at 31 December	13,100	-	1,756	-	14,856
Accumulated depreciation at 1 January	-	-	(309)	(49)	(358)
Depreciation charge for the year	(185)	-	(973)	-	(1,158)
Disposals, write-offs and impairments	-	-	184	49	233
Accumulated depreciation at 31 December	(185)	-	(1,098)	-	(1,283)
Net book value at 31 December	12,915	-	658	-	13,573

Property includes land amounting to £6,880,000, which relates to two freehold properties. No depreciation is charged for land. The net book value of freehold properties on a cost less accumulated depreciation basis, as at 31 December 2020 would have amounted to £4,516,666 (2020: £4,644,999).

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

In 2020, the Group undertook a review of all asset useful lives which resulted in a reduction of asset useful lives; computer equipment reduced from 5 years to 3-5 years, furniture and equipment reduced from 10 to 5 years, property remained the same. All useful lives are stated in note 3.17. This change did not result in any material change to the depreciation charge for 2020. In 2021, the Group has restated the prior year comparatives to reflect the disposal of assets previously carried at £nil net book value, which were determined to be no longer in use in the comparative period and prior to the comparative period. The impact of this is a reduction in the opening cost as at 1 January 2020 of £11,231k, an increase in the cost of disposals and write-offs of £184k for the year ended 31 December 2020, a reduction in opening accumulated depreciation as at 1 January 2020 of £11,231k and an increase in depreciation impact on disposal and write-offs of £184k for the year ended 31 December 2020. Closing net book value remains unaffected.

23 Customer deposits

Group	***2021***	*2020*
	£000	*£000*
Customer deposits by category		
Demand	**1,347,454**	1,021,750
Notice	**-**	-
Term	**1,485,110**	1,330,491
	2,832,564	2,352,241
Customer deposits by geographical area		
United Kingdom	**2,685,335**	2,131,125
Cyprus	**117,792**	180,662
Greece	**25,616**	35,151
Other countries	**3,821**	5,303
	2,832,564	2,352,241

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

24 Bank deposits

Group	***2021***	*2020*
	£000	*£000*
Bank deposits by category		
Demand	**400,125**	340,131
Bank deposits by geographical area		
United Kingdom	**400,125**	340,131

25 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 2021 is the conduct and legal risk provision for customer redress relating to historic conduct issues within the Bank Company (2008 to 2012). This provision is underwritten by 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 Company, and following a clarification of the legal situation in an Appeal Court Decision in June 2016 (Alexander vs West Bromwich Mortgage Company), the Bank Company concluded that the manner in which it re-priced a group of loans breached an FCA conduct principle and the matter was notified to the FCA.

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

Management has exercised 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 2021 is £0.26m which represents the total current remaining commitment. There is no charge (2020: nil) to be booked in the Bank or Bank of Cyprus Public Company Limited. There remains a corresponding receivable in the financial statements of the Bank (see note 18). There would be no further impact on the Bank of any increase in the provision up to the agreed caps as set out within the Deed of Support agreed with the Bank of Cyprus Public Company Limited.

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

The total redress cost was estimated at £56.24m (2020: £56.24m) as at the reporting date of 31 December 2021, of which £55.98m has been settled and £0.26m remains within the provision held by the Bank Company. The Bank Company has funded £2.9m of this with the balance funded by Bank of Cyprus Public Company Limited.

26 Other liabilities

	2021	***2021***	*2020*	*2020*
	£000	***£000***	*£000*	*£000*
	Group	**Company**	Group	Company
Trade creditors	**-**	**-**	(25)	-
Accruals	**15,357**	**60**	9,851	48
Accrued interest payable incl. subordinated debt	**8,929**	**-**	7,279	-
Financial Services Compensation Scheme levy (note 30)	**-**	**-**	40	-
Deferred income	**17**	**17**	17	17
PAYE and NI settlement	**932**	**-**	1,087	-
Items in the course of settlement	**619**	**-**	290	-
Share-based payment liability	**8,635**	**3,464**	2,643	-
Tax payable	**2,183**	**6**	2,264	3
Vat Liability	**5**	**5**	5	5
Amounts owed to Bank of Cyprus Public Company Limited	**-**	**-**	-	-
Other	**589**	**-**	470	-
Total	**37,266**	**3,552**	23,921	73

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

27 Subordinated loan

<u>Group</u>	***2021*** ***£000***	*2020* *£000*
Unsecured subordinated loan	**29,868**	29,744

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

The payment of coupons under the Tier 2 facility with Lamesa Investment Ltd is currently subject to US secondary sanctions, and additionally UK sanctions since March 2022, and accordingly cannot be paid. Interest continues to be accrued.

Changes in liabilities arising from financing activities

2021	**1 January 2021**	**Cash flows**	**Conversion to equity**	**Other**	**31 December 2021**
	£000	***£000***	***£000***	***£000***	***£000***
Unsecured subordinated loan	**29,744**	**-**	**-**	**124**	**29,868**
2020	1 January 2020	Cash flows	Conversion to equity	Other	31 December 2020
	£000	*£000*	*£000*	*£000*	*£000*
Unsecured subordinated loan	29,629	-	-	115	29,744

28 Share capital

The Company

	31 December 2021		*31 December 2020*	
	Number of shares	***£000***	*Number of shares*	*£000*
Authorised, issued and fully paid:				
Ordinary Shares of £1 each	**158,300,005**	**158,300**	158,300,005	158,300

In January 2020, 5.4m of Ordinary A Shares and 3.6m of Ordinary B shares at nominal value £1.00 were issued for cash consideration.

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

In March 2022, the Bank issued 6,000,000 ordinary shares at their par value of £1 each to its parent company, with a total cash consideration of £6,000,000. Ordinary shares have ordinary voting rights. Shareholders participate pari passu in any dividends. Shareholders have the right to participate in any distribution upon winding up. Ordinary shares are not redeemable at the option of the Bank.

29 Contingent liabilities and commitments

29.1 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	***2021***	*2020*
	£000	*£000*
Acceptances, guarantees and cashing facilities	**841**	1,007
Commitments to advance	**127,283**	219,132
Total	**128,124**	220,139

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Group's internal grading system are explained in note 31.

Acceptances, guarantees and cashing facilities

		2021		
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal rating grade	***£000***	***£000***	***£000***	***£000***
Standard grade	**816**	**25**	**-**	**841**
Watch list medium risk	**-**	**-**	**-**	**-**
Watch list high risk	**-**	**-**	**-**	**-**
Individually impaired	**-**	**-**	**-**	**-**
Total	**816**	**25**	**-**	**841**

Commitments to advance

		2021		
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal rating grade	***£000***	***£000***	***£000***	***£000***
Standard grade	**127,283**	**-**	**-**	**127,283**
Watch list medium risk	**-**	**-**	**-**	**-**
Watch list high risk	**-**	**-**	**-**	**-**
Individually impaired	**-**	**-**	**-**	**-**
Total	**127,283**	**-**	**-**	**127,283**

Acceptances, guarantees and cashing facilities

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

Commitments to advance

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Group				
Internal rating grade	***£000***	***£000***	***£000***	***£000***
Standard grade	219,132	-	-	219,132
Watch list medium risk	-	-	-	-
Watch list high risk	-	-	-	-
Individually impaired	-	-	-	-
Total	219,132	-	-	219,132

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

Acceptances, guarantees and cashing facilities

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Group				
	£000	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2021	**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	-	-	-	-
Total	**816**	**25**	-	**841**

Commitments to advance

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Group				
	£000	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2021	**219,132**	-	-	**219,132**
Acquisition of a subsidiary	-	-	-	-
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	-	-	-	-
Total	**127,283**	-	-	**127,283**

Acceptances, guarantees and cashing facilities

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

Commitments to advance

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

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

Contingent obligations and commitments are managed in accordance with the 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.

30 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.

31 Risk management

The Bank Company's Approach to Risk - unaudited

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

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

Through its normal operations the Bank Company is exposed to a number of risks and manage these through clear risk policies, limits, reporting lines and control procedures. Adherence to these policies and procedures is independently monitored by the Bank's credit risk, market risk, operational risk, compliance and internal audit functions. The Bank company's risk management processes and internal controls are subject to regular review by the appropriate executive committees, including the Conduct and Risk Committee, Asset & Liability Committee and the Board Audit and Risk Committees. The Bank company's principal risks, mitigation and controls are outlined below:

Strategic Risk

Definition

The risk that the Bank's strategic planning is based on flawed decision making, resulting in a failure to meet customer needs and/or deliver the expected financial returns.

Risk Appetite Statement

The Bank accepts a moderate appetite for strategic risk in pursuit of its strategic plan. The strength of the Bank's business operations is a major mitigant of industry risk as well as the economic risk of the environment in which the Bank operates. The stability or fragility of the Bank's franchise, its governance, strategy and quality of its management are all indicators that could combine to increase or reduce the overall risk to the Bank and therefore they must be prudently managed.

Supporting Risks

Business Model Risk - The risk that the Bank's business model falters or fails to keep pace with the industry as well as the economic risk of the environment in which the Bank operates.

Environment, Social, Governance (ESG) Risk - The risk of an environmental, social, or governance event, or condition that, if it occurs, could cause an adverse sustainability impact on the Bank.

Earnings Risk - The risk that the Bank fails to achieve the quality and quantity of earnings assumed in its stress-tested financial models and is therefore unable to meet its business plan and/or capital/liquidity minima.

Examples of how we mitigate and control the risk

- We undertake regular formal reviews of the corporate strategy, assessing the appropriateness of the business model, values, culture, & objectives, considering prevailing market conditions
- We regularly monitor the Bank's strategic and business performance against market commitments, our balanced business scorecard and risk appetite
- We operate a defined governance structure covering all areas of risk including Executive and Board sub-committees
- We use stress tests to flex core business planning assumptions to assess potential performance under stressed operating conditions
- We set specific strategic risk appetite metrics that are reported to the Conduct and Risk Committee and Board Risk Committee
- We operate specific environmental risk policies and are developing an Environment, Social, Governance (ESG) Framework
- We undertake specific customer satisfaction surveys to identify how well our strategy is meeting customer needs

Credit Risk

Definition

The risk to earnings and capital arising from a customer's failure to meet the terms of their lending contract or failure to perform as agreed. In relation to the Bank's treasury activities, there is a risk that acquired securities of cash deposits with other banks are not fully repaid.

Risk Appetite Statement

The Bank must maintain and control a moderate appetite for lending risk, which serves the core client base of entrepreneurs and business owners and is capable of delivering its medium to longer term objectives in both periods of stability and economic stress. We pursue a high-quality portfolio that earns an adequate return without creating undue concentrations.

Supporting Risks

Credit Quality Risk - The risk of disproportionately high credit losses arising as a result of lending to customers exhibiting weak credit characteristics.

Credit Performance and Stewardship Risk- The risk of credit losses as a result of weak or uncontrolled underwriting and/or credit monitoring processes.

Credit Concentration Risk- The risk that over exposure to single names, asset classes, sectors or geographies results in disproportionate credit losses in the event that material adverse events occur that impact on them.

Examples of how we mitigate and control the risk

- Credit Risk Appetite is set and lending performance against Risk Appetite is monitored regularly with escalation routes in place for any breaches
- We operate a Credit Risk Management Framework that includes detailed lending policies, underwriting manuals and standard operating procedures
- We choose to lend in sectors where we have experience and expertise
- Should there be problems with a loan, the restructuring and recoveries team work with customers unable to meet their loan servicing obligations to reach a satisfactory conclusion whilst adhering to the principle of 'treating customers fairly'
- We undertake regular reviews of our loan portfolios and complete ongoing assurance testing (1st,2nd and 3rd line) of our credit processes
- We operate specific Executive and Board Credit Committees for larger credit approvals as part of our governance structure

- We use segregation of duties in our underwriting processes
- We regularly stress test the loan book using a range of stressed but plausible credit related, economic scenarios
- We work within clearly defined portfolio limits approved by the Board Risk Committee covering for example, loan to value (LTV), affordability, sector and geographic concentrations
- We evidence affordability and complete credit search/fraud/CDD check when underwriting loans
- Credit decisions are made using a combination of Due Diligence, reviewing Credit Agency reports, reviewing financial information, credit scores and using the expert opinion of our underwriters
- We take security and where appropriate, guarantees, to support our lending

Capital, Liquidity and Funding Risk

Definition

The risk that the Bank's financial and funding structure fails to meet minimum regulatory standards and/or results in an inability of the Bank to deliver its corporate strategy or meet its commitments as they fall due.

Risk Appetite Statement

The Bank will maintain a sufficient level of capital, liquidity and funding to effectively support the business under stressed conditions. The Bank has no appetite for a failure to comply with regulatory minima.

Supporting Risks

<u>Capital Risk</u>- The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support its growth plans.

<u>Liquidity & Funding Risk-</u> Liquidity: The risk that the Bank does not hold sufficient liquid assets to meet its liabilities in business as usual or under stress. Funding: The risk that insufficient funding exists to support the bank's balance sheet, specifically that the Bank cannot meet the demand from customers to withdraw their deposits.

<u>Examples of how we mitigate and control the risk</u>

- We set a prudent Risk Appetite which is approved by the Board and reviewed at least annually
- The Bank's large number of depositors provides diversification, with a high proportion of balances covered by the Financial Services Compensation Scheme mitigating the risk of a retail 'run'
- We have a funding contingency plan that is approved by the Board
- We monitor current and forecast levels of capital and liquidity against our risk appetite and KRIs and report to Asset and Liability Committee (ALCO), and the Board Risk Committee regularly
- We operate a suite of policies and procedures are to manage treasury risks
- We operate a Capital Planning Framework which requires us to maintain appropriate levels of capital in a range of stressed scenarios
- The capital forecast forms an integral part of the annual budgeting process and stress tested through our ICAAP. We maintain liquidity buffers based on various stressed liquidity scenarios and liquidity stress testing informs our ILAAP
- We monitor our liquidity position daily with escalation procedures clearly documented
- Assurance testing combined with RCSA processes supports the identification of any control weaknesses
- Our lending book is funded by our deposits, capital and retained profits. We do not rely on wholesale markets.
- We seek an appropriately diverse and stable funding base, rather than rely on a small range of products and maturities
- Liquidity resolution, recovery and contingency plans are developed alongside the ICAAP and ILAAP detailing actions to be taken in the event of a liquidity shortfall

Market Risk

Definition

The risks to earnings and capital arising from adverse movements in the prices of interest rate instruments, foreign exchange, and any exposure to prices of other financial instruments.

Risk Appetite Statement

Any market risk can only be incurred to ensure efficient management of the balance sheet, i.e. the Bank will not operate a trading book, e.g. take open positions on its own account (proprietary trading).

Supporting Risks

<u>Currency Risk</u>- The current or prospective risk to the Bank's earnings and own funds from adverse movements in currency rates.

<u>Interest Rate Risk -</u> The current or prospective risk to the Bank's earnings and own funds arising from adverse movements in interest rates.

<u>Treasury Counterparty Risk</u>- The risk that acquired securities or cash deposits with other financial institutions are not repaid in part or in full or meet contractual timeframes.

Examples of how we mitigate and control the risk

• We have a policy that only allows for deposits to be placed with higher rated Banks or invested in High Quality Liquid Assets in line with PRA guidance on Credit Ratings

• We set a risk appetite for market risk that is monitored and reported to Executive Committee, ALCO and Board Risk Committee. Breaches of triggers or limits are escalated

• We measure exposure to interest rate risk in the banking book and currency exposure on a regular basis. Where mismatches exist that are outside of risk appetite, the Bank's Treasury function actively hedges the exposures to match the repricing dates of assets and liabilities and any currency exposure

• We deploy appropriate segregation of duties within the finance team covering treasury activities

• Oversight is provided by a dedicated second line Prudential Risk team

• Assurance testing combined with RCSA processes support the identification of any control weaknesses

Operational Risk

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business lines, from all activities carried out by the Bank, and are thus diverse in nature.

Risk Appetite Statement

The Bank must make resources available to control operational risks to acceptable levels. The Bank recognises that it is not possible, or necessarily desirable, to eliminate some of the risks inherent in its activities. Tolerance of some operational risk is often necessary to foster innovation and efficiencies within business practices, however these risks must be assessed and understood prior to them being accepted.

Supporting Risks

People Risk- The risk that the Bank is unable to recruit or retain sufficient numbers of staff with the right skills and knowledge to deliver its strategic objectives.

Supplier / Outsourcing Risk- The risk of damage as a result of failure in selection and/ or ongoing management and oversight of a third party.

Operational Resilience Risk- The risk that the Bank is unable to continue to deliver its products and services at acceptable levels following a disruptive event.

Change Management Risk- The risk that the Bank's material change programmes fail to deliver the intended outcomes. The risk that change programmes fail to deliver on time or to budget resulting in customer impact and/or a material adverse impact on the Bank's financial position.

Cyber Risk- The risk of loss or customer detriment as a result of the misuse or attack on the Bank's IT infrastructure.

Information Security Risk - The risk to the bank or its customers due to the potential for unauthorised access, loss, use, disclosure, disruption, modification, or destruction of information.

Financial Control & Reporting Risk - The risk of inaccurate or late reporting of financial information (internally or externally) and/or the bank failing to maintain effective control over financial planning and cost management processes.

Process Execution Risk- The risk that Bank staff fail to execute processes correctly resulting in financial loss and/or customer detriment.

Data and Model Risk- The risk that the Bank's models are designed incorrectly, are based on inaccurate data, do not achieve the purpose for which they have been designed and/or that data and models are not used correctly or applied inappropriately.

Health and Safety Risk- The risk of the Bank's staff, contractors, visitors or customers being harmed as a result of the Banks failure to identify and control workplace hazards.

Examples of how we mitigate and control the risk

• The Bank's processes and standards are established through an Operational Risk Management Framework that are aligned to meet regulatory standards

• We have a defined Operational Resilience Policy with Business Continuity Plans in place that are tested regularly

• A risk management information system is maintained for monitoring the key risks and incidents across the business

• We operate a series of tools that have been designed and deployed to identify and prevent network/ system intrusions. The effectiveness of implemented controls is overseen by a dedicated IT Security Forum, with specialist IT security staff employed by the Bank. We have a specific 2nd line Cyber Risk Manager to oversight and challenge first line cyber risk controls

• We invest in information security controls to ensure that detection and anti-penetration measures remain robust in preventing and mitigating the impact of a security breach of the IT network, and staff members are provided with regular training and information relating to information security

• We design recovery time objectives for our critical business services where a sustained operational failure would result in customer detriment

• We have operational processes and procedures that are clearly documented and understood, and subject to 2nd line oversight and challenge

• Senior Management identify operational risks across their businesses and assess the effectiveness of controls that mitigate those risks using a defined Risk and Control Self-Assessment (RCSA) process

• We have established remote working procedures and have a two tier process for ensuring those who are considered as 'core' (who attend the office as required to maintain operational capability) and 'secondary' (who can work effectively from home and will only attend the office if required) can do so safely, with all necessary precautions taken

• We place project governance around change control processes for material projects

• We monitor the operational risk profile versus risk appetite using Metrics and KRIs, reporting and

escalating to Conduct and Risk Committee and Board Risk Committee any breaches

• We operate a specific Models Governance Committee and Model Governance Framework

• We operate a Vendor Management and Outsourcing Framework using a risk-based approach to categorising outsourcing risk

• Cross coverage of critical roles has been established to ensure continuity of service to our customers

Conduct Risk

Definition

Conduct Risk is defined as any action of the Bank or individual identified with the Bank that leads to customer detriment, or has an adverse effect on market stability or effective competition.

Risk Appetite Statement

The Bank has no tolerance for behaviours or activities that knowingly promote poor customer outcomes, leads to customer detriment or has an adverse impact on market stability or effective competition.

Supporting Risks

<u>Product and Pricing Risk</u>- The risk that the Bank's products and services do not meet the needs of the customers they are targeted at and/or are not kept up to date and fair via a regular review process.

<u>Customer Journey Conduct Risk -</u> The risk that the Bank's customers are not treated fairly and/or experience detriment as a result of the way in which the Bank's business model operates.

<u>Competency, Culture and Reward Risk</u>- The risk that the way in which our people are trained, managed or rewarded does not deliver fair customer outcomes.

<u>Vulnerable Customer Risk</u>- The risk that by failing to identify and manage vulnerable customer correctly, the Bank fails to treat them fairly and/or causes them detriment.

<u>Examples of how we mitigate and control the risk</u>

• We operate a Conduct Risk Management Framework supported by relevant policies and procedures to ensure that conduct risk is managed as a core component of our strategic plans

• We set conduct risk appetite and KRIs that are reported to Conduct and Risk Committee and Board Risk Committee

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

• We operate a Products and Services Committee to deliver clear oversight of fair customer outcomes and regulatory compliance associated with the implementation, changes and ongoing review of products

• Our RCSA process provides a framework for identifying and testing controls over conduct risks

• We operate a conflicts-of interest register and have controls in place to ensure that conflicts do not create conduct issues

• Segregation of duties are deployed where required to protect customer interests

• We complete regular assurance testing of our business activities that have the potential to cause customer harm

• We record and use root cause analysis to investigate risk events and complaints that result in poor customer outcomes

• We monitor product sales against expectation and forecasting, and where these are materially different, we conduct a review to understand why this is happening

• New and emerging regulatory driven changes are overseen through a formal horizon scanning (emerging risks) process

• We encourage an environment where employees who exhibit poor conduct are challenged but also supported to correct behaviours

Legal, Compliance and Financial Crime Risk

Definition

The risk of legal or regulatory sanctions, material financial loss or reputational damage as a result of a failure to comply with legislation or regulation applicable to the Bank's activities.

Risk Appetite Statement

The Bank has no appetite for material breaches, financial losses or reputational damage arising from the systematic failure to comply with laws and regulations.

Supporting Risks

Legal Risk- The risk of loss resulting from a legally defective transaction or claim against the Bank and/or a failure to recognise the impact of a change in law relating to the Bank's activities.

Compliance Risk- Compliance risk is defined as the Risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer because of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities.

Money Laundering Risk- The risk of financial loss, sanctions or reputational damage as a result of the Bank failing to comply with money laundering regulation and legislation.

Tax Evasion Risk- The risk of financial loss, sanctions or reputational damage as a result of the Bank failing to comply with tax evasion regulation and legislation.

Terrorist Financing Risk - The risk of financial loss, sanctions or reputational damage as a result of the Bank failing to comply with terrorist financing regulation and legislation.

Sanctions Risk - The risk of financial loss, regulatory sanctions or reputational damage caused by a failure of the Bank

to identify transactions undertaken with individuals or countries subject to government-imposed sanctions.

Fraud Risk - *The risk of loss as a result of fraudulent activity undertaken by a member of staff (internal fraud) or by third* parties (external fraud).

Bribery and Corruption Risk - The risk of financial loss, sanctions or reputational damage as a result of a failure to comply with the requirements of relevant bribery and corruption legislation.

Examples of how we mitigate and control the risk

• We set risk appetite and KRIs that are reported to Conduct and Risk Committee and Board Risk Committee

• Our defined RCSA process identifies and tests our key controls over Compliance and Financial Crime Risks

• Incident logs are maintained for compliance breaches and near misses, incidents are investigated and escalated to Executive and Board Members where required

• Roles and responsibilities are clearly assigned, and segregation of duties is implemented for key compliance processes

• We complete regular assurance testing of our business activities including thematic reviews of relevant regulatory topics

• New and emerging regulatory driven changes are overseen through horizon scanning process. All significant regulatory initiatives are managed by structured programmes, sponsored at Executive

Management level

• We make use of independent expert legal and regulatory advice where appropriate

• We have a dedicated Compliance Director who is also our MRLO and leads our financial crime and compliance activities

• We operate a programme of staff training and awareness on compliance and financial crime matters

• We operate a suite of specific Financial Crime Policies and procedures

• We use bespoke data monitoring systems for onboarding and transaction monitoring

• We ensure employee screening checks are in place for new joiners

• A Financial Crime risk assessment is conducted annually with findings reported to the Board

The Bank Company's Risk Objectives - unaudited

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

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

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

Risk Governance - unaudited

The Bank company operates a Corporate Governance Framework which sets out how the Board will provide oversight of the management of risk.

Board members and members of the Bank company's Executive team hold specific Senior Manager Function (SMF) responsibilities under the FCA's Senior Management & Certification Regime (SMCR), other staff are certified under the Regime as Material Risk Takers. The Bank company requires its SMF holders to periodically attest that they have met their obligations as SMF holders and, collectively, the SMF holders cover all the duties expected of the Bank by the FCA. The Bank company operates a defined structure of Board and Executive level sub-committees, and each committee has its own Terms of Reference.

Reporting and escalation are key aspects of the RMF ensuring that appropriate actions are taken in a timely manner. The objective of risk reporting within the Bank company is to escalate relevant risk information that enables the Board and other governance bodies to monitor and manage the Bank company's risk exposures in line with its Risk Appetite Framework.

Risk Oversight and Assurance - unaudited

The Bank company adopts the 'three lines of defence' model which sets out a clear segregation of duties between day to day activities, risk oversight and independent assurance. Whilst each staff role is allocated as either first, second or third line of defence, all three lines of defence work together to effectively manage risk across the Bank.

First Line of Defence: The first line of defence against risks lies with the front line. The front line includes all units that onboard risk into the Bank company including those that enter into business transactions with the customers or other client facing areas, as well as all associated support functions including Finance, Treasury and Operations. The first line of defence is responsible for identifying all the risks in their activities and developing appropriate policies, procedures and controls to govern these activities; operating within all limits applicable to their operations as cascaded from the Risk Appetite Statements; and reporting or escalating risk events as appropriate.

Second Line of Defence: The second line of defence consists of the Risk and Compliance functions of the Bank company. They are responsible for monitoring the performance of the first line and their adherence to policies, limits or other mandates in place. They promote risk awareness through the engagement of business units in the identification, measurement and mitigation of risks as appropriate; they facilitate the collection and monitoring of Key Risk Indicators (KRIs), and Risk Appetite Metrics and they provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Bank company e.g. (risk appetite, stress testing framework). In relation to credit risk specifically, the second line also manage the Bank company's Business Support and Recoveries activities.

Third line of Defence : Internal Audit comprises the third line of defence. They provide independent assurance to the Board and Executive Management over the effectiveness of governance, risk management and control over current, systemic and emerging risks.

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.

		31 December 2021		*31 December 2020*	
Group	*Notes*	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
		£000	***£000***	*£000*	*£000*
Financial assets					
Cash and balances with central banks	(a, Level 1)	**324,982**	**324,982**	246,256	246,256
Placements with banks	(b, Level 1)	**61,328**	**61,328**	51,536	51,536
Derivative financial assets	(e, see below)	**54**	**54**	31	31
Investment in securities	(g, Level 1)	**137,782**	**137,529**	-	-
Loans and advances to customers	(c, Level 3)	**2,949,578**	**3,199,469**	2,613,962	2,629,702
Financial liabilities					
Bank deposits	(b, Level 1)	**400,125**	**400,125**	340,131	340,131
Placements by related entities	(b, Level 1)	**-**	**-**	-	-
Customer deposits	(d, Level 3)	**2,832,564**	**2,801,143**	2,352,241	2,338,834
Derivative financial liabilities	(e, see below)	**429**	**429**	772	772
Subordinated loan	(f, Level 3)	**29,868**	**29,735**	29,744	29,572

		31 December 2021		*31 December 2020*	
Company	*Notes*	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
		£000	***£000***	*£000*	*£000*
Financial assets					
Placements with banks	(b, Level 1)	**6,799**	**6,799**	6,752	6,752

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 2021	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Group	**£000**	**£000**	**£000**	**£000**
Derivative financial assets	**-**	**54**	**-**	**54**
Derivative financial liabilities	**-**	**(429)**	**-**	**(429)**
31 December 2020	Level 1	Level 2	Level 3	Total fair value
	£000	£000	£000	£000
Derivative financial assets	-	31	-	31
Derivative financial liabilities	-	(772)	-	(772)

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 2021	31 Dec 2020			**Relationship of discount rate input to fair value**
Description	**£000**	£000	**2021**	2020	
Loans and advances to customers	**3,199,469**	2,629,702	**0.19% - 1.24%**	(0.01%) - 0.42%	A shift in discount rate of +/-10bps results in a change of fair value of £11m to £8m (2020: £0.1m)
Customer deposits	**2,801,143**	2,338,834	**0.19% - 1.24%**	(0.01%) - 0.42%	A shift in discount rate of +/-10bps results in a change of fair value of £4m (2020: £0.1m)
Investment in securities	**137,529**	-	**0.01% - 0.46%**	-	Based on quoted prices
Subordinated debt	**29,735**	29,572	**1.04%**	0.08%	A shift in discount rate of +/-10bps results in a change of fair value of £0.01m (2020: £0.2m)

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

<u>Group</u> 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**	**2,145,414**	**132,176**	**441,468**	**577,301**	**-**
Acceptances and guarantees	**841**	**841**	**-**	**-**	**-**	**-**

<u>*Group*</u> 31 December 2020	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	246,256	240,523	-	5,733	-	-
Placements with banks	51,536	51,536	-	-	-	-
Loans and advances to customers	2,613,962	12,322	160,589	185,887	1,664,003	591,161
Total assets	2,911,754	304,381	160,589	191,620	1,664,003	591,161
Liabilities:						
Bank deposits	340,131	-	-	90,074	250,057	-
Customer deposits	2,352,241	1,568,401	179,333	475,434	129,073	-
Other liabilities	23,921	-	-	23,921	-	-
Subordinated loan	29,744	-	-	-	29,744	-
Total liabilities	2,746,037	1,568,401	179,333	589,429	408,874	-
Acceptances and guarantees	1,007	1,007	-	-	-	-

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**	**-**	**-**

Company 31 December 2020	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	6,752	6,752	-	-	-	-
Liabilities:						
Other liabilities	73	-	-	73	-	-

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

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

Non-derivative financial liabilities

	2021					
Group	***Total***	***Demand***	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Bank deposits	**400,125**	**400,125**	-	-	-	-
Customer deposits	**2,832,564**	**2,145,414**	**132,176**	**407,666**	**147,308**	-
Subordinated loan	**38,797**	**8,929**	**-**	**-**	**29,868**	-

	2020					
Group	Total	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
	£000	£000	£000	£000	£000	£000
Bank deposits	340,131	-	-	90,074	250,057	-
Customer deposits	2,352,241	1,568,401	179,333	475,434	129,073	-
Subordinated loan	37,023	7,279	-	-	29,744	-

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 Company. Credit risk occurs mainly in customer advances. To control credit risk, the Bank Company establishes lending policies and exposure limits by various categories including counterparty, sector and country, which are reviewed on a continuing basis.

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

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

The Bank Company's 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 Company's internal rating and PD estimation process

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

ii) Treasury, trading and interbank relationships

The Bank Company's counterparties comprise financial services institutions and central banks. For these relationships, the Bank Company'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 Company's performance.

The complexity and granularity of the grading techniques varies based on the exposure of the Bank Company 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 Company'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 Company 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 Company'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 Company's experience and based on the Bank Company'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 Company. The Bank Company 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 Company 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 Company assesses whether there has been a significant increase in credit risk since initial recognition. For example, the Bank Company 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 Company's internal grading methodology;
- The exposure has been downgraded from A to C using the Bank Company's internal grading methodology.

Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Only tables for Cynergy Bank Limited are presented below as Cynergy Business Finance Limited does not have any exposures other than performing Stage 1 loans at 31 December 2021.

	Business			**Private**			**Property**		
As at 31st December 2021 £000	**Gross carrying amount**	**ECL**	**Coverage**	**Gross carrying amount**	**ECL**	**Coverage**	**Gross carrying amount**	**ECL**	**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%**

	Business			Private			Property		
As at 31st December 2020 £000	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage
PD movement[3]	3,818	37	0.97%	387	3	0.78%	32,799	187	0.57%
Forbearance support provided	17,869	34	0.19%	-	-	-	10,175	84	0.83%
Watchlist or other qualitative reasons[4]	22,435	718	3.20%	1,396	26	1.86%	84,400	1,789	2.12%
30 Days past due	-	-	-	-	-	-	12,566	242	1.93%
Total	44,122	789	1.79%	1,783	29	1.63%	139,940	2,302	1.64%

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.

[3] 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

[4] 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	2021 £000	2020 £000
Business sector		
Property investment	**2,211,642**	2,021,143
Property development	**62,860**	70,790
Hotels, catering and leisure	**256,903**	224,463
Manufacturing	**4,128**	10,514
Retail and wholesale	**7,716**	9,420
Other business sectors	**164,361**	65,218
Personal sector	**255,892**	220,961
	2,963,502	2,622,509
Less: Allowance for ECL / impairment losses	**(13,924)**	(8,547)
Carrying amount	**2,949,578**	2,613,962

Forbearance
Forbearance means the active agreement by the Bank company 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 company to minimise this impact at a UK and global level.

At year end the Bank company had supported 133 customers with a lending value of £303m through CBILS, which it became a member of in early 2020. Latterly in 2021 the Bank company also joined the Recovery Loan Scheme (RLS), which ensured that the Bank company was positioned to continue to lend safely against the uncertain economic backdrop for those customers which continued to experience challenges related to Covid. At year end, 21 customers had been supported with £45m of lending under the RLS. Both schemes have supported the Bank company's customers allowing them to continue to service their loans through two challenging years. In addition, the Bank no longer has any customers on payment holidays and customers have either returned to repayment or have moved to the Bank company's Business Support team.

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 performing forborne before these accounts would be returned to the good book, a total of 42 months. In the case of a performing forborne they would not go through the 18-month cure period and would only have to meet the 24-month probation period. An outline of the forbearance and the trigger for this is provided in the table below and 2020 position is presented for comparison. Only tables for Cynergy Bank are presented below as Cynergy Business Finance does not have any exposures other than performing Stage 1 loans at year end 2021.

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**

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

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 Company 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 Company also considers a variety of instances that may indicate unlikeliness to pay (UTP) criteria. When such events occur, the Bank Company 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 Company;
- 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 Company;
- The debtor (or any legal entity within the debtor's Bank Company) 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 company'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 company's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in note 3.14.

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:

The 2021 impairment charge of £5.396m reflects the increased provisions taken against the remaining bridging loans which are progressing through the Bank's recovery process. The Bank's core book NPLs (excluding bridging) improved to 0.88% which is in line with pre-pandemic levels. The reported NPLs account for 1.41% of the total value of the Bank's lending, and this includes 0.53% directly attributed to the bridging portfolio which has been closed to new business since the onset of Covid. Only tables for the Company are presented below as Cynergy Business Finance Limited does not have any exposures other than performing stage 1 loans at 31 December 2021.

31 December 2021	Gross carrying amount	Allowance for ECL	
	£000	**£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%

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

Stage 3 analysis 31 December 2021	**Gross carrying amount £000**
NPL[5]	**43,661**

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

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 Company 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 Company'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**			**Receiv-ables Collat-eral**	**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)

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

December 2020 £000	Gross carrying amount Total	Stage 2	Stage3	Property Collateral Total	Stage 2	Stage 3	Cash Collateral Total	Stage 2	Stage 3	Net exposure Total	Stage 2	Stage 3
Business	314,401	44,122	6,870	600,859	97,092	16,267	2,034	488	-	(288,492)	(53,458)	(9,397)
Private	216,176	1,782	391	469,569	4,200	813	227	41	-	(253,620)	(2,459)	(422)
Property	2,091,932	141,941	17,828	3,820,147	245,899	37,339	674	17	-	(1,728,889)	(103,975)	(19,511)
Total	2,622,509	187,845	25,089	4,890,575	347,191	54,419	2,935	546	-	(2,271,001)	(159,889)	(29,330)

At 31 December 2021, 99% of the gross loans to customers were secured on cash and property collateral.

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

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

December 2021	Stage 1		Stage 2		Stage 3		Total	
£000								
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**

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

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 company 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 company 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 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 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**

Carrying value	Non-interest bearing	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Over 5 years
Group	£000	£000	£000	£000	£000	£000
Assets:						
Cash and bank advances	297,792	-	292,059	5,733	-	-
Loans and advances to customers	2,613,962	-	2,382,455	10,716	218,577	2,214
Total assets	2,911,754	-	2,674,514	16,449	218,577	2,214
Liabilities:						
Bank deposits	340,131	-	90,074	-	250,057	-
Customer deposits	2,352,241	192,239	1,555,495	475,434	129,073	-
Other liabilities	23,921	23,921	-	-	-	-
Subordinated loan	29,744	-	-	-	29,744	-
Total liabilities	2,746,037	216,160	1,645,569	475,434	408,874	-
Interest rate gap	165,717	(216,160)	1,028,945	(458,985)	(190,296)	2,214

In 2021, the prior year comparatives have been restated to achieve a fairer presentation.

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	***2021***	*2020*
	£000	*£000*
Increase of 0.6% (prior year 0.6%)	**3,436**	2,684
Decrease of 0.6% (prior year 0.6%)	**3,393**	983

The interest rate sensitivities set out above are based on the Bank Company'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 Company is exposed to foreign currency risk as a result of mismatches between assets and liabilities in foreign currencies arising from the Bank Company's lending, deposit taking and currency dealing activities. The majority of currency dealings are carried out for the purpose of facilitating customer transactions. The Bank Company's treasury department is responsible for managing currency risk within intra-day and overnight limits. The Bank Company'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 Company 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 Company 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.

	2021			2020		
	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						
Placements with banks	**61,328**	**-**	**61,328**	51,536	-	51,536
Loans and advances to customers	**2,949,578**	**72,638**	**2,876,940**	2,613,962	60,691	2,553,271
Financial liabilities						
Bank deposits	**400,125**	**-**	**400,125**	340,131	-	340,131
Customer deposits	**2,832,564**	**72,638**	**2,759,926**	2,352,241	60,691	2,291,550

Conduct risk

Conduct risk is defined as the risk that the Bank Company'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 25, the Bank Company has made a provision for customer redress. Remediation principles were agreed and in 2016 the Bank Company made an initial assessment of the level of provision that was considered appropriate to meet current and future expectations in relation to the customer remediation exercise. As a result, a provision for £14.9m was established for the year ended 31 December 2016. This was increased to £57.0m in 2017, 2018 and 2019. Details of the provision for customer redress are presented in note 25 to the financial statements.

32 Investment in subsidiary

As at 31 December 2021, 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	Not yet trading

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.

33 Capital management

The Group is supervised by the PRA and is required to satisfy the liquidity and capital requirements of the PRA. It is required to demonstrate to the PRA that it can withstand liquidity and capital stresses.

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

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

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

Capital Resources - Group	***2021***	*2020*
	£000	*£000*
Ordinary share capital	**158,300**	158,300
Share premium	**190**	190
Capital redemption reserve	**48**	48
Retained earnings	**64,446**	44,799
IFRS 9 Transitional Relief	**2,770**	2,929
Regulatory deductions	**(24,630)**	(14,198)
Total eligible Tier 1 capital (CET1)	**201,124**	192,068
Subordinated debt	**29,868**	29,744
Total Tier 2 capital	**29,868**	29,744
Total eligible regulatory capital	**230,992**	221,812

34 Related party transactions

Directors and key management personnel

Our Directors and key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management personnel are identified as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and Company. The Directors of the Company and the Bank Company, 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 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Short-term benefits	**3,342**	4,011	-	-
Long-term benefits	**2,528**	442	-	-
Post employment benefits	**189**	244	-	-
Termination benefits	**327**	313	-	-
Total compensation for key management personnel	**6,386**	5,010	-	-

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 2021 (2020: £nil)

The total remuneration of the highest paid Director at Bank Company level for the qualifying service to the Bank Company was £1,352,083, (2020: £1,612,109). The amount of pension contributions payable by the Bank Company to the pension scheme on behalf of the highest paid Director was £4,000 (2020: £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. Total key management compensation, including Directors, for the period is £6,386,448 (2020: £5,010,813).

In addition, 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. The arrangement has been treated as a fully vested share-based payment, with the full cost and liability recorded as of 31 December 2021. The cost and liability has been calculated as £3.464m as at 31 December 2021 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 2021, there are five such loans outstanding between the Bank company and related parties totalling £30.7m (31st December 2020: £29.6m). During the year, loans with related parties totalling £1,908,167 were fully repaid. 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 £1.5m were held as at 31st December 2021 (31st December 2020: £6.0m).

Other transactions with related parties – the Company

	2021 £000	*2020 £000*
Amounts owed related entities:		
Balance receivable from subsidiary	-	-
Total	-	-

Transactions with related parties

	2021 £000	*2020 £000*
Management fees received from Subsidiary	**120**	120
Total	**120**	120

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

The Bank company made contributions to an employee savings plan during the year ended 31 December 2021 totalling £4,281 (2020: £31,683). The contributions are held as a deposit in the Bank Company.

35 Business Combinations

Acquisitions in 2018
Acquisition of Cynergy Bank Limited

On 23 November 2018, the Company completed the purchase of Bank of Cyprus UK Limited from Bank of Cyprus Public Company Limited following the receipt of regulatory approvals from the Prudential Regulation Authority and European Central Bank. The effective date of the purchase was 30 September 2018. On 7 December 2018 "Bank of Cyprus UK Limited" rebranded to "Cynergy Bank Limited". The reason for the acquisition is to unlock the significant opportunities for growth and to better address the needs of small businesses in the UK banking sector, including those of the Cypriot community.

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

The acquisition has been fair valued under IFRS3, with no material adjustments found during 2021, save for the value of deferred consideration. Deferred consideration was fully paid in 2020.

Assets acquired and liabilities assumed at fair value

Assets	***£000***
Cash and cash equivalents	285,248
Loans and advances to customers	1,629,909
Other assets	46,318
Intangible assets	1,672
Property and equipment	15,293
Liabilities	
Customer deposits	1,767,440
Provision for customer redress	14,455
Other liabilities	47,166
Subordinated loan	29,511
Total identifiable net assets at fair value	**119,868**
Gain on bargain purchase *	(17,482)
Purchase consideration transferred	**102,386**
Purchase consideration (There are no contingent consideration arrangements)	
Purchase price	98,710
Purchase price adjustment	3,676
	102,386

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

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

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

36 Share-based payments

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

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

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

	2021 Number of Shares	*2020 Number of Shares*
As at 1 January	**4,358**	3,735
Granted during the year	**665**	994
Forfeited during the year	**(660)**	(371)
Total	**4,363**	4,358

For the year ended 2021 the fair value of the awards granted was assessed and a charge of £2,528,576 is included in the income statement. A corresponding liability of £5,171,186 is included within other liabilities. The scheme has come to an end as of 31 December 2021.

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 £3.464m as at 31 December 2021 based on a third party valuation. As the agreement is with a Director of the Bank it is also disclosed in the Bank Company 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 2021.

37 Events after the reporting period

In March 2022, the Bank Company issued 6,000,000 ordinary shares at their par value of £1 each to the Cynergy Capital Ltd, with a total cash consideration of £6,000,000.

In late February 2022 Russia invaded Ukraine resulting in sanctions being introduced on certain Russian banks, industries and individuals. This has resulted in a dislocation in supply chains, particularly for products such as precious metals, and a significant increase in the price of oil.

We recognise that this will have an impact on the economic recovery in the UK.

We were already seeing inflationary pressures in the UK, and this will be exacerbated by the situation in Russia. Although the Group has minimal exposure, directly or indirectly, to Russian banks, corporates or individuals the increased rate of inflation will impact on our customer base from the higher cost of living and likely lead to a shift in spending patterns and add pressure on savings. Depending on the depth and duration of sanctions imposed this could lead to increased loan defaults and an outflow of deposits. At the present time, there has been no discernible impact on the Bank. The Board will continue to monitor the situation closely and take action to mitigate any adverse impacts on the Group, as appropriate. At this stage it is too early to quantify reliably any financial impact.

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