

ANNUAL REPORT & ACCOUNTS

2022

Cynergy Bank

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STRATEGIC REPORT

INTRODUCTION

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

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

Empowering our business customers

We provide specialist banking and business services to ambitious small to medium enterprises (SMEs*) and their entrepreneurial owners. We understand their needs, feel their pain and are excited by their successes.

We have a strong track record supporting businesses. At the end of 2022, we had £3.3bn of lending, supporting thousands of customers in multiple sectors of the economy.

In addition, in 2022, total lending of our new subsidiary, Cynergy Business Finance (CBF), grew to £100m, funding 115 clients across receivables, property, inventory, and plant and machinery products.

Supporting savers

We design and provide good value savings products for customers to help them get a meaningful return on their money. Our award-winning products continue to benefit our savers – and we saw deposits grow by 18% in 2022.

*Ambitious small/medium businesses, business owners, property entrepreneurs and family businesses with the capability and capacity to grow.

Using technology to enhance, not replace, human interactions

Our human-led approach, enabled by the latest digital technology, empowers our colleagues to deliver exceptional service. We build enduring relationships and offer banking solutions that meet our customers' needs.

Supporting colleagues and society

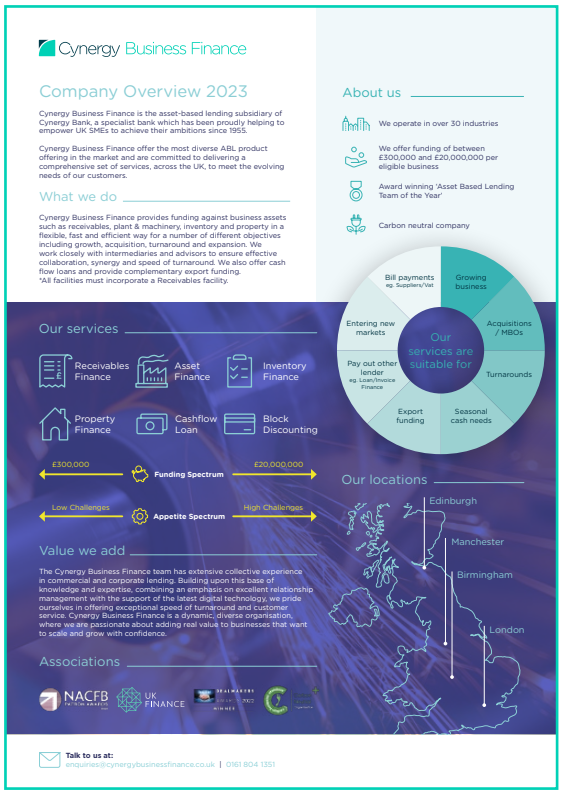
We pride ourselves on our employee engagement – supporting our colleagues, financially, professionally and culturally. We are also investing significant time and effort into ensuring we will do our part to support the UK's transition to carbon Net Zero.



BRAND AWARENESS



Adverts





Speaking events



Sponsorships



Social media







Awards

FINANCIAL HIGHLIGHTS

Cynergy Bank today

£3.3bn
loans and advances

94%
staff engagement

£3.3bn
customer deposits

4.2
rating on Glassdoor

91k
total customers

3
banking awards won

+49
net promoter score

5 regional offices across the UK

3.9
Trustpilot rating

CBF £0.1bn funds out and profitable from Q4

FINANCIAL HIGHLIGHTS

2022 performance summary

We've seen an increase in lending and are delighting our customers with a return to a net promoter score of +49, and we continue investment in our digital transformation, all the while improving our underlying cost/ income ratio and return on equity.

Profitability grew to £50.5m in 2022, amid a challenging macro economic environment. Net lending growth of 10% including CBF, the relaunch of fixed rate lending alongside margin improvement all contributed to a 66% PBT growth over 2022.

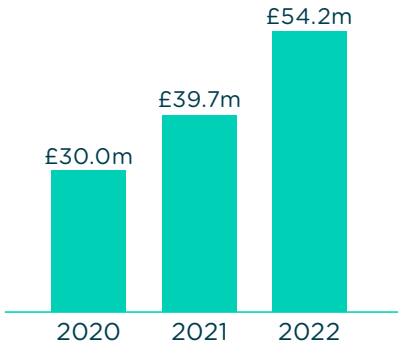
Underlying performance up with profits up 36% to £54.2m and RoE up 170bps to 17.1% delivering much improved returns to our investors.

Underlying Profit Before Tax (PBT)

£54.2m

2021: £39.7m

+36%

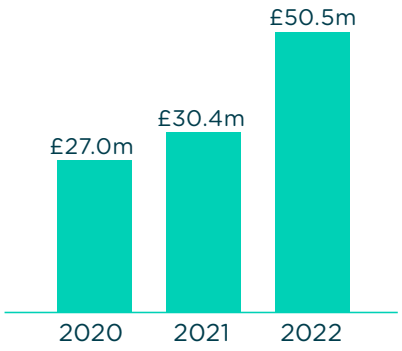


Profit Before Tax (PBT)

£50.5m

2021: £30.4m

+66%

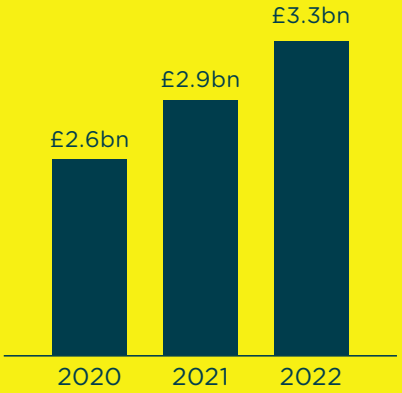


Net Lending Book

£3.3bn

2021: £2.9bn

+14%

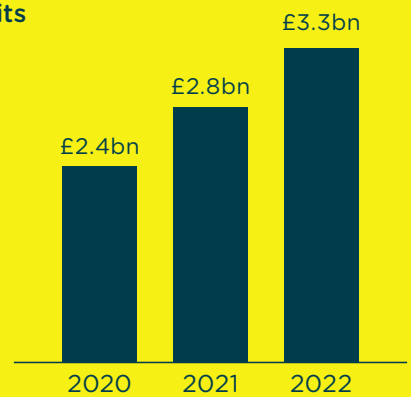


Customer Deposits

£3.3bn

2021: £2.8bn

+18%



Note: Underlying Profit Before Tax is an alternative performance measure and is defined on page 166.

FINANCIAL HIGHLIGHTS

2022 strategic successes

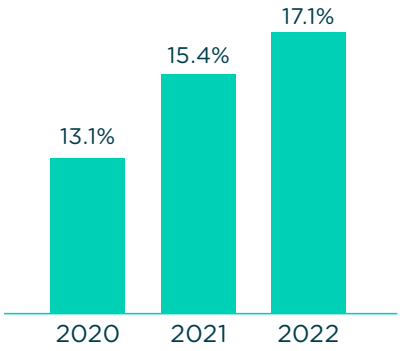
- Gross new lending of £1.2bn to bring total net lending book to £3.3bn
- Net Interest Margin (NIM) growth of 74bps to 3.66% driven by the growth in higher-margin lending in CBF and Commercial, as well as an increasing base rate
- Return on equity increased to 16.1% delivered through good cost discipline alongside revenue growth and an efficient management of capital towards higher return assets
- Investment in new property footprint to support our clients led to sale of both London properties to allow for relocation in 2023 to One New Change
- Launch of fixed rate lending to support our customers in managing their cashflow
- Cost efficiency demonstrated through a reduction in our cost/income ratio of 3% to 56%, while absorbing continued investment in our people and technology
- Demonstrable improvement in customer satisfaction
- Cynergy Business Finance turned profitable by the end of its first full year of trading

Underlying Return on Equity (RoE)

17.1%

2021: 15.4%

+170bps

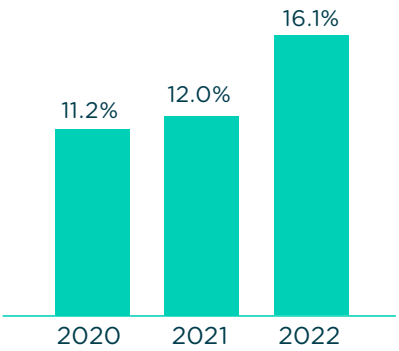


Headline RoE

16.1%

2021: 12%

+410bps

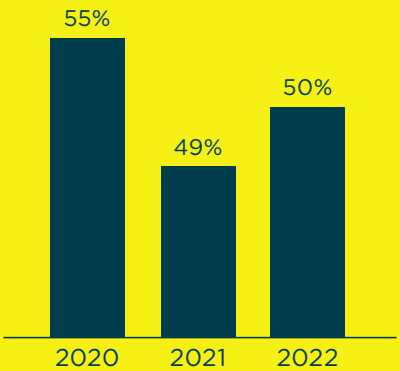


Underlying Cost/ Income Ratio

50%

2021: 49%

+100bps

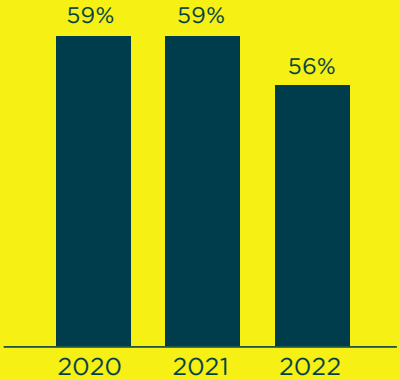


Headline Cost/ Income Ratio

56%

2021: 59%

-300bps



Note: Underlying Cost/Income Ratio and Underlying Return on Equity are alternative performance measures and are defined on page 166.

SECTION 172 STATEMENT

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

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

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

This section sets out how the Bank's[1] Directors take these requirements into account in taking their decisions.

The Bank's governance framework (as set out on pages 44-47) governs the conduct of the Board and the Executive team and is vital to the success of the Bank. 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 were implemented during the year. Additionally, further external advice was sought in relation to other Bank-wide matters that resulted in improvements and recommendations in respect of Corporate Governance that were additional to the tri-yearly independent review. Also, the Chairman reviews each Director's 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 while looking to try to treat everyone as fairly as possible. Below we have set out some examples of how this has been achieved with our stakeholders in the last year:

Customers

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

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

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

As the phased deployment of this programme starts being rolled out, customers will start to see the benefits of the considerable hard work put in by staff

[1]Together with its subsidiaries, Cynergy Bank Limited is referred to as 'the Bank' within the Annual Report and Accounts.

and the Bank's technical development team with a market-leading customer experience.

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

Suppliers

In May 2022, the 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 Bank 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 staff numbers increased to 324 employees. The Bank continues to work on a hybrid basis, with most staff working at least three days in the office; in the meantime, the Board and the Executive team have been working hard to get a better office environment for staff in order that everyone can work in the most efficient manner. To that end, the Bank completed the sale of both the Southgate office and the Charlotte Street office and entered into a lease in respect of premises at One New Change overlooking St Paul's Cathedral in the heart of the London business community. Fit-out work is progressing well and it's hoped that staff will be able to work from this location from the end of April 2023.

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

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

Environment

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

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

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

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

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

The Bank retained its Carbon Neutral Plus certification in 2022, offsetting a carbon footprint of c230 tonnes. We selected the same projects again this year and for

each tonne of 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.

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

Communities

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

Regulators

The Bank, as a dual regulated firm, has good working relationships with both the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) as well as with bodies such as the Bank of England and the Financial Services Ombudsman. Senior members of the Executive brief the regulators on key issues and the Compliance team manage the day-to-day relationships. The Board are kept appraised of key regulatory developments and interactions with regulators at each Board meeting. Over the course of the year, the 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.

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

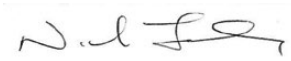
Members of the Board are provided with regular updates on regulatory developments, and both Board members and senior staff attend regulatory training sessions. The Executive team also subscribe to key industrial groups and participate in activities organised by such groups as UK Finance.

Shareholders

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

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

The Strategic Report was approved by the Board of Directors on 4 April 2023 and was signed on its behalf by:



Nick Fahy
Chief Executive Officer
4 April 2023

CHAIRMAN'S STATEMENT

'We have delivered excellent returns for shareholders in the year, with profits of £50.5m and a return on equity of 16.1%.'



In my second year as Chairman, I reflect back on yet another challenging period for our business, with the effects of Covid being overtaken by economic and political pressures which will continue to create material uncertainty as we move forward into 2023.

With inflation at an all-time high, and interest rates still rising, we do not underestimate the impact this is having on our customers and our colleagues. Our staff have been as resilient as ever, supporting our lending customers as many chose to switch their facilities from variable to fixed rates following the rapid rise in interest rates, thereby providing some stability to their cash flow. We have also seen a significant increase in customers placing deposits with Cynergy Bank to achieve market-leading returns on their savings. This in turn placed higher demands on our customer service teams, and we have adapted our operating model to ensure they continue to receive the excellent levels of service they expect from Cynergy. We finished the year with a net promoter score of 49, a score of which we are extremely proud, seeing improvements across all products and channels, and placing Cynergy favourably against the industry benchmark.

All the while, our staff have had their own concerns over the cost of living, and I thank them once again for their loyalty and focus on the needs of our customers. Our staff engagement is at another all-time high with 94% of our staff recommending us as an employer. We monitored the cost-of-living challenges closely, and our Board was happy to recommend additional payments to our staff, including cash and vouchers, while also offering them access to support services in various areas such as wellbeing.

As we head into some form of likely recession, we recognise that some of our customers may face short-term financial pressures. We have therefore introduced a number of additional customer support measures, alongside a range of expert dedicated staff, aimed specifically at helping customers deal with their business challenges, but also supporting their resilience and growth.

I am delighted to report that Cynergy Business Finance has completed its first full year of trading and is now supporting 115 customers with asset-based lending solutions across many sectors, including

manufacturing, retail and business services. In the fourth quarter, the business reported its first profits post-startup and we look forward to helping the business grow, and expand its offering, through 2023.

As the country transitioned from lockdowns and social distancing to new norms, we returned to face-to-face gatherings and routine in our offices, with our colleagues readily adapting to our hybrid working model. The year 2023 will also see us move into our new London premises near St Paul's, bringing all of our London-based staff together. I look forward to welcoming customers and staff alike to this exciting new space.

Despite the macro uncertainty, our business model remained resilient, and we continue to make progress against our strategic plan. We have delivered excellent returns for shareholders in the year, with profits of £50.5m (2021: £30.4m) and a return on equity of 16.1% (2021: 12.0%). The Human Digital Bank is now in its initial launch phase, and 2023 should see the end of the first stage of this important transformation.

There are a number of key priorities as we enter 2023, regulatory as well as initiatives to enhance our customer experience. New regulation, in the form of Consumer Duty, will impact across the sector, ensuring all banks deliver their best for each and every customer, and we welcome these new regulatory requirements. Our 2022 net promoter score demonstrates that our customers think we do well already, but we must never be complacent.

ESG is rightly also becoming far more centre stage in our strategic plan, and we see this not just as a set of metrics and targets for others to measure us against, but instead a better way to conduct our business. Inclusion and Diversity (I&D) brings a breadth of talent and experience to enable us to progress our strategy.

To further I&D within the Bank, we have appointed Board and ExCo sponsors and established informal, fireside chats, to better connect people and foster inclusion. This year, we turn our focus to the reduction in our total carbon footprint, developing products aligned to our ESG ambition, building a diverse, agile and engaged workforce and continuing the great work with Noah's Ark and in our local communities.

As the Government works to stabilise the economy, our top priority for 2023 is to support our customers and help them navigate this uncertainty, while at the same time developing the digitally enabled products they value; against this background, we predict safe and solid performance growth this year. As mentioned earlier, some form of UK recession feels likely in the current economic and geopolitical environment, but please be assured that we as a Board will continue to ensure we have robust risk management, and the appropriate controls and procedures in place, to protect our franchise.

I would like to finish by confirming our commitment to both our customers and staff and wishing them well during these difficult times when financial stability is a real and present concern for so many.

Finally, as I do each year, I would like to thank my fellow Board members for their support and hard work during the year, and our shareholders for their commitment to the ongoing success of Cynergy Bank.



Euan Hamilton
Chairman
4 April 2023

CEO REVIEW

'Our customers are our top priority, and we continue to offer them support to develop their businesses at a time when they need it most. Our net promoter score jumped back to an above UK average of +49, a substantial uplift in the year from +25 in 2021.'



As I reflect on 2022, I feel a great sense of pride. It's been far from an easy year for all of us; with Covid largely behind us, the slowdown continued for a different reason, with inflation rising rapidly and interest rates rising faster than we have seen for decades.

The Bank has delivered a solid set of results, an excellent performance against the continued challenging backdrop. I am immensely grateful to all our customers for banking with us and staff who continue to deliver these results. RoE was 16.1%, a 4.1% increase on 2021, with further investment from shareholders. Profits grew to over £50m and our cost/income ratio also improved to 56.4%, a great position considering we have also heavily invested in staff and product development to improve our customer offering.

Our customers are our top priority, and we continue to offer them support to develop their businesses at a time when they need it most. Post-Covid, we saw recovery across our customer base with those who had required payment holidays moved back to full servicing of their debt. We are currently seeing early signs of strain again for some customers and sectors.

We are introducing new customer support measures, with affordability a key challenge. We have rightly tightened our credit policies to suit the current market and keep them under constant review. The quality of our loan book saw us through Covid, raising no material concerns as we navigate the current macro environment.

Delighting our customers

Our net promoter score (NPS) jumped back to an above UK average of +49, a substantial uplift in the year from +25 in 2021. This is linked to a material breakthrough in improving customer experience across the entire product suite and across all channels. It was also extremely pleasing to see our Trustpilot scores continue to climb to an average of 3.9, ranking our service 'great'. The investment in a premium customer service model is clearly valued. We have invested in systems and systems reviews to deliver the product experience and stability demanded by the market through our Operational Resilience programme.

This is a great achievement in one year, and I express my thanks to all our Operations staff and leaders who have worked tirelessly for our customers.

It was amazing to celebrate with a customer event in September, our first since 2019. We proudly shared our stories of success as well as those of our customers, and collectively we supported the invaluable work of our nominated charity, Noah's Ark Childrens Hospice, raising an incredible £60k.

Customer feedback

MC 1 review GB

★★★★★

Ten out of Ten for Cynergy

Over the years the personal banking manager relationship has failed with all other banks, and it was a great pleasure to be able to deal with Cynergy Bank and I can confidentially say that it has been the best working relationship with a bank that I have had for over 20 years for which I am grateful.

Date of experience: 02 November 2022

MR 2 reviews GB

★★★★★

Loan

Brilliant customer service, was easy to reach and had professional attitude towards customers. Also my relationship manager is easy to contact and replied to us as soon as possible.

Date of experience: 18 October 2022

GH 2 reviews GB

★★★★★

How to treat Customers

I telephoned Cynergy Bank to query my ISA bank accounts details (something I dread doing with any Company) I was advised to open a new account and transfer money across from an existing account.

The Agent (young Lady) stayed on the phone and guided me through each step of the process until the task was completed.

She was a credit to Cynergy and was customer focused. This I find to be quite rare in todays business world.

Thank you Cynergy Bank.

Date of experience: 29 November 2022

Our nominated charity, Noah's Ark







A strong set of financials

Turning to our financials, 2022 was a strong year of performance, with all key metrics being enhanced over prior year. Profit before tax was £50.5m, a material increase of 66% with continued absorption of credit losses.

RoE grew a further 4.1% to end the year at a strengthened 16.1%, and our cost/income ratio improved 2.9% at 56.4%. These metrics continue to demonstrate good cost discipline and a quality loan book, with pricing aligned to risk. Costs of deposits came under pressure through the year, with the market seeking the best returns for their money. Despite this, and while continuing to provide value to our existing depositors, we grew our NIM to 3.66%.

Our revenue growth of £40m (+45%) was driven by growth in our lending volumes of £305m (+10%), the rising interest rates and a one-off gain from the sale of our existing properties.

It wasn't a year without challenge. The demand for lending was subdued, our customers have rightly been cautious and instead the focus has been on creating stability for their businesses, with many seeking fixed rate lending as base rate climbed steeply. We relaunched this product in 2022 and now have c.£750m of lending on fixed rates, representing 23% of our total lending book, which itself grew £305m, 10% up on 2021 to £3.254bn.

With base rate rises comes concerns regarding affordability for some. The economic forecasts have also all trended downward leading to increased expected credit losses across the book. Actual losses remain negligible demonstrating the strength of our credit policies and that we are able to support our customers through stress. We consider we are adequately provisioned, but not complacent, with certain sectoral exposures being kept under close review given current economic conditions and the impact of cost-of-living crisis. The bridging loan portfolio is being wound down but still has potential for further downside risk given the nature of the book and the rapid increase in interest rates.

With the economy leading to a slowdown in lending activity, we took the opportunity to critically review our Enterprise Risk Management Framework with a particular focus on building increased operational risk and resilience capability including recruiting senior people to bring experience and challenge as we build out this area. This will continue into 2023.

Our strategy – Human Digital Bank

Our human-led, tech-enabled approach provides just the right technology to streamline busy lives, but never at the expense of the empathy found in a human-to-human interaction. The strategy includes not only technology transformation but also product innovation alongside core lending growth. Our transformation has continued through 2022, albeit at a slower speed than expected.

We plan for product diversification, particularly in deposits to reduce our overall cost of funds.

To enable delivery, we recruited Sharon Maguire as Chief Product and Brand Officer and Managing Director Private Banking. We also welcomed Rana Bhattacharya as Chief Digital and Information Officer and John Tudor has been appointed Chief Operating Officer as we move forward into 2023. This strengthening of the Executive Committee positions us for the next phase of the multi-year strategy, with phased deployments of customer-facing technology in 2023 and enhanced deposits and business savings and current account products due to be launched.

In 2021, we launched Cynergy Business Finance, and 2022 has been a very successful year, their first full year of trading. With over £100m in funds out, the business now supports 115 customers across more than six different sectors, and in August we celebrated their first profitable month. Their plans continue to grow, with block discounting coming in 2023, and a doubling of funds out. This is a time when asset financing is crucially important to customers.

ESG is not just a set of metrics

As our Chairman states, ESG is a fundamental part of how we develop the Bank and its product offering, how we engage in our communities, how we attract and develop talent, and how we go about our day-to-day lives.

Our commitment in 2022 was to work jointly with our customers, colleagues and suppliers to achieve our collective ESG goals. We continued the work of 2021 in assessing the Bank's exposure to climate-related risk. As we look to 2023, we have plans to provide green financing and make commitments within our people strategy to continue to create an inclusive, diverse, agile and engaged workforce.

We have a long-running partnership with Noah's Ark, a children's hospice in London. I am proud to confirm our continued commitment to them in 2023 having raised over £165k since our relationship began and been involved in a number of initiatives with them, such as our continued funding of a nurse to provide individual care and support for the children and their families.

Our staff have embarked on several activities within our and their own local communities, as well as many fundraising efforts for not only Noah's Ark but also charities of personal importance to them with marathons and mountain climbs among them. The Bank continues to match all fundraising by employees to really enhance the difference we can make.

Valuing our people

Our Building Leaders programme launched in 2022 and has received excellent feedback to date. The programme objective is to build future leaders for the Bank. There have been various initiatives as a result, one being focused on Our Values. The team have refreshed our values to reflect the current environment to ensure they are concise and meaningful and to support our strategic ambition. With no need for a wholesale change, the team have cleverly brought to life the values and aligned to the word PROUD, energising both internal and external awareness.

- Putting the customer first
- Risk front and centre
- Ongoing empowerment
- United team – inclusive and diverse
- Doing the right thing

Our people are incredible. Covid and then the economic climate have forced them to be resilient for a prolonged period of time, but resilient they are and I thank them for their loyalty and commitment to the Bank, when they too have their own stress and uncertainties to face. To this end, we launched a programme of financial support, a blend of independent financial advice and shopping vouchers to recognise the difficulties brought by the rapid increase in the cost of living.

Our 2022 engagement score increased to 94%, a fantastic result against the backdrop I just described. The Board and I recognise that despite this there is still more we can do to make Cynergy Bank the place of choice for our employees; we will never be complacent.

Into 2023

As I look forward to 2023, I hope we can be more confident of the economic outlook. The market is indicating the steep rate increases may be reaching the top of the cycle. We have resisted a fall into recession thus far; however, there appears no obvious end to the conflict in Ukraine as I write this, so we proceed with cautious optimism.

We have our head office move to look forward to, where we can bring all our London teams together in a fresh and modern new environment, with fabulous views of St Paul's Cathedral.



We continue our technology transformation and the creation of the Human Digital Bank, giving our customers the right blend of digitally enabled products coupled with the human interaction we know they want.

We plan modest and safe growth in lending, reflecting the macro environment, with the potential for further rate rises in a continued effort to manage inflation. We have plans to support our customers who may face affordability concerns.

We will respond to regulatory demands, and Consumer Duty is a critical programme to complete in 2023. We see Basel 3 reform on the horizon and are working with our peers to respond to the current consultations.

Our shareholders continue to commit their support to us, and I thank them for the challenge and insight we gain from them.

As I conclude, I want to offer continued thanks to the Board and my Executive Committee. The Board have assisted us in the navigation of choppy times this year and continually help to shape our strategy.

I reiterate my confidence in the Bank's ability to adapt to the environment, delight our customers and deliver against our 2023 ambition.



Nick Fahy
Chief Executive Officer
4 April 2023



BUSINESS MODEL

OUR VISION

Our vision is to empower entrepreneurs, business owners and mass affluent professionals by building enduring relationships, enabled by the latest digital technology.

Who we are

Cynergy Bank serves the needs of scaleup SMEs, professionals, high-net-worth and mass affluent individuals. We recognise that professional and personal lives often overlap, and our mission is to help empower our customers to achieve their ambitions by serving all their banking needs, be it providing immediate decisions on short-term finance needs, making attractive returns on personal and business savings, supporting their transactional banking requirements, personal mortgages or more complicated longer-term business lending. We serve our customers via our digital channels, our offices in London, Birmingham, Redhill, Manchester and Glasgow, and through our extensive broker network.

We are developing the Human Digital Bank, which will provide an enhanced range of digitally enabled products and services to meet the needs of our customers delivering excellent personal service and a great customer experience in property finance, commercial banking, asset-based lending (Cynergy Business Finance), private banking, personal and business deposits.

Cynergy Bank has developed an asset-based lending offering, Cynergy Business Finance, providing loans to businesses to borrow against business assets such as receivables, plant and machinery, inventory and property. Our asset-based lending leadership team, with over 85 years of collective experience in commercial and corporate lending, is well placed to drive the business forward and position it as a leader in the field. We are committed to delivering a comprehensive set of services to meet the evolving needs of our customers.

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

What makes us unique

The Cynergy Bank human digital model will empower entrepreneurs, business owners and mass affluent professionals by building enduring relationships, enabled by the latest digital technology.

At Cynergy Bank, we understand the power of technology but still firmly believe in the importance of human-to-human interactions when it comes to dealing with your bank. Digital banks have focused their efforts on app-based delivery while large banks continue to adopt a ‘one-size-fits-all’ approach to SMEs and client relationships. Our human digital model combines tailored customer relationship management with the full digitisation of traditional banking products.

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

While technology has many benefits, it is no substitute for human contact. We will always put enduring and respectful customer relationships at the heart of what we do and provide quality products, services and expertise. We place emphasis on guaranteeing that more complex matters are dealt with face to face, if that's what our customer wants, by putting them directly in touch with the right team member. We will continue to engage with our customers in person as well as online.

We will use technology to enhance personal relationships, not replace them, using innovative digital technology, to help our customers manage their interdependent professional, business and personal financial requirements.

We continue to regularly review and make improvements from the feedback we receive from our customers.

Nick Fahy, CEO, at our customer event at The Londoner, September 2022



OUR BUSINESS

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



The human digital model will empower entrepreneurs, business owners and mass affluent professionals by building enduring relationships, enabled by the latest digital technology. To help us fulfil this vision we continue to work tirelessly to meet our customers' needs.

Our products go through customer research and a rigorous product approval process before they are launched into the market to ensure they will perform as expected and deliver the right customer outcomes.

All products are then reviewed on a regular basis to ensure they continue to deliver good outcomes. Our communications are written in plain English and go through a review process to ensure they are easy to understand for all customers. Our customer service team and relationship managers are also available for any enquiries. We recognise that our customers have a diverse range of needs across their business and personal lives, and we differentiate ourselves by offering a blended service to meet these needs.

Property Finance

Lending solutions to family-owned property entrepreneurs supporting their wealth creation. This includes capability to make quick decisions whatever the customer's needs including buy-to-let investments. We also offer bespoke business and commercial mortgages.



Private Banking

Services that support personal and family finance needs including our range of high-net-worth lending products.



Commercial Banking

Providing lending services to commercial banking customers, with a particular focus on the hospitality and healthcare sectors. We also support customers through the provision of development finance funding and business banking lending solutions and products.



Cynergy Business Finance

Cynergy Business Finance offers asset-based lending facilities to UK SMEs. Products include funding against receivables, plant and machinery, inventory and property.



OUR MARKET

Our relationship banking model, combined with speed of quality decision making, serves our strategically important market segment of scaleup SMEs, professionals, high-net-worth and mass affluent individuals.

2022 was a challenging year for the UK's 5.5m smaller businesses. As the backbone of our economy, they were faced with weaker economic activity driven by high inflation and higher borrowing costs, as well as a squeeze on household incomes.

Despite this challenging backdrop, UK gross lending to SMEs grew by 12.8% to £65.1bn. However, a record repayment amount of £73.6bn resulted in a negative net lending of £8.5bn to UK SMEs in 2022.

In the challenger and specialist bank sector, UK gross lending was £35.5bn in 2022, which was 55% of the overall lending to SMEs.

By Q3 2022, the total value of UK SME deposits was at £265bn.

We strongly believe SMEs value a relationship-managed service, and the move in customer preferences away from big banks to challenger banks. This is a long-term trend in which we are well positioned to support SMEs in achieving their goals.



Key needs of medium businesses



Build and protect wealth

I am a property entrepreneur and need quick decisions.

I need a trusted advisor to support me with my property business.

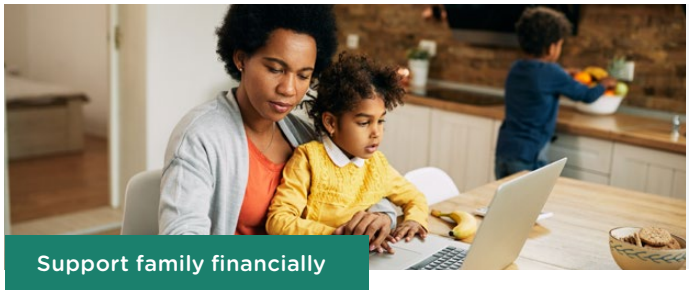
I have a trading business that requires asset-based lending to grow.

I enjoy supporting my community economically and socially.

I want to connect with other entrepreneurs.



Support my community



Support family financially

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

As a trading SME, I help create jobs and wealth for my valued employees and their families.

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



Maintain health and wellbeing



Grow my business

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

I can grow my business through additional funding against assets in my business.

OUR PROMISE TO CUSTOMERS

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

Business

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

Savings

- Value and reward – our best deals are always available to our existing customers
- Safe and secure – your eligible deposits are protected by the UK's Financial Services Compensation Scheme up to £85,000
- Direct access – you can get help and access when you need it online 24/7, 365 as well as from our knowledgeable UK call centre



To ensure we safely and securely continue to meet our customers' needs and our promises, we are committed to having robust processes and governance in place.

Data protection, ISO certification

The Bank is ISO 27001 certified for Information Security Management System since 2010. This is a globally recognised security standard published by the International Organization for Standardization (ISO), enabling us to achieve our security objectives and measure the effectiveness of our Information Security Management System. This ensures the safety of customers' data and secure online transactions, mitigates cyber-attacks, meets regulatory requirements and builds trust with customers.

Business continuity

The Bank is ISO 22301:2019 certified for Business Continuity Management, which confirms that we follow and achieve the recognised business processes, applications, people and supporting infrastructure standards audited by the British Standards Institution.

Anti-corruption

Our business is always conducted in a fully open and honest manner, and we have a zero-tolerance approach to bribery and corruption, with all staff members receiving regular training to ensure they are able to fulfil all of their regulatory and ethical obligations.

Whistleblowing

We want all our staff to be aware that they are able to raise any concerns they might have in a secure and safe manner without fear of recrimination, and the Bank has dedicated channels through which any such reports can be made.

Taxation

Our taxable income is generated wholly within the UK, and we comply fully with all tax obligations, co-operating fully and openly with tax authorities when required. Further details on how we ensure compliance with tax laws and filing obligations can be found on cynergybank.co.uk.

Health and safety

We take the health and safety of our employees very seriously and perform regular testing of our working environments to ensure that all our colleagues are working in a safe environment whether in the office or at home to ensure they are able to provide our customers with the best possible service. The Board are briefed on health and safety on a regular basis throughout the year.

Supplier relationships

We work with a large number of suppliers across all areas of the Bank, who are essential in allowing us to provide the level of service to our customers that we do. We are committed to treating all of our suppliers fairly and in return expect all of our suppliers to share in our commitments to our customers.

OUR CUSTOMERS

Case study: Adderstone Group. Trust, communication and shared values.



Adderstone Group London office, 7 Stratton Street, Mayfair

A loan from Cynergy Bank enabled property development company Adderstone Group to secure their perfect London office. For founder Ian Baggett, it cemented a long-term relationship built on trust and mutual respect.

In 2022, Newcastle-based Adderstone Group purchased a freehold building in Mayfair, London. The goal was to make it their head office.

Almost 30 years before, Cynergy Bank Relationship Director David Stokoe, then employed at another bank, had signed off Ian's first-ever property loan of £13,000, when Ian was still at university.

'Because of the long-standing relationship with David, he was the first person we called about the Mayfair office,' Ian says. The asset didn't necessarily 'tick all the boxes' for a typical bank. But Cynergy Bank was able to take a commercial view on the deal and the asset, confident in Adderstone Group's ability to exploit its potential to add value.

The loan was also complex, with a lot of time pressure. 'I'm not aware of other lenders that would have performed as efficiently, and provided such a personal level of service,' Ian says.

The signs of a successful lending relationship

Ian recognises that for a bank, being ahead of the curve with technology is important, and as CEO of Adderstone Group he says, 'If I don't hear any complaints, clearly the technology is working well. With Cynergy Bank it's been seamless.'

But direct human contact is also important, especially having a decision maker to chat to. The Bank has a genuine interest in supporting Adderstone Group, and Ian believes this empathy is a crucial part of the business relationship. 'Your lender has to genuinely want to understand you, and vice versa.'



Ian Baggett, Founder of Adderstone Group, and David Stokoe, Cynergy Bank Relationship Director, outside Ian's first property in Bowburn, County Durham



According to Ian, the relationship also depends on good communication, and shared values, including trust, loyalty and respect. 'You don't get that from a lot of lenders,' he says.

Challenging market conditions

Rooted firmly in North-East England, Adderstone has reacted quickly to market trends over its three decades of operation, making its mark in a variety of sectors from student accommodation and buy-to-let apartments to business parks and offices, construction contracting, the ground rent market – and now social housing. The Group's portfolio is valued at more than £150m.

Obviously, the company carries debt, so recent interest rate rises have had an impact. But as Ian says, to have sensible levels of gearing and debt in inflationary times is quite a good position for a property company to be in.

'It's just where we want to be', he says. 'We're holding quality assets, in good locations, in the right sectors, with a bank we can trust.'



Above: Pipewell Quay, Tyne and Wear. Top: Adderstone Group head office, The Fleming, Newcastle upon Tyne

The importance of environmental, social and governance

Adderstone Group has always taken ESG seriously, behaving responsibly towards the environment, the communities and societies in which they operate. Otherwise, their success just isn't sustainable.

Current social housing developments are industry leading in terms of sustainability, at least EPC A rated. With other restoration and renovation projects, the company takes a whole lifecycle approach to carbon analysis.

'Our responsibility to the community is what motivates us to make an impact, especially in our home city,' Ian says. He's proud of the fact that 1% of the population in Newcastle upon Tyne is living in homes developed by the company he founded.

While some banks are prescriptive about their ESG requirements, 'Cynergy Bank trusts us to implement ESG in a way that's appropriate for our business and ties in with our values,' Ian says.

Adderstone Group and Cynergy Bank into the future

Because Adderstone Group is highly entrepreneurial and opportunistic, it's difficult to say with certainty how the business is going to develop. But one thing is certain: they're not stopping. 'We have a very motivated team, full of shared purpose. And we're determined to continue to make a difference,' Ian says.

'We're genuinely delighted to have cemented the relationship with Cynergy Bank,' he adds. 'They've helped us write this latest chapter in the Adderstone story and we look forward to doing lots of good work with them for many years to come.'



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR SUSTAINABILITY STRATEGY AND AMBITION

This environmental, social and governance (ESG) section provides insight into how we are embedding sustainability across Cynergy Bank and discloses the actions we've taken across key focus areas. We recognise this is a start and are focused on both doing more and disclosing more in the future.

As a specialist bank focused on empowering business owners to help them meet their goals sustainably, we understand that we have a responsibility to respond to the threat of climate change. We have embarked upon a programme of work to address this evolving climate risk and ensure that we are able to address associated challenges. As a lender, we believe that our position enables us to contribute towards assisting our customers, and by extension, wider society to move towards a low-carbon economy.

We have our strategic ambitions across the three ESG pillars:

- **Environment Pillar** – we are committed to managing our impact and supporting our customers to manage their impacts on their environments, to mitigate the potential financial risks stemming from climate change.
- **Social Pillar** – we will provide a positive impact to our customers, employees and local communities.
- **Governance Pillar** – we will ensure that there is an enterprise-wide ESG culture and governance is embedded across our decision making and values.

OUR PROGRESS

The Bank continues to improve its position on each of the three ESG pillars. While acknowledging that there is still work to do, we feel we are making progress as demonstrated in the table below, which shows our progress to date and commitment to continuing.

	Action	Pre FY '21	FY '21	FY '22	2023 onwards
Environmental	Waste recycled or used to generate electricity using First Mile vendor	✔	✔	✔	↻
	2020 Awarded ISO 14001 Certification for our Environmental Management System (EMS). The original ISO certificate awarded was for a three-year period and requires an annual audit by BSI. The audit was not performed in 2022 as the Bank is relocating to new premises in 2023	✔	✔		
	2020 Became a certified Carbon Neutral Plus organisation	✔	✔	✔	↻
	Achieved 100% renewable electricity in London premises[1]	✔	✔	✔	↻
	Waste Management[2]				
	• Materials recycled		29 tonnes	31.4 tonnes	↻
	• Waste converted to energy		23 tonnes into 16,385 kWh	25.5 tonnes into 18,204 kWh	↻
	• Waste used to create gas		4.7 tonnes	5.9 tonnes	↻
	• CO_2 saved		49 tonnes	52 tonnes	↻
	• Trees saved		297	326	↻
	• Zero to landfill waste		✔	✔	↻
	Identified initial Scope 1 and 2 emissions and have improved the capture of related data			✔	↻
	Initial assessment of emissions for our Domestic/Residential Lending Portfolio (Scope 3) completed		✔	✔	↻
Social	Cynergy Bank Gender Pay Gap report (first published 2018)	✔	✔	✔	↻
	Inclusion and Diversity Committee in place (from 2020)	✔	✔	✔	↻
	Flagship charity chosen – Noah's Ark	✔	✔	✔	↻

↻ Continuous activity ✔ Completed

[1]The Bank is relocating to a new, more sustainable, premises in early Q2 2023 so this item will no longer be reported on. The new premises uses electricity from 100% renewable sources so this will be identified in future reporting.
[2]The totals identified are running totals since recording began in 2018.

	Action	Pre FY '21	FY '21	FY '22	2023 onwards
Governance	Climate change project in place		✔		
	ESG project in place		✔		
	ESG roles and responsibilities approved by Board			✔	
	Modern Slavery (Act) Statement in place (refreshed May 2022)	✔	✔	✔	⟳
	Board ESG sponsor in place			✔	
	Executive ESG sponsor in place		✔	✔	✔

⟳ Continuous activity ✔ Completed

ENVIRONMENT

Climate change and the transition to Net Zero carbon emissions is a global priority. As well as taking action to reduce our own footprint, we are focusing on how we support our customers' climate transition. We support the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, and this report provides early insight into climate disclosures.

Our footprint

The Bank has held Carbon Neutral Plus certification since 2020. In 2022, we have offset a carbon-footprint of 230 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.

Our Streamlined Energy and Carbon Reporting (SECR) disclosures for 2022 are included in the Directors' Report on page 49.

In support of the UK's transition to Net Zero by 2050, we are setting a plan for reducing our own emissions. The Bank has, for many years, recorded elements of our footprint and started the journey to reduce our emissions. There is still work to do to understand our full footprint though and further action to take to reduce our emissions even further.

Our next step is to set Net Zero targets. These targets will include a mix of reducing our own footprint but also looking at offsetting elements of our footprint that cannot be easily reduced or eliminated.

In 2023, we will begin engagement with our suppliers to establish our proportion of supply chain emissions (usually defined as 'Scope 3' emissions) and agree ways to reduce this in line with our targets for Net Zero.

Our lending

Like many organisations, the largest sources of our emissions are downstream of our core operations. Given our business model, most of these Scope 3 emissions relate to emissions from the properties we help finance across the UK – our mortgage portfolio and other investments.

All these emissions will be reviewed as part of our journey to Net Zero, and appropriate actions will be taken to address them. Where we are unable to reduce or eliminate our emissions for particular aspects of our carbon footprint, we will investigate the most appropriate alternatives, considering both carbon removal and carbon reduction initiatives to ensure that our impact is comprehensive and well-rounded.

As a diversified bank, we provide finance across multiple sectors, and we believe we have a responsibility to help our customers reduce their environmental impact. We will, through time, develop products and services to support our customers on their transition.

In 2023, we are focusing on support for buy-to-let customers in their transition to improving a property's EPC rating to C or above, in line with the proposed future minimum standards for landlords.

Risk appetite will be further developed to support lending strategies for customers requiring assistance with this transition to promote lending to customers where properties meet EPC requirements. We have included into our credit review process for new buy-to-let lending the requirement for the customer to demonstrate that they understand the cost to bring the property up to minimum requirements. They must evidence that they have the liquidity to bring the property in line with minimum requirements.

Our new office – One New Change

A focus for the Bank is the energy efficiency and other related sustainability credentials of the buildings we operate from. In 2023, we are consolidating our two London offices into a newly refurbished office in the One New Change building, a prime location in the City of London. The sustainability credentials of the building are impressive and will assist the Bank in reducing, or at least maintaining, our carbon footprint.

The fit-out of the new office space, including the furnishings, are targeting a SKA rating of Silver, which '...comprises more than a hundred "good practice" measures covering energy and CO_2 emissions, waste, water, materials, pollution, wellbeing and transport...'.

The new building is ISO 14001:2015 certified. The ISO 14001:2015 standard provides a systematic framework for integrating environmental management practices by supporting environmental protection, pollution prevention and waste minimisation as well as energy and materials consumption reduction.

The following graphic identifies the high-level credentials of the One New Change building:



BREEAM – One New Change has a BREEAM rating of Excellent (for the office spaces)

Electricity – 100% is procured from renewable sources (supplied by SmartestEnergy)



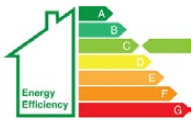


Refrigerants – When an AC or chiller unit needs refrigerants topped up, the amount required for top-up is logged. The GHG emissions are measured based on the amount that is topped up

Other key sustainability features of the building include:

- a ground source heat pump
- 180 bike racks to encourage green travel
- rainwater harvesting for WC flushing
- green roof containing wildlife-friendly plant life





EPC rating of C (for the office spaces)

- **100% of waste is diverted from landfill** and as of 2021/22 the **recycling rate was 77%**
- **ISO 14001 Certified Building**
- **Waste streams include:** mixed dry recycling (MDR), food to offsite anaerobic digestion, general waste to energy, confidential paper, glass and cardboard



We also continue to review the carbon footprint of the other buildings we operate from to identify further opportunities.

SOCIAL

We want to provide a positive impact to our customers, employees and local communities, and have made sustained progress against our social goals.

Our people

Building a diverse, high-performing, agile and engaged workforce is the overarching focus of our people strategy and is a key enabler in achieving our strategic ambitions with a particular focus on:

- Inclusive and diverse leadership: Diverse, cohesive and collegiate team of capable leaders who set the right tone, model our cultural values, deliver consistently and are ambassadors for our brand and vision.
- Culture and colleague engagement: Embrace our values and brand identity, deliver an attractive employee proposition that nurtures talent, motivate high performance, enable delivery of our ESG objectives and encourage open and transparent communication channels.
- Agile delivery: Build an agile organisation that embraces technology and the efficiencies of hybrid working, enhances collaboration internally and with external service partners and removes barriers to effectiveness.

With regard to inclusive and diverse leadership, we are making progress in improving diversity across our leadership group.

Although not a FTSE 350 firm, we embrace the recommendations and targets set out in the *FTSE Women Leaders review (formerly Hampton-Alexander Review),* i.e. 33% female representation on the Board and in senior leadership roles, and the Parker Review (at least one director from a minority ethnic background on the Board), as part of our aspiration that the diversity of our senior leadership should reflect our employee base and the communities we serve.

As at December 2022, our performance in relation to these targets was as follows:

- Female representation on Board: 33%
- Female representation in senior leadership: 19%
- Directors of minority ethnic background on the Board: 2

Our mean (average) gender pay gap has reduced in recent years from 37.0% in 2020 to 33.5% in 2022.

Key initiatives in 2022 included:

- Formally launching our online ESG training programme for all employees. This bespoke module is designed to both educate and engage our teams on our approach to this key area.
- The continuation of our wider mandatory training programme assigned to colleagues on various topics around the Code of Conduct, Equal Opportunities, and I&D.
- Implementing inclusion and diversity plans to support the delivery of a balanced and diverse leadership team and to create an environment where all employees can bring their authentic self to work. This includes appointing Board and ExCo sponsors for I&D, developing diverse talent to support their career path to leadership roles, focusing on gender diversity by requiring balanced shortlists from our recruitment partners for senior roles, ensuring our conditions and benefits support employees with their work-life balance and caring responsibilities, monitoring gender and ethnic diversity across our senior leadership group, and a continuing focus on reducing our gender pay gap.
- Being active members of Women in Banking and Finance and Inclusive Employers to support our commitment to ensuring equality and equity.
- Sponsoring the award for SME Best D&I Innovation at the 24th Women in Banking and Finance Awards 2022.



- Implementing a drive for gathering better-quality employee data on a voluntary basis, i.e. gender identity, sexual orientation, disability and carer responsibilities, to enable greater insight and more informed initiatives for our people.
- Significantly investing in training and education opportunities for our employees, including providing every employee a personal learning budget to access a range of physical and virtual resources including books, podcasts and training courses, as well as formal qualifications and study for professional qualifications.
- The creation of our first 'Building Leaders at Cynergy Bank' programme embracing a diverse cohort of high-performing and aspiring leaders. The programme entails 1-2-1 mentoring and external coaching, leadership masterclasses, personal development planning and engagement of the cohort on a selection of business-focused projects on I&D, ESG and Cynergy Bank Values & Retention.
- Promotion of various wellbeing initiatives including annual health checks for all employees, the appointment of Mental Health Champions to support those in need, an employee assistance programme and support for our employees during the cost-of-living crisis consisting of one-off payments, shopping vouchers and a plan to roll out personal financial coaching for all employees in 2023.
- Embedding our values, measuring progress and taking action to enhance the motivation and engagement of Bank employees via a bi-annual employee engagement survey, with plans created and implemented to help us address any issues that might impact engagement. We are delighted that 87% of our employees would recommend us as a place to work, with 89% of employees believing we are committed to creating a diverse and inclusive organisation.
- Conducting measurement of our culture via our ESG and Conduct Risk reporting metrics.
- Monitoring and building external perception of our brand via 'Glassdoor' and an increased presence on LinkedIn.
- Maintaining visibility and connectivity of our employees with our Board, Executive Committee and Senior Leadership Team. Ensuring clarity on our strategy and key priorities and an effective upwards feedback mechanism for employees to be heard. The Bank has regular 'huddles' to facilitate team communication, monthly 'all staff calls' via Teams led by the CEO where employees are kept informed of progress and have their questions answered, half-yearly face-to-face sessions with the CEO in small groups and celebratory events for the team to come together.
- Capturing the technology benefits of moving to a more digitally enabled business and embracing the benefits of hybrid working including support for work-life balance.

We are proud that our teams continue to feel engaged and positive on both our current progress and future plans, and we remain grateful and proud of everybody's efforts to make this a great place to work.

OUR COMMUNITY

We place great importance on the impact we can make in our local community, and this is supported by our Board and Executive Committee.

Our teams have the freedom and the Bank's support to give something back and to contribute to the community and charity engagements. Some of our highlights for the year are below.

- We have a long-standing relationship with Noah's Ark Children's Hospice, a community-based hospice service that gives clinical, practical and emotional support to babies, children and young people with life-limiting or life-threatening conditions in the North and Central London area. It also provides valuable support to their families. During 2022, we funded a dedicated nurse for the year and engaged in various fund-raising activities for the charity.
- We sponsored a 'build your own rocket' event with AmbaSat for pupils of Fircroft Primary School in Tooting. AmbaSat are a firm who specialise in educating children about the space industry, satellites and opportunities within the STEM sector.
- We match employee fund-raising for various charitable causes that are important to them.
- Every employee is eligible for two days' paid leave each year to support charities that are close to their heart – whether it's sorting donations at a local charity shop, helping in local schools, presenting a friendly face at a neighbourhood care home or assisting cooking lunches for the homeless.
- Finally, through Charities Aid Foundation, we match employees' donations through payroll to their chosen charity.



GOVERNANCE

Key to delivering on our ESG ambition is to ensure it is embedded through our decision making and values, integrated into governance and risk management.

Governance structure

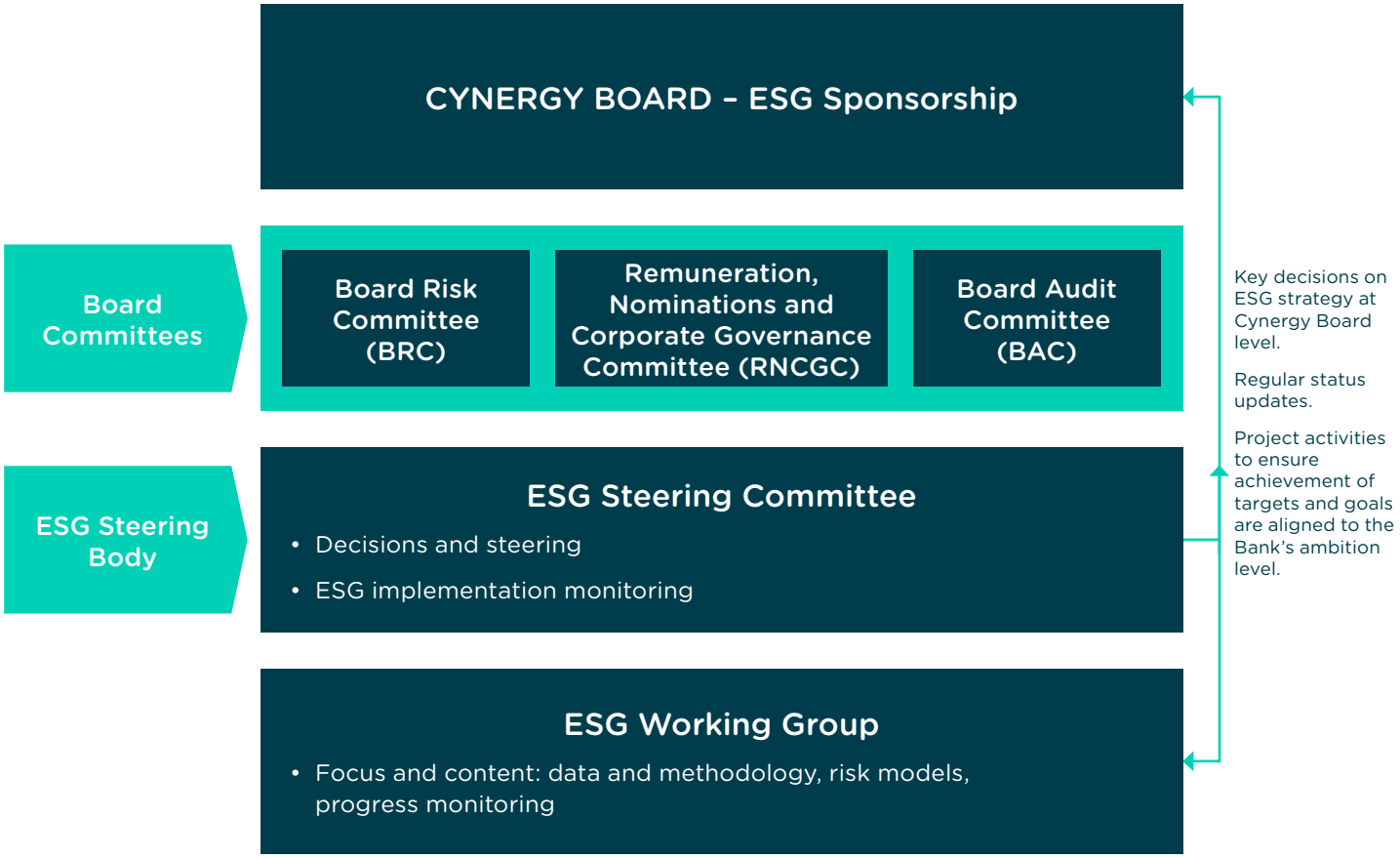
As a bank, we are aware that our climate ambitions can only be achieved through the successful integration of these matters into our governance and management structure. To that end, ESG has been a consideration for the Board and the Executive Committee.

During 2022, one of our Non-Executive Directors was appointed as the Bank's ESG Board Sponsor.

From 2023, our Chief Product and Brand Officer and Managing Director – Private Banking has taken up Executive sponsorship for ESG.

ESG roles and responsibilities across the various committees, teams and working groups have been approved, and work continues in 2023 to further embed these across the organisation.

With regular meetings to cover the topics of ESG, the Bank manages the different aspects through a hierarchical structure. Each employee has their part to play in that they must adhere to Bank policy and guidance and complete all relevant mandatory training modules relating to ESG and climate change risk.



The table below summarises the roles and responsibilities of the various committees.

Committee	Responsibility
Cynergy Bank Board	The Board has oversight of risks and opportunities at a strategic level, alignment with business strategy, progress against most significant objectives and commitments and overall communications strategy (internal and external).
Board Risk Committee (BRC)	Both BRC and Board Audit Committee (covered below) have delegated authority from the Board to provide oversight of metrics, key performance indicators and disclosure in financial filings, integration of ESG in Enterprise Risk Management.
Board Audit Committee (BAC)	Engagement on ESG issues with stakeholders as well as oversight for overall compliance with regulations and disclosure, reporting and controls.
Remuneration, Nominations and Corporate Governance Committee (RNCGC)	Oversight of Board self-assessments, diversity, recruitment and skills matrix, along with ESG factors, goals and metrics in Executive compensation, Board expertise and education, employee engagement, retention, recruitment, talent development, corporate culture, I&D, health and safety, pay equity, benefit and compensation programmes.

RISK MANAGEMENT

The Bank will further develop its Risk Management Framework in 2023 through the creation of a formal climate risk appetite statement (RAS). Credit policies and risk appetite statements will be further developed such that underwriting criteria clearly promotes lending to energy-efficient properties and supports those customers who need to transition their properties to environmental compliance, particularly in relation to EPCs.

As a diversified UK bank, we provide finance across multiple sectors and believe we have a responsibility to help our customers reduce their environmental impact. Central to this is understanding the carbon emissions that are enabled through our lending and financing activities. Financing environmental impact is a highly material issue and therefore a key focus of our sustainability considerations going forward.

Climate and environmental changes (or risks) have differing implications across the Bank's Enterprise Risk Management Framework. As a result, the Bank has embedded climate and environmental change as a key factor in the Strategic Risk category. Climate and Environmental Change manifests in physical and transitional risks, both of which have the potential to impact the following principal risks:

- Credit risk
- Operational and conduct risk
- Market risk, specifically interest rate risk in the banking book (IRRBB)
- Liquidity and funding risk
- Strategic risk
- Model risk
- Capital risk

The resulting impact(s) to the Bank can be both financial and/or non-financial.

We categorise the financial risks of climate change associated with lending into two categories – physical risks and transitional risks.

Physical risk

Physical risks refer to the risks arising from the direct physical impacts of climate change. They are contributed to by a number of factors and relate to specific weather events (such as heatwaves, floods and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise and rising mean temperatures). Our initial focus has been on the risk posed by flooding.

Transition risk

Transition risk refers to the risks related to transitioning to a low-carbon economy, which ultimately could impact asset values or the cost of doing business. Transition risk can materialise through regulatory or government pressures to reduce the environmental impact of product chains, impacting the ability to realise security on an asset or continue business lines.

During 2022, we have made progress in assessing the potential financial impact of climate change on our buy-to-let mortgage book. During 2022, modelling has been undertaken on the Bank's buy-to-let mortgage 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.

Regulatory guidance and industry best practice is continuing to evolve and will be incorporated into the Bank's ESG approach and related climate and environmental risks. Refinements will be aligned to new methodologies and data accessibility. The Bank will continue to review its own target operating model to ensure that climate and environmental risks are minimised.



CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS



Nick Fahy,
Chief Executive

Appointed to the Board
in January 2016

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

Nick has been CEO of the Bank since December 2015. During his tenure, he has overseen the acquisition of Bank of Cyprus UK by Cynergy Capital Limited in November 2018, and the rebrand to Cynergy Bank in December 2018. The acquisition forms part of his ambitious plans for the future of Cynergy Bank, enabling the Bank to grow its franchise across the UK and internationally and redefine banking with the Human Digital Bank. The Cynergy Bank human digital model empowers entrepreneurs, business owners and mass affluent professionals by building enduring relationships, enabled by the latest digital technology. Nick signed a partnership with Google Cloud and Wipro to continue to evolve the Human Digital Bank.

Nick joined Cynergy Bank from the Westpac Banking Corporation where he had been State General Manager for the bank's retail and business banking operation in Western Australia. Prior to Westpac, he spent 17 years with Bank of Ireland Group in a variety of senior executive roles.



Euan Hamilton,
Chairman

Appointed to the Board
in March 2016

Euan was appointed as Chairman in June 2021 following the retirement of Philip Nunnerley. He was a Director, Restructuring and Recoveries, with Bank of Cyprus Group. Before joining Bank of Cyprus, Euan held a range of senior executive roles with RBS including Deputy CEO of the Bank's Non-Core Division, and Global Head of its Sponsor Coverage and Leveraged Finance businesses. Euan is also currently the Non-Executive Chairman of Resolute Asset Management Holdings (Malta) Ltd and Non-Executive Director at AIM-listed Accrol Group Holdings plc. Euan is a Fellow of the Chartered Institute of Bankers in Scotland.



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

Appointed to the Board
in May 2017

Kim worked at Leeds Building Society for 28 years, most recently as the Sales and Marketing Director and an Executive member of the Board. She holds the Financial Times Non-Executive Diploma and is also a Director of Furness Building Society and Redmayne Bentley, Investment Managers.

Kim is a Fellow of the Chartered Institute of Bankers and she holds a post graduate diploma in financial services.



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

Appointed to the Board
in September 2019

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

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



Bal Sohal,
Non-Executive Director

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

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



Pradip K Dhamecha,
Non-Executive Director

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

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

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



Peter Oliver,
Independent
Non-Executive Director

Appointed to the Board in September 2021

Peter is the CMO at DAZN, the world's leading live sports streaming service. Previously, Peter was the BT and EE Managing Director for Small and Medium Enterprises driving major transformation for that business. Prior to that, he held the role of BT, BT Sport and EE Managing Director (Consumer) responsible for running the brand strategies, products and marketing.



Francesca Hampton,
Chief Financial Officer

Appointed to the Board in September 2017

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



Carole Berndt,
Independent
Non-Executive Director
Chair of Remuneration, Nominations and Corporate Governance Committee

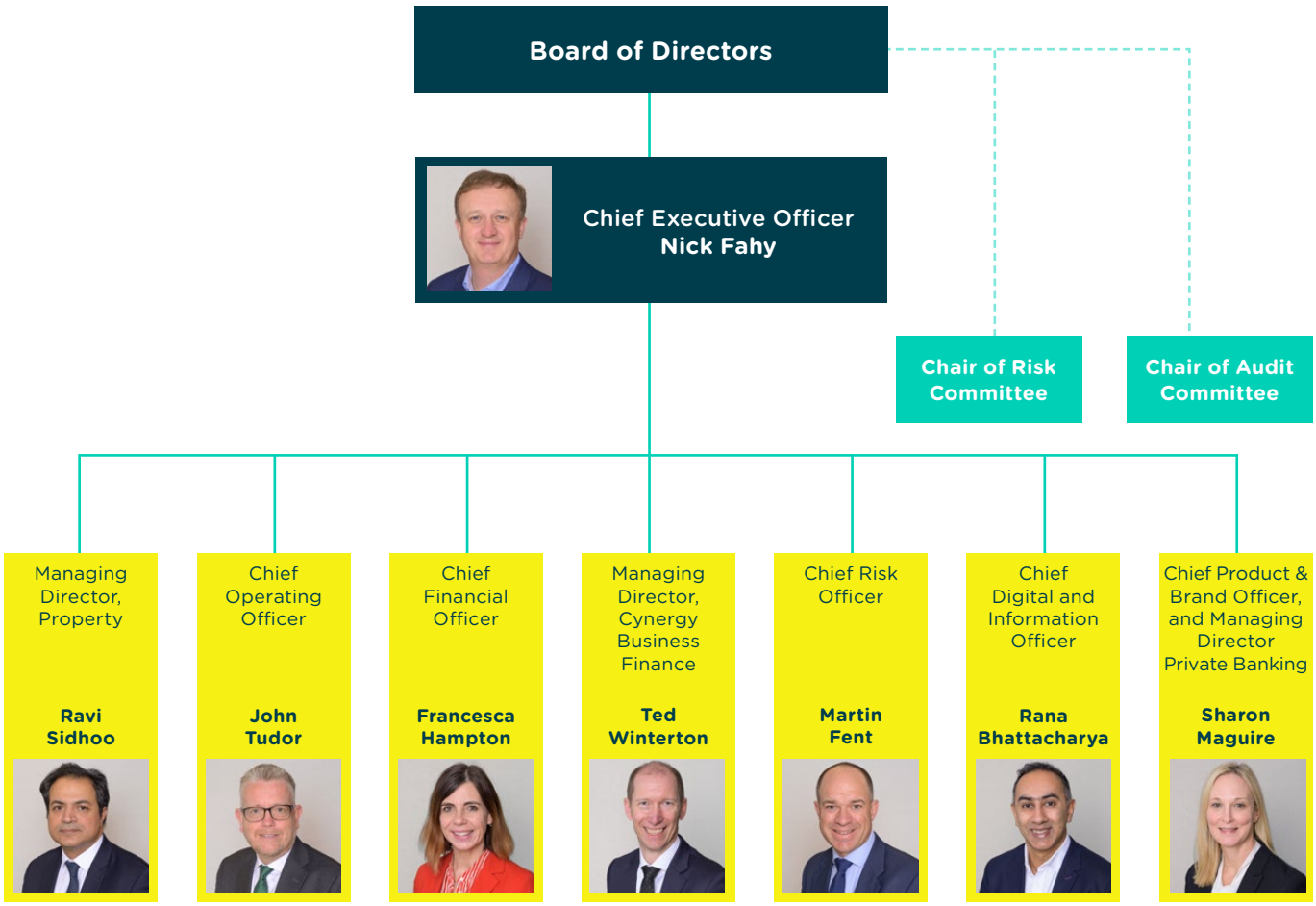
Appointed to the Board in October 2019

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

The nature of transaction banking means that Carole brings a great understanding of banking technology, digital change, operations and control environments to her role. Leveraging her expertise managing large teams, Carole holds 'Strategic Advisory' roles with a number of emerging companies, focused on the Future of Work and Talent Management. Carole has a Degree in Information Technology and an MBA in International Business.

Note: Peter Oliver has indicated a desire to leave the Board following a recent change of jobs and will be leaving at the end of March 2023. A very experienced replacement has been identified and will be joining the Board in early April.

Executive Committee and Senior Management



Board of Directors

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

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

The Chair is an Independent Non-Executive Director. Members of the Board of Directors are appointed by the Board on the recommendation of the Remuneration, Nominations and Corporate Governance Committee and subject to approval by the shareholder. External search consultants are generally used for the appointment of the Chair and Non-Executive Directors.

Board and Committee attendance

Attendance at Board and Committee meetings are set out below. The number of meetings each member was entitled to attend is shown in parentheses. There are several ad hoc working sessions and workshops outside the calendar where Directors also attend. During months when no Board meeting takes place, the Directors are provided with key performance reports. When Directors are unable to attend meetings, they still receive the relevant documentation, and any questions or comments are submitted to the meeting by the Chair.

Changes to the Board

During the year, there have been no changes to Board membership; however, work has been taking place looking at matters such as succession planning, Board induction and training needs of Directors in order that the Board is well placed to continue its development in the coming years.

Work of the Board

During the year, in addition to standard reports, the Board considered matters such as the premises strategy for the Bank, current account strategy, the operational resilience strategy, FTSE Women Leaders 2022 report and Consumer Duty among other things. In addition, the Board approved the strategic priorities for 2023 as well as the 2023 budget and approved an updated Recovery plan. The Board also undertook externally provided training sessions on matters such as Consumer Duty and ESG considerations.

Towards the end of the year, the Board commissioned its tri-annual independent Board Evaluation. The full report was presented to the Board and there was a discussion of the findings. The report stated that the Board demonstrates a diligent and thorough approach with a strategic mindset. There were a small number of improvements suggested, and we will report progress against these actions in next year's Annual Report.

The Board of Directors has delegated a number of its responsibilities to four Board committees as set out on the following pages.

Director	Board	Audit Committee	Risk Committee	RNCGC
Euan Hamilton	9(9)	-	6(6)	6(6)
Kim Rebecchi	9(9)	5(5)	6(6)	6(6)
Pradip Dhamecha	6(9)[1]	-	-	5(6)[2]
Bal Sohal	7(9)	-	-	4(6)[2]
Mike Newman	8(9)	5(5)	6(6)	-
Carole Berndt	9(9)	5(5)	-	6(6)
Peter Oliver	8(9)	-	6(6)	-
Nick Fahy	9(9)	-	-	-
Francesca Hampton	9(9)	-	-	-

[1] Family illness-related absence
[2] Investor Representatives sometimes elect one of their number to attend rather than both

Board Audit Committee

The Board Audit Committee monitors the integrity of financial reporting and provides oversight of the Bank's compliance, internal and external audit functions and the Financial Crime function. The Committee reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process and provides advice to the Board on whether the annual report and accounts are fair, balanced and clear. Membership is restricted to Non-Executive Directors, and the Board Chairman is not permitted to be a member. The Committee is Chaired by Mike Newman, a Non-Executive Director who has many years' experience in auditing. Its terms of reference include:

- Reviewing the adequacy of provisions for expected credit losses and other provisions
- Monitoring the effectiveness of the Bank's internal quality control and risk management systems and its Internal Audit
- Reviewing whistleblowing arrangements
- Receiving and considering Internal Audit reports and approving the Internal Audit plan
- Ensuring the effectiveness, performance and independence of the outsourced Internal Audit and the external audit process
- Appointing the external auditors and approving their remuneration
- Ensuring compliance with applicable legal and regulatory requirements
- Reviewing the critical estimates to be included in the year-end accounts including the Bank's modelling of Expected Credit Losses (ECL) under IFRS 9

Matters dealt with during the year included the Compliance Annual Report, Financial Crime and Money Laundering Reporting Officer (MLRO) Report, Related Parties Disclosures, 2021 Financial Statements and External Auditors Report, IFRS 9 expected credit loss provisions, Pillar 3 Disclosure, IT Controls Update and certain exceptions to policies. In addition, early in 2022, the Committee decided to close the Internal Audit department and outsource to an external supplier, BDO LLP, in order to obtain a greater depth of capabilities given the increasing complexity of the Bank. In line with regulatory requirements, the Bank continues to have ultimate regulatory responsibility for this area, but BDO bring increased specialist expertise and capacity.

At least once per year and with no non-members present, members meet separately with the external auditors, MLRO, Compliance Director and BDO LLP, our outsourced internal audit partner, to discuss financial, risk, compliance and audit issues.

Board Risk Committee

The Board Risk Committee plays a key role in setting the risk appetite and strategy of the Bank and ensuring compliance with risk management strategy, policies and regulations. The Committee is also responsible for the review of the Bank's internal risk management framework and its integration with the decision-making process of the Bank, covering the whole spectrum of the Bank's activities and units as well as any subsidiaries. Its terms of reference include:

- Reviewing internal control systems
- Monitoring regulatory compliance and important regulatory correspondence
- Approving changes to lending policy
- Reviewing the adequacy of capital and liquidity in light of the results of stress testing
- Approving the Bank's Recovery Plan
- Reviewing the Bank's internal capital adequacy
- Reviewing ESG metrics, roles and responsibilities
- Providing oversight over the expansion of credit policies for CBF, the Bank's asset-based lending subsidiary
- As part of Operational Resilience oversight, a monthly review of outsourcing and vendor management metrics

The Committee consists entirely of Non-Executive members, the majority of whom must be independent. Kim Rebecchi, Senior Independent Director, is the Chair. At least half yearly, and with only members of the Committee present, meetings are held separately with the Chief Risk Officer, Head of Information Security and Cyber Security, and Director of Internal Audit to discuss financial and risk issues.

The Committee has a heavy workload, but some of the many matters discussed in the year included RAS and Risk Appetite Framework (RAF), ESG roles and responsibilities and metrics, material contract outsourcing regulatory responsibilities, customer stress, fixed rate lending approach, Holiday Park sector and Healthcare sector credit policy updates and credit risk reporting.

Remuneration, Nominations and Corporate Governance Committee

The Committee leads the process for Board appointments and plays a key role in assisting the Board to fulfil its responsibilities in relation to Directors' development and succession planning, and corporate governance policy and compliance. The RNCGC also reviews the Bank's policy on remuneration including considering and recommending to the Board the overall policy for the remuneration of employees across the Bank and determining the remuneration of the Non-Executive Directors. It also recommends to the Board and monitors the level and structure of remuneration for Senior Executive Management and other key personnel. Its terms of reference include:

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

The Committee is chaired by Carole Berndt and consists entirely of Non-Executive members including the Shareholder Representatives, Pradip Dhamecha and Bal Sohal.

Among the matters considered in 2022 were the Staff Engagement Survey results, ExCo LTIP awards, Remuneration Policy update, Gender Pay Gap Report, Board Evaluation Results, Board Diversity Policy, Culture Dashboard, changes to the Corporate Governance Policy and SMF appointments.

Board Credit Committee

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

Executive Committees

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

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

Capital, liquidity, cash flow and market risks are monitored at executive level by the Asset and Liability Committee (ALCO), which meets monthly, and the ALCO sub-committee, which meets weekly.

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

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

The Executive Conduct and Risk Committee's responsibility includes managing all risks, aligning risk tolerance to risk appetite and monitoring exposures to risk limits. Other Executive Committees include the Executive Credit Committee, which considers requests for new advances, the Model Risk Governance Committee, Product & Services Committee and the Transformation Committee.

More information on risk management is set out in note 31 of the financial statements.

DIRECTORS' REPORT

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

Principal activities

The principal activity of the Bank is the provision of banking services to business and personal customers.

Financial results

The results of the Bank for the year ended 31 December 2022 are set out in the income statement on page 91, showing profit after tax of £40,256k (2021: £24,929k). The Directors endorse the information and views set out in the Chairman's statement, the Chief Executive Officer's review and the Strategic Report.

Going concern

In preparing the Going Concern statement, we took into account all information of which we were aware about the future, which was at least, but not limited to, 12 months from the date that the financial statements were signed. Consideration was given to the following: capital requirements, liquidity, profitability, business continuity and reliance on outsourced suppliers. The Directors are satisfied that the Bank is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

Due to its current financial position, Cynergy Bank Limited has committed to support its subsidiary Cynergy Business Finance Limited for at least, but not limited to, 12 months from the date that the financial statements were signed.

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

A statement of responsibilities of the Directors in relation to the financial statements is shown on page 51.

Capital

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

Liquidity

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

Dividends

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

Future developments

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

Human resources

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

Streamlined Energy and Carbon Reporting (SECR)

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

Methodology

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

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

Principal measures taken to increase energy efficiency

Cynergy is focused on minimising its scope 1 and 2 emissions. The principal measure taken during 2022 to achieve this has been to ensure the new office location, which will replace our existing two London offices, will be more environmentally friendly than the sites it will replace. Further details are provided within the ESG Report on page 33. Scope 1 emissions relating to our existing offices have reduced year on year primarily through the reduced top-up of refrigerants used in air conditioning systems.

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

		2022	2021	% change
Energy	Total energy use for emissions calculations (kWh)	540,813	510,884	6%
Emissions (tCO2e)	Emissions from heating and own transport (Scope 1)	11.7	51.26	-77%
	Emissions from the use of purchased electricity (Scope 2)	96.32	80.28	20%
	Total emissions (Scope 1 and 2)	**108.02**	**131.54**	**-18%**
	Scope 3 emissions from business travel	31.70	3.74	748%
	Total Scope 1, 2 and 3 emissions	**139.72**	**135.28**	**3%**
Intensity metrics	Scope 1 and 2 emissions (tCO2e) per £m operating income	0.85	1.07	-21%
	Scope 1 and 2 emissions (tCO2e) per FTE	0.36	0.59	-43%

Board of Directors

Full details of the Board of Directors are shown on pages 42 and 43.

Directors and their interests

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

Disclosure of information to the auditors

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

Independent Auditors

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

Subsidiaries

Cynergy Bank Limited is the immediate owner of 100% of the £100 ordinary shares of a UK company, Cynergy Connect Technologies Ltd, incorporated on 30 July 2020 in England and Wales, company number 12779777, registered office 27-31 Charlotte Street, London, W1T 1RP. The company did not trade and is expected to be dissolved during 2023. 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.

Events after the reporting period

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

Charitable donations

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

Political donations

During 2022, the Bank did not make any political donations (2021: £nil).

Third party indemnity provisions for the benefit of Directors

The Bank has taken out Directors' and Officers' liability insurance, which has been in place for the period under review.

On behalf of the Board



Paul Jordan
Company Secretary
4 April 2023

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 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 also 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.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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's 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's and company's auditors are aware of that information.

CORPORATE INFORMATION

Directors

Directors who held office during the period of this report are listed below.

Euan Hamilton[2, 3, 5] – *Chairman*
Nick Fahy[4, 5] – *Chief Executive Officer, Executive Director*
Kim Rebecchi[1, 2, 3, 5] – *Senior Independent Non–Executive Director and Chair of the Risk Committee*
Francesca Hampton[4, 5] – *Chief Financial Officer, Executive Director*
Pradip Dhamecha[3], OBE – *Non-Executive Director*
Bal Sohal[3] – *Non-Executive Director*
Michael Newman[1, 2] – Independent Non-Executive Director and Chair of the Audit Committee
Carole Berndt[1, 3] – Independent Non-Executive Director and Chair of the Remuneration, Nominations and Corporate Governance Committee
Peter Oliver[6] – Independent Non-Executive Director

Other senior executives

Rana Bhattacharya[4] – *Chief Digital and Information Officer*
Andrew Creamer – *Compliance Director*[8]
Martin Fent[4] – *Chief Risk Officer*
Sharon Maguire[4] – *Chief Product and Brand Officer, Managing Director Private Banking*
Michael Rennie[7] – *Chief Operating Officer*
Ravi Sidhoo[4] – *Managing Director, Property*
John Tudor[4] – *Chief Operating Officer*
Stefan Ward – *Interim Compliance Director*
Ted Winterton[4] – *Managing Director, Cynergy Business Finance*

[1] Member of the Audit Committee
[2] Member of the Risk Committee
[3] Member of the Remuneration, Nominations and Corporate Governance Committee
[4] Member of the Executive Committee
[5] Member of the Board Credit Committee
[6] Peter Oliver has indicated a desire to leave the Board at the end of March 2023
[7] Resigned post-year end
[8] From December 2022

Company secretary

Paul Jordan

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Registered office

27-31 Charlotte Street, London W1T 1RP

Locations

Central London
27-31 Charlotte Street, London W1T 1RP

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

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

Birmingham
112 Colmore Row, Birmingham B3 3AG

North
3 Hardman Square, Spinningfields, Manchester M3 3EB

Scotland
2 West Regent Street, Glasgow G2 1RW

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

Registered in England and Wales under company number 04728421, a private company limited by shares.

www.cynergybank.co.uk



RISK REPORT

RISK REPORT

Approach to risk management

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

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

Through its normal operations the Bank is exposed to a number of risks and manages these through clear risk policies, limits, reporting lines and control procedures. Adherence to these policies and procedures is the responsibility of all staff but independently monitored by the Bank's second line of defence and outsourced Internal Audit function. The Bank's risk management processes and internal controls are also subject to regular oversight by the appropriate Executive and Board-level Committees, including the Conduct and Risk Committee, Asset and Liability Committee and the Board Audit and Risk Committees.

Risk Appetite Statement

Cynergy Bank acts in line with the Board-approved risk appetite to achieve its strategic goals in the pursuit of its vision 'to empower entrepreneurs, business owners and mass affluent professionals to achieve their dreams'. The Bank's appetite for risk is defined by the Board's RAS:

'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 Cynergy 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 and 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 RAS 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 or Assets and Liabilities Committee (ALCO) and reported to the BRC. 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; and
- dovetails with and/or informs other key processes, such as the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution Plans.

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

Cynergy Bank's risk objectives

The Bank has established an Enterprise-wide Risk Management Framework. Identifying and assessing risk and control activities provides reasonable assurance that the Bank's business objectives will be met.

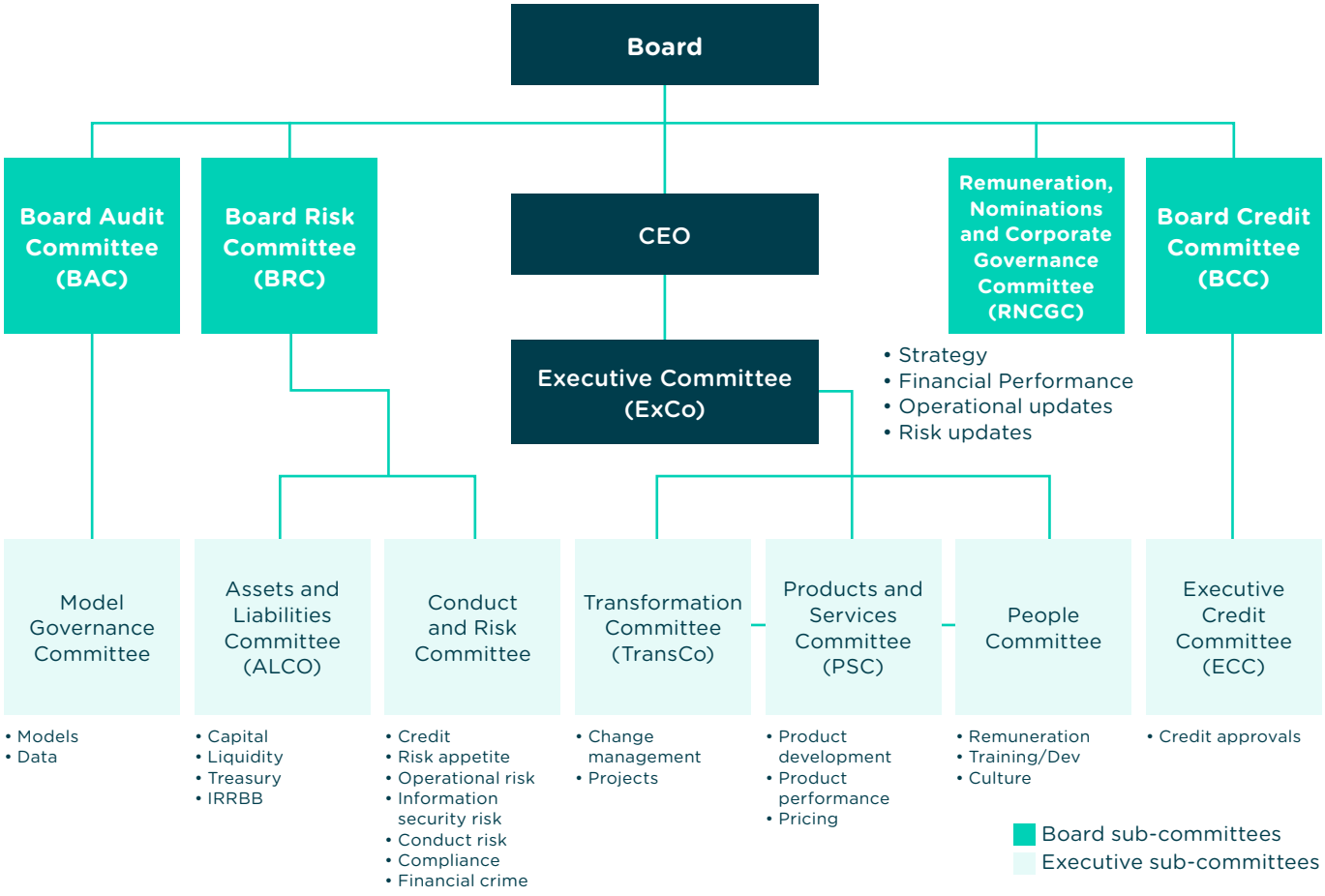
Cynergy Bank's Risk Management Framework sets clear risk objectives to ensure that the level of risk undertaken by the Bank is consistent with the approved risk appetite and business strategy. These objectives aim to:

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

Risk governance

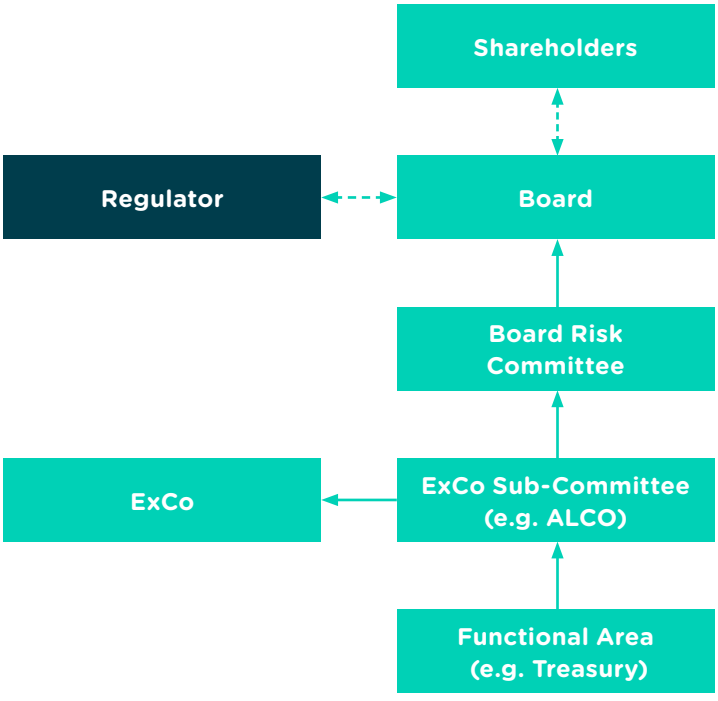
The Bank operates a Corporate Governance Framework which sets out how the Board will provide oversight of the management of risk.

Board members and members of the Bank's Executive team hold specific Senior Manager Function (SMF) responsibilities under the FCA's Senior Managers and Certification Regime (SMCR). Other staff are certified under the Regime as Material Risk Takers. The Bank 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 operates a defined structure of Board- and Executive-level sub-committees, and each committee has its own Terms of Reference. A high-level view of the main risk governance committees is set out below:



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 is to escalate relevant risk information that enables the Board and other governance bodies to monitor and manage the Bank's risk exposures in line with its Risk Appetite Framework. Any actual or expected breach of a Risk Appetite Metric is escalated using a defined escalation pathway, set out below:

Risk escalation path



Risk culture

The Bank encourages a culture that is conducive to effective risk management with open and upward communication, sharing of knowledge and best practices, continuous process improvement and a strong commitment to ethical and responsible business behaviours.

The Board is responsible for setting the 'tone from the top' and ensuring that a strong risk culture exists across the Bank. Senior Management will support this by leading in the implementation of the RMF, ensuring that it is fully embedded with a strong focus on the adherence to risk appetite, monitored through its suite of Risk Appetite Metrics and KRIs.

The RMF also supports the setting of performance management objectives and performance assessments for all staff.

Risk oversight and assurance

The Bank 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. While 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.

The first line of defence against risks lies with the front line. The front line includes all units that onboard risk into the Bank including those that enter into business transactions with the customers or other client-facing areas, as well as all associated support functions including Finance, Treasury 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.

The second line of defence consists of the Risk function of the Bank. 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 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, e.g. (risk appetite and stress-testing framework). The second line also manage the Bank's Business Support and Recoveries activities.

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

In 2022, the Bank decided to outsource its Internal Audit function and has entered into an agreement with BDO LLP to provide these services. The scope of the Internal Audit programme is agreed with the Board Audit Committee, who also receive the output from the assurance activity. The Board Audit Committee oversee any actions required as a result of any Internal Audit findings.

PRINCIPAL RISKS AND UNCERTAINTIES

2022 update

Economic and political uncertainty resulting from the changing macro-economic environment was a notable feature in 2022. The Bank placed considerable focus on asset quality, making preparations to support customers facing potential financial stress as a result of the changing economic landscape and rising interest rates. The Bank's product offering was refreshed to provide an increasing amount of fixed-rate loans to customers within carefully controlled risk appetite. The Bank has carefully scrutinised liquidity and funding risk, which has heightened due to the changing landscape in the consumer deposit market, following the significant interest rate rises during the year. 2022 saw new products launched and increased access to funding via Indexed-Linked Term Repo operations with the Bank of England. 2023 will see continued scrutiny in credit, capital, liquidity and market risk as a result of the changing economic landscape.

Operational resilience remained a key area, and significant further investment was made in back and middle office functions. Further investment was made in IT capacity and capability in line with the Bank's digital transformation. The Bank put significant investment into middle office operations to support customer experience for our deposit customers, and this will remain an area of focus for 2023.

Change management continued as a key risk in 2022. The Human Digital Bank transformation made progress during the year, and oversight of the transition is a key risk priority for 2023 as changes in technology, market dynamics and vendor management require continued and enhanced oversight. Cynergy Business Finance completed its first year of trading as a new lending subsidiary, and its products and policies have benefited from their first year review in support of aspirations to establish this business on a safe and stable basis in 2023.

The Bank's risk taxonomy has been refreshed to reflect the prominent themes on the horizon with risk appetite, capacity and metrics carefully calibrated to forecast market conditions.

Policies, procedures and controls in all areas of the risk taxonomy have been uplifted. Particular focus has been given to those areas of the taxonomy most affected by market conditions, with risk and control assessments accordingly prioritised for 2023.

A risk management information system is maintained for recording and tracking key risks and incidents across the Bank and its subsidiaries, and this was upgraded in 2022. In addition to identifying risks across their respective business 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 risk profile versus risk appetite using metrics and KRIs, reporting and escalating to the Conduct and Risk Committee and BRC any triggers, adverse trends or breaches.

The Bank's principal risks, mitigation and controls are outlined overleaf.

Strategic risk

Definition

Strategic risk is the risk that failed business decisions, or lack thereof, create unintended financial or non-financial losses to the Bank.

2022 update

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 ExCo to ensure that the execution of the strategy aligns with the risk appetite of the Bank.

The Bank has calibrated its strategy carefully to the prevailing economic conditions. Lending policies and associated risk capacity and appetite have all been updated to account for the weaker economic forecasts. The Bank has taken measures to adapt its strategy in a higher interest rate environment. This has included adapting to the changing landscape in the funding market with further diversification of liquidity sources. We have also taken significant steps to offer a greater proportion of fixed rate loans to customers within defined market risk capacity and appetite. All credit policies were reviewed in light of market conditions to adjust for the higher interest rate environment, and the Bank has taken significant steps to adjust its policies and procedures to allow support to customers facing early stages of financial difficulty.

Human Digital Bank: 2022 has seen the Bank progress its digital transformation programme. 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 progressed the implementation of its overarching ESG framework during 2022. In line with the expectations of the Prudential Regulation Authority (PRA), the Bank is progressing its approach to managing climate-related financial risk in 2023, analysing both physical and transition risk from climate risk on the Bank's portfolio.

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

	Definition
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 environment, social or governance event or condition that, if it occurs, could cause an adverse 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 minimum requirements.

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 and 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 BRC • 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.

2022 update

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. The Bank has made significant preparations to support customers through a more difficult economic environment.

Economic uncertainty has intensified in 2022 due to the prevailing economic uncertainty that followed the Russian invasion of Ukraine and the inflationary and rising interest rate environment that crystallised in the latter half of the year. While some customers' business models and lending exposures have seen increased stress throughout 2022, the Bank has seen overall stability in arrears across its core loan portfolio. Provisions have increased during the period, due to increased individual impairments and the impact of weaker economic forecasts that are modelled at regular intervals throughout the year. The Bank has taken a proactive approach to supporting customers. Credit policies have been updated to allow for early identification of customer stress and application of customer support strategies. The Bank increased resources in its Business Support and Recoveries function in anticipation of increased levels of customer stress entering 2023. The Bank takes a proactive approach to customer management and seeks to agree prompt and appropriate action plans for customers who are experiencing difficulty.

A key challenge for the Bank has been the bridging loans portfolio, which was launched just months before the onset of the pandemic. This portfolio has been wound down to a residual three exposures, which have been individually assessed under IFRS 9 for expected credit losses.

The loan book has several defensive mitigants. It is predominately secured by residential or commercial property with an average weighted loan to value (LTV) of 54%. Facilities in Cynergy Business Finance are secured via receivables, plant and machinery or property. 23% of the loan book is on a fixed rate loan product (9% in 2021), thus offering resilience to the onset of higher interest rates. £295m loans are provided under the CBILS or RLS loan schemes which offer credit mitigation in the form of a guarantee for a share in any credit loss experienced.

Risk Appetite Statement

The Bank must maintain and control a low 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 lending portfolio that earns an adequate return without creating undue concentrations.

Supporting risks

	Definition
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 business support and recoveries team work with customers unable to meet their loan servicing obligations to reach a satisfactory conclusion while adhering to the principle of 'treating customers fairly' • We undertake regular reviews of our loan portfolios and complete ongoing assurance testing (first, second and third 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 BRC covering, for example, loan to value (LTV), affordability, sector and geographic concentrations • We evidence affordability and complete credit search/fraud/CDD checks 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.

2022 update

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 ICAAP and are subject to constant review and monitoring through the Asset and Liability Committee (ALCO) and Board-level oversight. Capital ratios are monitored and managed through monthly reporting to ALCO.

The Bank has increased its Tier 1 Capital resources by £90m to £287m during the period. This has supported growth in the loan book during the period and allowed the Bank to accommodate increases in its capital requirements following re-instigation of certain regulatory capital buffers which were relaxed in 2020 following the Covid pandemic. The Bank has made provision for further unwinds in these measures in its capital planning for 2023.

Liquidity and funding risks are monitored through ALCO in line with risk appetite and 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 customers. The Liquidity Coverage Ratio (LCR) has continued to exceed the regulatory requirements throughout 2022.

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 2022 notwithstanding the increase in funding costs that have been driven by the increased rate environment. The Bank benefits from access to certain Bank of England funding schemes, and during the year has taken steps to increase the amount of funding it can draw by increasing the amount of assets pledged under the schemes. The Bank is planning further diversification of its funding sources through technology development, further increasing its product range and through expanding its access to secured funding both for liquidity and capital purposes.

Risk Appetite Statement

The Bank has a low appetite for capital, liquidity and funding risk. It 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 minimal requirements.

Supporting risks

	Definition
Capital risk	The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support its growth plans.
Liquidity and funding risk	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.

Examples of how we mitigate and control the risk
• 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 monitor current and forecast levels of capital and liquidity against our risk appetite and KRIs and report to the Asset and Liability Committee (ALCO), and the BRC regularly • We operate a suite of policies and procedures 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 is 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 • The Bank has in place key controls that mitigate the risk. These controls are tested regularly and are subject to a formal Risk Control Self-Assessment (RCSA) process. Any identified weaknesses in the control framework are remediated with oversight from the second line of defence • Our lending book is funded by our deposits, capital and retained profits. We do not wholly 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.

2022 update

Interest rates increased throughout the course of 2022, rising nine times throughout the course of the year from 0.25% in January to 3.5% by December. These rate rises have been applied by the Bank of England to tackle escalating inflation, which hit 11.6% during 2022 and is forecast to remain elevated in 2023. Geopolitical issues are likely to cause continued inflation and interest rate uncertainty in 2023. These issues mean that the Bank is adopting expectations of a weaker economic outlook and is adjusting the execution of its strategy to accommodate this uncertainty.

Interest rate increases have had a positive impact on income generation for the Bank during the course of 2022. There are risks that this may not be sustained, should the rate of the Bank's administered funding costs increase at a greater rate than the Bank of England base rate. The rate increases will also exert pressure on the Bank's borrowing customers whose loan affordability will be impacted.

Due to the interest rate rises experienced, the Bank increased the amount of lending made to customers on fixed rate products with £756m/23% of loans provided on a fixed rate as at year end 2022 (£254m/9% 2021). The Bank adopts a hedging strategy such that fixed rate loans are matched to interest rate swaps or designated liabilities throughout their duration. The Bank oversees this strategy through carefully monitored risk appetite metrics.

During 2022, the Bank continued its work on reference rate reform, further transitioning the number of customers on LIBOR to Bank of England base rate, with a very small balance of lending still to transition at year end 2022.

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 reduce the risk of instability of earnings.

Risk Appetite Statement

The Bank has a low appetite for market risk. 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

	Definition
Currency risk	The current or prospective risk to the Bank's earnings and own funds from adverse movements in currency rates.
Interest rate risk	The current or prospective risk to the Bank's earnings and own funds arising from adverse movements in interest rates.
Treasury counterparty risk	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 the Executive Committee, ALCO and BRC. 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. During 2022, hedging activity included using interest rate swaps to hedge interest rate risk of new fixed rate lending • We deploy appropriate segregation of duties within the Finance team covering Treasury activities • Oversight is provided by a dedicated second-line Prudential Risk team • The Bank has in place key controls that mitigate the risk. These controls are tested regularly and are subject to a formal RCSA process. Any identified weaknesses in the control framework are remediated with oversight from the second line of defence

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.

2022 update

Operational risk remained a key area of focus for the Bank throughout 2022. During the year, several enhancements were made to the Bank's Operational Risk Management Framework including updating the Bank's risk taxonomy, the existing Risk Appetite Statements and metrics, and completing a Bank-wide refresh of risk and control registers.

The following operational risk themes had prioritised focus on the agenda through 2022:

- Operational resilience: The Bank has a defined Operational Resilience Strategy and 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 2022.
- Supplier/Outsourcing: During 2022, the Bank continued and enhanced material outsourcing arrangements with third party providers of IT services and Customer Operations, which progresses a core element of its Human Digital Bank strategy. The Bank also embedded its Vendor Management and Outsourcing Framework providing oversight and risk management of these third party relationships.
- Change management: The Bank made progress with its digital transformation programme in 2022 to deliver the Human Digital Bank, though program delays have been experienced, requiring changes to the program structure and deliverables. This is being managed under the Bank's Risk Management Framework to ensure mitigation of impact. 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. Programme delays have been experienced during 2022. The impact of these delays on the Bank's Operational Risk Profile and ability to execute its strategy have been overviewed under the Bank's Risk Management Framework, such that the impact of delays can be mitigated.
- 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 2022 with 94 permanent staff hired. Attrition remains at planned and acceptable levels. The Bank transitioned its hybrid working model throughout 2022. Staff remain set up to work remotely.
- Premises risk: The Bank sold two London offices during the course of 2022 and has signed a lease to move to a new London premises in 2023. A dedicated programme team is managing the risks surrounding the move, including the arrangements to move the location of key IT equipment.

Risk Appetite Statement

The Bank has a low appetite for operational risk and 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	
	Definition
People risk	The risk that the Bank is unable to recruit or retain sufficient staff numbers 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.
Business continuity and premises risk	The risk that the Bank is unable to continue to deliver its products and services at acceptable levels following a disruptive event impacting its premises or other physical assets.
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.
IT operational risk	The risk that any adverse events could threaten and harm the Bank's IT infrastructure and assets ultimately leading to the Bank's inability to carry out its business operations and deliver critical products and services to its customers.
IT change risk	The risk that poorly designed or controlled IT changes could have an adverse impact on critical IT systems and infrastructure ultimately resulting in the Bank's inability to deliver products and services to its customers.
Information security and cyber risk	The risk to the Bank or its customers due to the potential for unauthorised access, loss, use, disclosure, disruption, modification or destruction of paper or digital information.
Financial control and 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 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 Bank's 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 is 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 second-line Cyber Risk Manager to provide 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 second-line oversight and challenge
- Senior Management identify operational risks across their businesses and regularly assess the effectiveness of controls that mitigate those risks
- 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 the Conduct and Risk Committee and BRC 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 within the Bank that leads to customer detriment or has an adverse effect on market stability or effective competition.

2022 update

The Bank has no tolerance for behaviours or activities that knowingly promote poor customer outcomes, lead to customer detriment or have 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 2022, the Bank continued to embed its approach to conduct risk across a range of initiatives relating to Treating Customers Fairly. In particular, the Bank paid careful regard to its approach to borrowers and savers faced with a more uncertain interest rate environment and made careful preparation for the likelihood of an increase in the number of customers facing financial stress.

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 of, changes to and ongoing review of products. Product sales are reviewed against expectation and forecasts, and where these are materially different, reviews are undertaken to assess the appropriateness of new products and the use of specific delivery channels to ensure that they meet target customer needs.

The Bank made preparations for the new Consumer Duty Principle, a requirement that comes into force from July 2023. This is a set of cross-cutting rules, regulated by the FCA, which require firms to act in good faith, avoid causing foreseeable harm, and enable and support customers to pursue their financial objectives. The Bank has taken significant steps to prepare for the duty coming into force with a programme of works being overseen by the Product and Services and Board Risk Committees.

The Bank made significant investments in 2022 to enhance customer experience following root cause analysis into the drivers of customer complaints. The Bank tracked the results of this investment and has identified further priorities for 2023 to improve targeted areas of customer experience further. The Bank records and uses root cause analysis to investigate risk events and complaints that result in poor customer outcomes.

Risk Appetite Statement

The Bank has no appetite for behaviours or activities that knowingly promote poor customer outcomes, lead to customer detriment or have an adverse impact on market stability or effective competition. The Bank has a very low appetite for loss as a result of non-systemic events.

Supporting risks	
	Definition
Product and pricing risk	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.
Customer journey conduct risk	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.
Competency, culture and reward risk	The risk that the way in which our people are trained, managed or rewarded does not deliver fair customer outcomes.
Vulnerable customer risk	The risk that by failing to identify and manage vulnerable customers correctly, the Bank fails to treat them fairly and/or causes them detriment.

Examples of how we mitigate and control the risk

- 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 the Conduct and Risk Committee and BRC
- 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 New Product Approval Process to deliver clear oversight of fair customer outcomes and regulatory compliance associated with the implementation, changes and ongoing review of products
- Our risk controls 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 promote customer-focused behaviours among our colleagues through our values and our risk culture statements

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.

2022 update

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 2022, the Bank's exposure to regulatory risk remained high due to ongoing and new regulatory change which informs the Bank's growth aspirations, strategic change and transformation agenda. Notwithstanding this, with the recent recruitment of a new Compliance Director at the end of 2022, the Bank's overall exposure to regulatory risk is expected to reduce during 2023.

With regard to financial crime, the Bank actively tracks and reports against the following risk categories: money laundering, tax evasion, sanctions, terrorist financing, fraud, and bribery and corruption.

The financial crime risk for the Bank has remained stable following a continued programme of enhancement and investment. Fraud was and continues to be an area of focus with further control enhancements and technology investment made to reduce the likelihood and impact of fraud and consequent operational loss occurring. Nevertheless, the Bank continues to see fraud in line with industry levels.

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. The Bank has a very low appetite for loss as a result of non-systemic events.

Supporting risks

	Definition
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	The risk of legal or regulatory sanctions, material financial loss or loss to reputation the 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 the Conduct and Risk Committee and BRC
- Our defined risk controls 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 Management 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 a horizon-scanning process. All significant regulatory initiatives are managed by structured programmes, sponsored at Executive level
- We make use of independent expert legal and regulatory advice where appropriate
- We have a dedicated Compliance Director and an MLRO who lead 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

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
Geopolitical and economic uncertainty	Global political and economic uncertainty remains a key risk following the Russian invasion of Ukraine in 2022. This has and will continue to cause uncertainty within the UK economy, and this will affect the performance of some segments of the Bank's portfolio. The impact of sanctions, inflation and reduced economic growth, together with interest rate rises, present strategic, credit and operational risks to the Bank.	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 has recalibrated the pace of execution of its strategy as a result of these risks. The Bank continually monitors its strategy and key risk appetite metrics in the face of these uncertainties.

Risk	Assessment	Approach
Environment, social, governance (ESG) agenda (including climate change)	The significance of environmental, 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 has 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 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 2023 and be refined through maturing the Bank's Risk Appetite Statements and products and services to support customers with the climate transition. 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.

Risk	Assessment	Approach
Premises risk	The Bank is moving to new London headquarters in June 2023. Operational risk is associated with this change. This is presented through the impact on staff working in a different London location and the IT change risk associated with the move. Structural societal changes to working patterns have occurred post the Covid pandemic. While the Bank has been able to successfully adapt its operations through an adaptive hybrid working approach, risks remain around the potential for further Covid strains and long-term changes to the nature of how the workforce operate and interact with customers.	A dedicated programme team is managing the risks surrounding the move, including the arrangements to move the location of key IT equipment. The Bank has evolved its working practices to balance retaining flexible working patterns for staff with transitioning back to a greater level of office working. These practices are benchmarked and monitored such that we can attract and retain the best people. In light of economic uncertainty, the Bank has carefully adapted its approach to visiting customers face to face, such that we are proactive in monitoring risks and supporting customers through potentially challenging economic conditions.

Risk	Assessment	Approach
Operational outsourcing and change risk	The Bank is reliant on third parties to deliver certain critical business services, including its customer operations and IT managed service provider.	The Bank continues to monitor the effectiveness of its controls and governance over its supplier management arrangements and adapt these when required. Operational risk is a principal risk within the Bank's Risk Management Framework. The Bank monitors Risk Appetite Metrics and incidents. It conducts contingency and business continuity planning to reduce the risk and impacts of Operational Risk arising from its outsourcing arrangements.
	The Bank continued to progress its journey to a Human Digital Bank in 2022. The transition poses risk to both business as usual operations and the Bank's ability to execute its strategy.	The Bank constantly evaluates the business as usual and strategic risk arising from its transformation programme. Risks arising from delays experienced in the programme are evaluated under the Risk Management Framework. Where necessary, mitigation plans are put in place and impacts on strategy execution are considered to ensure the programme risks are appropriately calibrated.
	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 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.	Following gap analysis completed in 2021, the Bank has completed work to uplift its existing practices to meet regulatory requirements. Where appropriate, tactical solutions have been identified to ensure that the Bank will be compliant with regulatory expectations. The Bank has developed an Operational Risk and Resilience roadmap that includes actions to ensure that it meets the emerging PRA requirement. Any gaps identified have been, or will be, documented and closed. In addition, the Bank continues to embed its vendor risk assessment process; tools are in place to monitor supplier and vendor performance and reduce the risk and impact of incidents arising from outsourced activities and supplier arrangements. Contingency plans are in place for all material contracts. The Bank has implemented findings of independent assurance work to monitor and manage the risks associated with the outsourcing of critical services.

Risk	Assessment	Approach
Interest rate uncertainty	Rising interest rates pose a key emerging risk to the Bank. While rate rises have in the short term increased net interest income, there is a risk that the Bank's cost of liabilities could diverge from its asset receipts causing a risk to profitability. Rising interest rates increase the risk that customers will not be able to afford their loans with the impact of higher impairments.	The Bank has carefully reviewed its market risk appetite and calibrated its risk capacity to allow for a greater proportion of its loan book to be provided on fixed-rate products. The Bank regularly monitors market risk through a range of Risk Appetite Metrics, overseen by ALCO and BRC. The Bank conducts regular stress testing to examine the risk and impacts to its balance sheet of changes in economic conditions, including higher interest rates and loan impairments. Strategy is periodically reviewed and calibrated to the results of these tests in line with the requirements of the Bank's Risk Management Framework.
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, non-bank 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 continues to focus on 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.

Risk	Assessment	Approach
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; and 3. Overall security and 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, among other things, a 24/7 Security Event Information Management (SEIM) system and Security Operations Centre (SOC). To support our staff, cyber security training is conducted on a regular basis. 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 have also upgraded programme management and adopted component-based implementation alongside simplified monitoring tools. We will continue with the roll-out 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.

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Cynergy Bank

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYNERGY BANK LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Cynergy Bank Limited's 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 2022 and of the group's and company's profit and the group'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: the statement of financial position as at 31 December 2022; the income statement and statement of comprehensive income, the consolidated and company statement of cash flows, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

We remained independent of the 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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than those disclosed in note 11 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, and other qualitative factors.

Key audit matters

- Expected credit loss allowances for loans and advances to customers (group and company).
- Recognition of revenue on loans and advances (group and company).

Materiality

- Overall group materiality: £3,095,000 (2021: £2,207,000) based on 1.00% of Net assets.
- Overall company materiality: £2,940,000 (2021: £2,206,000) based on 1.00% of Net assets.

- Performance materiality: £2,321,000 (2021: £1,655,000) (group) and £2,205,000 (2021: £1,654,500) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowances for loans and advances to customers (group and company) Refer to note 3.11: Impairment of financial assets, 3.12: Collateral Valuation and Note 12: Credit loss on financial assets. The group has an impairment loss for the year of £9.1m and the company has an impairment loss of £8.2m. We focus on this area given the complex judgments and degree of estimation uncertainty involved in the impairment assessment. We consider the following judgments and assumptions used in the determination of the modelled ECL to be significant: • Setting of appropriate thresholds for what represents a significant increase in credit risk (SICR). • The determination of forward-looking (FLI) macroeconomic scenarios and the probability weights applied to ECLs associated with each scenario. • The completeness of and reasonableness of judgments involved in estimating PMAs to adapt parameters estimated by the models to the conditions and current environment. There is heightened risk in the Stage 3 loans where key assumptions evaluated include expected future cash flows and valuations of collateral held where relevant, and the weightings applied to scenario outcomes. In addition, the bridging sector loans can be subject to delays in refinancing and planning considerations.	We have updated our understanding over the expected credit loss allowance process. We evaluated the design and implementation of the key controls. We independently recalculated critical model components and re-performed the calculation of modelled ECL using management's data. We assessed whether the ECL calculations were consistent with the approved model methodologies. We independently performed key aspects of model monitoring relating to accuracy and sensitivity analysis across probability of default, loss given default and exposure at default. **Significant increase in credit risk (SICR)** We assessed compliance of SICR model methodology against IFRS 9. This included an evaluation of the model methodology to assess whether the methodology appropriately reflected various macro-economic factors on certain model assumptions, as well as the criteria set by management for determining whether there had been a SICR. We reperformed staging criteria assessments to assess whether loans were categorised into the appropriate stage. **Forward looking economic scenarios and scenario probability weightings** We critically assessed the reasonableness of the multiple economic scenarios, scenario probability weightings adopted by management and considered external economic data and consensus forecasts and whether management's forecasts appropriately reflected the possible macroeconomic consequences, and wider UK economic developments. In particular, we challenged the appropriateness of the downside scenarios. As part of our testing of the scenario probability weightings implemented, we considered the reasonableness of the weights assigned to the outer scenarios and made a comparison to external consensus forecasts, historic events and external scenarios.

Key audit matter	How our audit addressed the key audit matter
	Similarly, we evaluated the severity of downside scenarios and the loss distribution implied by these scenarios to assess whether non-linearity was adequately captured. **Post model adjustments (PMAs) and overlays** We considered whether management had identified PMAs and overlays where risks were not captured in the modelled loss allowances, and whether appropriate methodologies and assumptions were applied in their calculation to evaluate the appropriateness of each of the PMAs. We critically assessed whether PMAs appropriately captured the risks inherent in model updates related to forward looking information in an industry sector and caused by prevailing economic conditions such as inflationary pressures. We also performed model methodology review to assess the reasonableness of the PMAs and overlays as well as by assessing scenario weightings and whether any specific factors were required to be considered. **Stage 3 loans** For a sample of loans in Stage 3, including those within the bridging loan portfolio, we reperformed the provision calculation, critically assessing significant assumptions including expected future cash flows (and the timing of those), discount rates, valuations of collateral held where relevant, and the weightings applied to scenario outcomes. We tested these to corroborating evidence, where relevant. We also evaluated and tested the disclosures in the financial statements. We used our credit risk modelling specialists, and economics and collateral valuation experts in performing the procedures outlined above. Based on the procedures performed and the evidence obtained, we found management's judgments used in the determination of the ECLs to be reasonable, and the financial statement disclosures to be materially compliant with the requirements of IFRS.

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue on loans and advances (group and company) Refer to the company's accounting policy in note 3.5: Effective interest Rate and Note 5: Interest income. The group and company recognise interest income using the effective interest rate method. The expected life assumption, which utilises the behavioural life of the loans is considered a significant assumption to management's EIR methodology and our significant risk. We focus on this area because the expected life assumptions that are applied to each category of loans are judgmental and formed using actual experience of redemptions and customer behaviours. While the expected life assumption utilises past customer experience, management judgment is involved in determining the period of data to be used and if that is sufficiently predictive of future customer behaviour.	We have updated our understanding over the EIR process. We evaluated the design and implementation of the key controls. We performed substantive testing over recorded interest income and assessed the application of judgment to the treatment of effective interest rate accounting for fees and costs. The audit work we performed over the EIR included the following: • Assessed the reasonableness of assumptions used by management including the behavioural life of the loans and amortisation profiles. • Performed sensitivity analysis over the expected life assumptions used in management's upfront fee model. • Performed analysis of historic behavioural lives and contractual lives to assess the applicability of management's past data to predict customer behaviour moving forward. • Assessed the appropriateness and consistency of the model calculation and corresponding methodology. • Evaluated the disclosures made in the financial statements. Based on the work performed, we found the methodology, judgments and assumptions used to be appropriate and the financial statements disclosures to be materially compliant with the requirements of IFRS 9.

How we tailored the audit scope

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

The group and company's activities are based in the UK, with operations across six locations, providing retail and commercial banking services. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, and other qualitative factors. We performed audit procedures over all material account balances and financial information of the group and company, with reference to the materiality levels set out below.

The impact of climate risk on our audit

As part of our audit, we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the financial statements and to support the disclosures made in relation to climate change.

In addition to making enquiries of management, we have also:

- Read the Company's qualitative and quantitative risk assessment to consider the impact on our audit risk assessment.
- Considered the consistency of the disclosures in relation to climate change within the Strategic report with the financial statements and knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole for the year ended 31 December 2022.

Materiality

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

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

	Financial statements - group	Financial statements - company
Overall materiality	£3,095,000 (2021: £2,207,000).	£2,940,000 (2021: £2,206,000).
How we determined it	1.00% of Net assets	1.00% of Net assets
Rationale for benchmark applied	Net assets is a primary measure used by the shareholders in assessing the performance of the group as it represents the equity invested, and the financial stability of the group.	The Bank is a wholly owned subsidiary of Cynergy Capital Limited. The principal users are the shareholders and directors of the parent company who have their equity invested and regulators who would be focussed on the adequacy of capital resources. Other measures such as total assets are not considered more relevant as being a bank, the total assets can be volatile depending on the nature of transactions entered into. In addition, net assets, although a financial accounting measure, is more closely aligned with the regulatory capital. Accordingly, we concluded that net assets is the more relevant measure when assessing the performance of the company, and is an accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across the components was £2,631,000 to £2,940,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £2,321,295 (2021: £2,206,000) for the group financial statements and £2,205,000 (2021: £1,654,500) for the company financial statements.

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

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £155,000 (group audit) (2021: £110,000) and £155,000 (company audit) (2021: £110,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Performing our own risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics, geopolitical events, and the sector in which the group operates;
- Consideration of the group and company's regulatory capital and liquidity positions and forecasts thereof, regulatory correspondence and reports provided to Board Risk Committee;
- Evaluation of the liquidity resources held, and the maturity and diversification profile of customer and bank deposits;
- Evaluation of the results of stress testing performed by management;

- Evaluation of the liquidity facilities available to the company, for example from the Bank of England; and
- Reviewing the appropriateness of the disclosures in the Annual Report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the 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 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 and company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, the relevant rules of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), 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 UK tax legislation and 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 group and company engagement team and/or component auditors included:

- Enquiries of the Board Audit Committee, Internal Legal Counsel, Chief Compliance Officer, Internal Audit and key members of the executive management team, to determine whether there are any instances of known or suspected fraud and or non-compliance with laws and regulations;
- Challenging assumptions and judgments 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 for evidence of bias (see related key audit matters above);
- 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.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

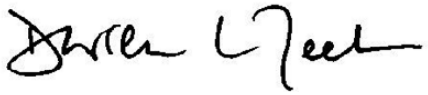
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 5 July 2019 to audit the financial statements of Cynergy Bank Limited for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 December 2019 to 31 December 2022.



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

Income statement

Year ended 31 December 2022	Note	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Interest income calculated using the effective interest method	5	**167,199**	**163,622**	105,716	105,556
Other interest and similar income / (expense)	5	**1,610**	**1,610**	(187)	(187)
Interest expense using the effective interest rate method	6	**(45,681)**	**(45,669)**	(18,356)	(18,356)
Net interest income		**123,128**	**119,563**	87,173	87,013
Fee and commission income	7	**1,667**	**1,101**	1,193	1,191
Foreign exchange (losses) / gains	8	**(1,194)**	**(1,253)**	1,853	1,852
Fair value gain / (loss) on derivative instruments	17	**3,983**	**3,983**	(2,190)	(2,190)
Total operating income		**127,584**	**123,394**	88,029	87,866
Staff costs	9	**(38,334)**	**(35,136)**	(28,874)	(27,720)
Depreciation, amortisation and impairment	10	**(5,758)**	**(5,700)**	(3,447)	(3,443)
Other operating expenses	11	**(33,133)**	**(32,424)**	(19,912)	(19,782)
Total operating expense		**(77,225)**	**(73,260)**	(52,233)	(50,945)
Gain on sale of property	21	**9,230**	**9,230**	-	-
Profit before credit loss expense on financial assets		**59,589**	**59,364**	35,796	36,921
Credit loss expense on financial assets	12	**(9,100)**	**(8,184)**	(5,396)	(5,333)
Profit before tax		**50,489**	**51,180**	30,400	31,588
Income tax expense	13	**(10,233)**	**(10,369)**	(5,471)	(5,701)
Profit after tax		**40,256**	**40,811**	24,929	25,887
Profit attributable to:					
Owners of the company		**40,299**	**40,811**	25,078	-
Non-controlling interest		**(43)**	**-**	(149)	-
Profit after tax		**40,256**	**40,811**	24,929	25,887

Statement of comprehensive income

Year ended 31 December 2022	Note	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Other comprehensive income					
Profit for the year		**40,256**	**40,811**	24,929	25,887
Other comprehensive income not to be reclassified to profit or loss:					
Revaluation of own properties		**1,474**	**1,474**	-	-
Total comprehensive profit for the period attributable to the equity holders		**41,730**	**42,285**	24,929	25,887

The notes on pages 97 to 165 form an integral part of these financial statements.

Statement of financial position

As at 31 December 2022	Note	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Assets					
Cash and balances with central banks	14	**553,007**	**553,007**	324,982	324,982
Placements with banks	14	**102,320**	**90,265**	54,529	48,273
Loans and advances to customers	15	**3,254,230**	**3,157,024**	2,949,578	2,941,984
Other assets	16	**42,031**	**41,995**	11,501	11,270
Derivative assets	17	**12,404**	**12,404**	54	54
Investment in securities	18	**113,377**	**113,377**	137,782	137,782
Intangible assets	19	**27,469**	**27,196**	26,513	26,280
Intercompany receivable		**-**	**109,686**	-	14,541
Right-of-use assets	20	**11,891**	**11,891**	220	220
Property and equipment	21	**914**	**892**	12,875	12,840
Assets classified as held for sale	21	**7,070**	**7,070**	-	-
Investment in subsidiary	32	**-**	**1**	-	1
Total assets		**4,124,713**	**4,124,808**	3,518,034	3,518,227
Liabilities					
Customer deposits	22	**3,336,442**	**3,336,442**	2,832,564	2,832,564
Bank deposits	23	**390,170**	**390,170**	400,125	400,125
Provision for customer redress	24	**716**	**716**	261	261
Lease liabilities	20	**12,065**	**12,065**	278	278
Other liabilities	25	**72,036**	**70,618**	33,793	32,998
Derivative liabilities	15	**3,838**	**3,838**	429	429
Intercompany payable		**-**	**-**	-	30
Subordinated loan	26	**-**	**-**	29,868	29,868
Total liabilities		**3,815,267**	**3,813,849**	3,297,318	3,296,553
Equity					
Share capital	27	**202,000**	**202,000**	155,000	155,000
Revaluation reserve		**3,148**	**3,148**	1,674	1,674
Accumulated profits		**104,490**	**105,811**	64,191	65,000
Equity attributable to owners of the Company		**309,638**	**310,959**	220,865	221,674
Non-controlling interest		**(192)**	**-**	(149)	-
Total equity		**309,446**	**310,959**	220,716	221,674
Total liabilities and equity		**4,124,713**	**4,124,808**	3,518,034	3,518,227

The notes on pages 97 to 165 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 4 April 2023 and were signed on its behalf by:



Nick Fahy
Chief Executive Officer
Company number 04728421

Statement of changes in equity

Consolidated
For the year ended 31 December 2022

	2022					
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total attributable to owners of the Company £000	Non-controlling interests £000	Total £000
1 January	**155,000**	**1,674**	**64,191**	**220,865**	**(149)**	**220,716**
Profit for the year after tax	-	-	40,299	40,299	(43)	40,256
Other comprehensive income	-	1,474	-	1,474	-	1,474
Issue of share capital	47,000	-	-	47,000	-	47,000
31 December	**202,000**	**3,148**	**104,490**	**309,638**	**(192)**	**309,446**

Company
For the year ended 31 December 2022

	2022			
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total £000
1 January	**155,000**	**1,674**	**65,000**	**221,674**
Profit for the year after tax	-	-	40,811	40,811
Other comprehensive income	-	1,474	-	1,474
Issue of share capital	47,000	-	-	47,000
31 December	**202,000**	**3,148**	**105,811**	**310,959**

Consolidated
For the year ended 31 December 2021

	2021					
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total attributable to owners of the Company £000	Non-controlling interests £000	Total £000
1 January	155,000	1,674	39,113	195,787	-	195,787
Profit for the year after tax	-	-	25,078	25,078	(149)	24,929
Other comprehensive income	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
31 December	155,000	1,674	64,191	220,865	(149)	220,716

*Property revaluation reserve.

Company
For the year ended 31 December 2021

	2021			
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total £000
1 January	155,000	1,674	39,113	195,787
Profit for the year after tax	-	-	25,887	25,887
Other comprehensive income	-	-	-	-
Issue of share capital	-	-	-	-
31 December	155,000	1,674	65,000	221,674

*Property revaluation reserve.

The notes on pages 97 to 165 form an integral part of these financial statements.

Consolidated and Company statement of cash flows

For the year ended 31 December 2022	Notes	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Operating activities					
Profit before tax		**50,489**	**51,180**	30,400	31,588
Adjustments for:					
Allowance for expected credit losses on financial assets	12	**9,100**	**8,184**	5,396	5,333
Depreciation of property and equipment	21	**378**	**365**	1,018	1,014
Amortisation of intangible assets	19	**3,876**	**3,831**	2,429	2,429
Impairment of intangible assets	19	**1,215**	**1,215**	-	-
Gain on disposal of property	21	**(9,230)**	**(9,230)**	-	-
Deferred gain on disposal of property		**(277)**	**(277)**	-	-
Lease interest	20	**81**	**81**	29	29
Interest on subordinated loan	6	**2,328**	**2,328**	2,400	2,400
Interest on asset backed securities	18	**(2,570)**	**(2,570)**	(76)	(76)
Amortisation of issuance costs relating to subordinated loan	26	**-**	**-**	125	125
Tax paid	13	**(9,937)**	**(10,096)**	(6,409)	(6,409)
Foreign exchange losses		**977**	**1,036**	68	68
Fair value gains on derivative instruments	17	**(3,983)**	**(3,983)**	-	-
Changes in operating assets					
Increase in mandatory deposits with central bank	14	**(1,576)**	**(1,576)**	(1,491)	(1,491)
Increase in loans and advances to customers	15	**(313,752)**	**(223,224)**	(341,012)	(333,355)
Increase in intercompany receivable		**-**	**(95,146)**	-	(14,541)
(Increase) / decrease in other assets	16	**(23,449)**	**(23,703)**	(225)	6
Increase in derivative assets	17	**(12,350)**	**(12,350)**	(23)	(23)
Increase in accrued income and prepaid expenses	16	**(4,072)**	**(4,072)**	(6,391)	(6,391)
Changes in operating liabilities					
Increase in customer deposits	22	**493,923**	**493,923**	540,317	540,317
(Decrease) / increase in intercompany payable		**-**	**(30)**	-	30
Increase / (decrease) in derivative liabilities	17	**3,409**	**3,409**	(344)	(344)
Increase in accrued expenses	25	**1,290**	**754**	8,305	7,574
Increase / (decrease) in other liabilities and provision for customer redress	25	**4,916**	**4,852**	(213)	(508)
Net cash flow generated from operating activities		**190,786**	**184,901**	234,303	227,775

Statement of cash flows – continued

For the year ended 31 December 2022	Notes	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Investing activities					
Purchase of property and equipment	21	**(877)**	**(877)**	(72)	(32)
Purchase of intangible assets	19	**(6,048)**	**(5,962)**	(9,230)	(8,997)
Redemption / (purchase) of asset backed securities	18	**26,975**	**26,975**	(137,782)	(137,782)
Investment in subsidiary, net of cash acquired	32	**-**	**-**	-	(1)
Proceeds from sale of property	21	**16,370**	**16,370**	-	-
Net cash flow generated from / (used in) investing activities		**36,420**	**36,506**	(147,084)	(146,812)
Financing activities					
Proceeds from issuance of new share capital	27	**47,000**	**47,000**	-	-
Capital repayment from finance lease obligations	20	**34**	**34**	(238)	(238)
Net cash flow generated from / (used in) financing activities		**47,034**	**47,034**	(238)	(238)
Net increase in cash and cash equivalents for the year		**274,240**	**268,441**	86,981	80,725
Cash and cash equivalents (see note 15)					
1 January 2022		**372,288**	**366,032**	285,307	285,307
Net increase in cash and cash equivalents for the year		**274,240**	**268,441**	86,981	80,725
31 December 2022		**646,528**	**634,473**	372,288	366,032
Operational cash flows from interest					
Interest paid		**(45,681)**	**(45,669)**	(18,356)	(18,356)
Interest received		**167,199**	**163,622**	105,716	105,556

Refer to notes 15 and 26 for disclosures of cash and cash equivalents and changes in liabilities arising from financing activities respectively. The notes on pages 97 to 165 form an integral part of these financial statements.

Notes to the financial statements

1. Corporate information

Cynergy Bank Limited registered in England and Wales under company number 04728421, with registered office 27-31 Charlotte Street, London W1T 1RP, is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. Together with its subsidiaries, Cynergy Bank Limited is referred to as 'the Bank' in these financial statements.

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

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

2. Basis of preparation

These consolidated and company financial statements, including the accounting policies, are prepared on a going concern basis and in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. 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.

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: financial plans and forecast performance, capital and liquidity requirements and stress testing performed under the ICAAP and ILAAP and operational risk, including operational resilience and reliance on outsourced suppliers. The Directors are satisfied that the Bank is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments. Due to its current financial position, Cynergy Bank Limited has committed to support its subsidiary Cynergy Business Finance Limited for at least, but not limited to, 12 months from the date that the financial statements were signed. The Directors are satisfied that the capital and liquidity positions of the Bank more than meet regulatory requirements and are adequate for the foreseeable future.

Statement of compliance

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Presentation of financial statements

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

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

Foreign currency translation

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

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

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

3. Accounting policies

3.1. Accounting standards and interpretations adopted during the period

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

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

There have been no new standards or interpretations issued, but not yet adopted, that are mandatory for accounting periods beginning on or after 1 January 2022, up to the date of issuance of the Bank's financial statements which are relevant to its operations or are expected to have a material effect on the Bank.

3.3. Segmental information

The Bank operates in the United Kingdom in one principal activity, namely the provision of banking services to business and personal customers. 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 Bank and the revenue can be reliably measured.

Net interest income

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at fair value through profit or loss (FVPL). Interest expense is recorded on financial liabilities measured at amortised cost using the EIR method.

The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to its net carrying amount.

Fee and commission income integral to the effective interest rate

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

Banking fees and commissions

Revenue from banking fees and commissions as well as invoice discounting related fees such as for the monitoring of the associated sales ledger is measured based on the consideration specified in the contract with the customer and excludes amounts collected on behalf of third parties. The 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
Service 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

3.5. Effective interest rate

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

3.6. Provisions

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

3.7. Taxation

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

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

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

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

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

3.8. Financial instruments

Date of recognition

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

Initial measurement of financial instruments

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

Measurement categories of financial assets and liabilities

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

- Amortised Cost: Assets that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest ('SPPI') and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by an expected credit loss allowance recognised and measured as described in 3.11. Interest income from these financial assets is included in 'Interest income' using the effective interest method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on instruments' amortised cost which are recognised in the profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and

presented in the profit or loss statement within 'Total operating income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held-for-trading, in which case they would be presented separately in 'Net Investment Income'.

Financial liabilities (other than loan commitments and financial guarantees) are measured at amortised cost, except for derivative instruments which are measured at FVPL.

Hedge accounting policy

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

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

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

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

Fair value hedge accounting for portfolio hedges of interest rate risk

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

The amount to hedge is determined based on a movement in the present value of a portfolio of assets for a one basis point shift in the yield curve used to value the instruments ("PV01"), to ensure the mismatches in expected repricing buckets are within the limits set by the Board on the sensitivity analysis approach using a hypothetical parallel shift in interest rates.

The Bank measures monthly the movements in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, the Bank recognises the change in fair value of each hedged item in the income statement with the cumulative movement in their value being shown on the statement of financial position as an adjustment to the carrying value of the hedged item.

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

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

3.9. Financial assets and liabilities

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

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

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

Trade and other receivables at amortised cost

Trade and other receivables are recognised when cash is advanced to a borrower and are derecognised 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 and Bank deposits at amortised cost

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

Derivatives recorded at fair value through profit or loss

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

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, or the corresponding ECL provision as set out in note 28. The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the arrangement.

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

3.10. Derecognition of financial assets and liabilities

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

3.11. Impairment of financial assets

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

i) Overview of the ECL principles

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, including loan commitments, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12m ECL) as outlined in note 31. The Bank'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 Bank groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

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

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

ii) The Calculation of ECLs

The Bank calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation of the EIR. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank 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 Bank considers four scenarios: mild upside, baseline, downside and severe downside. Each of these is associated with different PDs, EADs and LGDs, as set out in iii) Use of forward-looking economic information and note 31. When relevant, the assessment of ECLs 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 Bank's macroeconomic scenarios, as explained above.

  In determining whether a significant increase in credit risk has occurred since initial recognition the 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 Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. 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 Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at the expected EIR on the loan.
- Overdrafts: The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products. The interest rate used to discount the ECLs for overdrafts is based on the average EIR that is expected to be charged over the life of the instrument.

iii) Use of forward-looking economic information

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information using key economic variables which impact on the credit risk and credit losses of the lending portfolio. The Bank has continued to deploy quantitative assessments supported by qualitative expert judgment

in the management of the Bank'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 Bank's modelled outputs.

The variables of the Bank's economic modelling are deployed to forecast the PD, LGD and EAD across different scenarios and the Bank partners with a market leader in global forecasting and quantitative analysis to ensure that the economic updates made to its inputs are aligned to market best practice estimates. The Bank 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 Bank's ECL calculation. The economic scenarios applied within the IFRS 9 forecasting at year end are outlined overleaf:

Scenario	UK economy output in each scenario
Base (50th percentile)	• Rising inflation coupled with aggressive monetary policy has resulted in stretched affordability and diminished consumer demand and confidence. The UK economy is expected to see a recession next year, contracting on average by 0.9%. • House price growth forecasted to slow and tip into negative territory in 2023 as falling real incomes and higher interest rates take their toll, adding to the drag from stretched affordability. House prices are projected to see a correction in 2023-24 (11.5% peak-to-trough). • Inflation is expected to remain elevated in the near term and will only unwind slowly. The baseline forecast envisages Bank of England base rate ("Base Rate") peaking at 4% in early 2023. This is some way below market expectations which are still pricing in a peak of close to 4.5%, down from even higher rate expectations around the announcement of the 'mini-budget' in late September. • Given the downward revision to growth and increased pressure on firms from tighter monetary policy and high energy prices, the unemployment rate is forecasted to rise in the short run and to peak at 4.7% by mid-2023.
Mild upside (15th percentile)	• The mild upside scenario can be thought of as an alternative, more optimistic base case. Households run down savings accumulated during the pandemic at a faster pace than assumed in the baseline, permanent scars to the supply side are avoided, and the economy reverts to its pre-crisis trajectory within a couple of years. • In this scenario UK GDP will record growth of 1.4% in 2023 and 3% in 2024. • The labour market still deteriorates in the near-term, as higher interest rates and lower real incomes take their toll on employment growth, but the unemployment rate recovers swiftly and falls back to its recent decade-low of 3.6% by late 2027. • Supported by the turnaround in confidence, incomes and employment, residential house prices only see a mild fall in 2023-24 and recover thereafter. • Inflation also accelerates further in the scenario, reflecting cost-push pressures from higher commodity prices and demand-pull forces from stronger demand, inducing the Bank of England to tighten policy faster than assumed in our baseline forecast. Bank Rate reaches a peak of 5.25% by mid-2023 and converges to a higher terminal rate thereafter. Amid increased demand for loans and higher interest rates, gearing in the economy picks up faster than expected in the baseline.

Scenario	UK economy output in each scenario
Downside scenario (85th percentile)	• The downside scenario results in a global recession in the near-term. The downside scenario captures the current risks from higher inflation, higher interest rates, weakening domestic and global demand and continued supply chain disruptions. The subsequent recovery in this scenario is subdued, as the combination of increased risk aversion, lower real incomes, and long-term scarring weigh heavily on the global economy. • UK output sees a return to sustained weakness, contracting sharply in 2023 and recovering only gradually from the recession. UK GDP falls around 5.6% start-to-trough as both consumer and business spending is sharply scaled back, and with external demand much weaker than in the baseline. • Employment is severely hit in this scenario as jobs are cut with much lower demand leading to freezes in hiring plans and inducing firms to lay off staff. The unemployment rate rises sharply over 2023 and 2024 reaching a peak of more than 7% in 2025 – a level last seen more than a decade ago during the global financial crisis (GFC). • House prices fall sharply, seeing a start-to-trough fall of around 23%. • To counter the downturn in the economy, the MPC swiftly abandons its tightening cycle and starts lowering Bank Rate again. Despite the reduced pressure from interest rates when compared to the baseline forecast, lower incomes and increased unemployment introduce forced sellers into the residential property market.
Severe downside scenario (95th percentile)	• The effects of the severe downside scenario on UK GDP are similar to the magnitude of the shock during the GFC. • The severe downside scenario sees a sharp and immediate drop in UK output (-3.9% q/q in Q1 2023, compared to -0.3% in the baseline) and GDP does not recover over the following 12 months as financial stress remains elevated. • Unemployment in the UK surges to 6.3% by end-2023 and peaks at 7.5% in 2025, 3.5ppts higher than in the baseline. • House prices collapse – at the trough they are around 31% below their starting level, erasing all growth seen since 2016, reflecting the unparalleled hit to incomes, significantly impaired confidence levels and tighter access to credit. • The MPC abandons its policy rate tightening in short order, and begins to aggressively cut Bank Rate again, to 0.5 by early 2026, as the impairment to the supply side and labour market remains considerable.

Model Scenario Probability Weightings

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

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

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

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

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

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

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

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

2021		GDP	HPI	CRE	Bank Rate	Unem-ployment	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)	%	1.70	(1.10)	0.70	0.12	0.00	2.97	(0.15)
Mild Upside economic parameters								
5 Year Average increase/decrease	%	13.41	11.33	8.83	1.45	(0.72)	1.04	0.29
Cumulative growth/(fall) to peak/ (trough)	%	0.55	2.65	3.14	0.25	(1.04)	2.76	0.65
Downside economic parameters								
5 Year Average increase/decrease	%	8.30	(5.78)	(7.69)	0.14	1.75	0.38	(8.30)
Cumulative growth/(fall) to peak/ (trough)	%	(2.64)	(22.13)	(7.69)	(0.13)	1.99	4.34	(1.29)
Severe Downside economic parameters								
5 Year Average increase/decrease	%	5.58	(24.67)	(9.45)	(0.22)	2.08	0.21	(13.26)
Cumulative growth/(fall) to peak/ (trough)	%	(4.15)	(4.86)	(12.56)	(0.38)	2.30	5.20	(1.94)

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

Company As at 31 December 2022	Weighted	Mild Upside	Baseline	Downside	Severe Downside
Gross carrying amount £000					
Business	**633,775**	**-**	**-**	**-**	**-**
Property	**2,241,966**	**-**	**-**	**-**	**-**
Private	**302,642**	**-**	**-**	**-**	**-**
ECL £000					
Business	**3,956**	**3,542**	**3,782**	**4,318**	**4,687**
Property	**16,921**	**15,793**	**16,344**	**18,041**	**19,278**
Private	**462**	**345**	**402**	**581**	**705**
Proportion of ECLs in Stage 2 (%)					
Business	**48%**	**46%**	**47%**	**49%**	**50%**
Property	**17%**	**14%**	**16%**	**20%**	**23%**
Private	**26%**	**24%**	**25%**	**28%**	**29%**

Company As at 31 December 2021	Weighted	Mild Upside	Baseline	Downside	Severe Downside
Gross carrying amount £000					
Business	427,551	-	-	-	-
Property	2,274,502	-	-	-	-
Private	253,792	-	-	-	-
ECL £000					
Business	2,394	2,066	2,260	3,021	3,601
Property	11,273	10,307	10,845	12,861	14,725
Private	257	47	237	50	419
Proportion of ECLs in Stage 2 (%)					
Business	47%	42%	45%	53%	57%
Property	9%	6%	8%	12%	15%
Private	23%	4%	22%	5%	24%

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

ECL Sensitivity of HPI change relative to Baseline Scenario (Difference) £000			
Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(131)	341	576
Stage 2	(250)	786	1,329
Stage 3	(318)	684	1,064
Total	(699)	1,811	2,969

ECL Sensitivity of CRE change relative to Baseline Scenario (Difference) £000			
Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(7)	35	41
Stage 2	(42)	173	198
Stage 3	-	-	-
Total	(49)	208	239

ECL Sensitivity of Unemployment change relative to Baseline Scenario (Difference) £000			
Scenario	HPI Mild Upside	HPI Downside	HPI Severe Downside
Stage 1	(209)	307	518
Stage 2	(423)	616	1,021
Stage 3	(528)	651	1,005
Total	(1,160)	1,574	2,544

Post-Model Adjustments and Management Overlays

The Bank utilises Post Model Adjustments ("PMA") to account for model limitations or latent risks not captured by modelled ECLs in the modelled outcome of the IFRS 9 ECL provisions 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 Bank's model governance process and approved by the Board Audit Committee. The following PMA and Overlays were applied at 31 December 2022:

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

PMAs applied at year end 2021 and removed in 2022:

- **Sector Uncertainty PMA:** To account for the broader risk of a rising inflationary environment and the pressure this places on customers and payment affordability, the Bank adjusted the macroeconomic weightings in the model to be more skewed to the downside economics. This was applied in Q3 2022 and remained in place at year end. The Bank's Sector uncertainty PMA has been deemed suitably covered within the new weightings of the macroeconomic scenarios and the PMA has been removed.
- **Cynergy Business Finance (CBF) Overlay:** This PMA was applied to the CBF portfolio prior to the development of full IFRS 9 modelled approach. Through 2022 the Bank developed and deployed an IFRS 9 modelled approach to calculating the ECL on this portfolio. The PMA was removed in December 2022.
- **PD and Macroeconomics Calibration PMA:** Applied at year end 2021 to account for the annual PD and Macroeconomic validation work which commenced in Q4 2021 and was completed in Q1 2022. Following deployment of the updated PD and macroeconomic variables into the model for 2022 this PMA was removed.

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

£000	Sector Uncertainty	PD & Macro-economic Calibration	Interest only Amortising Term Loan	Bridging sector Overlay	CBILS and RLS PMA	Individual Assessments Overlay	Cynergy Business Finance
2021	£125	£214	£213	£6,036	(£690)	N/A	£63
2022	removed	removed	£449	£6,949	(£809)	£6,660	removed

3.12. Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral where possible. The collateral comes in various forms, such as real estate, cash, securities, letters of credit / guarantees, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. Commercial and residential property is revalued at least quarterly through indexation, it is also subject to physical revaluation periodically and fully revalued when entering the Bank's Business Support team or Recoveries.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models.

3.13. Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Write-offs are instructed by the Bank's Recoveries Team and are credited to credit loss expense.

3.14. Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans. These modifications can be made for commercial reasons, for example modifications have been made to contracts in relation to the transition 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 Bank has modified loans over recent years to support customers due to COVID and due to the persistent volatile economic conditions, and in its work to migrate customers away from LIBOR to Bank of England base rate ("Bank Rate").

The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or significant concerns raised by the Bank's Credit Risk Department.

Forbearance may involve extending the payment arrangements or the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in note 31. The Bank also considers whether the assets should be classified as Stage 3 credit-impaired. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The exposure must complete a probation period of 24-month where it must be considered a `performing' loan;
- Regular and significant payments of principal or interest must have been made during at least half of the probation period;
- The customer must not have any contract that is more than 30 days past due.

3.15. Cash and cash equivalents

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

3.16. Property and equipment

Property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out on a three-year cycle by independent qualified valuers on the basis of current market values. Management reassesses the carrying amount to ensure that it does not differ materially from the fair value at the end of each intervening reporting period. These assets are level 2 in the fair value hierarchy, with inputs including recent comparable evidence applying the comparative and investment methods of valuation. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

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

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

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

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

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains or losses on the disposal of property and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

3.17. Non-current assets held-for-sale

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

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

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

3.18. Leases

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

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

A termination option is included within the present property lease. In determining the lease term, management considers all facts and circumstances which may lead to the exercising of the termination option. The right-of-use asset is therefore depreciated over the expected lease term through to termination.

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

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

3.19. Intangible assets

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

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

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

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

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

3.20. Employee benefits

3.20.1. Retirement benefits

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

3.20.2. Share-based payments

The Bank provides share-based compensation benefits to employees via the Long-Term Incentive Plan (LTIP). Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions. The fair value of awards granted is recognised as an expense, with

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

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

3.21. Government grants and other assistance

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

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

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

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

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

The Bank has not received any government grants.

3.22. Investment in subsidiary

Investments in subsidiaries are accounted for at cost less any provision for impairment. Details of the Bank's subsidiaries are provided in Note 32.

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 and estimates

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

Critical judgments

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

Significant estimates

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

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

The judgments and assumptions that are considered to be the most important in the portrayal of the Bank's financial affairs are those related to impairment, the effective interest rate and valuation of share-based payment liability included in these accounts.

Allowances for credit losses

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

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

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- Key PMAs are also judgments and assumptions, which are documented under Post-Model Adjustments in section 3.11 Impairment of financial assets.

Sensitivities to the above elements are detailed in note 3.11.

The effective interest method

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

The Bank recognises interest income at a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different

interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgment regarding the expected behaviour and life-cycle of the instruments, as well as expected changes to the Bank's and the Bank of England base rate and other fee income / expense that are integral parts of the instrument. The key sensitivity relates to the spreading of arrangement fees on the lending portfolio and increasing and decreasing the behavioural life of the lending portfolio by 20%, would result in reducing/increasing income by £1.5m / £1.5m.

Valuation of share-based payment liability

The Board and the Remuneration, Nominations and Corporate Governance Committee approved a new Long-Term Incentive Plan (LTIP) for senior leaders in February 2022, replacing the previous scheme which ran from 2019 to 2021. The LTIP is designed to provide long-term incentives for senior leaders to deliver long-term shareholder returns. Under the plan, participants are granted cash settled awards which only vest upon satisfaction of certain performance or other conditions. Awards are granted on the basis that only 50% of the award will be satisfied following the vesting date, 30% will be subject to a holding period of one year and 20% of the award will be subject to a post vesting holding period of two years. An independent valuation of the award is obtained which uses a market value approach, based on the estimated value of the Bank, assuming there is no quoted price available at this point. The valuation method considers comparable companies and comparable transactions to derive a comparable P/E ratio and book multiple. The final award is at the discretion of the Board in consideration of satisfaction of the performance conditions.

The final award is capped at 1.5x incremental growth in value, such that the liability is also capped.

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

5. Interest income

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Loans and advances to customers	**167,199**	**163,622**	105,529	105,369
Interest rate swaps	**1,548**	**1,548**	-	-
Other interest income	**62**	**62**	-	-
Total	**168,809**	**165,232**	105,529	105,369

6. Interest expense

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Customer deposits	**35,615**	**35,615**	15,258	15,258
Bank deposits	**22**	**10**	230	230
Subordinated loan	**2,328**	**2,328**	2,525	2,525
Lease liabilities	**81**	**81**	29	29
Interest rate swaps	**1,578**	**1,578**	-	-
	39,624	**39,612**	18,042	18,042
Government Funding Scheme	**6,057**	**6,057**	314	314
	45,681	**45,669**	18,356	18,356

7. Fee and commission income

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Service fees for current accounts	**418**	**418**	450	450
Service fees for debit / credit cards	**163**	**163**	150	150
Service fees for handling payments	**40**	**40**	44	44
Foreign exchange	**218**	**218**	269	269
Invoice finance fees	**570**	**-**	2	-
Other fees	**258**	**262**	278	278
Other banking fees and commissions	**1,667**	**1,101**	1,193	1,191

8. Foreign exchange (losses) / gains

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

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Foreign exchange (losses) / gains	**(1,194)**	**(1,253)**	1,853	1,852

9. Staff costs

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Wages and salaries	**31,459**	**28,745**	22,213	21,210
Social security costs	**3,242**	**2,944**	2,384	2,279
Retirement benefit costs - defined contribution scheme	**2,139**	**1,953**	1,748	1,702
Other benefits (Long-Term Incentive Plan)	**1,494**	**1,494**	2,529	2,529
	38,334	**35,136**	28,874	27,720

The monthly average number of staff employed (including two Executive Directors) during the year ended 31 December 2022 is shown below:

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Monthly average number of full-time equivalent staff employed	**299**	**278**	224	216

10. Depreciation, amortisation and impairment

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Depreciation of property and equipment	**378**	**365**	770	766
Amortisation of intangible assets	**3,876**	**3,831**	2,429	2,429
Depreciation of right-of-use assets	**289**	**289**	248	248
Impairment	**1,215**	**1,215**	-	-
	5,758	**5,700**	3,447	3,443

11. Other operating expenses

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Information technology	**8,693**	**8,587**	5,788	5,774
Professional fees, including co-sourcing and contractor costs	**15,506**	**15,226**	8,489	8,463
Clearing charges	**1,174**	**1,121**	1,042	1,041
Communication	**281**	**281**	288	288
Advertising	**820**	**813**	576	571
Premises	**805**	**736**	737	708
Printing and stationery	**60**	**57**	30	29
Other operating expenses – refer to analysis below	**5,794**	**5,603**	2,962	2,908
	33,133	**32,424**	19,912	19,782

Professional fees include fees payable to the Bank's auditors of £764k (2021: £576k) which are analysed below (amounts excluding VAT) :

Audit fees payable to the Bank's auditors for the audit of the Bank's annual accounts	**712**	**680**	575	555
Other assurance services	**48**	**48**	-	-
Other non-audit services	**4**	**4**	1	1
	764	**732**	576	556

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

Other operating expenses are further analysed below:

Subscriptions and publications	**1,588**	**1,579**	521	521
Directors' fees	**463**	**443**	450	450
Recruitment	**1,712**	**1,683**	1,039	1,015
Training	**269**	**265**	198	198
Travel and entertaining	**640**	**526**	179	151
Financial Services Compensation Scheme levy and registration fees	**328**	**326**	173	171
Other insurances	**301**	**298**	229	229
Other operating expenses	**493**	**483**	173	173
	5,794	**5,603**	2,962	2,908

12. Credit loss on financial assets

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

Consolidated	2022			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	1,221	3,147	968	5,336
Undrawn loan commitments	(9)	-	-	(9)
Recoveries	-	-	3,773	3,773
Total impairment loss	1,212	3,147	4,741	9,100

Company	2022			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	940	2,732	748	4,420
Undrawn loan commitments	(9)	-	-	(9)
Recoveries	-	-	3,773	3,773
Total impairment loss	931	2,732	4,521	8,184

Consolidated	2021			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	(1,841)	(944)	1,817	(968)
Undrawn loan commitments	13	-	-	13
Recoveries	-	-	6,351	6,351
Total impairment loss	(1,828)	(944)	8,168	5,396

Company	2021			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	(1,887)	(944)	1,817	(1,014)
Undrawn loan commitments	(4)	-	-	(4)
Recoveries	-	-	6,351	6,351
Total impairment loss	(1,891)	(944)	8,168	5,333

13. Income tax expense

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
UK corporation tax				
Charge for the year	**9,082**	**9,082**	7,426	7,426
Adjustments in respect of prior year	**(632)**	**(632)**	(1,066)	(1,066)
	8,450	**8,450**	6,360	6,360
Deferred tax				
Charge for the year	**1,971**	**2,104**	(840)	(616)
Adjustment in respect of prior year	**(188)**	**(185)**	3	3
Change in tax rates	**-**	**-**	(52)	(46)
Tax charge for the year	**10,233**	**10,369**	5,471	5,701

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 2021: 19.00%) is presented below:

Profit before tax	**50,489**	**51,180**	30,400	31,588
Tax calculated at 19.00% (December 2021: 19.00%)	**9,593**	**9,724**	5,776	6,002
Tax effect of:				
Banking surcharge	**1,311**	**1,311**	793	793
Expenses not deductible for tax purposes	**20**	**20**	17	15
Tax rate adjustment	**(73)**	**(71)**	(52)	(46)
R&D expenditure credit	**(73)**	**(73)**	-	-
Property revaluation	**(128)**	**(128)**	-	-
Property sale	**403**	**403**	-	-
Adjustment in respect of prior year – Corporation Tax	**(632)**	**(632)**	(1,066)	(1,066)
Adjustment in respect of prior year – Deferred Tax	**(188)**	**(185)**	3	3
Tax charge for the year	**10,233**	**10,369**	5,471	5,701

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
The net deferred tax asset / (liability) arises from:				
Difference between capital allowances and depreciation	**(2,202)**	**(2,129)**	46	57
Property revaluation	**(1,166)**	**(1,166)**	(1,294)	(1,294)
Losses to be used against future profits	**406**	**-**	206	-
Provision for renumeration expenditure not deductible for tax purposes in the current period	**1,602**	**1,569**	1,466	1,431
Net deferred tax asset / (liability)	**(1,360)**	**(1,726)**	424	194
The movement in the net deferred tax asset / (liability) is set out below:				
1 January	**424**	**194**	(397)	(397)
Revaluation of properties	**-**	**-**	(68)	(68)
Deferred tax recognised in the income statement	**(1,784)**	**(1,919)**	889	659
31 December	**(1,360)**	**(1,726)**	424	194
The analysis of the net deferred tax credit / (charge) recognised in the income statement is set out below:				
Difference between capital allowances and depreciation	**(2,435)**	**(2,369)**	69	77
Losses to be used against future profits	**199**	**-**	206	-
Other temporary differences	**136**	**137**	565	539
Change in tax rates	**-**	**-**	52	46
Adjustment in respect of prior years	**188**	**185**	(3)	(3)
Deferred tax on property revaluation	**128**	**128**	-	-
Deferred tax credit / (charge) for the year	**(1,784)**	**(1,919)**	889	659

The Bank has no unrecognised deferred tax assets.

14. Cash, balances with central banks and placements with banks

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Cash in hand	**-**	**-**	1	1
Balances with the Bank of England	**553,007**	**553,007**	324,981	324,981
	553,007	**553,007**	324,982	324,982
Placements with banks	**102,320**	**90,265**	54,529	48,273
Cash and cash equivalents	**655,327**	**643,272**	379,511	373,255

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

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

Balances with central banks include mandatory deposits of £8,799,015 (31 December 2021: £7,223,474) which are not available for use in the Bank's day-to-day business . These comprise cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

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

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Cash	-	-	1	1
Balances with the Bank of England	553,007	553,007	324,981	324,981
Less: Mandatory deposits with the central bank	(8,799)	(8,799)	(7,223)	(7,223)
Placements with banks	102,320	90,265	54,529	48,273
Cash and cash equivalents per the statement of cash flows	646,528	634,473	372,288	366,032

15. Loans and advances to customers

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Loans	3,261,855	3,163,670	2,954,046	2,946,389
Overdrafts	14,714	14,714	9,456	9,456
	3,276,569	3,178,384	2,963,502	2,955,845
Less: Allowance for ECL/impairment losses	(22,339)	(21,360)	(13,924)	(13,861)
Total	3,254,230	3,157,024	2,949,578	2,941,984

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

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

Consolidated Overdrafts £000	2022			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	13,867	80	-	13,947
Watch list medium risk	-	156	-	156
Credit Impaired	-	-	611	611
Total	13,867	236	611	14,714

Company Loans £000	2022			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	2,752,002	164,963	-	2,916,965
Watch list medium risk	-	182,624	-	182,624
Credit Impaired	-	-	64,081	64,081
Total	2,752,002	347,587	64,081	3,163,670

Company Overdrafts £000	2022			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	13,867	80	-	13,947
Watch list medium risk	-	156	-	156
Credit Impaired	-	-	611	611
Total	13,867	236	611	14,714

Consolidated Loans £000	2021			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	2,678,503	126,822	-	2,805,325
Watch list medium risk	-	105,068	-	105,068
Impaired	-	-	43,653	43,653
Total	2,678,503	231,890	43,653	2,954,046

Consolidated Overdrafts £000	2021			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	8,550	411	-	8,961
Watch list medium risk	-	487	-	487
Impaired	-	-	8	8
Total	8,550	898	8	9,456

Company Loans £000	2021			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	2,670,846	126,822	-	2,797,668
Watch list medium risk	-	105,068	-	105,068
Impaired	-	-	43,653	43,653
Total	**2,670,846**	**231,890**	**43,653**	**2,946,389**

Company Overdrafts £000	2021			
	Gross Carrying Amount			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total Sum of Gross Carrying Amount
Standard grade	8,550	411	-	8,961
Watch list medium risk	-	487	-	487
Impaired	-	-	8	8
Total	**8,550**	**898**	**8**	**9,456**

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

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

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

Company Loans	2022							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 2022	**2,670,846**	**2,038**	**231,890**	**2,156**	**43,653**	**9,624**	**2,946,389**	**13,818**
New assets originated	1,042,419	1,072	50,165	820	556	230	1,093,140	2,122
Assets derecognised or repaid	(722,633)	(625)	(73,019)	(556)	(20,985)	(1,166)	(816,637)	(2,347)
Transfers to Stage 1	40,718	54	(42,707)	(92)	(466)	(8)	(2,455)	(46)
Transfers to Stage 2	(228,072)	199	219,138	2,958	(716)	(1)	(9,650)	3,156
Transfers to Stage 3	(9,057)	216	(35,773)	(570)	44,310	4,803	(520)	4,449
Within stage movements	(42,219)	12	(2,107)	172	(1,215)	550	(45,541)	734
Write offs	-	-	-	-	(1,056)	(687)	(1,056)	(687)
At 31 December 2022	**2,752,002**	**2,966**	**347,587**	**4,888**	**64,081**	**13,345**	**3,163,670**	**21,199**

Company Overdrafts	2022							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 2022	**8,550**	**23**	**898**	**18**	**8**	**2**	**9,456**	**43**
New assets originated	5,041	5	43	-	2	1	5,089	6
Assets derecognised or repaid	(790)	(2)	(618)	(4)	(6)	(1)	(1,414)	(7)
Transfers to Stage 1	4	-	-	-	-	-	4	-
Transfers to Stage 2	(169)	(1)	164	10	-	-	(5)	8
Transfers to Stage 3	-	-	(249)	(1)	607	113	358	112
Within stage movements	1,231	2	(2)	(4)	-	-	1,229	(2)
Write offs	-	-	-	-	-	-	-	-
At 31 December 2022	**13,867**	**27**	**236**	**19**	**611**	**115**	**14,714**	**161**

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

Consolidated Loans	2021							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 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 movements	(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**

Consolidated Overdrafts	2021							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 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 movements	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**

Company Loans	2021							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 2021	2,401,085	3,920	183,820	2,950	25,081	1,473	2,609,986	8,343
New assets originated	839,802	627	18,909	46	5,350	102	864,061	775
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 movements	(67,505)	(1,133)	(8,746)	(417)	(444)	1,994	(76,695)	444
Write offs	-	-	-	-	(69)	(17)	(69)	(17)
At 31 December 2021	**2,670,846**	**2,038**	**231,890**	**2,156**	**43,653**	**9,624**	**2,946,389**	**13,818**

Company Overdrafts	2021							
	Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January 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 movements	1,055	(8)	(56)	(2)	1	1	1,000	(9)
Write offs	-	-	(1)	-	(1)	(1)	(2)	(1)
At 31 December 2021	**8,550**	**23**	**898**	**18**	**8**	**2**	**9,456**	**43**

16. Other assets

	Consolidated 2022 £000	**Company 2022 £000**	Consolidated 2021 £000	Company 2021 £000
Debtors	**23**	**24**	66	66
Receivable from the Bank of Cyprus Public Company Limited towards redress payments	**1,013**	**1,013**	413	413
Prepayments	**7,385**	**7,385**	6,618	6,617
Accrued income	**1,684**	**1,684**	2,369	2,369
Receivables from payment service provider	**1,686**	**1,686**	1,596	1,596
Cash pledged as collateral	**30,007**	**30,007**	-	-
Deferred tax asset (note 14)	**-**	**-**	424	194
VAT receivable	**228**	**194**	15	15
Other	**5**	**2**	-	-
Total	**42,031**	**41,995**	11,501	11,270

17. Derivative financial instruments

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

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

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

Consolidated and Company	2022 £000	2021 £000
Fair value gain / (loss) on derivative instruments	**3,983**	(2,190)
	3,983	(2,190)

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

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

Hedge accounting

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

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

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

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

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

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

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

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

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

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

18. Investment in securities held at amortised cost

Consolidated and Company	2022		2021	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Asset-backed securities	113,377	111,572	137,782	137,529
At 31 December 2022	**113,377**	**111,572**	137,782	137,529

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

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

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

19. Intangible assets

Consolidated	2022		
	Computer software £000	Assets under construction £000	Total £000
Cost as at 1 January	12,712	19,934	32,646
Additions	22	6,026	6,048
Disposals and write-offs	(95)	(1,142)	(1,237)
Transfers	10,854	(10,854)	-
Cost at 31 December	23,493	13,964	37,457
Accumulated amortisation at 1 January	(6,134)	-	(6,134)
Amortisation charge for the year	(3,876)	-	(3,876)
Disposals and write-offs	22	-	22
Accumulated amortisation at 31 December	(9,988)	-	(9,988)
Net book value at 31 December	13,505	13,964	27,469

Company	2022		
	Computer software £000	Assets under construction £000	Total £000
Cost as at 1 January	12,712	19,701	32,413
Additions	22	5,941	5,963
Disposals and write-offs	(95)	(1,142)	(1,237)
Transfers	10,536	(10,536)	-
Cost at 31 December	23,175	13,964	37,139
Accumulated amortisation at 1 January	(6,134)	-	(6,134)
Amortisation charge for the year	(3,831)	-	(3,831)
Disposals and write-offs	22	-	22
Accumulated amortisation at 31 December	(9,943)	-	(9,943)
Net book value at 31 December	13,232	13,964	27,196

Consolidated Company	2021 2021		
	Computer software £000	Assets under construction £000	Total £000
Cost as at 1 January	12,206	11,210	23,416
Additions	-	8,997	8,997
Disposals and write-offs	-	-	-
Transfers	506	(506)	-
Cost at 31 December	12,712	19,701	32,413
Accumulated amortisation at 1 January	(3,704)	-	(3,704)
Amortisation charge for the year	(2,429)	-	(2,429)
Disposals and write-offs	-	-	-
Accumulated amortisation at 31 December	(6,133)	-	(6,133)
Net book value at 31 December	6,579	19,701	26,280

20. Leases

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

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

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

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

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

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

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

21. Property and equipment

Consolidated	2022			
	Freehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000
Cost or valuation at 1 January	**13,100**	**1,774**	**-**	**14,874**
Classification of property as held for sale	**(6,100)**	**-**	**-**	**(6,100)**
Additions	**-**	**521**	**355**	**876**
Disposals and write-offs	**(7,000)**	**-**	**-**	**(7,000)**
Cost at 31 December	**-**	**2,295**	**355**	**2,650**
Accumulated depreciation at 1 January	**(444)**	**(1,555)**	**-**	**(1,999)**
Depreciation charge for the year	**(196)**	**(181)**	**-**	**(377)**
Classification of property as held for sale	**504**	**-**	**-**	**504**
Disposals, write-offs	**136**	**-**	**-**	**136**
Accumulated depreciation at 31 December	**-**	**(1,736)**	**-**	**(1,736)**
Net book value at 31 December	**-**	**559**	**355**	**914**

Company	2022			
	Freehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000
Cost or valuation at 1 January	13,100	1,734	-	14,834
Classification of property as held for sale	(6,100)	-	-	(6,100)
Additions	-	522	355	877
Disposals and write-offs	(7,000)	-	-	(7,000)
Cost at 31 December	-	2,256	355	2,611
Accumulated depreciation at 1 January	(444)	(1,550)	-	(1,994)
Depreciation charge for the year	(196)	(169)	-	(365)
Classification of property as held for sale	504	-	-	504
Disposals, write-offs	136	-	-	136
Accumulated depreciation at 31 December	-	(1,719)	-	(1,719)
Net book value at 31 December	-	537	355	892

Consolidated	2021				
	Freehold property £000	Leasehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000
Cost or valuation at 1 January	13,100	-	1,756	-	14,856
Additions	-	-	69	3	72
Disposals and write-offs	-	-	(51)	(3)	(54)
Cost 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	-	-	51	3	54
Accumulated depreciation at 31 December	(444)	-	(1,555)	-	(1,999)
Net book value at 31 December	12,656	-	219	-	12,875

Company	2021				
	Freehold property £000	Leasehold property £000	Computer equipment £000	Furniture & equipment £000	Total £000
Cost or valuation at 1 January	13,100	-	1,756	-	14,856
Additions	-	-	29	3	32
Disposals and write-offs	-	-	(51)	(3)	(54)
Cost at 31 December	13,100	-	1,734	-	14,834
Accumulated depreciation at 1 January	(185)	-	(1,098)	-	(1,283)
Depreciation charge for the year	(259)	-	(503)	(3)	(765)
Disposals, write-offs	-	-	51	3	54
Accumulated depreciation at 31 December	(444)	-	(1,550)	-	(1,994)
Net book value at 31 December	12,656	-	184	-	12,840

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

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

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

22. Customer deposits

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

23. Bank deposits

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

24. Provision for customer redress

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

The only significant provision of this nature as at 31 December 2022 is the conduct and legal risk provision for customer redress relating to historic conduct issues (2008 to 2012). This provision is underwritten by Bank of Cyprus Public Company Limited.

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

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

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

Sensitivity analysis based on customer opt-in rates	
Customer Opt-in Rate*	Total Provision £000
80%	**56,321**
81%	**56,593**
82%	**56,869**
85%	**57,695**

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

The provision for customer redress as at 31 December 2022 is £0.7m (2021: £0.3m) which represents the total current remaining commitment. There remains a corresponding receivable in the accounts of the Bank (see note 16). 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 17), and it has not been offset against the conduct provision which is presented gross as a liability on the face of the statement of financial position.

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

25. Other liabilities

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Accruals	**17,838**	**17,117**	15,294	14,848
Accrued interest payable	**1,503**	**1,503**	8,929	8,929
Subordinated loan - amounts to be repaid (note 26)	**41,082**	**41,082**	-	-
PAYE and NI settlement	**1,367**	**1,367**	932	932
Items in the course of settlement	**2,000**	**1,243**	619	335
Share-based payment liability	**3,917**	**3,917**	5,171	5,171
Deferred tax liability (note 13)	**1,360**	**1,726**	-	-
Tax payable (note 13)	**2,951**	**2,643**	2,176	2,142
Amounts owed to parent (note 34)	**-**	**-**	-	1
Other	**18**	**20**	672	640
Total	**72,036**	**70,618**	33,793	32,998

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

26. Subordinated loan

Consolidated and Company	2022 £000	2021 £000
Unsecured subordinated loan	**-**	29,868

In December 2017, the Bank issued a £30 million unsecured and subordinated Tier 2 capital loan (the loan), priced at par. The loan was unlisted. Interest was payable semi-annually on the loan at a coupon of 8.00% per annum up to 21 December 2022, at which point subject to meeting contractual notice conditions the Bank had the option to redeem the loan.

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

Changes in liabilities arising from financing activities

2022

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

Changes in liabilities arising from financing activities

2021

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

27. Share capital

Consolidated and Company	31 December 2022		31 December 2021	
	Number of shares	£000	Number of shares	£000
Authorised, issued and fully paid:				
Ordinary shares of £1 each	**202,000,000**	**202,000**	155,000,000	155,000

During the year ended 31 December 2022, the Bank issued 47,000,000 new ordinary shares of £1 each, with consideration for the shares paid fully in cash. The shares issued during the year carry the same rights and obligations as existing shares previously issued.

28. Contingent liabilities and commitments

28.1 Guarantees and commitments

As part of the services provided to its customers, the Bank enters into financial guarantees and undrawn commitments to lend.

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

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

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

	Consolidated 2022 £000	**Company 2022 £000**	Consolidated 2021 £000	Company 2021 £000
Acceptances, guarantees and cashing facilities	**649**	**649**	841	841
Commitments to advance	**167,728**	**145,814**	127,283	118,621
Total	**168,377**	**146,463**	128,124	119,462

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

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

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

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

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

Consolidated and Company Acceptances, guarantees and cashing facilities	2021			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £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	-	-	-	-
As at 31 December 2021	816	25	-	841

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

Company Commitments to advance	2022			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2022	**127,283**	**-**	**-**	**127,283**
Net new exposures	**145,814**	**-**	**-**	**145,814**
Exposure derecognised or matured / lapsed	**(127,283)**	**-**	**-**	**(127,283)**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Modifications	**-**	**-**	**-**	**-**
Amounts written-off	**-**	**-**	**-**	**-**
Foreign exchange adjustments	**-**	**-**	**-**	**-**
As at 31 December 2022	**145,814**	**-**	**-**	**145,814**

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

Company Commitments to advance	2021			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2021	219,132	-	-	219,132
Net new exposures	118,621	-	-	118,621
Exposure derecognised or matured / lapsed	(219,132)	-	-	(219,132)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written-off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	118,621	-	-	118,621

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

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

29. Financial Services Compensation Scheme levy

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

30. Fair value of financial assets and liabilities

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

Consolidated		31 December 2022		31 December 2021	
	Notes	**Carrying value £000**	**Fair value £000**	Carrying value £000	Fair value £000
Financial assets					
Cash and balances with central banks	(a, Level 1)	**553,007**	**553,007**	324,982	324,982
Placements with banks	(b, Level 1)	**102,320**	**102,320**	54,529	54,529
Derivative financial assets	(e, see below)	**12,404**	**12,404**	54	54
Investment in securities	(g, level 1)	**113,377**	**111,572**	137,782	137,529
Loans and advances to customers	(c, Level 3)	**3,254,230**	**3,190,786**	2,949,578	3,199,469
Financial liabilities					
Bank deposits	(b, Level 1)	**390,170**	**390,170**	400,125	400,125
Customer deposits	(d, Level 3)	**3,336,442**	**3,300,150**	2,832,564	2,801,143
Derivative financial liabilities	(e, see below)	**3,838**	**3,838**	429	429
Subordinated loan	(f, Level 3)	**-**	**-**	29,868	29,735

Company		31 December 2022		31 December 2021	
	Notes	**Carrying value £000**	**Fair value £000**	Carrying value £000	Fair value £000
Financial assets					
Cash and balances with central banks	(a, Level 1)	**553,007**	**553,007**	324,982	324,982
Placements with banks	(b, Level 1)	**90,265**	**90,265**	48,273	48,273
Derivative financial assets	(e, see below)	**12,404**	**12,404**	54	54
Investment in securities	(g, level 1)	**113,377**	**111,572**	137,782	137,529
Loans and advances to customers	(c, Level 3)	**3,157,024**	**3,093,304**	2,941,984	3,191,631
Financial liabilities					
Bank deposits	(b, Level 1)	**390,170**	**390,170**	400,125	400,125
Customer deposits	(d, Level 3)	**3,336,442**	**3,300,150**	2,832,564	2,801,143
Derivative financial liabilities	(e, see below)	**3,838**	**3,838**	429	429
Subordinated loan	(f, Level 3)	**-**	**-**	29,868	29,735

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

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

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

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

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

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

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

(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.

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

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

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

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

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

Company	Fair value at		Range of inputs		
Description	**31 Dec 2022 £000**	31 Dec 2021 £000	**2022**	2021	Relationship of discount rate input to fair value
Loans and advances to customers	**3,093,304**	3,191,631	**3.15% - 4.40%**	0.19% - 1.24%	A shift in discount rate of +/-10bps results in a change of fair value of £11m (2021: £8m to £11m)
Customer deposits	**3,300,150**	2,801,143	**3.62% - 4.20%**	0.19% - 1.24%	A shift in discount rate of +/-10bps results in a change of fair value of £1m (2021: £4m)
Investment in securities	**111,572**	137,529	**(2.10%) - 0.22%**	0.01%-0.46%	Based on quoted prices
Subordinated debt	**-**	29,735	**n/a**	1.04%	A shift in discount rate of +/-10bps results in a change of fair value of £nil (2021: £0.01m)

31. Risk management

Liquidity risk

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

Analysis of assets and liabilities by expected maturity Consolidated 31 December 2022	Carrying value £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	553,007	544,208	-	8,799	-	-
Placements with banks	102,320	102,320	-	-	-	-
Placements with related entities	-	-	-	-	-	-
Loans and advances to customers	3,254,230	42,324	210,117	176,509	2,302,125	523,155
Derivative assets	12,404	-	791	-	11,613	-
Investment in securities	113,377	-	4,201	38,610	70,566	-
Intercompany receivable	-	-	-	-	-	-
Total assets	4,035,338	688,852	215,109	223,918	2,384,304	523,155
Financial liabilities:						
Placements with related entities	-	-	-	-	-	-
Customer deposits	3,336,442	2,160,499	128,936	805,155	241,852	-
Bank deposits	390,170	7,513	-	-	382,657	-
Derivative liabilities	3,838	-	157	-	-	3,681
Intercompany payable	-	-	-	-	-	-
Subordinated loan	-	-	-	-	-	-
Total liabilities	3,730,450	2,168,012	129,093	805,155	624,509	3,681

Analysis of assets and liabilities by expected maturity Company 31 December 2022	Carrying value £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	553,007	544,208	-	8,799	-	-
Placements with banks	90,265	90,265	-	-	-	-
Placements with related entities	-	-	-	-	-	-
Loans and advances to customers	3,157,024	42,267	112.968	176,509	2,302,125	523,155
Derivative assets	12,404	-	791	-	11,613	-
Investment in securities	113,377	-	4,201	38,610	70,566	-
Intercompany receivable	109,686	109,686	-	-	-	-
Total assets	4,035,763	786,426	117,960	223,918	2,384,304	523,155
Financial liabilities:						
Placements with related entities	-	-	-	-	-	-
Customer deposits	3,336,442	2,160,499	128,936	805,155	241,852	-
Bank deposits	390,170	7,513	-	-	382,657	-
Derivative liabilities	3,838	-	157	-	-	3,681
Intercompany payable	-	-	-	-	-	-
Subordinated loan	-	-	-	-	-	-
Total liabilities	3,730,450	2,168,012	129,093	805,155	624,509	3,681

Analysis of assets and liabilities by expected maturity Company 31 December 2021	Carrying value £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Assets:						
Cash and balances with central banks	324,982	317,759	-	7,223	-	-
Placements with banks	48,273	48,273	-	-	-	-
Investment in securities	137,782	-	13,185	7,179	117,418	-
Loans and advances to customers	2,941,984	9,414	163,057	183,322	1,818,663	767,528
Total assets	3,453,021	375,446	176,242	197,724	1,936,081	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	32,998	-	-	32,998	-	-
Subordinated loan	29,868	-	-	-	29,868	-
Total liabilities	3,295,555	2,145,414	132,176	440,664	577,301	-
Acceptances and guarantees	841	841	-	-	-	-

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

Credit risk

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

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

The Conduct and Risk Committee meets monthly and reviews reports on credit concentration, portfolio performance and provisions. The Executive Credit Committee, a sub-committee of the Board Credit 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 are outside of the Bank's RAS.

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

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

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

ii) Treasury, trading and interbank relationships

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

iii) Corporate, small business lending and property financing

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

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

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

iv) Exposure at default

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

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

v) Loss given default

The revaluation of the underlying collateral to a credit exposure is reviewed aligned to the Bank's Valuation policy. The calculation of the LTV is a core component of the LGD which takes into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral over which the Bank has a charge.

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

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

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

vi) Significant increase in credit risk

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

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

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

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

Company	Business			Private			Property		
As at 31 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]	47,569	773	1.63%	2,043	57	2.79%	47,046	587	1.25%
30 Days past due	-	-	-	-	-	-	386	-	0.11%
Total	**104,367**	**1,129**	**1.08%**	**2,056**	**58**	**2.82%**	**126,366**	**988**	**0.78%**

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

vii) Annual Review Process

All borrowers with exposure over £250,000 are subject to an annual review of lending, collaterals and performance against the customer's 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) cases that are classified Stage 2 following internal process including WL addition.

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

	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Business sector				
Property investment	**2,193,376**	**2,193,376**	2,211,642	2,211,642
Property development	**48,591**	**48,591**	62,860	62,860
Hotels, catering and leisure	**327,377**	**327,377**	256,903	256,903
Manufacturing	**39,183**	**1,087**	4,128	3,640
Retail and wholesale	**52,675**	**10,612**	7,716	5,742
Other business sectors	**311,587**	**293,561**	164,361	159,166
Personal sector	**303,780**	**303,780**	255,892	255,892
	3,276,569	**3,178,384**	2,963,502	2,955,845
Less: Allowance for ECL / impairment losses	**(22,339)**	**(21,360)**	(13,924)	(13,861)
Carrying amount	**3,254,230**	**3,157,024**	2,949,578	2,941,984

Forbearance

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

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

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

Consolidated and Company 31 December 2021	Total £000	Stage 2 £000	Stage 3 £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	-
Other	161	-	161
Total	62,347	35,024	27,323

Definition of default and cure

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

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

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

Once an exposure becomes credit-impaired it triggers Stage 3 under IFRS 9. If the exposure subsequently ceases to exhibit indicators of being credit-impaired, it will remain in Stage 3 for a period (known as a 'cure period') so that the apparent improvement of credit-status can be confirmed. It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 18 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in note 3.14.

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.

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

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

Consolidated and Company Stage 3 analysis 31 December 2022	Gross carrying amount £000
NPL[1]	**64,691**

Company Stage 3 analysis 31 December 2021	Gross carrying amount £000
NPL[1]	43,661

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

Maximum exposure to credit risk and collateral and other credit enhancements

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

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

Company	£000											
	Gross carrying amount			Property Collateral			Cash Collateral			Net exposure		
December 2022	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
Business	633,775	95,400	9,348	1,170,864	166,151	14,994	1,621	1,620	-	(537,089)	(70,751)	(5,646)
Private	302,642	6,847	423	635,873	13,938	1,670	1	1	-	(333,231)	(7,091)	(1,247)
Property	2,241,967	245,576	54,921	4,202,567	429,209	83,052	326	1	-	(1,960,600)	(183,633)	(28,131)
Total	3,178,384	347,823	64,692	6,009,304	609,298	99,716	1,948	1,622	-	(2,830,920)	(261,475)	(35,024)

Consolidated	£000											
	Gross carrying amount			Property Collateral			Cash Collateral			Recei-vables Collateral	Net exposure	
December 2021	Total	Stage 2	Stage 3	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)

Company	£000											
	Gross carrying amount			Property Collateral			Cash Collateral			Net exposure		
December 2021	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	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)
Total	2,955,845	232,789	43,661	5,546,829	402,078	74,390	1,772	1,375	-	(2,592,756)	(170,664)	(30,729)

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

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

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

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

Consolidated December 2022 £000 LTV	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash Covered	-	-	1	-	-	-	1	-
Less than 50%	815,299	319	72,076	415	11,636	222	899,026	956
50% to 59%	1,013,174	1,126	129,791	1,612	5,299	496	1,141,464	3,234
60% to 69%	796,837	1,211	115,664	1,389	9,263	495	915,841	3,095
70% to 79%	112,433	323	52,389	1,600	-	-	169,406	1,923
80% to 89%	45,835	140	22,344	64	412	131	53,047	335
90% to 99%	7,227	40	1,383	27	5,704	1,070	15,251	1,137
100% and more	19,517	32	228	9	29,705	9,958	49,445	9,999
Unsecured	15,840	147	15,827	205	3,328	1,308	33,088	1,660
Total	**2,826,162**	**3,338**	**408,461**	**5,321**	**65,257**	**13,680**	**3,276,569**	**22,339**

Company December 2022 £000 LTV	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash Covered	-	-	1	-	-	-	1	-
Less than 50%	810,191	278	65,685	317	11,634	222	887,510	817
50% to 59%	1,004,966	1,080	121,537	1,595	5,299	496	1,131,802	3,171
60% to 69%	788,180	1,162	106,958	1,377	9,263	495	904,401	3,034
70% to 79%	94,888	236	34,757	1,385	-	-	129,645	1,621
80% to 89%	28,342	60	4,771	24	-	-	33,113	84
90% to 99%	5,859	25	-	-	5,704	1,070	11,563	1,095
100% and more	19,512	32	223	9	29,705	9,958	49,440	9,999
Unsecured	13,931	120	13,891	200	3,087	1,219	30,909	1,539
Total	**2,765,869**	**2,993**	**347,823**	**4,907**	**64,692**	**13,460**	**3,178,384**	**21,360**

Consolidated December 2021 £000 LTV	Stage 1		Stage 2		Stage 3		Total	
	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%	635,323	117	33,293	24	6,544	47	675,160	188
50% to 59%	909,298	537	70,051	366	7,315	458	986,664	1,361
60% to 69%	942,627	925	68,255	632	12,405	540	1,023,287	2,097
70% to 79%	113,242	188	34,437	774	2,227	248	149,906	1,210
80% to 89%	42,871	78	11,505	72	-	-	54,376	150
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	**2,679,395**	**2,061**	**232,789**	**2,176**	**43,661**	**9,624**	**2,955,845**	**13,861**

Company December 2021 £000 LTV	Stage 1		Stage 2		Stage 3		Total	
	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%	635,323	117	33,293	24	6,544	47	675,160	188
50% to 59%	909,298	537	70,051	366	7,315	458	986,664	1,361
60% to 69%	942,627	925	68,255	632	12,405	540	1,023,287	2,097
70% to 79%	113,242	188	34,437	774	2,227	248	149,906	1,210
80% to 89%	42,871	78	11,505	72	-	-	54,376	150
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	**2,679,395**	**2,061**	**232,789**	**2,176**	**43,661**	**9,624**	**2,955,845**	**13,861**

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

Market risk

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

The Bank is exposed to interest rate risk as a result of mismatches in its balance sheet between the dates on which interest receivable on assets and interest payable on liabilities next reset to market rates or the dates on which the assets and liabilities mature. The Bank aims to manage this risk through hedging activities and 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 Bank's interest rate gap position based on the contractual re-pricing date of assets and liabilities is as follows:

Analysis of assets and liabilities by contractual re-pricing						
Consolidated 31 December 2022	Carrying value £000	Non-interest bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	553,007	-	553,007	-	-	-
Placements with banks	102,320	-	102,320	-	-	-
Placements with related entities	-	-	-	-	-	-
Loans and advances to customers	3,254,230	-	2,474,702	23,860	695,789	59,879
Investment in securities	113,377	-	4,201	38,610	70,566	-
Intercompany receivable	-	-	-	-	-	-
Total assets	4,022,934	-	3,134,230	62,470	766,355	59,879
Financial liabilities:						
Placements with related entities	-	-	-	-	-	-
Customer deposits	3,336,442	167,626	2,121,810	805,155	241,851	-
Bank deposits	390,170	-	390,170	-	-	-
Intercompany payable	-	-	-	-	-	-
Subordinated loan	-	-	-	-	-	-
Total liabilities	3,726,612	167,626	2,511,980	805,155	241,851	-
Interest rate derivatives	-	-	550,000	-	(320,000)	(230,000)
Interest rate gap	296,322	(167,626)	1,172,251	(742,685)	204,504	(170,121)

Analysis of assets and liabilities by contractual re-pricing Company 31 December 2022	Carrying value £000	Non-interest bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	553,007	-	553,007	-	-	-
Placements with banks	90,265	-	90,265	-	-	-
Placements with related entities	-	-	-	-	-	-
Loans and advances to customers	3,157,024		2,377,496	23,860	695,789	59,879
Investment in securities	113,377	-	4,201	38,610	70,566	-
Intercompany receivable	109,686	-	109,686	-	-	-
Total assets	4,023,359	-	3,134,655	62,470	766,355	59,879
Financial liabilities:						
Placements with related entities	-	-	-	-	-	-
Customer deposits	3,336,442	167,626	2,121,810	805,155	241,851	-
Bank deposits	390,170	-	390,170	-	-	-
Intercompany payable	-	-	-	-	-	-
Subordinated loan	-	-	-	-	-	-
Total liabilities	3,726,612	167,626	2,511,980	805,155	241,851	-
Interest rate derivatives	-	-	550,000	-	(320,000)	(230,000)
Interest rate gap	296,747	(167,626)	1,172,676	(742,685)	204,504	(170,121)

Consolidated 31 December 2021	Carrying value £000	Non-interest bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Assets						
Cash and bank advances	379,511	-	372,288	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	3,466,871	-	3,205,444	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	33,793	33,793	-	-	-	-
Subordinated loan	29,868	-	-	-	29,868	-
Total liabilities	3,296,350	241,139	2,070,244	407,666	577,301	-
Interest rate gap	170,521	(241,139)	1,135,200	(347,281)	(378,681)	2,422

Company 31 December 2021	Carrying value £000	Non-interest bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Assets						
Cash and bank advances	373,255	-	366,032	7,223	-	-
Investment in securities	137,782	-	137,782	-	-	-
Loans and advances to customers	2,941,984	-	2,687,780	53,162	198,620	2,422
Total assets	3,453,021	-	3,191,594	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	32,998	32,998	-	-	-	-
Subordinated loan	29,868	-	-	-	29,868	-
Total liabilities	3,295,555	240,344	2,070,244	407,666	577,301	-
Interest rate gap	157,466	(240,344)	1,121,350	(347,281)	(378,681)	2,422

The annualised impact of a potential 0.6% change, both increase and decrease, in the interest rates against the Bank's interest bearing assets and liabilities is as follows:

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

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

The Bank is exposed to foreign currency risk as a result of mismatches between assets and liabilities in foreign currencies arising from the Bank's lending, deposit taking and currency dealing activities. The majority of currency dealings are carried out for the purpose of facilitating customer transactions. The Bank's treasury department is responsible for managing currency risk within intra-day and overnight limits. The Bank's currency net exposures remain low at the balance sheet date. The potential impact on profit after tax and on equity of a change in currency exchange rates is not material at the reporting date.

Set-off

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

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

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

Company	2022			2021		
	Gross amounts presented in the balance sheet £000	**Offset amounts £000**	**Net amounts £000**	Gross amounts presented in the balance sheet £000	Offset amounts £000	Net amounts £000
Financial assets						
Loans and advances to customers	**3,157,024**	**69,578**	**3,087,446**	2,941,984	72,638	2,869,346
Financial liabilities						
Customer deposits	**3,336,442**	**69,578**	**3,266,864**	2,832,564	72,638	2,759,926

Conduct risk

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

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

32. Investment in subsidiary

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

Name	Parent company	Country of Incorporation	Class of Shares	Ownership (%)	Principal Activity
Cynergy 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	100.0	To be dissolved

The Bank's subsidiaries have the same registered office as the Bank as detailed in note 1.

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

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

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

Investment in Subsidiaries	2022 £000	2021 £000
Shares at net book value		
As at 1 January	**1.0**	0.1
Additions	**-**	0.9
Impairment	**-**	-
Disposal	**-**	-
As at 31 December	**1.0**	1.0

33. Capital management

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

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

The Bank manages its capital with a view to ensuring that it will have adequate capital resources to support its plans and to meet the regulatory requirements as set out in the TCR plus Buffers, including during periods of stress. The Bank maintains a corridor of capital in excess of the regulatory requirements. The preparation of annual plans, budgets and forecasts includes a projection of the capital position and capital requirements to help ensure that capital resources will continue to be adequate.

Capital Resources	Consolidated 2022 £000	Company 2022 £000	Consolidated 2021 £000	Company 2021 £000
Ordinary Share Capital	**202,000**	**202,000**	155,000	155,000
Retained Earnings and Other Reserves	**104,490**	**105,811**	64,191	65,000
Property revaluation reserve	**3,148**	**3,148**	2,770	2,770
Regulatory Deductions	**(22,191)**	**(22,191)**	(24,630)	(24,862)
Total Eligible Tier 1 Capital (CET1)	**287,447**	**288,768**	197,331	197,908
Subordinated Debt	**-**	**-**	29,868	29,868
Total Tier 2 Capital	**-**	**-**	29,868	29,868
Total Eligible Regulatory Capital	**287,447**	**288,768**	227,199	227,776

34. Related party transactions

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

Directors and key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management are identified as the Directors of the Bank and those other persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Total key management compensation, including Directors, for the period is £7,169,821 (2021: £6,386,448). The first table below shows key management personnel compensation excluding Directors, whose compensation is presented separately in the second table below.

Key management personnel compensation

Consolidated and Company	2022 £000	2021 £000
Short-term benefits	**2,583**	1,339
Long-term benefits	**528**	500
Post employment benefits	**99**	60
Termination benefits	**834**	327
Total compensation for key management personnel	**4,044**	2,226

Directors' compensation

Consolidated and Company	2022 £000	2021 £000
Short-term benefits	**2,340**	2,003
Long-term benefits	**648**	2,028
Post employment benefits	**138**	129
Total compensation for Directors	**3,126**	4,160

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

In January 2021, an agreement was entered into between an Executive Director, and the Board of the parent company Cynergy Capital Limited. Under that agreement the Director is eligible to receive remuneration based on the value of the parent company. This has been calculated as £1.33m for the year ended 31 December 2022 (2021: £3.46m) based on a third party valuation, and this is disclosed in the financial statements of Cynergy Capital Limited. There is no financial impact on the financial statements of the Bank and its subsidiaries. As the agreement is with a Director of the Bank it is also disclosed in these financial statements as a related party transaction.

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

There were 5 loans outstanding at 31 December 2022 totalling £29.5m (31 December 2021: £30.7m). All loans are commercial mortgages secured on property. There were no other loan transactions during the year or balances outstanding at the year end for key management personnel.

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

Other transactions with related parties

Consolidated and Company	2022 £000	2021 £000
Transactions with related parties:		
Management fees paid to parent	**126**	120
Total	**126**	120

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

In addition to the above, the Bank had an inter-company loan to its subsidiary CBF with a balance at 31 December 2022 of £109.7m (2021: £14.5m). Interest during the year on the inter-company loan was £1.3m (2021: £0.0m).

The Bank made no contributions to employee savings plan during the year ended 31 December 2022 (2021: £4,281). Any contributions are held as a deposit in the Bank.

35. Share-based payments

The Board and the Remuneration, Nominations and Corporate Governance Committee approved a new Long-Term Incentive Plan (LTIP) for senior leaders, including Executive Directors, to run over three years from 2022 to 2024. The new scheme replaces the previous scheme which ran from 2019 to 2021 and closed on 31 December 2021.

The LTIP is designed to provide long-term incentives for senior leaders 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 60% of the award will be satisfied following the vesting date, 20% 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 the Black-Scholes pricing model. The expected life input used in the model is based on management's best estimate, which considers non-transferability, exercise restrictions and behavioural factors. The volatility measure is also based on management's best estimate, as the Bank's shares are unlisted and there is no trading. 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:

Consolidated and Company	2022 Number of shares (Thousands)	2021 Number of shares (Thousands)
As at 1 January	**4,363**	4,358
Granted during the year	**2,948**	665
Exercised during the year	**(2,312)**	-
Forfeited during the year	**-**	(660)
As at 31 December	**4,999**	4,363

For the year ended 2022 the fair value of the awards granted was assessed and a charge of £1,493,954 is included in the income statement. A corresponding liability is included within accruals in other liabilities. The intrinsic value of vested awards as at 31 December 2022 is £2,129,442 (2021: £4,544,099).

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

36. Events after the reporting period

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

Alternative Performance Measures (unaudited)

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

Reconciliation of Statutory and Alternative Performance Measures		
	Consolidated 2022 Actuals £m	Consolidated 2021 Actuals £m
Statutory Profit Before Tax:	**50.5**	30.4
– Operational Investment		
– Regulatory & Mandatory Costs	**1.8**	0.8
– Gain on sale of property	**(9.2)**	-
– Strategic Investment		
– Processes, Systems and People	**9.0**	4.2
– New Product Investment	**0.6**	0.4
– Incentive Plan Adjustment	**1.5**	3.0
– Subsidiary first year losses	**-**	0.9
Underlying Profit Before Tax:	**54.2**	39.7

Definitions:

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

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

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

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

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

Underlying Return on Equity: Underlying profit after tax expressed as a percentage of average equity

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

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

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


Cynergy Bank