Annual Report 2018

Cynergy Bank

Contents

Definitions

The "Company"	Cynergy Bank Limited
The "Parent"	Cynergy Capital Limited
"BOC CY"	Bank of Cyprus Public Company Limited
"BOC UK"	Bank of Cyprus UK Limited
"FCA"	Financial Conduct Authority
"FSCS"	Financial Services Compensation Scheme
"IAS"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRS"	International Financial Reporting Standards
The "Group"	The Parent together with its subsidiary undertakings
"PRA"	Prudential Regulation Authority

Corporate information

Directors
Philip Nunnerley[3, 4] - *Chairman and Chair of the Nominations and Corporate Governance Committee*
Nick Fahy[5] - *Chief Executive Officer, Executive Director*
David Green[3, 4] – *Independent Non-Executive Director and Chair of the Human Resources and Remuneration Committee*
Jean Stevenson[1, 2, 3] – *Senior Independent Non-Executive Director and Chair of the Audit Committee*
Euan Hamilton[1, 2] - *Independent Non-Executive Director*
Kim Rebecchi[1, 2, 4] – *Independent Non–Executive Director and Chair of the Risk Committee*
Francesca Hampton[5] - *Chief Financial Officer, Executive Director*
Pradip Dhamecha, OBE - *Non-Executive Director - appointed 28 September 2018*
Balbinder Sohal - *Non-Executive Director - appointed 28 September 2018*

Other senior executives

Andreas Artemiou[5] – *Chief Risk Officer – appointed July 2018*
Michael Rennie[5] – *Chief Information Officer*
Greg Jones[5] – *Managing Director, Property and Business Banking*
Susana Berlevy[5] – *Chief People Officer – appointed November 2018*
Soteris Antoniades – *Left the Company March 2019*

[1] Member of the Audit Committee
[2] Member of the Risk Committee
[3] Member of the Nominations and Corporate Governance Committee
[4] Member of the Human Resources and Remuneration Committee
[5] Member of the Executive Committee

Company secretary
Paul Jordan – appointed 25 January 2018

Independent auditor
Ernst & Young LLP
25 Churchill Place
London E14 5EY

Registered office
27-31 Charlotte Street, London W1T 1RP

Locations
Central London
27-31 Charlotte Street, London W1T 1RP
&
48 Charlotte Street, London W1T 2NS

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

South London
18-24 Brighton Road, South Croydon CR2 6AA

Birmingham
123 Parade, Sutton Coldfield B72 1PU

North
3 Hardman Square, Spinningfields, Manchester M3 3EB

South
Office 4:30, Mocatta House, Trafalgar Place, Brighton BN1 4DU

South West
10 Victoria Street, Bristol BS1 6BN

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

www.cynergybank.co.uk

Chairman's statement

During 2018 Bank of Cyprus Public Company Limited (BOC CY) announced that it would sell Bank of Cyprus UK Limited (BOC UK) in line with its strategy to deliver value for shareholders and focus on supporting the growing Cypriot economy. The sale to Cynergy Capital Ltd completed on 23rd November 2018 with BOC CY and BOC UK subsequently signing a Cooperation Agreement, which will see both organisations cooperating in a number of key areas going forward including continuity of service for existing customers.

Since the sale, BOC UK has rebranded to Cynergy Bank and refreshed its strategy, setting clear expectations on the development and performance of the company through to 2022. The strategy is founded on its proud history of supporting the UK-Cypriot customers and businesses, whilst delivering a new way of banking for business owners and savers across the UK.

We have welcomed two representatives of the shareholder, Pradip Dhamecha and Balbinder Sohal, as new Non-Executive Directors to the Board, strengthening and diversifying the experience and expertise around the Board table.

The Bank's performance for the year was managed within the Bank's capital appetite, until the sale was completed. Against this background 19% growth in customer lending is a strong performance in this environment.

It was pleasing to see that customer net promoter scores continue to be a key differentiator, highlighting the ongoing satisfaction that our customers have in Cynergy Bank.

There have been changes to the Executive Committee including the retirement of Soteris Antoniades, for whom I would like to place my thanks on record for his 28 years of loyal service to the organisation.

I would like to thank my fellow Directors, the management and staff for their valuable contribution throughout 2018 and the role they have played in supporting customers and helping to position our business for a successful future.

Philip Nunnerley
Chairman

Chief Executive Officer's review and strategic report

Strategic Progress

Material progress has been achieved in 2018:

- the sale of the UK bank concluded in Q4 followed by a rebrand to Cynergy Bank; paving the way for an exciting future for the organisation

- a strategic plan to 2022 was approved by the Board in December 2018 reinforcing the Bank's desire to be a bank of choice for medium business owners with a diversified customer base and product set, whilst being a great place to work and to be a contributor to society

- the bank demonstrated an improved performance in 2018, with underlying growth in profits, strong customer feedback NPS scores (+45), positive employee engagement scores and strong controlled lending growth

- the quality of the lending book remains high, reflected in marginal provision charges during the year on an IFRS 9 basis

- continuing to fix legacy issues, with focus on the material completion of the conduct programme, and further investment in systems and processes to ensure the bank is safe and secure

Our 2019 focus, year 1 of the new Cynergy Bank 2022 Strategy, is to grow the customer franchise and lending book, and bring to market new products enhancing the current offering and meeting our clients' demands.

Overall Company Financial Performance

Financially the Bank has performed strongly across the key financial metrics whilst also enabling the sale of the Bank.

Headline and underlying metrics have improved, as the last 3 years of strong balance sheet growth have begun to make a telling difference in revenue generation.

The Bank continued to materially invest in the organisation (12% of the cost base), with the focus on rebranding and delivering new regulatory requirements. These included GDPR (The General Data Protection Regulation) and PSD2 (the second Payment Services Directive).

Our underlying PBT has increased by £1.6m (14%). This was delivered through revenue growth of 22% whilst underlying costs grew by 19%. RoE reduced to 8.4%, reflecting the timing of a £20m equity injection made by the new investors in Q4, impacting the average equity held during the year.

Our capital position remains strong with total capital as a percentage of risk weighted assets of 20.7% (2017: 21.4%). To support its growth plans, the Bank received an equity investment of £20m in November. In 2017 the Bank issued subordinated debt of £30m in December.

Profit Before Tax:	**2018 Actuals £m**	**2017 Actuals £m**
Reported PBT:	**6.2**	**1.9**
- Conduct Provision		4.0
- Interest Paid on Debt		0.9
- One off Write Offs	1.7	
- Operational Investment		
- Regulatory & Mandatory Costs (e.g IFRS9)	3.2	1.6
- Strategic Investment		
- Processes, Systems and People	1.8	1.9
- New Product Investment	0.1	1.1
Underlying PBT	**13.0**	**11.4**

Key Ratios	**2018**	**2017**
Underlying Ratios		
YoY PBT Growth	14%	22%
YoY Asset Growth	19%	30%
RoE	8.4%	10.3%
C/I Ratio	73%	73%
Statutory Ratios		
RoE	4.0%	0.9%
Headline C/I	86.8%	86.5%

Principal risks and uncertainties

The Board has ultimate responsibility for ensuring that the Company's principal risks are identified and managed. It establishes the Company's risk appetite and oversees the effectiveness of risk management and internal controls through the Risk Committee and Audit Committee. The principal risks are as follows:

Risk	Description	Mitigation
Capital risk	The risk of business failure or regulatory breach arising from inadequate capital	An annual capital adequacy assessment is prepared and approved by the Board. Capital adequacy is reviewed monthly on an actual and projected basis. Capital adequacy is also considered as part of the budget and business plan process.
Cyber risk	The risk of external or internal misuse of computer systems leading to financial loss or reputational damage	The Company has received ISO27001 certification for information security. Firewalls and anti-virus software are in place. Systems are monitored at all times and penetration testing is carried out periodically.
Operational risk, including systems risk	The risk of loss or reputational damage arising from human, process or system failure	An enterprise risk management system has been implemented to catalogue risks and controls, to document control risk self-assessments and to record operational risk incidents. Controls are in place to ensure that errors are prevented or detected.
Human Resources risk	The risk of having insufficient appropriately qualified staff to manage the business soundly	Recruitment is carried out through reputable agencies. Staff turnover is monitored and succession plans are in place for all critical positions. Staff appraisals identify training and development needs and plans are put in place to meet them.
Conduct risk	The loss or reputational damage arising from a failure of the company or its staff to act ethically and treat customers fairly	A strengthened Compliance Unit carries out reviews of high risk areas to identify failures. A new product approval process ensures that new products are fair to customers and comply with regulations.
Data risk	The risk of loss or reputational damage arising from a failure to safeguard, control or process data appropriately	The information security policy and data retention policies set out standards for data integrity, safeguarding and retention.
Political and economic risk	The risk of changes in the political or economic environment which are detrimental to the Company	The Executive Committee reviews economic and risk indicators and a Central Planning Scenario is prepared quarterly with external assistance to update the Company's view of the economy. In relation to Brexit, a Working Party has identified the impacts and a contingency plan has been prepared.
Liquidity and funding risk	The risk of business failure arising from inadequate liquidity or funding	The Company has a liquidity risk appetite which is more conservative than regulatory requirements. Cash flow projections are prepared weekly to confirm adherence to the risk appetite. An annual liquidity adequacy assessment is prepared and approved by the Board.
Strategy implementation risk	The risk of failing to appropriately implement the bank's strategy	The Transformation Committee oversees the implementation of strategic initiatives. Performance against objectives and deadlines is monitored and reported to the Executive Committee.
Market risk	The risk of loss arising from unfavorable movements in market prices	The Board's risk appetite sets limits to the acceptable level of interest rate and foreign exchange risk. The Asset and Liability Committee monitors adherence to these limits. A new Asset and Liability Management system has been implemented to enhance the management of market risk.
Credit risk	The risk of financial loss arising from the failure of a borrower or other counterparty to meet its contractual financial obligations to the Company	The Board approved risk appetite sets limits on sector and individual concentration. Lending is guided by a conservative credit policy and is secured on property in the UK. Stress testing and exception monitoring identify potential credit weaknesses which are closely managed.
Financial crime risk	The risk of failure to comply with statutory obligations to prevent money laundering, terrorist financing, bribery or corruption	The Financial Crime unit develops the financial crime policy and exercises oversight on the customer due diligence which is carried out for new customers and periodically for existing customers.
Legal and regulatory risk	The risk of financial loss or reputational damage arising from the failure to comply with applicable laws or regulations	Horizon scanning identifies new regulations and legal requirements. Where these affect the Company a gap analysis identifies the actions which are required. For significant new requirements, such as those introduced by the General Data Protection Regulation (GDPR), a project team manages implementation projects.

Conduct

As covered in my 2017 overview, during 2016 it materialised that the Company might have acted unfairly towards customers regarding historic conduct issues (2008 to 2012). This finding was reported to the FCA and it was agreed that the Company would write to potentially affected customers.

As at 31 December 2017, the Bank had provided for £18.9m funded by a £16m injection of equity from BOC CY; with a further £31.46m provided for by BOC CY under the terms of a Financial Deed of Support.

During Q4 2018, the conduct provision requirements were reassessed to a total value of £54.27m (2017: £50.37m). The increase in the provision is reflecting an increased opt-in rate and associated operational costs for completing the remediation programme. The provision for customer redress is disclosed in note 23 to the Financial Statements.

Outlook for 2019 including Brexit

The Cynergy Bank strategy is predicated on a benign to marginally positive outlook for the UK market over the next four years, whilst recognising that there is a global and local uncertainty in Brexit, heightening downside risks.

We expect competition to be intense but rational, recognising that the UK is a large and diverse market where small market share equates to large business outcomes. Challenger banks will continue to play an increasingly disruptive role.

The property outlook assumes moderate growth in house prices underpinned by a lack of supply. Commercial real estate capital values are likely to see mild growth over the strategy period.

Regulatory changes will continue to impact the operations, costs and overall behaviours within the banking industry.

We are closely monitoring the ongoing Brexit process and are planning for different scenarios, especially in consideration of funding of which a proportion is European held deposits.

We have noted that our customers are delaying investment decisions until they have more certainty on the outcome of Brexit, and wish to provide them with ongoing support through these times.

If the muted market and low interest rate environment were to continue into an economic downturn, it would affect the Bank's ability to deliver significant income growth.

As I conclude this review, I would like to take the opportunity to thank our valued customers for their support and also the Company's staff, in all offices, for their hard work, loyalty and dedication during the year.

By order of the Board

Nick Fahy
Chief Executive Officer

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2018.

Principal activity
The principal activity of the Company is business and personal banking.

Financial results
The results of the Company for the year ended 31 December 2018 are set out in the income statement on page 20. The Directors endorse the information and views set out in the Chairman's statement and Chief Executive Officer's review and strategic report.

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

Going concern
The following factors were taken into consideration when preparing the Going Concern statement: the change in ownership, the conduct programme, capital, and the projected operating performance of the company. The Directors are satisfied that the Company is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

A statement of responsibilities of the Directors in relation to the financial statements is shown on page 11.

Capital
The current regulatory capital is shown in note 31 of the financial statements.

Liquidity
The Company manages liquidity with an internal methodology which fully meets and exceeds the regulatory Liquidity Coverage Ratio (LCR) measure. During 2018 the Company fully met all its regulatory liquidity requirements including the LCR and Net Stable Funding Ratio (NSFR).

Dividends
The Company did not declare or pay a dividend in 2018 (2017: nil).

Future developments
A new strategic plan to 2022 was approved by the Board in December 2018. 2019 will demonstrate ongoing investment in the organisation across processes, people and systems to provide strength in depth, and resilience to any headwinds, and finally further growth in lending across the three key lending pillars, delivering on the diversification and growth strategy.

Events after the reporting period
In February 2019, the Bank issued 15,000,000 ordinary shares at their par value of £1 each to its parent company, with a total value of £15,000,000.

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

Financial instruments
The Company, where appropriate, uses interest rate swaps to hedge against interest rate risk and foreign exchange contracts to hedge against foreign exchange rate risk. Details of financial instruments are provided in notes 16 and 28 of the financial statements.

Human resources
The Company had 234 permanent employees at 31 December 2018 (2017: 248). During the year, the Company invested £161,487 (2017: £241,000) in staff development.

Board of Directors
Full details of the Board of Directors are shown on page 2. Since 1 January 2018 the following changes have taken place:

Name of director	*Date of appointment*
Pradip Dhamecha, OBE	28 September 2018
Balbinder Sohal	28 September 2018

Directors and their interests
No other Director had any beneficial interest in the share capital of the Company or the subsidiary company within the UK at any time during the year. No option to purchase shares in the Company 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 auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors
It is the intention of the Company to appoint PricewaterhouseCoopers LLP as auditors during 2019. Until then Ernst & Young LLP continue as auditors of the Company. The Company is a private limited company and under the Companies Act 2006 is not required to appoint auditors annually.

Corporate governance and risk management

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

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 Company 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

Meeting attendance by the Board of Directors is as follows:

Members	Meetings attended 2018										
Philip Nunnerley (Chairperson)	●	●	●	●	●	●	●	●	●	●	●
Nick Fahy	●	●	●	●	●	●	●	●	●	●	●
David Green	●	●	●	●	●	●	●	●	●	●	●
Euan Hamilton	●	●	●	●	●	●	●	●	●	●	●
Kim Rebecchi	●	●	●	●	●	●	●	●	●	●	●
Francesca Hampton	●	●	●	●	●	●	●	●	●	●	●
Jean Stevenson	●	●	●	●	●	●	●	●	●	●	●
Pradip Dhamecha (*appointed September 18*)										●	●
Balpinder Sohal (*appointed September 18*)										●	●

● Attended ○ Unable to attend

The Chair is an Independent Non-Executive Director. Members of the Board of Directors are appointed by the Board on the recommendation of the 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. No search consultants were used during the year under review. Independent Audit Limited was used to facilitate Board evaluation during the year under review. Independent Audit Limited has no connection to the company or individual Directors.

The Board of Directors has delegated a number of its responsibilities to four Board committees. These are:

Audit Committee

The Audit Committee is responsible for ensuring the integrity of the Bank's financial statements and any other announcements on financial performance. Its terms of reference include:
- Reviewing the adequacy of provisions for expected credit losses and other provisions
- Monitoring the effectiveness of the Bank's internal quality control and risk management systems and its internal audit
- Receiving and considering internal audit reports and approving the internal audit plan
- Appointing the external auditors and approving their remuneration

Meeting attendance by the Audit Committee is as follows:

Members	Meetings attended 2018							
Jean Stevenson (Chairperson)	●	●	●	●	●	●	●	●
Euan Hamilton	●	●	●	●	●	●	●	●
Kim Rebecchi	●	●	●	●	●	●	●	●

● Attended ○ Unable to attend

The Audit Committee reviewed the Financial Reporting Council's (FRC) Audit Quality Review of EY's audit of the Bank for the year ended 31 December 2016 which became available during the year and was satisfied with how the findings therein have been addressed by EY.

Risk Committee

The Risk Committee advises the Board on the Bank's current and future risk appetite and assists the Board in overseeing the implementation of strategy. Its terms of reference include:

- Reviewing internal control systems
- Monitoring regulatory compliance and important regulatory correspondence
- Reviewing the adequacy of capital and liquidity in the light of the results of stress testing
- Reviewing whistleblowing arrangements
- Challenging executives on major decisions involving risk management and risk-taking
- Ensuring that the Bank's risk profile and risk appetite remain appropriate
- Reviewing the Bank's Resolution and Recovery Plan

Meeting attendance by the Risk Committee is as follows:

Members	**Meetings attended 2018**
Kim Rebecchi (Chairperson)	● ● ● ● ● ● ● ● ● ● ●
Euan Hamilton	● ● ● ● ● ● ● ● ● ● ●
Jean Stevenson	● ● ● ● ● ● ● ● ● ● ●

● Attended ○ Unable to attend

Nominations and Corporate Governance Committee*

The Nominations and Corporate Governance Committee makes recommendations for senior appointments, oversees succession planning and monitors corporate governance arrangements. Its terms of reference include:

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

Meeting attendance by the Nominations and Corporate Governance Committee is as follows:

Members	**Meetings attended 2018**
Philip Nunnerley (Chairperson)	● ● ● ● ●
David Green	● ● ● ● ●
Jean Stevenson	● ● ● ● ●

● Attended ○ Unable to attend

Human Resources and Remuneration Committee*

The Human Resources and Remuneration Committee is responsible for managing human resources risk and remuneration. Its main objective is to ensure the Bank's practices in relation to remuneration comply with the Dual-Regulated Remuneration Code. Its terms of reference include:

- Approving the Bank's Remuneration Policy
- Monitoring the performance of Senior Management
- Reviewing the results of performance reviews and approving the budget for pay awards and the design of any variable pay arrangements
- Approving recommendations on the remuneration of the Executive Directors and employees identified as material risk takers

Meeting attendance by the Human Resources and Remuneration Committee is as follows:

Members	**Meetings attended 2018**
David Green (Chairperson)	● ● ● ● ● ● ●
Philip Nunnerley	● ● ● ● ● ● ●
Kim Rebecchi	● ● ● ● ● ● ●

● Attended ○ Unable to attend

* The "Nominations and Corporate Governance Committee" and the "Human Resources and Remuneration Committee" merged into the "Remuneration, Nominations & Corporate Governance Committee" on 28 March 2019.

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

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

Liquidity, cash flow and market risks are monitored at executive level by the Asset & Liability Committee, which meets monthly.

Systems risk, including risk relating to IT security, is monitored by the Executive Committee and by specialist sub-committees reporting into the Executive Committee.
The People Committee, which meets at least quarterly, monitors resources risk in terms of our people and succession planning.

During 2018, Regulatory and Operational risks were monitored monthly by a Conduct Risk Committee that has been superseded from 1st January 2019 by a new monthly Executive Risk Committee, whose responsibility is to manage all risks and replaces a number of sub-committees.

More information on risk management is set out in note 29 of the financial statements.

Subsidiary
The Company is the immediate owner of 100% of the shares of a UK company, Bank of Cyprus Financial Services Limited (BOCFS), a previously appointed representative of Legal & General Partnership Services Limited. Until 30th September 2017 BOCFS sold insurance and protection products of Legal & General. BOCFS ceased to trade on 30 September 2018.

Charitable donations
During 2018 the Company made charitable donations totalling £5,110 (2017: £18,955).

Political donations
During 2018 the Company did not make any political donations (2017: £nil).

Third party indemnity provisions for the benefit of Directors
The Company has taken out Directors' and officers' liability insurance.

By Order of the Board

Paul Jordan
Secretary

Directors’ responsibilities in respect of the financial statements

The Directors are responsible for preparing the strategic report, the Directors’ report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’ and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to The Members of Cynergy Bank Limited

Opinion

We have audited the financial statements of Cynergy Bank Limited (the 'Company') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

► Give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;

► Have been properly prepared in accordance with IFRSs as adopted by the European Union; and

► Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

► The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

Overview of our audit approach

Key audit matters	► Provisions for conduct, customer remediation and litigation. ► Impairment of loans and advances. ► Revenue recognition – loan arrangement fees using the effective interest rate
Audit Scope	► We performed an audit of the complete financial information of Cynergy Bank Limited
Materiality	► Overall materiality of £1,160,000 which represents 1% of equity.

► **Key audit matters**

► Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) that we identified. These matters included 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 were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Provision for conduct risk, customer remediation and litigation (Provision at year end: £12,221 thousand, PY comparative £41,516 thousand) Refer to the Accounting policies (page 25); and Note 23 of the Financial Statements (page 47) Management judgement is needed to determine whether an obligation exists and a provision should be recorded at 31 December 2018 in accordance with the accounting criteria set under IAS 37. The measurement of the provisions is based on the best estimate of the expenditure required to settle the present obligation Given the inherent uncertainty in the estimate, the risk is that management's best estimate of the economic outflow that the Company will suffer as a result of this issue does not resemble actuality. The Company continued to engage an external specialist to support management in identifying the affected population, and to calculate the redress amount due to affected customer. The risk was mitigated by a Deed of Financial Support ("DoFS") signed by Bank of Cyprus Public Company Limited ("BOCPCL"), through which BOCPCL agreed to provide funds via establishment of an Escrow account, for the purposes of meeting the Company's liabilities for the Remediation Programme including costs incurred / to be incurred by the Company in respect of customer remediation up to a maximum of £67m. In addition, any successful consequential loss claim will be met in full by BOCPCL.	Our approach focused on: ► Understanding of the design and operating effectiveness of the Company's key controls over the identification, estimation and monitoring of provisions considering the potential for management override of controls ► Considering the potential for management override of those controls. ► Assessing the work of management's specialist with the support of EY conduct risk specialists, by: ► Evaluating the competence, capabilities and objectivity of management's specialist; ► Obtaining an understanding of the work performed by management's specialist. ► Assessing the provisions recorded by testing the data and assumptions used in the underlying calculations including response rates, uphold rates, claim amounts, cost and timing of settlement. ► Assessing the assumptions used by comparing them to industry peers (where applicable) involved in similar matters. We involved our conduct risk specialists to consider how the Company's provisions compare to the latest relevant industry developments. ► Examining amended and restated DoFS and updates with BOCPCL assessing its impact on the financial statements of the Company and assessing with the support of our technical accounting specialists the appropriate accounting treatment in the Company's financial statements in accordance with IFRS. ► Examining regulatory correspondence (including FOS) and minutes of the board of directors and other key committees. ► Assessing key developments, on-going litigation and claims	Our audit procedures provided the audit team reasonable assurance that the Company's provision for customer remediation and litigation is within a reasonable range, and we are satisfied that there is no evidence of material misstatement. We highlighted to the Audit Committee that this estimate, by nature, requires judgement regarding: ► Completeness of provisions recognised; ► Determining whether an outflow is probable or can be estimated reliably; ► Measurement of provisions recognised: appropriateness of assumptions and judgements used in the estimation of material provisions; and ► Adequacy of disclosures of provision for liabilities and charges and contingent liabilities. ► Management has made a number of key assumptions requiring significant judgement in order to estimate the conduct provision such as: ► The level of complaint volumes ► Expected response and opt-in rates ► Uphold rates, i.e., how many claims are or may be, upheld in the customer's favour ► Redress cost, i.e., the average payment expected to be made to customers Management's estimate was towards the middle of our range of outcomes. We were satisfied that appropriate and adequate disclosures have been made in the financial statements in accordance with IFRS.

	and potential commitments and contingencies. ► Examining and discussing management's assessment based on advice by their legal counsel on the potential outcome of the on-going litigations, consequential losses and claims to assess for potential over/under provision. ► Examining legal updates, correspondence and other records of communications between the Company's legal counsel and the claimant. ► Sending external confirmations to the Company's external legal counsels for significant matters.	
Impairment of loans and advances Provision at the yearend: £3,546 thousand, PY: £4,055 thousand) Refer to the Accounting policies (page 25); and Note 13 of the Financial Statements (page 40) From 1 January 2018, IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement' and contains new requirements for the classification and measurement of financial assets and liabilities and the recognition of impairment of financial assets. The provision for impairment of loans and advances to customers is a significant balance and carries a high degree of estimation uncertainty derived from the assumptions used to build the provision. The application of IFRS 9 results in fundamental changes to how impairment provisions are determined as IFRS 9 requires a forward looking assessment of expected loss, as opposed to the incurred loss model used under IAS 39 This includes the application of multiple economic scenarios and key assumptions when calculating expected credit losses. The Company also applies overlays to the provision models in order to adjust for shortfalls in risk models. What judgements are we focused on?	Our approach focused on: ► Assessment of the opening balance adjustments booked in respect of IFRS 9 through validation of underlying data which feeds post model adjustments; ► Understanding the oversight by IFRS 9 Steering Committee ► Review of Company's internal model validation exercise ► Test key controls over the reconciliation of data to source systems; ► Test key controls in relation to the review and challenge of stage 3 assets; ► Test key controls over incorporation of macro economics factors into the models; ► Using our modelling and economic specialists to assess the macro-economic factors considered in the forward looking assumptions including the probability weighting applied to each scenario; ► Detailed review and challenge of higher-risk corporate stage 3 provision cases through reviewing collateral valuations, alternative scenarios and the assumptions used in the impairment assessment; ► Obtaining and validating relevant loan documentation	We conclude that the provision held by the Company in relation to credit impairment is reasonably estimated and in line with the new requirements of IFRS 9. From our testing of the transitional impact of IFRS 9, we concluded that the opening balance sheet position is materially correct. From our testing of provision cases we concluded that Management's estimates were reasonable and the collateral held was appropriately valued. We consider the multiple economic scenarios incorporated in the IFRS 9 models to be reasonable. We conclude that the financial disclosures included in the 31 December 2018 Annual Report are in compliance with the requirements of IFRS 9 and we note management's continued focus to refine the models.

► Evaluating the methodology employed by the Company to estimate expected credit losses ► Evaluating the criteria & triggers employed by the Company to assess the staging of loans within the portfolio ► Assessing the completeness and measurement of any management adjustments and overlays Furthermore, there is a risk that financial disclosures do not comply with the revised requirements of the International Financial Reporting Standards (IFRS 9 and IFRS 7)	such as loan agreements, security valuation reports and correspondence. ► Using our Real Estate specialists to perform independent valuations of a sample of collaterals. ► Reviewing and challenging key model assumptions using available Company data. ► Assessing the logic and validating the ELC calculation and the calculation of material model overlays; and ► Agreeing quantitative disclosures to source data.	
Revenue recognition – loan arrangement fees using the effective interest rate (Fee income forming an integral part of the corresponding customer loans' EIR adjustment included in interest income: £3,565 thousand, PY comparative £3,615 thousand) Refer to the Accounting policies (page 25); and Note 5 of the Financial Statements (page 37) There is a component of revenue, the effective interest rate method (EIR) adjustments to loan arrangement fees that requires a high degree of estimation and judgement by management. These adjustments are manually calculated and recorded and therefore there is a higher risk of misstatement compared to that of revenue computed and recorded by the core banking system. There is a risk of material misstatement of revenue as a result of: ► Incorrect application of the EIR method of accounting; ► Incorrect assumptions used for the application of the EIR method in respect of the behavioural life of the loans and advances to which the fees relate; ► The deferred fee liability and fee income respectively are calculated incorrectly. The level of risk has remained consistent with 2017.	Our approach focused on: ► Understanding the design and operating effectiveness of key controls over setting and updating the EIR methodology and the assumptions used. ► Considering the completeness of data including the set up and maintenance of loan contractual terms and fee charges. ► Assessing the access / change controls applied in the excel spreadsheets used for the calculations. ► Validating and challenging the assumptions used by management including the behavioural lives of the loans (which reduces the amortisation period from the contractual term to the expected life of the loans), forecast changes in rates and the income/expenses to be included. ► Understanding changes made to the EIR methodology and assumptions and assessing their impact. ► Recalculating the amortisation of fees for a sample of loans to test whether the model has been implemented in accordance with the EIR methodology. ► Testing the appropriateness of the manual journal entries recorded in the general ledger and any other adjustments	Our audit procedures provided the audit team reasonable assurance over the completeness, occurrence and measurement of the revenue stream to which the fraud risk was applied, specifically loan arrangement fees and we are satisfied that there is no evidence of material misstatement. We highlighted to the Audit Committee that this estimate, by nature, requires judgement regarding the expected behaviour and life-cycle of the instruments, as well as other characteristics of the product life cycle such as prepayments. We were satisfied that the assumptions made by management are reasonable in the context of the Company's loan portfolio and current market conditions. We were satisfied that adequate disclosures have been made in the financial statements in accordance with IFRS. We gained assurance that there was no evidence of management override of controls.

made in the preparation of the financial statements; and

- ► Assessing the appropriateness and adequacy of the relevant disclosures made in the financial statements

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Change from the prior year

There have been no significant changes to the scope of our audit since the prior year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1,160,000 (2017: £1,150,000), which is 1% of equity (2017:1%). We believe that equity represents a relevant measure used by the shareholders and regulators when assessing the performance of the Company.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £580,000 (2017: £575,000). We have set performance materiality at this percentage based on our past experience with the entity, our ability to assess the likelihood of misstatements and other factors affecting the entity and its financial reporting.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £58,000 (2017: £57,500), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are: Companies Act 2006, Financial Conduct Authority (FCA) Rules, Prudential Regulatory Authority (PRA) Rules.

- We understood how Cynergy Bank Limited is complying with those frameworks by making enquiries of management, internal audit, risk, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board of Directors, Executive Committee, Risk Committee and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and Board's review of the Company's risk management framework and internal control processes.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with the FCA and the PRA.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud.

- We also considered areas of significant judgement and the impact these have on the control environment. Where the risk has been considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- The Company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the tam had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

We were appointed by the Company on 7 June 2003 to audit the financial statements for the year ending 31 December 2004 and subsequent financial periods. The Company was authorised as a bank by the Financial Services Authority on 19 June 2012. Our total uninterrupted period of engagement is 14 years, covering periods from our appointment through to the year ending 31 December 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Wallace (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London – 28th March 2019

Notes:

1. The maintenance and integrity of the Cynergy Bank Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement and statement of comprehensive income

For the year ended 31 December 2018

	Notes	***2018***	*2017*
		£000	*£000*
Interest income calculated using the effective interest method	5	**63,667**	49,100
Other interest and similar income		**3,565**	3,615
Interest expense calculated using the effective interest method	6	**(21,565)**	(15,318)
Net interest income		**45,667**	37,397
Fee and commission income	7	**2,433**	2,360
Foreign exchange gains	8	**285**	302
Fair value gain / (loss) on hedging instruments	9	**211**	(38)
Total operating income		**48,596**	40,021
Staff costs	10	**(22,221)**	(18,689)
Depreciation, amortisation and impairment	11	**(3,382)**	(1,509)
Other operating expenses	12	**(16,613)**	(14,404)
Total operating expense before conduct and legal provision		**(42,216)**	(34,602)
Provision for customer redress	23	**0**	(4,000)
Profit before credit loss expense on financial assets		**6,380**	1,419
Credit (loss) / gain on financial assets	13	**(223)**	497
Profit before tax		**6,157**	1,916
Income tax expense	14	**(1,557)**	(1,055)
Profit after tax		**4,600**	861
Other comprehensive income not to be reclassified to profit or loss:			
Income tax relating to Revaluation of own properties		**(83)**	-
Total comprehensive profit for the period attributable to the equity holders		**4,517**	861

The notes on pages 25 to 63 form an integral part of these financial statements.

Statement of financial position

As at 31 December 2018

	Notes	***2018*** ***£000***	*2017* *£000*
Assets			
Cash and balances with central banks	15	**196,454**	358,724
Placements with banks	15	**55,538**	32,625
Placements with related entities	15, 32	-	25,226
Loans and advances to customers	17	**1,668,923**	1,407,200
Other assets	18	**17,433**	35,547
Intangible assets	19	**1,010**	1,623
Property and equipment	20	**15,652**	15,773
Investment in subsidiary	30	**10**	400
Total assets		**1,955,020**	1,877,118
Liabilities			
Placements by related entities	32	-	26,605
Customer deposits	21	**1,762,654**	1,656,975
Bank deposits	22	**240**	-
Provision for customer redress	23	**12,221**	41,516
Other liabilities	24	**13,050**	9,767
Subordinated loan	25	**29,524**	29,537
Total liabilities		**1,817,689**	1,764,400
Equity			
Share capital	26	**131,000**	111,000
Revaluation and other reserves		**1,306**	8,389
Accumulated profits / (losses)		**5,025**	(6,671)
Total equity		**137,331**	112,718
Total liabilities and equity		**1,955,020**	1,877,118

The notes on pages 25 to 63 form an integral part of these financial statements.

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

Philip Nunnerley
Chairman

Nick Fahy
Chief Executive Officer

Statement of changes in equity

For the year ended 31 December 2018

	2018				*2017*
	Share capital	***Revaluation and other reserves***	***Accumulated profits/(losses)***	***Total***	*Total*
	£000	***£000***	***£000***	***£000***	*£000*
1 January	**111,000**	**8,389**	**(6,671)**	**112,718**	65,857
Impact of adopting IFRS 9 (Note 33)	**-**	**-**	**96**	**96**	-
Restated opening balance under IFRS 9	**111,000**	**8,389**	**(6,575)**	**112,814**	65,857
Issue of shares by way of capitalisation of revaluation reserve	**7,000**	**(7,000)**	**-**	**-**	-
Reduction in share capital	**(7,000)**	**-**	**7,000**	**-**	**-**
Profit for the year after tax	**-**	**-**	**4,600**	**4,600**	861
Other comprehensive income	**-**	**(83)**	**-**	**(83)**	-
Issue of share capital (note 26)	**20,000**	**-**	**-**	**20,000**	46,000
31 December	**131,000**	**1,306**	**5,025**	**137,331**	112,718

The notes on pages 25 to 63 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2018

	2018	*2017*
	£000	*£000*
Operating activities		
Profit before tax	**6,157**	1,916
Adjustments for:		
Provisions for credit loss expense	**223**	(497)
Depreciation of property and equipment	**1,036**	940
Amortisation of intangible assets	**643**	569
Impairment of fixed assets	**1,703**	-
Interest on subordinated loan	**2,500**	949
Amortisation of issuance costs relating to subordinated loan	**100**	-
Tax paid	**(1,613)**	(820)
Collection of previously written off debt	**-**	249
Foreign exchange gains	**(285)**	(302)
Changes in operating assets		
Increase in mandatory deposits with central bank	**(1,621)**	(464)
Increase in loans and advances to customers	**(261,849)**	(323,808)
Decrease / (increase) in other assets	**18,440**	(30,830)
(Increase) / decrease in accrued income and prepaid expenses	**(328)**	235
Changes in operating liabilities		
Increase in customer deposits	**105,920**	398,877
(Decrease) / increase in other liabilities and provision for customer redress	**(29,349)**	27,381
Increase in accrued expenses	**1,024**	2,627
Net cash flow (used in) / from operating activities	**(157,299)**	77,022
Investing activities		
Purchase of property and equipment	**(1,281)**	(268)
Purchase of intangible assets	**(1,366)**	(1,352)
Proceeds of sale of investment	**390**	-
Net cash flow used in investing activities	**(2,257)**	(1,620)
Financing activities		
(Decrease) / increase in subordinated loan	**(43)**	29,464
Proceeds from issuance of new share capital	**20,000**	16,000
Interest paid on subordinated loan	**-**	(938)
Net cash flow from financing activities	**19,957**	44,526
Net (decrease) / increase in cash and cash equivalents for the year	**(139,599)**	119,928
Cash and cash equivalents (see note 15)		
1 January	**388,909**	268,981
Net (decrease) / increase in cash and cash equivalents for the year	**(139,599)**	119,928
31 December	**249,310**	388,909

Operational cash flows from interest	***2018***	*2017*
	£000	*£000*
Interest paid	**19,034**	15,315
Interest received	**63,633**	52,393

Refer to notes 15 and 24 for disclosures of cash and cash equivalents and changes in liabilities arising from financing activities respectively. The notes on pages 25 to 63 form an integral part of these financial statements.

Notes to the financial statements

1 Corporate information

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

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

The Company is wholly owned by Cynergy Capital Limited, the Parent in which the financial statements of the Company 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. In the prior year the Company was wholly owned by Bank of Cyprus Public Company Limited, the Parent in which the financial statements of the Company were consolidated. The Parent was incorporated in Cyprus and its consolidated financial statements may be obtained from www.bankofcyprus.com.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because the Company and its subsidiary are included in the consolidated financial statements of the Parent company, Cynergy Capital Limited, which are publicly available. These financial statements have been prepared on a standalone basis. Also, as an intermediate parent, the Company is exempt from preparing consolidated financial statements under IFRS 10. The accounting policies used by the Company that are relevant to an understanding of the financial statements are stated in note 3.

2 Basis of preparation

These standalone financial statements have been prepared on a historical cost basis, except for land and buildings classified as property and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Statement of compliance

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

Presentation of financial statements

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

The Company 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 29.

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 Company.

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

The Company has adopted for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not effective / adopted by the EU.

The nature of each new standard or amendment is described below:

3.1.1 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 33.

3.1.1.1 Changes to classification and measurement

From a classification and measurement perspective, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets will be replaced by: debt instruments at amortised cost; debt instruments at fair value through other comprehensive income (FVOCI) with gains or losses recycled to profit or loss on de-recognition; equity instruments at FVOCI with no recycling of gains or losses or profit or loss on de-recognition; financial assets as fair value through profit or loss (FVPL).

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment in 2016, the Company concluded that the majority of loans and advances to customers and placements with banks that are classified as loans and receivables and held at amortised cost under IAS 39, will be measured at amortised cost under IFRS 9 and financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL under IAS 39 will continue to be measured at FVPL under IFRS 9.

The Bank's classification of its financial assets and liabilities is explained in Notes 3.8 and 3.9. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 33.

3.1.1.2 Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 3.11. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 33.

3.1.2 IFRS 7R 'Financial Instruments: Disclosures'

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures, as shown in Note 33, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 29.

Reconciliations from opening to closing ECL allowances are presented in Notes 17 and 26. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

3.1.3 IFRS 15 Revenue from Contracts with Customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognise revenue when (or as) the entity satisfies a performance obligation. The adoption of IFRS 15 has no material impact on these financial statements and no retrospective adjustment is required.

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

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

The standards and interpretations that are issued, but not yet adopted, up to the date of issuance of the Company's financial statements which are relevant to its operations are disclosed below. The Company intends to adopt these standards when they become effective.
Except where otherwise stated, the Company does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the financial statements:

IFRS 16 - Leases: Effective for annual periods beginning on or after 1 January 2019. The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard also requires lessees and lessors to make more extensive disclosures than under IAS 17. The impact of adopting this standard is immaterial.

IAS 12 – Income Taxes (IASB annual improvement 2015-2017 cycle): The amendments clarify that all income tax consequences of dividends (i.e. a distribution of profits) should be recognised in the statement of comprehensive income, regardless of how tax arises. Amendments are effective for annual periods beginning on or after 1 January 2019.

IAS 23 – Borrowing Costs (IASB annual improvement 2015-2017 cycle): The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Amendments are effective for annual periods beginning on or after 1 January 2019.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments: Effective for annual periods beginning on or after 1 January 2019. In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. Management is currently evaluating the impact of adopting the interpretation on its financial statements.

IFRS 9 (prepayment features): On 12 October 2017, the IASB published 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' to address the concerns about how IFRS 9 'Financial Instruments' classifies particular pre-payable financial assets. In addition, the IASB clarified an aspect of the accounting for financial liabilities following a modification. The amendments are to be applied retrospectively for fiscal years beginning on or after 1 January 2019.

IAS 28 (long-term interests): On 12 October 2017, the IASB published 'Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)' to clarify that an entity applies IFRS 9 'Financial Instruments' to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are to be applied retrospectively for fiscal years beginning on or after 1 January 2019.

IAS 19 (plan amendments): On 7 February 2018, the IASB published 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)' to harmonise accounting practices and to provide more relevant information for decision-making. An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019.

3.3 Segmental information

The Company operates in the United Kingdom in one principal activity, namely business and personal banking.

3.4 Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held-to-maturity under IAS 39 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR.

Banking fees and commissions

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

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

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

3.5 Provisions

Provisions are recognised when the Company 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 23.

3.6 Retirement benefits

The Company 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.

3.7 Taxation

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

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

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

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

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

3.8 Financial instruments – initial recognition

Date of recognition

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

Initial measurement of financial instruments

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

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in 'Total operating income'. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- 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 3.9. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

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

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

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

Before 1 January 2018, the Company classified its loans and advances to banks and customers as loans and receivables and measured at amortised cost. Trading assets and derivative assets held for risk management were classified as held for trading and measured at FVTPL under IAS 39, will be measured at FVTPL under IFRS 9. Equity investment was classified as not held for trading and measured at FVTPL under IAS 39, is held for long-term strategic purposes and will be designated as FVOCI under IFRS 9.

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

3.9 Financial assets and liabilities

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

From 1 January 2018, the Company only measures Cash and balances with central banks, Placements with banks, Placements with / by related entities, Loans and advances to customers, Customer deposits and Subordinated loan at amortised cost if both of the following conditions are met:

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

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

The details of these conditions are outlined below.

<u>i) Business model assessment</u>

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- How the performance of the business model and the financial assets held within that business model are evaluated

and reported to the Company's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated;
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

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

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

Derivatives recorded at fair value through profit or loss
A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

- It is settled at a future date.

The Company enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. 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 Goodland Clearing House are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 16. Changes in the fair value of derivatives are included in 'Total operating income' unless hedge accounting is applied. Hedge accounting disclosures are provided in Notes 9 and 16.

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

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

From 1 January 2018, with the introduction of IFRS 9, the Company accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments. Embedded derivatives are not separated from financial assets.

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

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

Debt instruments at FVOCI (Policy applicable from 1 January 2018)
The Company applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

• The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
• The contractual terms of the financial asset meet the SPPI test
These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 3.11. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI (Policy applicable from 1 January 2018)
Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

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

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

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

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

Or

• The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;

Or

• The liabilities (and assets until 1 January 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

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

Financial guarantees, letters of credit and undrawn loan commitments

The Company 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 Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 27. The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 27. The Company occasionally issues loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

3.10 De-recognition of financial assets and liabilities

IFRS9 incorporates the requirements of IAS 39 for de-recognition of financial assets and financial liabilities without substantive amendments. However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in de-recognition. Under IFRS 9, the Company will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Company does not recognise any gain or loss in profit or loss on modification of financial liabilities and non-distressed financial assets that do not lead to de-recognition. There has been no material impact from adopting these new requirements.

3.11 Impairment of financial assets (Policy applicable from 1 January 2018)

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

i) Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Company's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Company will record 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 29. The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 29.

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 Company groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognised, the Company 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 Company 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 Company records an allowance for the LTECLs.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

ii) The Calculation of ECLs

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

- *Probability of Default (*PD): The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio.

- *Exposure at Default (*EAD): The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 29.
- *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 29.

When estimating the ECLs, the Company considers three scenarios: good, average and bad ('downside 1'). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 29. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. The maximum period for which the credit losses are determined is the contractual life of a financial instrument.

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

The mechanics of the ECL method are summarised below:

- Stage 1: The 12m ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- Loan commitments: When estimating LTECLs for loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at the expected EIR on the loan.
- Overdrafts: The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is five years for corporate and seven years for retail products. The interest rate used to discount the ECLs for overdrafts is based on the average EIR that is expected to be charged over the life of the instrument.

iii) Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Central Bank base rates;
- House price indices.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are material.

3.12 Collateral valuation

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

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

3.13 Write-offs

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

3.14 Forborne and modified loans

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Company 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 Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 29. The Company also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

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

3.15 Impairment of financial assets (Policy applicable before 1 January 2018)

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

Individual impairment

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

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

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

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

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

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

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

Collective impairment

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

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

Loan renegotiations and forbearance

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. There are a number of different types of loan renegotiation, including the capitalisation of arrears, payment holidays, temporary transfer to interest-only terms and extensions of the due date of payment. Where the renegotiated payments of interest and principal will not recover the original carrying value of the asset, the asset continues to be reported as past due and is considered impaired. Where the renegotiated payments of interest and principal will recover the original carrying value of the asset, the loan is no longer reported as past due or impaired provided that payments are made in accordance with the revised terms and are expected to continue to be paid in accordance with the revised terms.

Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value.

Write-offs

Loans together with the associated provisions are written off when there is no realistic prospect of recovery. If a previously written off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the income statement.

Changes after recognition of impairment

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

3.16 Funding for Lending Scheme ("FLS")

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

3.17 Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition. Placements by related entities which are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purposes of the Statement of cash flows.

3.18 Property and equipment

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

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

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

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

3.19 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.

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

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

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

• Computer software – 3 years
• Core application software – 10 years
• Core deposits systems – 5 years

4 Significant accounting judgments, estimates and assumptions

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

Critical judgments and estimates
The preparation of financial information requires management to make judgments, 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 Company's financial affairs are those related to the conduct risk and legal provision included in these accounts.

Provision for conduct risk, customer remediation and litigation
The Company operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result it is involved in various litigation, arbitration, conduct and regulatory investigations and proceedings, arising in the ordinary course of the Company's business.

When the Company can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Company records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Company is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Company does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Company takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgment is required to conclude on these estimates.

The Company has established a provision for redress payable in respect of historic conduct issues. The provision is management's best estimate of the anticipated costs of redress and related administration expenses. The determination of appropriate assumptions to underpin the provision requires significant judgement by management. Details of the provision for customer redress are presented in Note 23 to the financial statements.

Impairment losses on financial assets
The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company'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 accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

The Company 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 Company's and the Central Bank base rate and other fee income / expense that are integral parts of the instrument.

Provisions and other contingent liabilities
The Company operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result it is involved in various litigation, arbitration, conduct and regulatory investigations and proceedings in the UK, arising in the ordinary course of the Company's business.

When the Company can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Company records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Company is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Company does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgment is required to conclude on these estimates.

Taxation
The Company operates in the United Kingdom and is therefore subject to United Kingdom corporation tax. Estimates are required in determining the provision for taxes at the balance sheet date. The Company recognises tax liabilities for transactions whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities. In relation to current year tax there are no assumptions or estimates that significantly affect the tax provision.

Deferred tax assets are recognised by the Company in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgment and are subject to uncertainty.

Revaluation of land and buildings classified as property
The Company carries its land and buildings classified as property at fair value, with changes in fair value being recognized in the statement of other comprehensive income.

	2018	2017
5 Interest income	**£000**	*£000*
Loans and advances to customers	**61,367**	48,063
Placements with banks and central banks	**1,308**	558
Placements with related entities	**457**	503
Derivative financial instruments	**535**	(24)
	63,667	49,100
Other interest and similar income	**3,565**	3,615
	67,232	52,715

Other interest and similar income relates fee income forming an integral part of the corresponding financial instruments through an adjustment to the instruments' EIR. This amounted to £3,565,663 (2017: £3,615,000).

6 Interest expense	***2018***	*2017*
	£000	*£000*
Customer deposits	**17,513**	13,607
Placements by related entities	**576**	703
Bank deposits	**319**	-
Subordinated loan (note 25)	**2,500**	949
	20,908	15,259
Derivative financial instruments	**657**	59
	21,565	15,318

7 Fee and commission income

Disaggregation:

Nature of good or service	Timing of Recognition	Timing of billing & payment	Geographical region		
Service fees for current accounts	Monthly	Quarterly	UK	**979**	1,009
Service fees for Debit / Credit cards	At point of delivery	At point of delivery	UK	**460**	454
Services fees for handling payments	At point of delivery	At point of delivery	UK	**236**	244
Service fees for credit Administration	At point of delivery	At point of delivery	UK	**75**	69
Early repayment charges	At point of delivery	At point of delivery	UK	**495**	350
Ad hoc fees	Monthly or at point of delivery	At point of delivery or periodic	UK	**188**	234
				2,433	2,360

8 Foreign exchange gains

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

9 Net gain / (loss) on financial instrument transactions

Net gain / (loss) arising from fair value hedges (see note 16)	**211**	(38)

10 Staff costs

Salaries	**18,570**	15,359
Social security costs	**1,806**	1,596
Retirement benefit costs - defined contribution scheme	**1,845**	1,734
	22,221	18,689

The number of staff employed (including two executive directors) by the Company as at 31 December 2018 was 234 (December 2017: 248).

11 Depreciation, amortisation and impairment

	2018	*2017*
	£000	*£000*
Depreciation	**1,036**	940
Amortisation of intangible assets	**643**	569
Impairment	**1,703**	-
	3,382	1,509

12 Other operating expenses

Information technology	**4,470**	3,032
Professional fees	**2,834**	979
Money transmission	**991**	985
Communication	**360**	349
Advertising	**490**	216
Premises	**1,322**	1,220
Printing and stationery	**243**	250
Other operating expenses – refer to analysis below	**5,903**	7,373
	16,613	14,404

Professional fees include fees payable to the Company's auditor of £412,560 (2017: £539,900) which are analysed below (amounts including VAT) :

Audit of the Company's financial statements	**380**	297
Audit of the subsidiary's financial statements	**10**	8
Other assurance related services	**23**	119
Non-audit related services	**0**	116
	413	540

Other operating expenses are further analysed below:

Subscriptions and publications	**331**	378
Directors' fees	**256**	271
Recruitment	**419**	503
Training	**169**	241

Travel and entertaining	**279**	324
Strategic initiatives	**2,781**	4,111
Rebranding	**728**	-
Other insurances	**307**	258
Miscellaneous	**198**	374
Other operating expenses	**435**	913
	5,903	7,373

13 Credit loss on financial assets

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

	2018						
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3** Collective	**POCI**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Loans advances to customers	**-**	**348**	**-**	**(1)**	**(124)**	**-**	**223**
Total impairment loss	**-**	**348**	**-**	**(1)**	**(124)**	**-**	**223**

The table below shows the impairment charges recorded in the income statement under IAS 39 during 2017:

	2017		
	£000	***£000***	***£000***
	Individual impairment	***Collective impairment***	***Total***
1 January	**2,216**	**2,160**	**4,376**
Applied in writing off impaired loans and advances	**(73)**	**-**	**(73)**
Credit for the period	**(539)**	**291**	**(248)**
31 December	**1,604**	**2,451**	**4,055**

14 Taxation

	2018	*2017*
	£000	*£000*
UK corporation tax		
Charge for the year	**1,576**	1,011
Adjustments in respect of prior year	**229**	-
	1,805	1,011
Deferred tax		
(Credit) / charge for the year	**(248)**	44
Tax charge for the year	**1,557**	1,055

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 2017: 19.25%) is presented below:

Profit before tax	**6,157**	1,916
Tax calculated at 19.00% (December 2017: 19.25%)	**1,170**	369
Tax effect of:		
Expenses not deductible for tax purposes	**102**	686
Tax rate change	**56**	-
Adjustment in respect of prior year	**229**	-
Tax charge for the year	**1,557**	1,055

	2018	*2017*
	£000	*£000*
The net deferred tax liability arises from:		
Difference between capital allowances and depreciation	**514**	228
Property revaluation	**(1,209)**	(1,125)
Other provisions	**0**	37
Net deferred tax liability	**(695)**	(860)

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

1 January	**(860)**	(816)
Revaluation of properties	**(83)**	-
Deferred tax recognised in the income statement	**248**	(44)
31 December	**(695)**	(860)

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

Difference between capital allowances and depreciation	**342**	51
Other temporary differences	**(38)**	(95)
Change in tax rates	**(56)**	-
Deferred tax credit / (charge) for the year	**248**	(44)

The corporation tax rate reduces to 17% effective from 1 April 2020 enacted in September 2016. Accordingly, the deferred tax asset is calculated at 17% (31 December 2017: 18.67%).

15 Cash, balances with central banks and placements with banks

Cash	**457**	486
Balances with the Bank of England	**195,997**	358,238
	196,454	358,724
Placements with BOC CY	-	25,226
Placements with banks	**55,538**	32,625
Cash and cash equivalents	**251,992**	416,575

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 £2,682,295 (31 December 2017: £1,061,000) which are not available for use in the Company’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:

Cash	**457**	486
Balances with the Bank of England	**195,997**	358,238
Less: Mandatory deposits with the central bank	**(2,682)**	(1,061)
Placements with related entities	-	25,226
Less: Placements by related entities	-	(26,605)
Placements with banks	**55,538**	32,625

	2018	2017
Cash and cash equivalents per the Statement of cash flows	**249,310**	388,909

16 Derivative financial instruments

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

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

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

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

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

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

The Company applies hedge accounting using derivatives when the required criteria for hedge accounting are met. For designated and qualifying fair value hedges the cumulative change in the fair value of a hedging derivative is recognised in the income statement in operating income. In addition, the cumulative change in the fair value of the hedged item attributable to the hedged risk is recognised in the income statement in operating income, and also recorded as part of the carrying value of the hedged item in the statement of financial position. For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity (Cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in Operating income in the Income statement.

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

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

	2018	*2017*
	£000	*£000*
Losses from change in fair value of trading derivatives	**(72)**	(38)
Gains from change in fair value of hedging instruments	**151**	173
Gains /(losses) from change in fair value of hedged items	**132**	(173)
	211	(38)

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.

	2018			2017		
		Fair value			Fair value	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
<u>Exchange rate contracts</u>	**£000**	**£000**	**£000**	£000	£000	£000
By type						
Foreign exchange trading swaps	**48,735**	**105**	**(252)**	31,814	7	(92)
Foreign exchange spots	**207**	**1**	**(1)**	219	1	
Foreign exchange forwards	**-**	**-**	**-**	-	-	
Total exchange rate contracts	**48,942**	**106**	**(253)**	32,033	8	(92)
By maturity						
Up to 1 year	**48,942**	**106**	**(253)**	32,033	8	(92)
1 - 5 years	**-**	**-**	**-**	-	-	
Over 5 years	**-**	**-**	**-**	-	-	
Total exchange rate contracts	**48,942**	**106**	**(253)**	32,033	8	(92)
By counterparty						

Banks and building societies	**48,813**	**105**	**(253)**	31,895	7	(92)
Customers	**129**	**1**	**-**	138	1	
Total exchange rate contracts	**48,942**	**106**	**(253)**	32,033	8	(92)

	2018			2017		
		Fair value			Fair value	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	£000	**£000**	**£000**	£000	£000	£000
Interest rate contracts						
By type						
Interest rate swaps	**205,000**	**356**	**-**	33,058	135	(13)
Collar	**-**	**-**	**-**	-	-	
Forward rate agreements	**-**	**-**	**-**	-	-	
Total interest rate contracts	**205,000**	**356**	**-**	33,058	135	(13)
By maturity						
Up to 1 year	**205,000**	**356**	**-**	-	-	
1 - 5 years	**-**	**-**	**-**	33,058	135	(13)
Over 5 years	**-**	**-**	**-**	-	-	
Total interest rate contracts	**205,000**	**356**	**-**	33,058	135	(13)
By counterparty						
Banks and building societies	**205,000**	**356**	**-**	33,058	135	(13)
Customers	**-**	**-**	**-**	-	-	
Total interest rate contracts	**205,000**	**356**	**-**	33,058	135	(13)
By hedging status						
Open	**-**	**-**	**-**	-		
IAS 39	**-**	**-**	**-**	33,058	135	(13)
Economic	**205,000**	**356**	**-**	-	-	
Pre-hedges	**-**	**-**	**-**	-	-	
Total interest rate contracts	**205,000**	**356**	**-**	33,058	135	(13)

17 Loans and advances to customers

	2018	*2017*
	£000	*£000*
Loans	**1,660,652**	1,390,457
Overdrafts	**11,817**	20,798
	1,672,469	1,411,255
Less: Allowance for ECL/impairment losses	**(3,546)**	(4,055)
	1,668,923	1,407,200

The tables below shows the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Company's internal grading system are explained in Note 29.

Loans				**2018**				**2017**
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3** Collective	**POCI**	**Total**	**Total**
Internal rating grade	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Standard grade	-	1,567,247	-	62,463	-	-	1,629,710	1,369,738
Watch list medium risk	-	-	-	10,820	-	-	10,820	11,682
Watch list high risk	-	-	-	-	-	-	-	6,275
Individually impaired	-	-	-	-	20,122	-	20,122	2,762
Total	**-**	**1,567,247**	**-**	**73,283**	**20,122**	**-**	**1,660,652**	**1,390,457**

Overdrafts				**2018**				**2017**
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3** Collective	**POCI**	**Total**	**Total**
Internal rating grade	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Standard grade	-	9,738	-	1,792	-	-	11,530	20,310
Watch list medium risk	-	-	-	76	-	-	76	365
Watch list high risk	-	-	-	-	-	-	-	14
Individually impaired	-	-	-	-	211	-	211	109
Total	**-**	**9,738**	**-**	**1,868**	**211**	**-**	**11,817**	**20,798**

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

Loans				**2018**			
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3** Collective	**POCI**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2018	-	1,307,941	-	66,311	16,206	-	1,390,458
New assets originated	-	498,121	-	8,476	2,305	-	508,902
Assets derecognised or repaid	-	(210,260)	-	(19,794)	(8,011)	-	(238,065)
Transfers to Stage 1	-	19,328	-	(18,815)	(513)	-	-
Transfers to Stage 2	-	(43,228)	-	44,912	(1,684)	-	-
Transfers to Stage 3	-	(4,655)	-	(7,807)	12,462	-	-
Modifications	-	-	-	-	-	-	-
Amounts written-off	-	-	-	-	(643)	-	(643)
Foreign exchange adjustments	-	-	-	-	-	-	-
Total	**-**	**1,567,247**	**-**	**73,283**	**20,122**	**-**	**1,660,652**

Overdrafts				**2018**			
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3** Collective	**POCI**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2018	-	19,116	-	1,453	229	-	20,798
New assets originated	-	1,078	-	769	4	-	1,851
Assets derecognised or repaid	-	(9,729)	-	(967)	(134)	-	(10,830)
Transfers to Stage 1	-	146	-	(146)		-	-
Transfers to Stage 2	-	(869)	-	869		-	-
Transfers to Stage 3	-	(4)	-	(110)	114	-	-
Modifications	-	-	-	-		-	-
Amounts written off	-	-	-	-	(2)	-	(2)
Foreign exchange adjustments	-	-	-	-		-	-
Total	**-**	**9,738**	**-**	**1,868**	**211**	**-**	**11,817**

An analysis of changes in the ECL is as follows:

Loans				**2018**			
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3** Collective	**POCI**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
ECL allowance as at 1 January 2018 under IFRS 9	-	1,064	-	336	2,362	-	3,762
New assets originated	-	889	-	179	818	-	1,886
Assets derecognised or repaid	-	(246)	-	(224)	(1,135)	-	(1,605)
Transfers to Stage 1	-	11	-	(11)		-	-
Transfers to Stage 2	-	(161)	-	163	(2)	-	-
Transfers to Stage 3	-	(139)	-	(108)	247	-	-
Modifications	-	-	-	-	-	-	-
Amounts written-off	-	-	-	-	(643)	-	(643)
Foreign exchange adjustments	-	-	-	-	-	-	-
Total	**-**	**1,418**	**-**	**335**	**1,647**	**-**	**3,400**

Overdrafts				**2018**			
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3** Collective	**POCI**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
ECL allowance as at 1 January 2018 under IFRS 9	-	31	-	15	151	-	197
New assets originated	-	-	-	4	2	-	6
Assets derecognised or repaid	-	(1)	-	11	(65)	-	(55)
Transfers to Stage 1	-	1	-	(1)	-	-	-
Transfers to Stage 2	-	(3)	-	3	-	-	-
Transfers to Stage 3	-	(3)	-	(18)	21	-	-
Modifications	-	-	-	-	-	-	-
Amounts written-off	-	-	-	-	(2)	-	(2)
Foreign exchange adjustments	-	-	-	-	-	-	-
Total	**-**	**25**	**-**	**14**	**107**	**-**	**146**

18 Other assets

	2018	*2017*
	£000	*£000*
Debtors	**280**	365
Receivable from the Bank of Cyprus Public Company Limited towards redress payments (note 23)	**12,845**	31,460
Prepayments and accrued income	**1,249**	921
Receivables from payment service provider	**1,701**	1,687
Assets under construction	**895**	786
Derivatives	**461**	143
Other	**2**	185
	17,433	35,547

Assets under construction include cost incurred in relation to new software. These assets are not complete and will be included in Intangible assets and amortised once ready and in use. The Company has assessed and concluded there is no indication of impairment.

19 Intangible assets

	2018	2017
	£000	£000
Computer software		
Cost at 1 January	**7,020**	5,668
Additions	**1,373**	1,352
Reclassifications	**168**	-
Cost at 31 December	**8,561**	7,020
Accumulated amortisation at 1 January	**(5,397)**	(4,828)
Amortisation charge for the year	**(643)**	(569)
Disposals, write-offs and impairments	**(1,343)**	-
Reclassifications	**(168)**	-
Accumulated amortisation at 31 December	**(7,551)**	(5,397)
Net book value at 31 December	**1,010**	1,623

20 Property and equipment

	2018					2017
	Freehold property	**Leasehold property**	**Computer equipment**	**Furniture & equipment**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Cost or valuation at 1 January	**15,028**	**551**	**3,571**	**7,894**	**27,044**	26,776
Revaluation	-	-	-	-	-	-
Additions	-	-	**1,146**	**11**	**1,157**	268
Disposals and write-offs	-	-	-	-	-	-
Reclassifications	**6**	**(8)**	**(10)**	**5**	**(7)**	-
Cost or valuation at 31 December	**15,034**	**543**	**4,707**	**7,910**	**28,194**	27,044
Accumulated depreciation at 1 January	**(1,027)**	**(56)**	**(3,038)**	**(7,150)**	**(11,271)**	(10,331)
Depreciation charge for the year	**(285)**	**(13)**	**(356)**	**(382)**	**(1,036)**	(940)
Disposals, write-offs and impairments	-	-	**125**	**(366)**	**(241)**	-
Reclassifications	**3**	**(2)**	**8**	**(3)**	**6**	-
Accumulated depreciation at 31 December	**(1,309)**	**(71)**	**(3,261)**	**(7,901)**	**(12,542)**	(11,271)
Net book value at 31 December	**13,725**	**472**	**1,446**	**9**	**15,652**	15,773

Property includes land amounting to £6,513,000, of which £6,450,000 relates to freehold property and £63,000 relates to leasehold property. No depreciation is charged for land. The net book value of freehold property and leasehold property, on a cost less accumulated depreciation basis, as at 31 December 2018 would have amounted to £4,901,666 and £244,500 respectively (2017: £5,030,000 for freehold property and £251,000 for leasehold property).

21 Customer deposits

	2018	2017
	£000	£000
Customer deposits by category		

Demand	**856,862**	678,298
Notice	**113,497**	119,788
Term	**792,295**	858,889
	1,762,654	1,656,975

	2018	*2017*
	£000	*£000*
Customer deposits by geographical area		
United Kingdom	**1,409,316**	1,291,083
Cyprus	**278,789**	279,756
Greece	**60,324**	64,525
Other countries	**14,225**	21,611
	1,762,654	1,656,975

22 Bank deposits

	2018	*2017*
	£000	*£000*
Bank deposits by category		
Demand	**240**	-
Bank deposits by geographical area		
United Kingdom	**240**	-

23 Provision for customer redress

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

The most significant of the provisions recognised as at 31 December 2018 is the conduct and legal risk provision for customer redress relating to historic conduct issues (2008 to 2012). This provision is underwritten by BOC CY.

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

Remediation principles were agreed and in 2016 the Company made an initial assessment of the level of provision that was considered appropriate to meet current and future expectations in relation to the customer remediation exercise. As a result, a provision for £14.9m was established for the year ended 31 December 2016. This was increased to £50.37m in 2017 funded by a £16m injection of equity from BOC CY, £2.9m self-funded by the Company and the balance provided for by BOC CY under the terms of a Financial Deed of Support.

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

Sensitivity analysis based on customer opt-in rates

Customer Opt-in Rate*	Total Provision £000
78%	54,018
79%	54,324
80%	54,527
81%	54,773
82%	55,019

85%	55,759

* Opt-in rate is calculated across all the population affected by the remediation programme and applies to 'Invitation to review' cohorts

Over the course of 2018, the Company has reassessed the level of provision that was considered appropriate and concluded that the total cost of the remediation programme had increased to £54.27m (2017: £50.37m), resulting in a charge of £3.9m (2017: £35.46m), incorporating the new estimate based on new information that became available.

The full charge of £3.9m is recognised in the accounts of BOC CY (2017:31.46m), with Cynergy Bank recognising both the increase in conduct provision liability and corresponding receivable (see note 18).

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

	2018	*2017*
Provision for customer redress	***£000***	*£000*
At 1 January	**41,516**	14,910
Arising during the year:		
Charged in the Company's statement of comprehensive income	-	4,000
Provided for by BOC CY under the Deed of Support (note 18)	**3,894**	31,460
Payments made during the year	**(33,189)**	(8,854)
At 31 December	**12,221**	41,516

The Company's economic exposure to the impact of historic conduct related liabilities was mitigated by a Capped Indemnity of £67m from BOC CY.

In accordance with the Deed of Financial Support (DoFS) executed on 23 November 2018 between Cynergy Bank and Bank of Cyprus Public Company Limited, liability in regards to UK regulatory matters remains an obligation for settlement by the Bank of Cyprus Public Company Limited.

24 Other liabilities

	2018	*2017*
	£000	*£000*
Trade creditors	**828**	119
Accruals	**6,208**	5,184
Accrued interest payable incl. subordinated debt	**2,531**	24
Financial Services Compensation Scheme levy (note 28)	-	268
Derivatives	**253**	105
PAYE and NI settlement	**614**	474
Items in the course of settlement	**427**	1,359
Deferred tax liability (note 14)	**695**	860
Tax payable (note 14)	**706**	593

Tax deduction scheme for interest	**63**	21
Amounts owed to parent (note 32)	**120**	-
Other	**605**	760
Total	**13,050**	9,767

25 Subordinated loan

Unsecured subordinated loan	**29,524**	29,537

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

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

Changes in liabilities arising from financing activities

2018	**1 January 2018**	**Cash flows**	**Conversion to equity**	**Other**	**31 December 2018**
	£000	***£000***	***£000***	***£000***	***£000***
Unsecured subordinated loan	**29,537**	**(40)**	-	**27**	**29,524**

2017	1 January 2017	Cash flows	Conversion to equity	Other	31 December 2017
	£000	*£000*	*£000*	*£000*	*£000*
Unsecured subordinated loan	30,061	29,464	(30,000)	12	29,537

26 Share capital

	31 December 2018		*31 December 2017*	
	Number of shares	***£000***	*Number of shares*	*£000*
Issued and fully paid:				
Ordinary shares of £1 each	**131,000,000**	**131,000**	111,000,000	111,000

In November 2018, the Company issued 20,000,000 ordinary shares at their par value of £1 each to its parent company, with a total value of £20,000,000.

27 Contingent liabilities and commitments

27.1 Guaranteed and commitments

As part of the services provided to its customers, the Company enters into various revocable commitments and contingent liabilities. These consist of financial guarantees and undrawn commitments to lend.

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

Where guarantees are issued on behalf of customers, the Company 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 Company'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:

	2018	*2017*
	£000	*£000*
Acceptances, guarantees and cashing facilities	**1,278**	1,020

Commitments to advance	**265,924**	99,944
Total	**267,202**	100,964

The tables below show the credit quality and the maximum exposure to credit risk based on the Company's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Company's internal grading system are explained in Note 29.

Acceptances, guarantees and cashing facilities				**2018**				**2017**
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3**	**POCI**	**Total**	**Total**
Internal rating grade	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Standard grade	-	1,149	-	129	-	-	1,278	1,020
Watch list medium risk	-	-	-	-	-	-	-	-
Watch list high risk	-	-	-	-	-	-	-	-
Individually impaired	-	-	-	-	-	-	-	-
Total	-	1,149	-	129	-	-	1,278	1,020

Commitments to advance				**2018**				**2017**
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3**	**POCI**	**Total**	**Total**
Internal rating grade	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Standard grade	-	265,924	-	-	-	-	265,924	99,944
Watch list medium risk	-	-	-	-	-	-	-	-
Watch list high risk	-	-	-	-	-	-	-	-
Individually impaired	-	-	-	-	-	-	-	-
Total	-	265,924	-	-	-	-	265,924	99,944

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

Acceptances, guarantees and cashing facilities				**2018**			
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3**	**POCI**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2018	-	970	-	50	-	-	1,020
New exposures	-	1,148	-	130	-	-	1,278
Exposure derecognised or matured / lapsed	-	(970)	-	(50)	-	-	(1,020)
Transfers to Stage 1	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-
Modifications	-	-	-	-	-	-	-
Amounts written-off	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-
Total	-	1,148	-	130	-	-	1,278

Commitments to advance				**2018**			
	Stage 1 Individual	**Stage 1** Collective	**Stage 2** Individual	**Stage 2** Collective	**Stage 3**	**POCI**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Gross carrying amount as at 1 January 2018	-	99,944	-	-	-	-	99,944
New exposures	-	265,924	-	-	-	-	265,924
Exposure derecognised or matured/lapsed	-	(99,944)	-	-	-	-	(99,944)
Transfers to Stage 1	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-
Modifications	-	-	-	-	-	-	-

Amounts written-off	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-
Total	-	265,924	-	-	-	-	265,924

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

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

27.2 Conduct risk related matters

There continues to be significant uncertainty and thus judgement required in determining the quantum of conduct risk related liabilities with note 23 reflecting the Company's current position in relation to redress provisions in respect of the remediation programme. The final amount required to settle the Company's potential liability for this, including any consequential and / or reputational loss is materially uncertain.

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

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

28 Financial Services Compensation Scheme levy

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

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

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

29 Risk management

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

Fair value of financial assets and liabilities

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

		31 December 2018		*31 Dec 2017*	
	Notes	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
		£000	***£000***	*£000*	*£000*
Financial assets					
Cash and balances with central banks	(a, Level 1)	**196,454**	**196,454**	358,724	358,724
Placements with banks	(b, Level 1)	**55,538**	**55,538**	32,625	32,625
Placements with related entities	(b. Level 1)	-	-	25,226	25,226
Derivative financial assets	(e, see below)	**461**	**461**	143	143
Loans and advances to customers	(c, Level 3)	**1,668,923**	**1,684,723**	1,407,200	1,415,956
Financial liabilities					
Bank deposits	(b, Level 1)	**240**	**240**	-	-

Placements by related entities	(b, Level 1)	**-**	**-**	26,605	26,605
Customer deposits	(d, Level 3)	**1,762,654**	**1,761,792**	1,656,975	1,656,812
Derivative financial liabilities	(e, see below)	**253**	**253**	105	105
Subordinated loan	(f, Level 2)	**29,524**	**29,524**	29,537	29,537

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

(a) The carrying amounts of these financial assets largely due to the short term maturities of these instruments approximate fair value.
(b) The carrying value of placements with banks and amounts due to banks is considered to approximate fair value. Placements with banks are repayable on demand or within twelve months. Amounts due to banks and related entities are re-priced every three months at market rates. As a result, these carrying values approximate fair values.
(c) The carrying value of loans and advances to customers is net of allowance for impairment losses and unearned income. The estimated fair value of the advances is calculated by discounting the cash flows using prevailing market interest rates adjusted for risk premium of the Company.
(d) The carrying value of customer deposits is calculated by discounting the cash flows using prevailing market interest rates. The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand.
(e) The fair value of derivatives (including foreign exchange contracts and interest rate swaps) designated as being carried at fair value through profit or loss are based on quoted market prices and data or valuation techniques based on observable market data as appropriate to the nature and type of the underlying instrument.
(f) The subordinated loan is non-traded and the carrying value approximates fair value.

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

31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total fair value***
	£000	***£000***	***£000***	***£000***
Derivative financial assets	**-**	**461**	**-**	**461**
Derivative financial liabilities	**-**	**(253)**	**-**	**(253)**
31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
	£000	*£000*	*£000*	*£000*
Derivative financial assets	-	143	-	143
Derivative financial liabilities	-	(105)	-	(105)

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

Liquidity risk

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

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

The Company's LCR as at 31 December 2018 was 727%, and is in excess of the current minimum requirement of 100% set by the PRA. The Company has continued to maintain a significant level of HQLA throughout the year.In October 2016 the Company was admitted to the Bank of England's Funding for Lending Scheme (FLS), which provides an additional source of liquid assets.

Analysis of assets and liabilities by expected maturity

31 December 2018	***Carrying value***	***Demand***	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Assets:						
Cash and balances with central banks	**196,454**	**193,772**	-	**2,682**	-	-
Placements with banks	**55,538**	**55,538**	-	-	-	-

Placements with related entities	-	-	-	-	-	-
Investment in subsidiary	**10**	-	-	-	**10**	-
Loans and advances to customers	**1,668,923**	**21,161**	**58,578**	**78,897**	**1,079,880**	**430,407**
Property and equipment	**15,652**	-	-	-	-	**15,652**
Intangible assets	**1,010**	-	-	-	**1,010**	-
Other assets	**17,433**	**1,701**	-	**15,732**	-	-
Total assets	**1,955,020**	**272,172**	**58,578**	**97,311**	**1,080,900**	**446,059**
Liabilities and equity:						
Bank deposits	**240**	**240**	-	-	-	-
Placement by related entities	**-**	**-**	-	-	-	-
Customer deposits	**1,762,654**	**856,859**	**227,676**	**530,532**	**147,587**	-
Other liabilities	**25,271**	-	-	**25,271**	-	-
Subordinated loan	**29,524**	-	-	-	**29,524**	-
Total liabilities	**1,817,689**	**857,099**	**227,676**	**555,803**	**177,111**	-
Total equity	**137,331**	-	-	-	-	**137,331**
Total liabilities and equity	**1,955,020**	**857,099**	**227,676**	**555,803**	**177,111**	**137,331**
Acceptances and guarantees	**1,278**	**1,278**	**-**	**-**	**-**	**-**

31 December 2017	*Carrying value*	*Demand*	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Assets:						
Cash and balances with central banks	358,724	357,663	-	1,061	-	-
Placements with banks	32,625	32,625	-	-	-	-
Placements with related entities	25,226	5	25,221	-	-	-
Investment in subsidiary	400	-	-	-	-	400
Loans and advances to customers	1,407,200	39,169	53,726	96,962	821,178	396,165
Property and equipment	15,773	-	-	-	533	15,240
Intangible assets	1,623	-	-	-	1,623	-
Other assets	35,547	1,688	-	33,859	-	-
Total assets	1,877,118	431,150	78,947	131,882	823,334	411,805
Liabilities and equity:						
Bank deposits	-	-	-	-	-	-
Placement by related entities	26,605	1,064	-	25,143	-	398
Customer deposits	1,656,975	678,297	261,945	551,893	164,840	-
Provision for customer redress	41,516			41,516		
Other liabilities	9,767	-	-	9,767	-	-
Subordinated loan	29,537	72	-	-	-	29,465
Total liabilities	1,764,400	679,433	261,945	628,319	164,840	29,863
Total equity	112,718	-	-	-	-	112,718
Total liabilities and equity	1,877,118	679,433	261,945	628,319	164,840	142,581
Acceptances and guarantees	1,020	1,020				

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

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

Non-derivative financial liabilities

2018

	Demand	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
	£000	***£000***	***£000***	***£000***	***£000***
Bank deposits	**240**	-	-	-	-
Customer deposits	**857,313**	**227,406**	**534,819**	**151,521**	-
Subordinated loan	**2,472**	-	-	**29,524**	-

	2017				
	Demand	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	*£000*	*£000*	*£000*	*£000*
Placements by related entities	1,064	-	25,143	-	398
Customer deposits	678,297	261,945	551,893	164,840	-
Subordinated loan	72	-	-	-	29,465

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

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

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

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Company considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

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

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least eighteen consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The 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.

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

The Company's independent Credit Risk Department operates its internal rating systems. The Company runs separate systems for its key portfolios in which its customers are rated using internal grades. The systems incorporate both qualitative and quantitative information. PDs are assigned to the internal credit grades 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 the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

ii) Treasury, trading and interbank relationships

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

iii) Corporate and small business lending

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

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

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

iv) Consumer lending and retail mortgages

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

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

v) Exposure at default

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

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

vi) Loss given default

LGD values are assessed at least every three months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

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 Company'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 Company's experience and based on the Company's assessment of industry practice;
- Post write-off recoveries, which are assumed to be nil.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values including property prices for mortgages, payment status or other factors that are indicative of losses in the group. The Company estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each asset class. These are repeated for each economic scenario as appropriate.

vii) Significant increase in credit risk

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

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

In certain cases, the Company may also consider that events explained in note 3.11 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due the credit risk is deemed to have increased significantly since initial recognition.

For borrowers with exposure less than £100,000 there is no annual review, so the grade is not re-assessed unless there are symptoms of credit weakness, such as arrears. For these accounts (which account for 2% of total customer advances), a separate assessment of the evidence of a significant deterioration and an adjustment is made to the ECL estimate as a management overlay, if appropriate.

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

	2018	*2017*
	£000	*£000*
Business sector		
Property investment	**1,264,223**	1,125,669
Property development	**61,224**	47,515
Hotels, catering and leisure	**92,025**	95,919
Manufacturing	**9,213**	5,757
Retail and wholesale	**7,337**	12,428
Other business sectors	**49,079**	47,530
Personal sector	**189,368**	76,437
	1,672,469	1,411,255
Less: Allowance for ECL / impairment losses	**(3,546)**	(4,055)
Carrying amount	**1,668,923**	1,407,200

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

31 December 2018	***Total***	***Stage 1***	***Stage 2***	***Stage 3***
	£000	***£000***	***£000***	***£000***
Temporary conversions from repayment to interest only	**1,545**	**695**	**717**	**133**
Term extensions for capital repayment	**446**	**55**	**391**	-
Capitalisation of arrears	-	-	-	-
Payment holidays	**401**	**378**	**23**	-

Amortisation profile change	**1,577**	**110**	**14**	**1,453**
Refinance	**580**	**580**	**-**	**-**
Others	**352**	**86**	**53**	**213**
Total	**4,901**	**1,904**	**1,198**	**1,799**

31 December 2017	*Total*	*Neither past due nor impaired*	*Past due but not impaired*	*Impaired*
	£000	*£000*	*£000*	*£000*
Temporary conversions from repayment to interest only	1,621	1,223	-	398
Term extensions for capital repayment	694	111	583	-
Capitalisation of arrears	-	-	-	-
Payment holidays	1,962	1,933	29	-
Amortisation profile change	2,406	113	138	2,155
Refinance	2,351	1,631	216	504
Others	317	27	63	227
Total	9,351	5,038	1,029	3,284

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

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 Company does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on its balance sheet. It is the Company's policy to dispose of the repossessed assets in an orderly fashion. For financial assets recognised on the balance sheet, the gross exposure to credit risk is equal to the carrying amount.

31 December 2018	***Maximum exposure***	***Fair value of collateral held by the Company***			***Net exposure***
		Cash	***Property***	***Net collateral***	
	£000	***£000***	***£000***	***£000***	***£000***
Assets:					
Cash and balances with central banks	**196,454**	-	-	-	**196,454**
Placements with banks	**55,538**	-	-	-	**55,538**
Placements with related entities	-	-	-	-	-
Loans and advances to customers	**1,668,923**	**2,298**	**2,970,150**	**1,654,891**	**14,032**
Other assets	**17,433**	**8,898**	-	**8,898**	**8,535**
On-balance sheet total	**1,938,348**	**11,196**	**2,970,150**	**1,663,789**	**274,559**
Contingent liabilities:					
Acceptances, guarantees and cashing facilities	**1,278**	**21**	**4,944**	**1,278**	**-**
Commitments to advance	**265,924**	**366**	**894,242**	**263,688**	**2,236**
Off-balance sheet total	**267,202**	**387**	**899,186**	**264,966**	**2,236**
Total credit risk exposure	**2,205,550**	**11,583**	**3,869,336**	**1,928,755**	**276,795**

31 December 2017	*Maximum exposure*	*Fair value of collateral held by the Company*			*Net exposure*
		Cash	*Property*	*Net collateral*	
	£000	*£000*	*£000*	*£000*	*£000*

Assets:					
Cash and balances with central banks	358,724	-	-	-	358,724
Placements with banks	32,625	-	-	-	32,625
Placements with related entities	25,226	25,143	-	25,143	83
Loans and advances to customers	1,407,200	5,185	2,991,371	1,396,244	10,956
Other assets	35,547	31,460	-	31,460	4,087
On-balance sheet total	1,859,322	61,788	2,991,371	1,452,847	406,475
Contingent liabilities:					
Acceptances, guarantees and cashing facilities	1,020	21	4,597	1,020	-
Commitments to advance	99,944	57	166,465	96,302	3,642
Off-balance sheet total	100,964	78	171,062	97,322	3,642
Total credit risk exposure	1,960,286	61,866	3,162,433	1,550,169	410,117

Operational risk

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

Market risk

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

The Company is exposed to interest rate risk as a result of mismatches in its balance sheet between the dates on which interest receivable on assets and interest payable on liabilities next reset to market rates or the dates on which the assets and liabilities mature. The Company aims to manage this risk through controlling such mismatches within limits set by reference to the maximum potential loss of earnings under given changes of interest rates. Interest rate risk arising from the mismatch between the Company's lending and deposit rates is actively managed. The majority of the advances and deposits are priced off market rates and margins are closely monitored and evaluated. In managing these mismatches the Company makes use of appropriate interest rate derivative contracts including interest rate swaps. The exposure to interest rate changes and sensitivity is regularly reported to and reviewed by the Asset & Liability Committee, which manages the overall exposure within an agreed limit.

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

31 December 2018	***Carrying value £000***	***Non-interest bearing £000***	***Up to 3 months £000***	***3 months to 1 year £000***	***1 year to 5 years £000***	***Over 5 years £000***
Assets:						
Cash and bank advances	**251,992**	**457**	**248,852**	**2,683**	-	-
Investment in subsidiary	**10**	**10**	-	-	-	-
Loans and advances to customers	**1,668,923**	-	**79,740**	**78,898**	**1,079,880**	**430,405**
Fixed assets	**16,662**	**16,662**	-	-	-	-
Other assets	**17,433**	-	-	**17,433**	-	-
Total assets	**1,955,020**	**17,129**	**328,592**	**99,014**	**1,079,880**	**430,405**
Liabilities:						
Bank deposits	**240**	-	**240**	-	-	-
Placements by related entities	**-**	-	**-**	-	-	-
Customer deposits	**1,762,654**	**233,170**	**857,050**	**525,752**	**146,682**	-
Other liabilities	**25,271**	-	-	**25,271**	-	-
Subordinated loan	**29,524**	-	-	-	**29,524**	-
Total liabilities	**1,817,689**	**233,170**	**857,290**	**551,023**	**176,206**	-
Interest rate gap	**137,331**	**(216,041)**	**(528,698)**	**(452,009)**	**903,674**	**430,405**

31 December 2017

Assets:						
Cash and bank advances	391,349	566	389,722	1,061	-	-
Placements with related entities	25,226	127	25,099	-	-	-
Investment in subsidiary	400	400	-	-	-	-
Loans and advances to customers	1,407,200	-	1,273,389	45,037	88,774	-
Fixed assets	17,396	17,396	-	-	-	-
Other assets	35,547	-	-	35,547	-	-
Total assets	1,877,118	18,489	1,688,210	81,645	88,774	-
Liabilities:						
Bank deposits	-	-	-	-	-	-
Placements by related entities	26,605	32	26,573	-	-	-
Customer deposits	1,656,975	227,579	717,630	548,177	163,589	-
Provision for customer redress	41,516	-	-	41,516	-	-
Other liabilities	9,767	-	-	9,767	-	-
Subordinated loan	29,537	72	-	-	29,465	-
Total liabilities	1,764,400	227,683	744,203	599,460	193,054	-
Interest rate gap	112,718	(209,194)	944,007	(517,815)	(104,280)	-

The Company monitors its exposure to interest rate risk and during the 2018 period implemented an enhanced Interest Rate Risk management and monitoring process. The annualised impact of a potential 0.6% change, both increase and decrease, in the interest rates against the Company's interest bearing assets and liabilities is as follows:

	2018	*2017*
	£000	*£000*
Increase of 0.6% (prior year: 1%)	**4,050**	12,143
Decrease of 0.6% (prior year: 1%)	**(4,093)**	(1,785)

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

Set-off

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

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

	2018			*2017*		
	Gross amounts presented in the balance sheet	***Offset amounts***	***Net amounts***	*Gross amounts presented in the balance sheet*	*Offset amounts*	*Net amounts*
	£000	***£000***	***£000***	*£000*	*£000*	*£000*

Financial assets						
Placements with banks	**55,538**	**-**	**55,538**	32,625	-	32,625
Placements with related entities	**-**	**-**	**-**	25,226	25,226	-
Loans and advances to customers	**1,668,923**	**54,584**	**1,614,339**	1,407,200	67,994	1,339,206
Financial liabilities						
Bank deposits	**240**	**-**	**240**	-	-	-
Placements by related entities	**-**	**-**	**-**	26,605	25,226	1,379
Customer deposits	**1,762,654**	**54,584**	**1,708,070**	1,656,975	67,994	1,588,981

Conduct risk

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

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

Remediation principles were agreed and in 2016 the Company made an initial assessment of the level of provision that was considered appropriate to meet current and future expectations in relation to the customer remediation exercise. As a result, a provision for £14.9m was established for the year ended 31 December 2016. This was increased to £53.27m in 2017 and 2018. Details of the provision for customer redress are presented in note 23 to the financial statements.

30 Investment in subsidiary

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

31 Capital management

The Company is supervised by the PRA, as a UK authorised bank, and is required to satisfy the liquidity and capital requirements of the PRA. It is required to demonstrate to the PRA that it can withstand liquidity and capital stresses. The company has complied in full with all its externally imposed capital requirements over the period reported.

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

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

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

32 Related party transactions

Key management personnel

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

Key management compensation

	2018	2017
	£000	£000
Short-term benefits	**2,347**	2,235
Termination benefits	**404**	-
Total compensation for key management personnel	**2,751**	2,235

The total remuneration of the highest paid director was £636,142 (2017: £575,758). The amount of pension contributions paid by the Company to the pension scheme on behalf of the highest paid director was £10,000 (2017: £64,459).

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

	2018	2017
	£000	£000
Loans and overdrafts:		
Loans and overdrafts outstanding at 1 January	**-**	1
Loans and overdrafts issued during the year	**6,800**	-
Loans and overdrafts repayments during the year	**(366)**	(1)
Loans and overdrafts outstanding at 31 December	**6,434**	**-**
Interest expense on Loans and overdrafts payable to the Company	**280**	**-**

Deposit accounts and current account credit balances:		
Deposits outstanding at 1 January	**340**	471
Net movements in the year	**86**	(131)
Deposits outstanding at 31 December	**426**	340

There were four loans outstanding at 31 December 2018 totalling £6.4m. All loans are commercial mortgages secured on property and were provided on normal commercial terms.

Other transactions with related parties

	2018	2017
	£000	£000
Amounts owed by related entities:		
Balance under deposit agreement of 4 July 2012 including accrued interest	**-**	25,221
Credit balances on nostro accounts	**-**	5
Total	**-**	25,226
Amounts owed to related entities:		
Balance under deposit agreement of 4 July 2012 including accrued interest	**-**	25,143
Credit balances on vostro accounts held by BOC CY	**-**	1,029
Credit balance on vostro account held by Bank of Cyprus Channel Islands Limited	**-**	33
Balance owed to subsidiary	**10**	400
Balance owed to parent (Cynergy Capital Limited)	**120**	-
Total	**130**	26,605

Transactions with related parties

Management fees paid to parent	**40**	**-**
Total	**40**	**-**

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

The Company made contributions to an employee savings plan during the year ended 31 December 2018 totalling £316,648 (2017: £359,649). The contributions are held as a deposit in the Company.

33 Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

33.1 Reconciliation of carrying amounts under IAS 39 to the balances under IFRS 9 as at 1 January 2018

The following tables reconcile the asset and liability categories impacted by the transition from IAS 39 to IFRS 9

Gross customer loans and advances:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Gross customers loans and advances	1,411,255	-	-
Gross customers loans and advances- Stage 1	-	-	1,327,057
Gross customers loans and advances- Stage 2	-	-	67,764
Gross customers loans and advances- Stage 3	-	-	16,434
	1,411,255	-	1,411,255

Balances with Central banks:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Balances with central banks	358,238	-	-
Balances with central banks - Stage 1	-	-	358,238
	358,238	-	358,238

Balances with other banks:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Placements with banks	32,625	-	-
Placements with banks - Stage 1	-	-	32,625
	32,625	-	32,625

Balances with Related entities:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Placements with related entities	25,226	-	-
Placements with related entities - Stage 1	-	-	25,226
	25,226	-	25,226

Balances by Related entities:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000

Placements by related entities	26,605	-	-
Placements by related entities - Stage 1	-	-	26,605
	26,605	-	26,605

Customer deposit balances:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Customer deposits	1,656,975	-	-
Customer deposits - Stage 1	-	-	1,656,975
	1,656,975	-	1,656,975

Subordinate loan Balances:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Subordinate loan	29,537	-	-
Subordinate loan - Stage 1	-	-	29,537
	29,537	-	29,537

Acceptances, guarantees and cashing facilities:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Acceptances, guarantees and cashing facilities	1,020	-	-
Acceptances, guarantees and cashing facilities - Stage 1	-	-	970
Acceptances, guarantees and cashing facilities - Stage 2	-	-	50
	1,020	-	1,020

Commitments to advances:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	As at 1 January 2018
	£000	£000	£000
Commitments to advances	99,944	-	-
Commitments to advances - Stage 1	-	-	99,944
	99,944	-	99,944

There was no impact on the measurement of gross loans, balances with central bank, balances with other banks, balances with related entities, balances by related entities, customer deposit balances and subordinate loan balances respectively, upon adoption of IFRS 9 as these were not reclassified into a fair value measurement category.

The impact upon adoption of IFRS 9 on the loan impairment provision is as follows:

Equity:

	As at 31 December 2017	Re-classification on adoption of IFRS 9	Re-measurement on adoption of IFRS 9	As at 1 January 2018

	£000	£000	£000	£000
Retained losses	(6,671)	-	96	(6,575)

33.2 Reconciliation of loan loss provision under IAS 39 to the ECL allowance under IFRS9 at 1 January 2018

The following table reconciles the aggregate opening loan loss provision allowance under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the ECL allowance under IFRS 9.

	Loan loss provision under IAS 39 as at 31 December 2017	Re-classification on adoption of IFRS 9	Re-measurement on adoption of IFRS 9	ECL's under IFRS 9 as at 1 January 2018
	£000	£000	£000	£000
Provisions - Collective	(2,451)	-	2,451	-
Provisions - Specific	(1,604)	-	1,604	-
Collectively assessed - Stage 1	-	-	(1,095)	(1,095)
Collectively assessed - Stage 2	-	-	(351)	(351)
Collectively assessed - Stage 3	-	-	(2,513)	(2,513)
	(4,055)	-	96	(3,959)

The impact of the reduction of provisions upon transition to IFRS 9 was taken directly to reserves on 1 January 2018.

34 Events after the reporting period

In February 2019, the Bank issued 15,000,000 ordinary shares at their par value of £1 each to its parent company, with a total value of £15,000,000.

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