

ANNUAL REPORT & ACCOUNTS

2023

 Cynergy Bank



CONTENTS

Strategic report	3	Risk report.	51
About us – the Human Digital Bank	4	Approach to risk management	52
Financial highlights	5	Principal risks and uncertainties	57
Chair’s statement	6	Emerging risks.	74
CEO review	8	Financial statements.....	79
Brand awareness.....	12	Independent auditors’ report to the members of Cynergy Bank Limited	80
Section 172 statement	14	Consolidated and company income statement ..	89
Business model	16	Consolidated and company statement of comprehensive income	89
Our vision.	17	Consolidated and company statement of financial position.	90
Our business	19	Consolidated and company statement of changes in equity	91
Our market.....	21	Consolidated and company statement of cash flows.....	93
Our customers.....	23	Notes to the financial statements	95
Case study	25	Alternative performance measures (unaudited)	163
Environmental, social and governance report.....	27		
Environment (including climate-related financial disclosures)	28		
Social.....	34		
Governance	37		
Corporate governance report.....	39		
Board of Directors	40		
Executive Committee and senior management ..	46		
Directors’ report	47		
Corporate information.....	50		

STRATEGIC REPORT



ABOUT US – THE HUMAN DIGITAL BANK

Cynergy Bank was founded in 2018 with this purpose: enabling UK businesses and savers to succeed, sustainably. Our vision is to empower entrepreneurs, business owners and mass affluent professionals to achieve their dreams. We do this by offering tailored banking solutions, delivered by humans enabled by the latest technology.



Empowering our business customers

We provide specialist banking and business services to ambitious small to medium enterprises (SMEs*) and their entrepreneurial owners.

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

Lending
2023

£3.6bn

+9%

2022
£3.3bn



Supporting savers

We design and provide good-value savings products for customers to help them achieve a meaningful return on their money.

Deposits
2023

£3.8bn

+15%

2022
£3.3bn



Using technology to enhance, not replace, human interactions

Our human-led approach, enabled by the latest digital technology, empowers our colleagues to deliver exceptional service.

Net promoter score 2023

+57

+8

2022
+49



Supporting colleagues and society

We pride ourselves on our employee engagement – supporting our colleagues, financially, professionally and culturally.

Employee engagement
2023

94%

+0

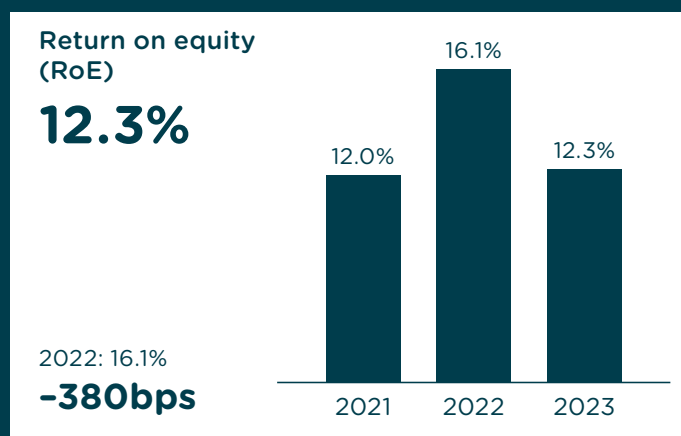
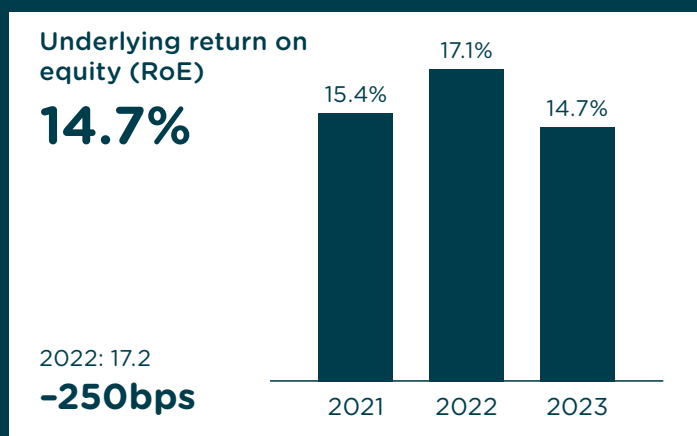
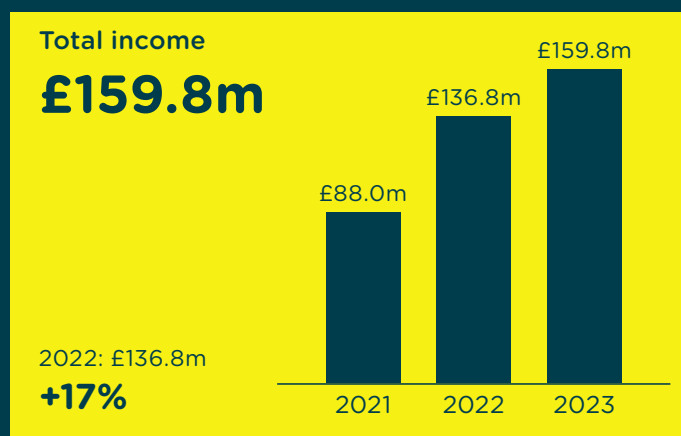
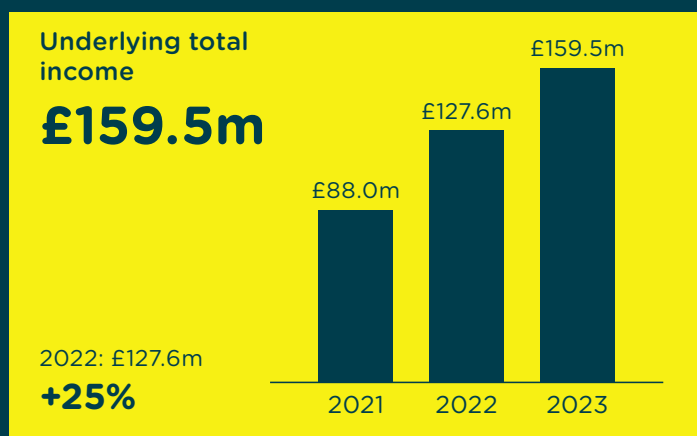
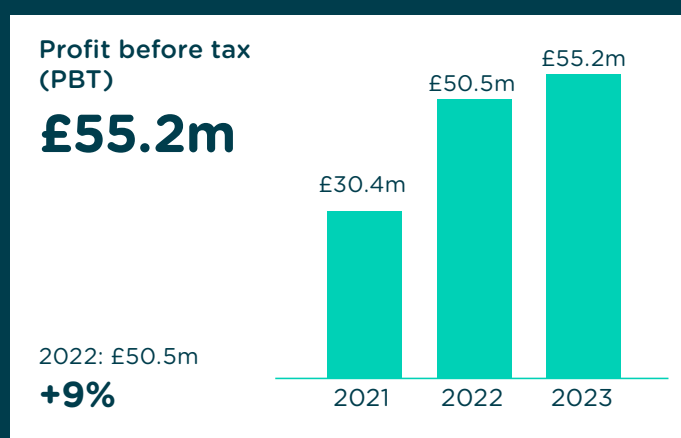
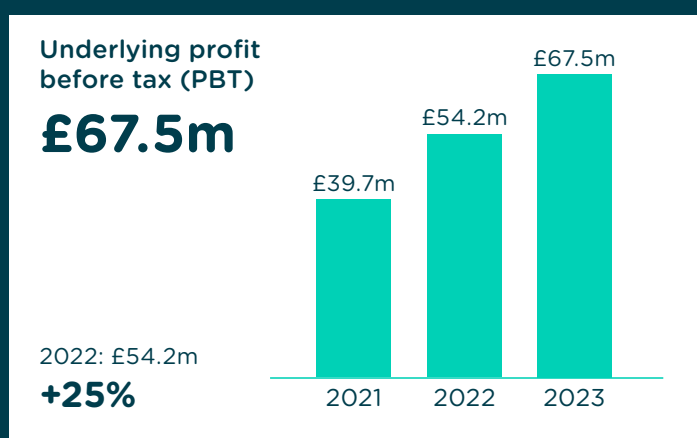
2022
94%

FINANCIAL HIGHLIGHTS

Our profit before tax (PBT) grew strongly in 2023. Statutory PBT increased 9% to £55.2m and underlying PBT grew 25% to £67.5m.

These results reflect strong net interest income growth of £31.7m – exceeding our cost increases of £20.0m – combined with solid credit control, which resulted in £4.7m lower credit losses in the year.

Underlying return on equity (RoE) has returned to c15% (statutory RoE: 12.3%), with the benefit of exceptional income from property sales present in the 2022 metric.



CHAIR'S STATEMENT

'We have continued to focus on supporting our customers while maintaining a robust balance sheet.'



2023 has been another challenging year. Persistently high inflation has led to the highest interest rates we have seen since before the 2008 financial crisis and a rising cost of living. These factors have made for a difficult environment for our customers.

Against this backdrop, we have continued to focus on supporting our customers while maintaining a robust balance sheet. Key metrics across funding, liquidity and capital all remain strong.

Our common equity tier 1 ratio remained robust and cost of risk decreased during the year from 29bps during 2022 to 13bps within 2023. This reflects our continued focus on strong underwriting and credit risk control.

As interest rates continued to rise, we saw continued demand from our customers for fixed rate lending. This resulted in a significant shift from a predominantly variable lending book to one with 52% fixed rate lending by the end of 2023.

As expected in this economic environment, it has been challenging for borrowers to maintain their lending

covenants. We have worked with our customers to restructure their facilities and, where needed, to continue supporting their businesses while maintaining the strength of our balance sheet.

On the deposit side of our business, we have launched innovative new products and improved our existing products to better support our customers. Our new Business Saver account offers a fast, digitised account-opening journey and launched with a market-leading rate. We also introduced a paperless online origination journey for our refreshed Business Current Account, with digital customer information checks to significantly improve the customer application experience, which now takes minutes. These improvements reflect progress in our journey towards building the Human Digital Bank, which has continued in 2023.

The pace of regulatory change continued in 2023 with the introduction of the new Consumer Duty regulations, which seek to ensure that banks offer good outcomes for customers. Putting customers first is a core value for Cynergy Bank and we have

welcomed the focus on this important area. During the year we proactively offered our savings customers competitive rates and worked with our lending customers to arrange fixed rates to support them in the rising interest rate environment.

Inclusion and diversity have also been a continued focus for everyone at Cynergy Bank during 2023. We made progress in this area with a number of initiatives. One of these initiatives, our Inclusion and Diversity Network, won the Women in Banking and Finance annual award for Best SME Diversity and Inclusion Innovation. There is more information on this area in our environmental, social and governance report on page 27.

During the year we completed the move to our new premises, One New Change, which we can be proud of as an environmentally friendly building that reflects our ambition while also underlining our commitment to manage our emissions. There is more information on our progress against climate-related objectives on pages 28–33.

Looking forward to 2024, we expect the challenging economic conditions to continue – although there are some positive signs for borrowers. Most forecasters predict interest rates will fall more quickly than previously anticipated. Against this backdrop, our priority remains to support our customers: we are working to maintain a strong capital position while continuing to invest in digital solutions and technology, with our new mobile app for customers expected to be launched during the first half of 2024. While investment in technology is a key enabler to our strategy, we will not lose sight of the important human element as we continue to serve our customers through regional business hubs, key introducer partnerships alongside our digital channels.

Finally, we have had some changes to our Board of Directors this year, with Francesca Hampton, Peter Oliver and Carole Berndt leaving Cynergy Bank during 2023. I would like to take this opportunity to thank them for their efforts during their tenures, and to welcome Neil Fuller and Catherine Moroney, who have joined the Board.

As always, I thank my fellow Board members for their support and hard work during the year, and our shareholders for their commitment to the ongoing success of Cynergy Bank.



Euan Hamilton

Chair

12 April 2024

CEO REVIEW

‘Our lending and banking services have supported our customers’ businesses to provide a wide variety of services to our communities.’



In our last annual report, I mentioned our plans to move into our new head offices in the City of London. As I write this from my desk in One New Change, I can clearly see in front of me how well we’ve settled into our new home, which brings us all together under one roof to better serve our customers. We’re certainly thankful for the additional space our new location affords us, as 2023 saw us attract new talent (either through direct employment or by the partners we work with) to Cynergy Bank – growing our wider team to over c800 colleagues.

While the move to our new premises has given us a boost, it’s clear that throughout 2023 our customers and communities continued to feel the effects of high inflation, high interest rates and the cost-of-living crisis – effects felt all the more acutely because they followed a prolonged period of historically low rates.

Understandably, for some borrowers, this is not an economic environment they were prepared for. We are always ready to listen and apply compassion and empathy to those who need additional support.

In addition to this domestic picture, we have the ongoing conflicts in Europe and now the Middle East, affecting the lives of millions and bringing material uncertainty.

Against this tough backdrop, I am reflecting on the resilience everyone has shown – from our teams, who have worked incredibly hard, to our customers, who continue to show the strength and sustainability of their successful businesses.

Thanks to the hard work of everyone involved, Cynergy Bank has once again delivered a strong set of results, demonstrating our reach and impact on our loyal customers and the people they employ. Our lending and banking services have supported our customers’ businesses to provide a wide variety of services to our communities, from healthcare beds to safe student accommodation. These small and medium businesses provide vital employment and form the backbone of the UK economy.



Another strong set of results

In a challenging market, 2023 saw strong performance and progress against our strategic priorities.

Underlying profit before tax was £67.5m (statutory: £55.2m), up 25% from 2022, driven largely by strong revenue growth of £32m (+25%). We achieved this despite the rising cost of deposits, with our net interest margin steady at 3.68%, compared with 3.66% in 2022.

Lending grew to £3.6bn from £3.3bn at the start of the year: a material achievement in a competitive lending market. Our lending team has been instrumental in this achievement, underlining our ability to meet the demands of customers with our tailored, human-led approach.

At the same time, we have maintained strong credit controls, resulting in a drop in our cost of risk from 29bps in 2022 to 13bps this year.

In the summer, British Business Investments provided us with a £20m tier 2 capital facility. This enabled us to support our strategic growth plans, bringing much-needed investment to the UK businesses we support.

We're a customer-first business

We're working hard for our customers and our key goal is to maintain our premium customer service via our dedicated people and our digital channels. Making sure we offer a consistent customer experience – one that brings the best of our human-led interactions combined with technology-enabled efficiencies – underpins our vision and sets us apart from others in the market.

We're encouraged by the results from direct customer reviews delivering a +57 net promoter score and Trustpilot at +4.

Building the Human Digital Bank

We're focused on building the Human Digital Bank to ultimately give our customers an unparalleled experience: the optimal combination of a personal touch and expertise when needed, coupled with reliable and secure online services which make their life easy and, where relevant, help to keep their business moving forward.

In 2023 one of our aims was to better serve the needs of our SME customers with a more diversified product offering, which will also help to diversify our funding pools. We introduced our Business Saver account – helping our hard-working entrepreneurs by offering them a market-leading rate with complete flexibility to withdraw and deposit their money as often as they choose. Digital account opening means SMEs can open the account with ease and at pace, and allows us to serve the wider needs of our SME customers. We have big ambitions in this space.

In the fourth quarter of the year, we refreshed our Business Current Account to give our customers a digital account-opening process for companies with up to ten directors. We are one of the first banks in the country to be paying credit balance interest for businesses on every penny. The business current account market is difficult to disrupt, so we're keen to turbocharge this opportunity and lead the way.

Furthermore, despite the savings market being incredibly dynamic in 2023, our retail savings products have remained competitive for those savers who are eager to deposit their savings with a trusted banking partner and maximise their returns.

On the technology front, we've seen a real uptick in the pace of development over the last year. We took some time in early 2023 to review and reset our delivery programme for the Human Digital Bank. Our teams are rigorously focused on delivery. They have worked tirelessly and diligently to bring the plans to fruition, milestone by milestone. 2024 will be an important year for the programme.

External recognition is always positive news for all involved, and this year we've won a number of prestigious awards. This is testament to everyone's

hard work to offer great products which meet the needs of our customers, upgrading services and delivering on our promises to our business owners and savers.

- UK Enterprise Awards: Best SME Specialist Banking & Business Services Provider
- Women in Banking and Finance Awards: Best SME Diversity & Inclusion Innovation Award – Gender Equality
- Personal Finance Awards: Best Online Savings Provider
- Savings Champion Awards: Best Easy Access Cash ISA Provider
- Savings Champion Awards: Best Notice Account Provider (highly commended)

And there's been more good news in the early weeks of 2024, where we've received further accolades:

- Moneynet: Banking Brand of the Year 2024
- Moneynet: Best Variable Rate ISA 2024

Our community and environment

We made good progress against our environmental, social and governance (ESG) objectives in 2023. A lot of work has gone into ensuring we have a suitable framework of policies that balance a meaningful reduction in our financed emissions with the need to assist our customers' transition journeys.

On the product front, we launched our new EPC C+ loan, which is designed to support residential landlords in making vital changes to their rental property portfolios to assist with the nation's green transition. Like many others, we've got a way to go on our journey to support the transition to an environmentally sustainable economy – there is a lot of support and enthusiasm among our teams to do this and I expect to see good progress over the coming years.

In 2023 we also continued to support our nominated charity, Noah's Ark: a children's hospice service that delivers care to youngsters with life-limiting or life-threatening conditions in the north and central London areas. I'm proud that we were able to fund a dedicated nurse for a second year and to provide the charity with just over £62,000 through various fund-raising and volunteering activities. We were delighted that



the team from Noah's Ark was able to join us at our customer event in October so our colleagues and customers could learn more about the fantastic work happening at the Ark. It is truly inspirational.

Our people are critical to our success

I could not be prouder of our team. They have overcome challenges and delivered so much we can be proud of.

92% of the team participated in our people pulse survey – with 94% recommending Cynergy Bank as a place to work. I am grateful to all our colleagues for their fantastic contributions.

I thank my leadership team for their guidance and continued focus in making Cynergy Bank a great place to work – enabling us to attract great candidates and strengthen our skills and knowledge across our teams..

Our values, which we refreshed in 2022, are vital to the culture and ethos of Cynergy Bank. They shape and guide how we interact with each other, our customers and our vendors.

We want the values to be a focus of our day-to-day behaviour, which is why, alongside a 'Values Roadshow' to engage our colleagues and ensure they really understand and embody our values, we launched a competition asking our colleagues to get creative and bring the values to life by designing an emoji that best represents each of the five values. The winning designs will feature in our internal communications across the business.

Earlier this year, we welcomed Inclusive Employers to deliver a webinar on neurodiversity, with great attendance and engagement across the business. We look forward to continuing to work with Inclusive Employers in 2024 to support education and learning on topics like this.

The reverse mentoring programme we launched earlier this year has been a great success, and all participants have had their say in how we can continue to deliver this programme in the future. We look forward to expanding our Inclusion and Diversity Network more generally during 2024 as more of our colleagues are getting involved to support these initiatives.

2024 priorities

Turning to our priorities for 2024, we've been through an extensive strategy review process with the Board and our key focus areas remain broadly the same:

- Lending growth
- Funding Cynergy Bank through savings and current accounts
- Delivery of our human digital technology platforms

We are ultimately on the same journey, but the environment will likely remain tough. Cost optimisation will be increasingly important against this backdrop and we will be putting additional focus on this area of our strategy.

With a general election looming in 2024, we are all expecting things to remain unsettled. Meanwhile, we'll be keeping a cautious eye on the possible outcomes. I am confident in our ability to continually adapt, flex and respond while putting our customers at the heart of our decision-making so we deliver good customer outcomes.

To finish, I extend my sincere thanks to all of our customers, their businesses, our commercial partners and our people. As we face the challenges of the coming year, I am confident in our business model and that our collective efforts will lead us all to new heights.



Nick Fahy
Chief Executive Officer
12 April 2024

BRAND AWARENESS

In 2023, we wanted to bring the Cynergy Bank brand to a wider audience to shine a light on our innovative products, update on our news and achievements, showcase our knowledgeable team and demonstrate our values and ethos.

We proudly debuted our new visual identity (the Cynergy Bank ‘Grid’) in 2023 to bring the brand to life. Our marketing team has used a wide range of channels

and media to engage with our customers, who we know appreciate the benefits of our Human Digital Bank model, and reach newer audiences to educate them on how we’re doing banking differently.

Here’s some examples of our marketing activities from 2023 and early 2024, and of the Cynergy Bank brand in action:

St Paul’s Underground station takeover, June 2023



Social media



Business Current Account outdoor poster campaign (Shoreditch High Street), January 2024



Media coverage



Speaking events for our leadership team



Business Saver product launch adverts, October 2023



Awards



Savings Champion Awards – Best Easy Access Cash ISA Provider



Savings Champion Awards – Best Notice Account Provider (Highly Commended)



UK Enterprise Awards – Best SME Specialist Banking & Business Services Provider



Personal Finance Awards – Best Online Savings Provider



WiBF Awards – Best SME D&I Innovation Award, Gender Equality

SECTION 172 STATEMENT

The Companies Act 2006 Section 172(1) requires Directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have regard to:

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

This section sets out how Cynergy Bank's Directors take these requirements into account when making their decisions.

Cynergy Bank's governance framework (as set out on pages 42-46) governs the conduct of the Board and the executive team and is vital to our success. The Board annually self-evaluates its performance, and an external assessment takes place every three years as recommended by the UK Corporate Governance Code. An action plan is subsequently agreed by the Board after each review.

When making decisions, the Board always looks at any impacts on stakeholders. This is not always easy and sometimes requires a degree of balancing between the competing interests of different stakeholders while looking to try to treat everyone as fairly as possible.

Below we have set out some examples of how we have achieved this with our stakeholders in the past year.

Customers

2023 presented challenges to our customers in the form of continued rising interest rates and the increased cost of living, which affected borrowers and savers alike. We supported borrowers with fixed rate lending and saw significant demand for this product, with the portion of our lending book on fixed rates increasing from 25% to 52% during 2023.

Savers have also benefited from our commitment to pay competitive rates: our Business Saver account launched with a market-leading rate and our Business Current Account is one of the few to pay credit interest for business customers.

Continued focus and investment in our back-office operations and customer contact centre have paid off with an increase in our net promoter score (NPS) to +57, up from +49 in 2022.

We have continued our digital transformation programme. Customers have begun to see the benefits of the hard work put in by our staff with the launch of our new Business Saver account and an improved, paperless digital account-opening journey for our Business Current Account.

Suppliers

During 2023 our procurement team has continued to monitor our entire supplier base, with regular meetings with critical suppliers to ensure performance and operational issues remain as expected. A new contract management system has also been implemented during the year which provides enhanced monitoring as well as overall relationship management with suppliers. The team continues to monitor the supplier base and reports to the Executive Risk Committee and the Board Risk Committee on any issues in relation to the supply chain.

Colleagues

Our people are key to our success. During the year our team grew to 391 employees.

In April 2023 we moved to our new head office location at One New Change. The new office provides colleagues with a modern working environment overlooking St Paul's Cathedral in the heart of the London business community.

The CEO has presented monthly update briefings to all staff, with non-executive members of the Board joining as appropriate.

The Remuneration, Nominations and Corporate Governance Committee (RNCGC) keeps the Board apprised of matters relevant to employees and employee engagement scores. In an employee survey in December 2023, 94% of colleagues stated they would recommend Cynergy Bank as a good place to work.

Work continues on both the Board diversity targets and those of Cynergy Bank as a whole. As of December 2023, we had female representation on the Board of 33%, female representation in senior leadership of 20% and two Directors of ethnic minority background on the Board.

Environment

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

We enhanced our carbon footprint monitoring capabilities and began to include employee travel choices as part of our overall carbon footprint calculation.

Communities

We continue to partner with Noah's Ark Children's Hospice, and this year raised over £62,000 for the charity. This money went towards supporting the charity in its work to give clinical, practical and emotional support to babies, children and young people with life-limiting or life-threatening conditions in north and central London, as well as the continued funding of a nurse to provide individual care and support for the children and their families.

Regulators

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

Over the course of the year, we have had dialogue with both regulators which were overseen by the Board in respect of several topics, such as the annual periodic summary meeting and liquidity review.

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

Shareholders

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

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

The strategic report was approved by the Board of Directors on 12 April 2024 and was signed on its behalf by:



Nick Fahy
Chief Executive Officer
12 April 2024

BUSINESS MODEL



OUR VISION

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

Who we are

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

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

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

What makes us unique

Our Human Digital Bank model will empower entrepreneurs, business owners and mass affluent professionals by building enduring relationships, enabled by the latest digital technology.

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

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

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

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

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



OUR BUSINESS

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

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

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

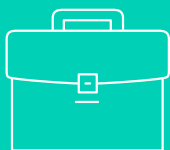
All products are then reviewed on a regular basis to make sure they continue to deliver good outcomes. Our communications are written in plain English and go through a review process to make sure they are easy to understand for all customers. Our customer service team and relationship managers are also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





Property finance

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



Trading businesses

Cynergy Business Finance: Asset-based lending facilities to UK SMEs. Products include block discounting and funding against receivables, plant and machinery, inventory and property.

Business and Commercial: Lending services to commercial banking customers, with a particular focus on the hospitality and healthcare sectors. We also support customers by providing development finance funding and business banking lending solutions and products.



Private banking

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



Savings and current accounts

A full suite of business and personal savings and current accounts, including ISA and non-ISA products.



OUR MARKET

Our relationship banking model, combined with speed of quality decision-making, serves our strategically important market segment of entrepreneurs, business owners and mass affluent professionals.

2023 was another challenging year for the UK's smaller businesses. The UK's 5m+ SMEs remain the backbone of our economy, but continued high inflation and the Bank of England base rate increases during the year have put pressure on the finances of these vital companies.

We strongly believe SMEs value a relationship-managed service and they appear to have started moving away from high street banks to the more agile challenger banks. This is a long-term trend in which we are well positioned to support SMEs in achieving their goals.



Key needs of medium businesses



Build and protect wealth

I am a property entrepreneur and need quick decisions.
I need a trusted advisor to support me with my property business.
I have a trading business that requires asset-based lending to grow.

I enjoy supporting my community economically and socially.
I want to connect with other entrepreneurs.



Support my community



Support family financially

I support my family's finance needs, such as our house, our cars, day-to-day expenses and holidays.
As a trading SME, I help create jobs and wealth for my valued employees and their families.

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



Maintain health and wellbeing



Grow my business

I need financial and business support to help me grow my business.
I can grow my business through additional funding against assets in my business.

OUR CUSTOMERS

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

Business

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

Savings

- Value and reward – our best deals are always available to our existing customers.
- Safe and secure – your eligible deposits are protected by the UK's Financial Services Compensation Scheme up to £85,000.
- Direct access – enjoy 24/7 online access to your accounts as well as help from our knowledgeable UK-based customer service team.



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

Data protection, ISO certification

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

Business continuity

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

Anti-corruption

We always conduct our business in a fully open and honest manner and we have a zero-tolerance approach to bribery and corruption. All colleagues receive regular training to make sure they can fulfil all of their regulatory and ethical obligations.

Whistleblowing

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

Taxation

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

Health and safety

We take the health and safety of our employees very seriously. We regularly test our working environments to make sure all our colleagues are working in a safe environment, whether in the office or at home, so they can provide our customers with the best possible service. The Board is briefed on health and safety on a regular basis throughout the year.

Supplier relationships

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

OUR CUSTOMERS

Case study: Country Court Care Group

Raising the bar for customer care

In 1983, Abdulaziz Ali Kachra bought his first care home in Coventry. That was the beginning of Country Court Care Group. Now, just over 40 years later, they're about to bring their portfolio of care homes to 43 with Shenstone Court, a 63-bed residential development in the West Midlands, supported by an £8.3m loan from Cynergy Bank.

Country Court is now among the top ten specialist residential care home providers in the UK. And they're still, as they've always been, a family business.

'Dad always wanted to be a business owner, but found it difficult raising finance,' says Al-Karim Kachra, Abdulaziz's son and Co-CEO of Country Court Care Group – a title he shares with his brother Alykhan Kachra. 'The story goes that one day, Dad came across



Chairman Abdul Kachra and sons, Alykhan and Al-Karim, now leading the future as Co-CEO'S for Country Court Care Group

something in *Dalton's Weekly* about a care home for sale, spoke to my Nan and Mum about it, and managed to raise finance to buy it off the back of my Nan's nursing credentials. And that's where it all began.'

Since then the business has grown – first by acquiring and improving struggling care homes and, since 2015, by developing and building new properties from the ground up.

Shenstone Court Care Home is Cynergy Bank's first ground-up development in the care home sector, a sector we know well. With our industry knowledge at the ready and our development team looking to expand beyond residential build, all we needed was the right partner.

'The environment for getting debt is difficult, especially if you're a business like ours,' says Al-Karim. 'The first thing I noticed about the team at Cynergy Bank was their willingness to write deals. We discussed the new development and they called me the very next day to say "yes", they could deliver what I'd asked for.'



Dedication and commitment is at the heart of the entire Country Court Care team

The economic environment is influenced by inflation and by concern over high-profile departures from the sector – which has led to more regulatory oversight for the biggest care home providers, Country Court included.

‘Planning is slow,’ says Al-Karim. ‘Regulation is slow. The last thing we need in our business is banks being slow too. So Cynergy Bank’s speed of decision-making was massive. It didn’t feel pushy; I wanted to do a deal with them. And they were able to actually do the things they were saying.’

Rapid decisions, delivered effectively, all with the human touch: these are the hallmarks of our unique model as the Human Digital Bank.

While Country Court Care Group’s growth is a sign of success, for the Kachra family, quality of service is the most important metric.

‘My Nan, who started the business, lives in one of our care homes,’ says Al-Karim. ‘This is our aspiration. That the quality is so good that we’re happy for our own family members to live there.’

From the family to the residents, carers and managers they employ, Country Court is a business that takes care of people.

Many of the current managers – all of whom Al-Karim and Alykhan know and meet with regularly – originally joined the group as nurses or carers. At their Staff

Awards 2024, sponsored by Cynergy Bank, Country Court celebrated 20 people who have each dedicated more than 25 years to the business.

Cynergy Bank sponsoring the Staff Awards was an indicator that both parties see the relationship lasting beyond the 24-month term of the Shenstone Court development loan.

‘It’s been a real pleasure working with Country Court,’ says Carl Bowcher, Relationship Director at Cynergy Bank. ‘I’m looking forward to working alongside the Kachra family to support their ever-growing book of excellent care homes.

We have a long history of supporting the care sector, and Country Court have the experience and the presence to really make an impact.’

Both parties are confident Shenstone Court will set an example that can unlock similar developments in the future.

‘That’s our primary objective,’ says Al-Karim: ‘carry on providing high-quality care to vulnerable people across the country, continue to reinvest in the existing estate, and continue to recognise the people who have helped us get to where we are.’



Carl Bowcher



Grand designs – the new Shenstone Court development is really taking shape!

A modern skyscraper with a glass facade and a lush green rooftop garden. The building features multiple levels of balconies, each filled with dense greenery. The sky is clear and blue, and the overall scene is bright and vibrant.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENT (INCLUDING CLIMATE-RELATED FINANCIAL DISCLOSURES)

Recognising that climate change and the transition to net zero carbon emissions are global priorities, we have taken measures in 2023 to reduce our own environmental impact. Equally important is our commitment to supporting our customers' climate transition, enabling them to align their operations with sustainable practices.

We fully endorse the recommendations laid out by the Task Force on Climate-Related Financial Disclosures (TCFD), and this report provides valuable insights into our approach and the progress we have made in this regard.

In June 2023, the International Financial Reporting Standards (IFRS) released two sustainability reporting standards, S1 and S2, applicable to reporting periods after 2024. This development was a response to the market's considerable demand for harmonisation and consolidation of the diverse array of voluntary sustainability-related standards. The publication of these standards signifies the acknowledgement and acceptance of sustainability as an established business risk.

In November 2023, the Transition Plan Taskforce (TPT) released its final draft guidance for consultation. The TPT disclosure framework sets out good practice for robust and credible transition plan disclosures.

We will continue to monitor applicable reporting requirements and future developments to enhance the quality and depth of our disclosures in future reporting periods. This reflects our ongoing aims to enhance the transparency and quality of our climate-related disclosures.

Climate-related financial disclosures

Strategy

Environmental, social and governance (ESG) activities continue to gain significant prominence as a focus area for stakeholders across the banking industry. We have proactively developed ESG strategies and worked to integrate them throughout the business.

It is important to note that both Cynergy Bank and the wider industry are continuing to mature in this area. We are committed to enhancing processes and expanding our responsibilities in line with our peers and the wider industry.

As a specialised bank committed to empowering business owners, we recognise our responsibility to effectively address the growing threat of climate change. We have a programme for addressing the ever-evolving risks associated with this area, and an approach that prepares us to navigate these challenges effectively. Furthermore, as a lender, we acknowledge our unique position to contribute to advancements towards a low-carbon economy, benefiting not only our customers but also society at large.

Our lending activities are the most significant source of climate-related risks and opportunities and we have focused first in these areas, while we improve our understanding of operational and other value chain emissions and associated risks. To aid us in these efforts, we joined PCAF (the Partnership for Carbon Accounting Financials), the leading global body for financed emissions methodology. While our immediate efforts are on our more significant lending activities, we have developed an ESG strategy that lays the foundations to deepen our coverage and understanding of all emission-generating activities.

Our ESG strategy sets out four strategic actions:

1. Assist customers' transition.
2. Reduce our footprint.
3. Support communities and society.
4. Embed climate management into governance and culture.

In 2023, after conducting a qualitative sectoral analysis of the segments of the book to the risk of climate change, we prioritised focus on the residential investment book as it accounts for 47% of our lending book, with a broadly similar climate risk profile to other lending segments.

Two lending products focused on improving energy performance certificates (EPCs) for buy-to-let properties were introduced to assist our landlord customers' transition.

Despite the green policy uncertainty, we continue to talk to our landlord customers about their plans for improving the energy efficiency of their residential properties, and consideration of EPCs is built into the credit decision-making process. More information on this is in the risk management section.

From 2022 to 2023, the percentage of our residential investment lending book with an EPC certificate of C+ increased from 46.1% to 46.5%.

We are actively completing internal model governance for assessing flooding and subsidence risk. The outcomes of this assessment will be included in future reports, providing transparency and accountability regarding our efforts in managing these risks.

Our prioritised approach to including segments of the book into our transition plan will focus next on commercial investment property, particularly improving the match of properties to EPC certificates.

Governance

The way the Board oversees climate-related risks and opportunities is explained on pages 37–38. This approach is aligned to the one we take for wider ESG risks and opportunities.

In 2023 the Board approved our new ESG strategy and the four strategic actions, including net zero targets, as set out in the new climate risk policy.

ESG responsibilities have been updated into all Board and executive-level committees as well as into executive and Board member statements of responsibility.

A new ESG framework describes the management and governance of ESG topics across Cynergy Bank, providing a holistic view of ESG activities and risk management across the whole business. All colleagues will have an ESG objective in 2024 and the ESG framework will aid colleagues in making clear their contribution to Cynergy Bank's sustainability agenda.

Monitoring against the new climate risk appetite statement for the percentage of EPC C+ lending is being overseen by the Board for them to review progress against the target. They will continue to oversee and guide the formation of additional risk appetites for our other lending segments.

Risk management

Cynergy Bank has enhanced its risk management framework by implementing a formal climate risk appetite statement. Climate risk is included under strategic risk, recognising the cross-cutting nature of the risk. By developing credit policies and risk appetite statements, we have strategically aligned underwriting criteria to actively support lending to energy-efficient properties. Furthermore, our framework helps customers transition their properties towards environmental compliance, particularly with regard to EPCs.

As a diversified UK bank, we recognise our responsibility to play a significant role in helping customers reduce their environmental impact. It is important that we fully understand the carbon emissions and other environmental risks associated with our lending and financing activities. Engaging in financing activities with a positive environmental impact remains a focus of our ongoing sustainability efforts.

Recognising the significance and breadth of these risks surrounding climate change, we categorise them into physical risks and transitional risks. Each of these main categories presents unique challenges that must be managed to mitigate both financial and non-financial impacts on Cynergy Bank.

Transition risks

Transition risks are rooted in the process of adjusting to a low-carbon economy. They can be influenced by various factors, including:

- Developments in policy and **regulation**
- The emergence of disruptive **technologies** or business models
- Shifting sentiment, market and **stakeholder** preferences
- Evolving **legal** interpretations and reputational impacts

These developments have the potential to trigger material changes in operating costs or asset values while impacting credit exposure for banks and other lenders. As the costs associated with transitioning to a low-carbon economy become apparent, financial institutions must carefully assess and manage these risks within their operations.

The primary transition risk for the residential investment segment of our portfolio stems from regulatory factors. These comprise two key components:

- The UK's commitment to achieving net zero emissions by 2050
- The carbon reduction targets established on the path towards reaching this goal

For the residential investment sector, any potential new requirements for energy efficiency to reduce emissions pose a significant risk. In the UK, this requirement is translated into compliance with EPCs.

To effectively monitor and manage the transition risk, Cynergy Bank's risk appetite statement for climate is based on the percentage of the residential investment portfolio that must attain an EPC rating of C or above. This is directly aligned with our objective to assist our customers' transition and reduce emissions intensity. As part of our long-term strategy, we have set a target to achieve net zero emissions by 2050, along with interim targets for 2030. Specifically, by 2030 we aim to achieve a reduction in emissions intensity in our residential investment lending portfolio that is half of the science-based target aligned with a scenario where warming remains well below 2°C. Based on this target, we have established a pathway for progressively tightening EPC standards to meet the required reduction in carbon intensity,

expressed as a percentage of front book lending rated EPC C or higher. We will keep this target under review and adjust through time to reflect change in the government's policy environment, economic conditions and market changes.

The methodology we use to calculate these assessments is subject to governance under our model risk governance framework and has been updated to reflect changes in 2023.

Physical risks

Physical climate risks are triggered by the impacts of a changing climate, which can lead to disruptions in business operations and increased capital and operating costs across various economic sectors. These risks can be categorised as either:

- **Acute**, arising from event-based hazards like storms or floods, or
- **Chronic**, resulting from progressive shifts in weather patterns – such as increasing water stress

In the context of the UK property market, the Environment Agency has identified flood risk as the most prevalent and costly physical (acute) risk. Additionally, shrink-swell, a form of subsidence, poses a significant (chronic) risk to properties.

We conduct our assessments in compliance with our model risk governance framework. The methodology we use to ensure this has been updated to reflect changes in 2023.

As new methodologies and data accessibility emerge, we will refine our risk assessment and management processes to align with these developments. A focus for the future is improving our data foundations, a key part of which was improving data availability by matching our lending collateral to EPC certificates using the paid-for HM Land Registry database. We aim to continue to improve our data foundations using both internal and, where relevant, external data sources.

Scenario analysis

We conducted a qualitative sector analysis of our lending against the risks of climate change. The data for Cynergy Bank's total exposure was used and detailed for each sector, split by industries (based on SIC codes).

The late action scenario was taken from the set of Climate Biennial Exploratory Scenarios (CBES) from the Bank of England. This scenario assumes a decade delay in transition, such that the transition is more disorderly and global warming reaches 1.8°C by 2050. This assessment was conducted with a cross-section of input across Cynergy Bank, including first line of defence, credit risk, products and finance.

The assessment was conducted qualitatively for each segment of the book using a low to high scale for the four main transition risks (regulatory, technology, stakeholder, legal) and two physical risks (acute, chronic) set out above. The heat map in the table shows, by summary sectors, the transition and physical risk scores across the book.

The heat map shows our largest segmental exposure to climate change is for the residential property investment segment, comprising 47% of the book, which we assess as having moderate risk for transition risk and minor risk for physical risks. Hence, for 2023, we have prioritised developing climate risk metrics for this segment of the book.

In time we will increase the sophistication of our analysis and introduce quantitative scenario analysis. However, this initial qualitative analysis suggests that the long-term impacts will be manageable and not cause a fundamental reshaping of our business, performance or product set. In the short term there is no impact on current financial performance and our net zero strategy will support our ongoing resilience as we continue to monitor and take action to adjust our strategy and approach accordingly.

Sector summary		Exposure summary		Climate risk assessment	
SIC/NACE category	Sector	Dec 2023		Transition risk	Physical risk
		%	£m		
Real estate activities	Residential investment (including development)	47%	1,683	Moderate	Minor
	Commercial investment (including development)	20%	735	Moderate	Minor
Accommodation and food	Accommodation	7%	243	Moderate	Moderate
	Food and beverage service activities and other hospitality	3%	97	Minor	Moderate
Care	Care homes	8%	270	Minor	Moderate
	Healthcare and social work activities	1%	40	Minor	Moderate
Total lending to business sectors		86%	3,068		
Lending to private individuals	Home loans and personal lending	9%	332	Moderate	Minor
Total lending to private individuals		9%	332		
Cynergy Business Finance	Manufacturing	4%	47	Moderate	Minor
	Wholesale		17	Minor	Minor
	Other		97	Moderate	Minor
	Not assessed	1%	30	-	-
Total lending including Cynergy Business Finance		100%	3,591		

Metrics and targets

Operational emissions – Streamlined Energy and Carbon Reporting (SECR)

We calculate the total operational emissions attributable to Cynergy Bank, in compliance with the SECR guidelines, to be 338.9 tCO₂e in the reporting period between 1 January 2023 and 31 December 2023.

Methodology

We have assessed the greenhouse gas emissions:

- Following the ISO 14064-1:2018 standard
- Using the latest emission conversion factors published by the Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy and Industrial Strategy (BEIS)
- Using the operational control approach

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

Cynergy Bank’s efforts to reduce operational emissions over the past couple of years have been

focused on reducing scope 1 and 2 emissions through consolidation of two London offices into one new office with green credentials. 2023 was the transitional year for our premises approach where, for a period of time, we had all three offices in use. Once we confirm actual energy consumption in 2023, we plan to put in place emissions reduction targets for scope 1 and 2. This is an important part of our ESG strategic action to reduce our carbon footprint.

For scope 3 category 6 (business travel) emissions, we calculated output via actual expenditure on either distance-based or spend-based methodologies depending on quality of data captured in the expense system. UK Defra emission factor sets were then used to work out tCO₂e.

For scope 3 category 7 (employee commuting) emissions, we have included the effect of commuting and homeworking for the first time. Emissions were calculated via a staff survey which asked for details of people’s commute and type of transport used, as well as the homeworking environment. This was combined with working patterns and a distance-based methodology using relevant emission factors to calculate the greenhouse gas output.

		2023**	2022*
Energy	Total energy use for emissions calculations (kWh)*	246,126	386,740
Emissions (tCO₂e)	Emissions from heating and own transport (scope 1)	57.08	10.56
	Emissions from the use of purchased electricity (scope 2)	45.22	68.15
	Total emissions (scope 1 and 2)	102.30	78.71
	Scope 3 emissions from business travel	66.67	40.24
	Scope 3 emissions from commuting and homework	169.93	141.04
	Total scope 1, 2 and 3 emissions	338.90	259.99
Intensity metric	Scope 1 and 2 emissions (tCO ₂ e) per £m operating income	0.64	0.62
	Scope 1 and 2 emissions (tCO ₂ e) per full-time equivalent	0.26	0.24

*2022 figures have been restated following implementation of an enhanced carbon accounting tool.

**Energy usage in 2023 has been calculated including an estimation of usage at our One New Change premises, as actual consumption is not available.

Financed emissions

We prioritised setting the financed emission reduction targets on our residential lending book as it consisted of the largest proportion of our total book. The targets for financed emissions are set out in the strategy section.

Methodology

To support our analysis of financed emissions, we became a member of PCAF (Partnership for Carbon Accounting Financials) – the leading global body for financed emissions methodology. The PCAF methodology for real estate calculates the **attribution factor** multiplied by **building emissions** to reach a **financed emissions** figure, where:

- Attribution factor: the outstanding lending to a customer divided by the value at origination
- Building emissions: the energy consumption of the building multiplied by the emissions factors

To calculate the financed emissions, we matched land registry titles held against the collateral on our book via the UPRNs (unique identifiers for addressable locations in the UK) to the government’s EPC database. This gave an actual EPC match of c65% of our residential book, with the remaining estimated via location data. Noting EPC certificates are themselves an estimate of the properties’ actual emissions output drove the data quality of this calculation (data quality 4 under the PCAF scale).

	2023	2022
Lending		
Total book lending (£bn)	3.6	3.3
Residential investment lending (£bn)	1.7	1.5
Emissions		
Residential investment emission intensity (kilograms CO2/m2)	25.2	26.4
Proportion of residential investment book with an EPC rating of C+ or above (%)	46.5	46.1

Our scope 3 category 15 (investments) emissions are presented as intensity targets in kilograms of CO2 per square metre of lending. Emission intensity decreased to 25.2 in 2023 compared with 26.4 in 2022. This reflects the focus of Cynergy Bank and our customers on improving energy efficiency in 2023.

As methodologies become more sophisticated, EPC matches increase and our data quality improves, we expect updates through time to our baseline and targets. We plan to calculate commercial investment property emissions and put in place reduction targets during 2024.



SOCIAL

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

During 2023 we revisited our people strategy and launched our colleague mission and vision statements to reinforce our people commitments.

Our colleague mission:

To create a culture which empowers our people, celebrates success and allows all colleagues to feel a sense of belonging. Through our digitally enabled frameworks we will attract, develop and retain our people, embracing difference and encouraging agility; and by doing the right thing, we will become a material contributor to society, the communities we serve and the environment.

Our colleague vision:

To help our colleagues succeed and grow to their full potential.

Our people

Building a diverse, high-performing, agile and engaged team is the overarching focus of our people strategy. This in turn is a key enabler of our strategic ambitions. In particular, we focus on:

- Inclusive and diverse leadership: A diverse, cohesive and collegiate team of capable leaders who set the right tone, model our cultural values, deliver consistently and are ambassadors for our brand and vision
- Culture and colleague engagement: Embracing our values and brand identity to deliver an engaging employee proposition that nurtures talent, motivates high performance, enables delivery of our ESG objectives and encourages open and transparent communication channels

- Agile delivery: An agile organisation that embraces technology and the efficiencies of hybrid working, and enhances collaboration internally and with external service partners to remove barriers to effectiveness

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

Although we're not a FTSE 350 firm, we embrace the recommendations and targets set out in the FTSE Women Leaders review (formerly called the Hampton-Alexander Review) – 33% female representation on the Board and in senior leadership roles – and the Parker Review (at least one director from a minority ethnic background on the Board). We believe the diversity of our senior leadership should reflect our wider team and the communities we serve.

In December 2023, our performance in relation to these targets was as follows:

- Female representation on the Board: 33%
- Female representation in senior leadership: 20%
- Directors of minority ethnic background on the Board: 2

Our mean (average) gender pay gap has decreased in recent years from 37.0% in 2020 to 30.2% in 2023.

People highlights in 2023

We launched our new PROUD values, which remind us how to grow and achieve results in the right way. Our values are part of what we do every day and help us address any issues affecting engagement.

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



We empowered colleagues from underrepresented backgrounds with our first ever reverse mentoring programme. Colleagues from black, Asian and minority ethnic backgrounds mentored senior leaders and Executive Committee members.

- We launched conscious inclusion workshops for leaders and people managers.
- All our people get a personal learning budget to access learning resources and qualifications.
- All our people must complete training on ESG, the Consumer Duty, conduct rules and inclusion and diversity.

We paved the way for diverse future leadership, as our Building Leaders programme concluded and we launched the next phase of leadership development, the Enterprise Leaders programme. The diverse, high-performing aspiring leaders on the programmes benefit from one-to-one coaching and masterclasses, and get to experience strategic projects as part of the shadow Executive Committee.

- We've developed succession plans for critical roles to support career paths into leadership roles for diverse talent.

We took good care of each other by promoting our employee assistance programme, to make sure all our people can get support when they need it.

- We relaunched our wellbeing package, which includes healthcare, financial wellbeing, colleague and family wellbeing.
- Our mental health champions are there to support colleagues in need.
- We've enhanced our family-friendly policies to help colleagues with their work-life balance and caring responsibilities.

We won the Best SME Diversity & Inclusion Innovation Award at Women in Banking and Finance's 25th Annual Awards for Achievement, for our relaunched Inclusion and Diversity Network. The network relaunched as a result of the Building Leaders at Cynergy Bank programme. We also sponsored the digital platform at the awards event; we're active members of Women in Banking and Finance, and of Inclusive Employers.

- We sponsored the Trail Blazer Award at the British LGBT Awards 2023.
- Our newly launched EMPOWER Network, a social and professional network for women and allies, hosted events throughout the year and gave colleagues the chance to network and develop.
- We're using technology to remove bias from CV screening and selection processes.
- We require our recruitment partners to put together balanced shortlists of candidates for senior roles, and we make sure interview panels are diverse.

We kept colleagues informed and made sure all our voices are heard, with clear communication about our strategy and priorities and mechanisms for feeding back to the Board, Executive Committee and senior leadership team.

- Our CEO updates all colleagues on progress and answers questions in Teams calls once a month, smaller face-to-face sessions twice a year and occasional celebration events.
- Teams have regular huddles and check-ins.

We showed Cynergy Bank is a great place to work –

94% of our colleagues would recommend Cynergy Bank as an employer and 88% believe we are committed to creating a diverse and inclusive organisation. We share our story on LinkedIn and keep up positive feedback and perceptions of our brand using Glassdoor.

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

In the years ahead, we’ll build on our culture scorecard, which will involve ESG, operational and conduct risk reporting metrics supported by wider people risk management.

We’ll keep monitoring gender and ethnic diversity among our senior leadership team and working to reduce our gender pay gap.

And we’ll push for better-quality demographic data from our colleagues on a voluntary basis, to give us more insight and allow us to create informed and tailored initiatives for our people.

Our community

The impact we can make in our local community is important to us, and to our Board and Executive Committee, as reflected in our ESG strategic action to support our people and communities.

Our teams have the freedom – and Cynergy Bank’s support – to give something back to charity and the community.

Community highlights in 2023

We funded a dedicated children’s nurse for the second year running as part of our long-standing relationship with Noah’s Ark Children’s Hospice. Our people volunteered and helped raise funds throughout the year for Noah’s Ark, a community-based hospice service that gives clinical, practical and emotional support to babies, children and young people with life-limiting or life-threatening conditions in north and central London.

- We match employee fund-raising for charitable causes.
- We now match donations to colleagues’ chosen charities up to £50, thanks to a partnership with the Charities Aid Foundation that helped us increase our support for payroll giving.
- All our people are eligible for two days’ paid leave each year to volunteer with charities close to their heart.

We helped out students from underprivileged backgrounds with work experience, mentorship and skills sharing. We partnered with the EY/Chartered Banker Institute Smart Futures programme to offer placements, and colleagues volunteered at various events organised by Business Education Events. In partnership with Google, we hosted an event encouraging women to explore careers in software engineering.



GOVERNANCE

BOARD

Responsible for overseeing the embedding of the ESG strategy

BOARD COMMITTEES

Delegated ESG oversight and decision-making

EXECUTIVE COMMITTEE

Responsibility for management of climate-related issues

ESG WORKING GROUP

Comprising of members of the senior leadership team and oversees reporting and all initiatives to deliver the ESG strategy

Achieving our ESG ambition means building sustainable practices into our decision-making processes and core values. This is core to delivering on our ESG strategic action to embed climate management into governance and culture.

The Board is responsible for setting, overseeing and embedding the ESG strategy.

The Executive Committee, representing the Board, has primary responsibility for managing ESG matters within Cynergy Bank, and in 2023 agreed a new governance structure that migrates oversight of ESG from project governance into business as usual governance. On a quarterly basis, the Executive Committee holds discussions specifically about the ESG and sustainability issues affecting Cynergy Bank, with onward update to the Board on progress in implementing the new climate risk appetite statement and other ESG priorities.

Our Non-Executive Director Neil Fuller is the ESG Board sponsor and meets regularly with the team, as does the executive sponsor of ESG, Ravi Sidhoo – our Managing Director of Property and Private Banking. The Board has been supported with an ESG training workshop in 2023, provided by an external consultancy who are specialists in climate-related risk management and strategy.

Every colleague plays a vital role by adhering to Cynergy Bank policies and guidance while completing mandatory training modules related to ESG and climate change risk. This collective effort ensures that we stick to our ESG objectives, fostering a culture of environmental responsibility throughout the organisation. In 2024, all colleagues will have an ESG objective to reflect the contribution of their work to the collective action to deliver the ESG strategy.

To integrate ESG and sustainability management throughout Cynergy Bank’s governance structure, we have incorporated explicit responsibilities related to sustainability into all Board and executive-level terms of reference, as well as individual role profiles. These sustainability responsibilities complement, rather than replace, the existing governance framework established for specific ESG topics, serving to further embed sustainability principles throughout Cynergy Bank.

The Board is responsible for:

- Overseeing sustainability risks and opportunities, including financial risks and opportunities from climate change
- Approving our sustainability strategy
- Overseeing progress towards our sustainability objectives and commitments

The Risk Committee is responsible for:

- Overseeing the integration of ESG into our enterprise risk management
- Overseeing sustainability risk metrics, key performance indicators, financial disclosures and climate stress and scenario analysis

The Audit Committee is responsible for:

- Overseeing sustainability disclosures, reporting, controls and compliance

The Remuneration, Nominations and Corporate Governance Committee is responsible for:

- Considering sustainability performance in executive compensation
- Overseeing inclusion and diversity and employee matters

The Executive Committee is responsible for:

- Overseeing the development and periodic update of our ESG strategy, and monitoring and challenging the objectives and targets we set in relation to it
- Reviewing ESG content and data to be published in the annual report and accounts and making recommendations to the Board as appropriate
- Together with the Conduct and Risk Committee, overseeing the management of ESG risks
- Monitoring overall execution of our sustainability agenda

The Conduct and Risk Committee is responsible for:

- Overseeing, and recommending to the Risk Committee, Cynergy Bank’s analysis of and approach to financial risks from climate change, including climate scenarios
- Reviewing and monitoring physical and transition risks from climate change in the context of Cynergy Bank’s short-, medium- and long-term strategy and objectives

CORPORATE GOVERNANCE REPORT



BOARD OF DIRECTORS

Euan Hamilton, Chair

Appointed to the Board
in March 2016¹

Euan was appointed as Chair in June 2021 following the retirement of Philip Nunnerley.

He was a Director, Restructuring and Recoveries, with Bank of Cyprus Group. Before joining Bank of Cyprus, Euan held a range of senior executive roles with the Royal Bank of Scotland, including Deputy CEO of the bank's non-core division and Global Head of its sponsor coverage and leveraged finance businesses.

Euan is also currently the Non-Executive Chairman of Resolute Asset Management Holdings (Malta) Ltd and Non-Executive Director at AIM-listed Accrol Group Holdings plc. He is a Fellow of the Chartered Institute of Bankers in Scotland.



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

Appointed to the Board
in May 2017¹

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

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



Nick Fahy, Chief Executive

Appointed to the Board
in January 2016¹

Nick has been Chief Executive Officer of Cynergy Bank since December 2015. He is a highly experienced financial professional, having worked in the banking sector for over 20 years across the UK, Ireland and Australia.

During his tenure as CEO, he has overseen the acquisition of Bank of Cyprus UK by Cynergy Capital Limited in November 2018 and the rebrand to Cynergy Bank in December 2018.

Nick has ambitious plans for the future of Cynergy Bank. He is actively working to grow our franchise across enterprising business owners and savers in the UK, and to redefine banking with the Human Digital Bank proposition.

Nick joined Cynergy Bank from the Westpac Banking Corporation, where he was State General Manager for their retail and business banking operation in Western Australia. Before Westpac, Nick spent 17 years with the Bank of Ireland Group in a variety of leadership roles, including Chief Operating Officer for their retail banking division, Managing Director for Northern Ireland, and MD for the bank's UK-wide Post Office financial services operation.



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

Appointed to the Board
in September 2019

Mike has a wealth of banking, financial management, audit and regulatory experience having spent 30 years as a senior audit partner with PwC. During his career, he has worked with large UK and US banks as well as a variety of UK-based building societies and banks, motor finance, asset finance and private banking businesses.

Mike is a Fellow of the Institute of Chartered Accountants and a Non-Executive Director of SG Kleinwort Hambros Bank, the UK private bank of Societe Generale. He is also acting Chairman of SG International Limited.



¹ Directors appointed before November 2018 were appointed as Directors of the Bank of Cyprus UK, before continuing as Directors of Cynergy Bank following the acquisition by Cynergy Capital Limited in November 2018 and the rebrand to Cynergy Bank in December 2018.

Bal Sohal,
Non-Executive Director



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

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

Pradip K Dhamecha,
Non-Executive Director



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

Pradip is the CEO of Dhamecha Group, cash and carry food wholesalers serving some 10,000 independent retailers in the London and the Midlands areas. He is responsible for the strategy and overall performance of the Dhamecha family business.

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

Catherine Moroney,
Non-Executive Director



Appointed to the Board in November 2023

Catherine has held roles at AIB plc as Head of Business Banking and Chair of the Corporate Finance division. She is a Council Member of Dublin Chamber, having served as President and Chair of their Board, and Non-Executive Director for Saburai Consulting. As a Non-Executive Director at Cynergy Bank, Catherine joins the Remuneration, Nominations and Corporate Governance Committee and Risk Committee as a member.

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



Appointed to the Board in October 2019

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

The nature of transaction banking means that Carole brings a great understanding of banking technology, digital change, operations and control environments to her role. Leveraging her expertise managing large teams, Carole holds strategic advisory roles with a number of emerging companies, focused on the future of work and talent management. Carole has a degree in information technology and an MBA in international business.

After serving since 2019, Carole resigned from Cynergy Bank on 31 December 2023.

Neil Fuller,
Non-Executive Director,
member of the Risk
Committee



Appointed to the Board in April 2023

Neil has over 38 years' experience in retail banking and financial services. He held senior roles at Bank of Ireland UK plc, including Chief Risk Officer, Executive Board Director, and for a short time, Interim Chief Executive Officer. Before that, he was Chief Risk Officer at GE Capital Bank Ltd and held a variety of roles, including Risk Director and Chief Risk Officer, in the UK retail division of RBS and NatWest. Neil's experience and knowledge of risk management in the financial services sector will enrich and further strengthen the Board. Neil is an independent Non-Executive Director of Leeds Building Society and is the Chair of the Leeds Building Society Board Risk Committee.

Board and committee attendance

Attendance at Board and committee meetings is set out below. The number of meetings each member was entitled to attend is shown in parentheses.

There are several ad hoc working sessions and workshops outside the calendar where Directors also attend. During months when no Board meeting takes place, the Directors are provided with key performance reports. When Directors are unable to attend meetings, they still receive the relevant documentation, and any questions or comments are submitted to the meeting by the Chair.

Changes to the Board

During the year, there have been some changes to the composition of the Board.

Peter Oliver resigned from the Board on 17 March 2023 and Francesca Hampton left the Board on 24 August 2023. Neil Fuller was appointed to the Board on 6 April 2023 and Catherine Maroney joined the Board on 1 November 2023. In addition, after serving over three years on the Board, Carole Berndt resigned from the Board on 31 December 2023.

To increase the Board’s understanding of technical IT matters, an independent IT consultant was engaged to provide the Chair and the Board with objective advice in this area.

During the year, there have been improvements to the Board induction process and training for Board

members, as well as other improvements following an independent Board review.

Work of the Board

During the year, in addition to standard reports, the Board considered matters such as overseeing Cynergy Bank’s approach to the new Consumer Duty regulations, approving revisions to the internal liquidity adequacy assessment process (ILAAP) and overseeing the move to new premises and the change to the Registered Office.

As part of this office move, IT servers situated in the Southgate property had to be relocated to a new site. The Board closely monitored the progress of this throughout the year alongside more intensive reviews by the IT & Resilience Board Sub-Committee set up for this purpose.

Other matters in the year included:

- The approval of new tier 2 lending from the British Business Bank
- An updated strategy to 2026, including a new IT strategy
- The 2024 budget

During the year, the Board also attended formal training sessions on matters such as the new Consumer Duty regulations, conflicts of interest, ESG and the capital supervisory review and evaluation process.

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

Director	Board	Audit Committee	Risk Committee	RNCGC
Euan Hamilton	9(9)	-	6(6)	6(6)
Kim Rebecchi	9(9)	5(5)	6(6)	6(6)
Pradip Dhamecha	6(9)	-	-	4(6)]
Bal Sohal	7(9)	-	-	5(6)
Catherine Moroney	1(1)	-	1(1)	1(1)
Mike Newman	8(9)	5(5)	6(6)	-
Carole Berndt	9(9)	5(5)	-	6(6)
Peter Oliver	2(2)	-	3(3)	-
Nick Fahy	9(9)	-	-	-
Francesca Hampton*	5(6)	-	-	-
Neil Fuller	6(6)	-	3(5)	-

*Francesca Hampton resigned from the Board on 24 August 2023.

Board Audit Committee

The Board Audit Committee monitors the integrity of financial reporting and oversees Cynergy Bank's compliance, internal and external audit and financial crime functions. It reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process and advises the Board on whether the annual report and accounts are fair, balanced and clear.

Membership is restricted to Non-Executive Directors, and the Board Chair is not permitted to be a member. The Committee is chaired by Mike Newman, a Non-Executive Director who has substantial experience in auditing.

Its terms of reference include:

- Reviewing the adequacy of provisions for expected credit losses and other provisions
- Monitoring the effectiveness of our internal quality control and risk management systems and our internal audit
- Reviewing whistleblowing arrangements
- Receiving and considering internal audit reports and approving the internal audit plan
- Approving any exceptions to policy requests
- Ensuring the effectiveness, performance and independence of the outsourced internal audit and the external audit process
- Appointing the external auditors and approving their remuneration
- Ensuring compliance with applicable legal and regulatory requirements
- Reviewing the critical estimates to be included in the year-end accounts, including our modelling of expected credit losses under the International Financial Reporting Standards (IFRS) 9 – Financial Instruments

Matters the Board Audit Committee dealt with during the year included:

- The compliance annual report
- The Financial Crime and Money Laundering Reporting Officer (MLRO) report
- Related parties disclosures
- The 2022 financial statements and external auditors' report
- IFRS 9 expected credit loss provisions
- Pillar 3 disclosure
- IT controls update
- Certain exceptions to policies

In addition, the Committee reviewed management's internal attestations to confirm compliance with relevant regulatory requirements, oversaw model governance and approved the internal audit plan and reports as well as the external audit plan.

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

Board Risk Committee

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

- Reviewing internal control systems
- Monitoring regulatory compliance and important regulatory correspondence
- Approving changes to lending and other key policies
- Reviewing the adequacy of capital and liquidity in light of the results of stress testing
- Approving our recovery plan
- Reviewing our internal capital adequacy
- Reviewing ESG metrics, roles and responsibilities
- Overseeing the expansion of credit policies for Cynergy Business Finance, our asset-based lending subsidiary

The Committee consists entirely of non-executive members, the majority of whom must be independent. Kim Rebecchi, Senior Independent Director, chaired the Committee during 2023. Meetings are held separately with the Chief Risk Officer, Head of Information Security and Cyber-Security at least twice a year, with only members of the Risk Committee present, to discuss financial and risk issues.

The Committee has a heavy workload, but some of the many matters discussed in the year included:

- The risk taxonomy,
- ILAAP stress testing and the ILAAP report
- The risk appetite statement and risk appetite framework
- Various new product risk assessments
- Policies and credit risk reporting

Remuneration, Nominations and Corporate Governance Committee

The RNCGC leads the process for Board appointments and plays a key role in assisting the Board to fulfil its responsibilities – in relation to Directors’ development and succession planning, and to corporate governance policy and compliance. The RNCGC also reviews our policy on remuneration, including considering and recommending to the Board the overall policy for the remuneration of employees across Cynergy Bank and determining the remuneration of the Non-Executive Directors. It also recommends to the Board and monitors the level and structure of remuneration for senior management and other key personnel.

Its terms of reference include:

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

The committee was chaired by Carole Berndt during 2023 and consists entirely of Non-Executive members, including the Shareholder Representatives Pradip Dhamecha and Bal Sohal.

Among the matters the RNCGC considered in 2023 were:

- The employee engagement survey results
- Long-term incentive plan awards
- Remuneration policy update
- The gender pay gap report
- Review of job grade structure and benefits
- The Board diversity policy
- The culture dashboard
- Changes to the corporate governance policy
- New Board and senior management appointments

The Committee also looked at succession planning for the Executive Committee and CEO

Board Credit Committee

The Board Credit Committee is responsible for considering any lending proposals that are outside of Cynergy Bank’s risk appetite statement. The committee meets as required. Members are Euan Hamilton (Chair), Kim Rebecchi and Nick Fahy.

IT & Resilience Board Sub-Committee

In January 2023, the Board set up a sub-committee to oversee the delivery of the IT strategy. It also provides more detailed oversight and challenge of major IT-related projects within Cynergy Bank, and consequential impacts on Cynergy Bank’s overall strategy, for referral to the Board. In addition, the sub-committee oversees responses to the regulator following annual periodic summary meetings. Meetings are organised on an ad hoc basis as projects progress to critical stages.

The sub-committee is chaired by Euan Hamilton with current members being Neil Fuller and Kim Rebecchi. Regular attendees include the independent IT consultant, the Chief Digital & Information Officer, the IT Director and, where relevant, the Compliance Director.

Executive committees

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

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

Information security and cyber risk is also monitored by the Conduct and Risk Committee.

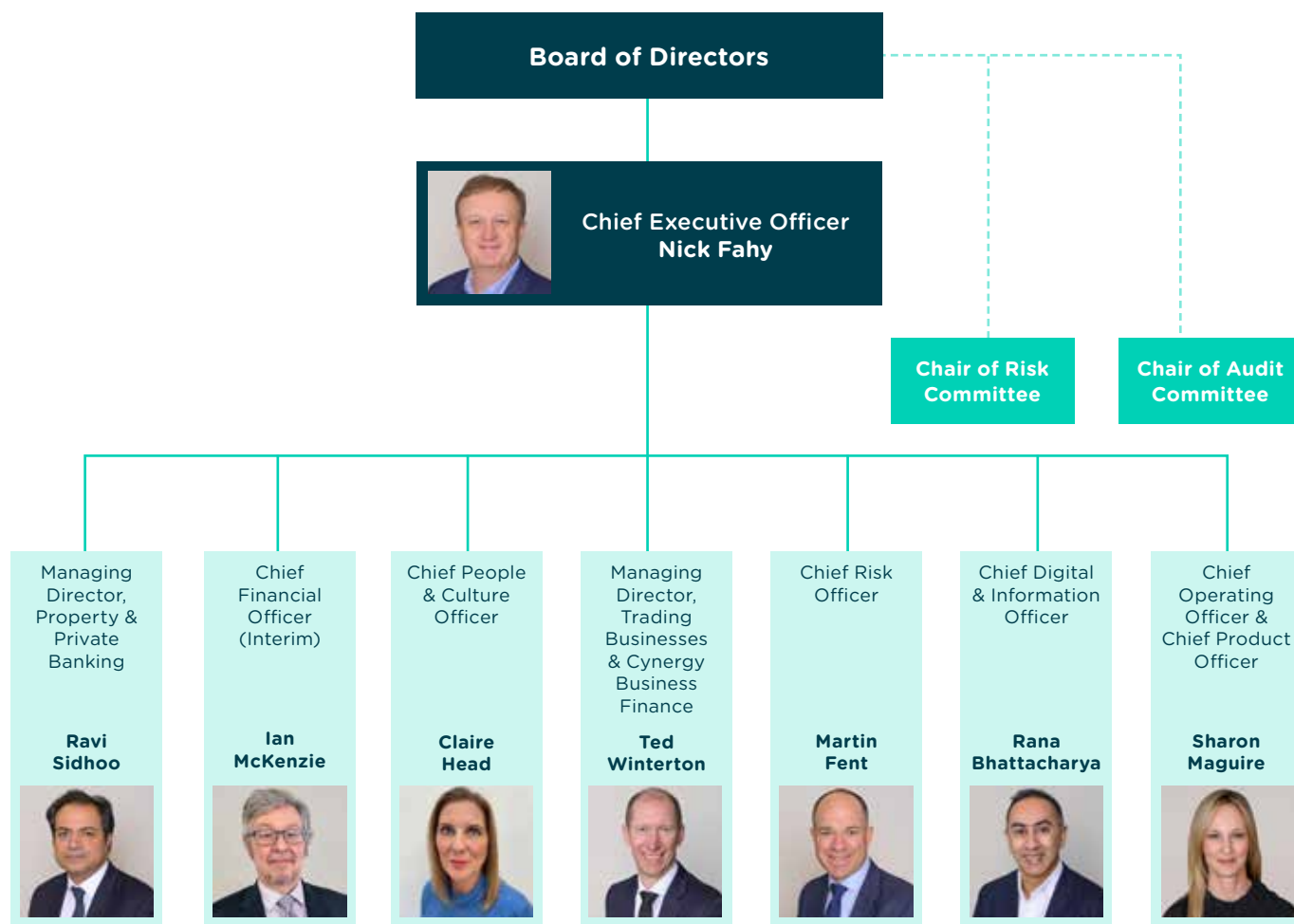
Capital, liquidity, cash flow and market risks are monitored at executive level by the Asset and Liability Committee, which meets monthly, and its sub-committee, which meets weekly.

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

Other executive committees include the Executive Credit Committee, which considers requests for new advances, the Model Governance Committee, the Products and Services Committee and the Transformation Committee.

More information on risk management is set out in note 30 of the financial statements.

Executive Committee and senior management



Board of Directors

The Board of Directors has ultimate responsibility for the prudent management of Cynergy 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 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 to ethical leadership

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

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2023.

Principal activities

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

Financial results

Cynergy Bank's results for the year ended 31 December 2023 are set out in the income statement on page 89, showing profit after tax of £40.6m (2022: £40.3m). The Directors endorse the information and views set out in the Chair's statement, the Chief Executive Officer's review and the strategic report.

Going concern

The Directors are satisfied that Cynergy Bank has the resources to continue in business for the foreseeable future and that there are no material uncertainties to disclose. Cynergy Bank Limited has committed to support its subsidiary Cynergy Business Finance Limited for at least, but not limited to, 12 months from the date that the financial statements were signed.

In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including:

- Profitability: the ability of Cynergy Bank to continue to deliver profits and maintain capital and liquidity strength over the foreseeable future
- Capital resources and requirements: the sufficiency of capital resources to sustain Cynergy Bank's existing and planned business activities and maintain compliance with regulatory requirements
- Liquidity and funding: the arrangements which Cynergy Bank has in place to maintain adequate liquid assets to meet its liabilities and maintain compliance

with regulatory requirements, including under stress scenarios as considered through the ILAAP process, the portion of our deposits which are covered by the Financial Services Compensation Scheme (FSCS) and diversification of the depositor base

- Operational risks: the processes in place to manage operational risk, including that relating to business continuity, operational resilience, reliance on outsourced suppliers, change management and information security/cyber risk

There is a statement of the Directors' responsibilities in relation to the financial statements on page 49.

Capital

Cynergy Bank has complied in full with all its externally imposed capital requirements over the period reported. Further information on how we manage capital is included in the risk report on page 63.

Liquidity

Cynergy Bank manages liquidity with an internal methodology which fully meets and exceeds the regulatory liquidity coverage ratio (LCR) measure. During 2023, Cynergy Bank fully met all its regulatory liquidity requirements, including the LCR and net stable funding ratio. Further information on how we manage liquidity is included in the risk report on page 63.

Dividends

Cynergy Bank did not pay a dividend in 2023 (2022: £nil).

Future developments

Following the adoption of a new strategic plan in 2022, the Board reviewed and updated the plan in 2023, taking the plan to 2026 with a continued emphasis on delivery of the human digital banking platform.

People

Cynergy Bank employed an average of 363 permanent employees during 2023 (2022: 299). During the year, Cynergy Bank invested £419,133 (2022: £268,909) in employee development.

Streamlined Energy And Carbon Reporting (SECR)

Disclosures required under the SECR guidelines are set out on page 32 of the ESG report.

Board of Directors

Full details of the Board of Directors are on pages 40–41.

Directors and their interests

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

Independent auditors

We have reappointed PricewaterhouseCoopers LLP in line with section 487(2) of the Companies Act 2006 unless the members or directors resolve otherwise.

Subsidiaries

Cynergy Bank Limited is the immediate owner of 87.5% of the £1,000 ordinary shares of a UK company, Cynergy Business Finance Limited, incorporated on 8 April 2021 in England and Wales, company number 13322121, registered office 4th Floor, One New Change, London EC4M 9AF.

Cynergy Bank Limited is also the immediate owner of 100% of the £1 ordinary share of a UK company, North Star Audit Limited, incorporated on 20 September 2021 in England and Wales, company number 13631439, registered office 4th Floor, One New Change, London EC4M 9AF.

Events after the reporting period

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

Charitable donations

During 2023, Cynergy Bank made charitable donations totalling £80,185 (2022: £106,945).

Political donations

During 2023, Cynergy Bank did not make any political donations (2022: £nil).

Third-party indemnity provisions for the benefit of Directors

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

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

Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the group and the company financial statements in accordance with UK-adopted International Accounting Standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- State whether applicable UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Make judgements and accounting estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business

The Directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the company's website.

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

On behalf of the Board



Paul Jordan
Company Secretary
12 April 2024

CORPORATE INFORMATION

Directors

Directors who held office during the period of this report are as follows.

Euan Hamilton^{2, 3, 5} – *Chair*

Nick Fahy^{4, 5} – *Chief Executive Officer, Executive Director*

Kim Rebecchi^{1, 2, 3, 5} – *Senior Independent Non-Executive Director and Chair of the Risk Committee*

Francesca Hampton^{4, 5, 6} – *Chief Financial Officer, Executive Director*

Pradip Dhamecha,³ OBE – *Non-Executive Director*

Bal Sohal³ – *Non-Executive Director*

Michael Newman^{1, 2} – *Independent Non-Executive Director and Chair of the Audit Committee*

Carole Berndt^{1, 3, 7} – *Independent Non-Executive Director and Chair of the Remuneration, Nominations and Corporate Governance Committee*

Catherine Maroney^{2, 3, 8} – *Independent Non-Executive Director*

Neil Fuller² – *Independent Non-Executive Director*

Peter Oliver⁹ – *Independent Non-Executive Director*

Other senior executives

Rana Bhattacharya⁴ – *Chief Digital & Information Officer*

Andrew Creamer – *Compliance Director*

Martin Fent⁴ – *Chief Risk Officer*

Claire Head⁴ – *Chief People & Culture Officer*

Sharon Maguire⁴ – *Chief Operating Officer & Chief Product Officer*

Ravi Sidhoo⁴ – *Managing Director, Property & Private Banking*

Ted Winterton⁴ – *Managing Director, Trading Businesses & Cynergy Business Finance*

¹ Member of the Audit Committee

² Member of the Risk Committee

³ Member of the Remuneration, Nominations and Corporate Governance Committee

⁴ Member of the Executive Committee

⁵ Member of the Credit Committee

⁶ Francesca Hampton resigned on 24 August 2023

⁷ Carole Berndt resigned on 31 December 2023

⁸ Catherine Moroney was appointed on 1 November 2023

⁹ Peter Oliver resigned on 17 March 2023

Company secretary

Paul Jordan

Independent auditors

PricewaterhouseCoopers LLP

7 More London Riverside

London SE1 2RT

Registered office

4th Floor, One New Change, London EC4M 9AF

Locations

Central London

4th Floor, One New Change, London EC4M 9AF

Redhill

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

Birmingham

112 Colmore Row, Birmingham B3 3AG

North

3 Hardman Square, Spinningfields, Manchester M3 3EB

Scotland

2 West Regent Street, Glasgow G2 1RW

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

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

www.cynergybank.co.uk

RISK REPORT



APPROACH TO RISK MANAGEMENT

The Board of Cynergy Bank is responsible for establishing a sound system of risk management and internal controls, making sure the system is maintained and approving our risk appetite. Our risk appetite supports us in fulfilling our regulatory requirements in the pursuit of our strategy to become a recognised challenger bank for entrepreneurs and business owners. It is therefore essential to put effective risk management at the centre of our future aspirations.

It is the role of the CEO and the executive to make sure that we can fulfil our strategy, both under business as usual and stressed conditions, and that the risks we are subject to are identified, managed, monitored and reported within Cynergy Bank's governance structure. Our enterprise risk management framework (ERMF) and corporate governance policy establish an effective and clear framework and governance structure to make sure potential risks to Cynergy Bank's business model and future performance are appropriately mitigated.

Through our normal operations, Cynergy Bank is exposed to a broad range of risks. We manage these through clear risk policies, limits, reporting lines and control procedures. Adherence to these policies and procedures is the responsibility of all our people but is independently monitored by Cynergy Bank's second line of defence and outsourced internal audit function. Our risk management processes and internal controls are also regularly overseen by the appropriate executive and Board-level committees, including the Conduct and Risk Committee, Asset and Liability Committee, Board Audit Committee and Board Risk Committee.

During 2023, we refreshed our risk strategy. The risk strategy sets out the strategic vision for risk management within Cynergy Bank and the planned evolution of the ERMF. The document covers the strategic planning horizon to 2026.

The strategy is grounded by the current risk management maturity of the business, the risk appetite framework, the broader business strategy and initiatives required to deliver the business plan. The risk strategy is intended to help us achieve our strategic objectives while remaining within the Board-approved risk appetite framework.

Risk maturity assessments for all key elements of the ERMF, including all seven principal risks, set out the current and desired risk maturity status, along with key strategic actions to achieve desired maturity status.

Risk appetite statement

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

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

To achieve this, Cynergy Bank has a risk appetite framework that defines the types and quantum of risk that the Board chooses to accept in pursuit of our strategy.

Linkage between business strategy and risk management

Our business strategy is linked to both the risk strategy and the ERMF. The three documents complement and support each other's objectives. Each is subject to an annual review process culminating in approval by the Board.

The risk appetite framework formally describes how it links to our business strategy. It formalises the steps we will take each time there is a change to, or review of, the business strategy, to drive any revision of the appropriate risk appetite statements or metrics and to make sure decisions are made with due regard to our risk appetite.

Risk appetite framework

The risk appetite framework considers Cynergy Bank's risk capacity, our financial position, the strength of our core earnings and the resilience of our reputation and brand. The Board sets detailed appetites for risk structured around our principal risks:

- Strategic risk
- Credit risk
- Capital, liquidity and funding risk
- Market risk
- Operational risk
- Conduct risk
- Legal, compliance and financial crime risk

Each principal risk is supplemented by a suite of more granular supporting risks. For each supporting risk, we have a written risk appetite statement that we monitor using specific risk appetite metrics and key risk indicators. The risk appetite metrics are measurable against our strategic plan, are actionable and have an assigned limit to monitor performance against the risk appetite. The key risk indicators are more outcome driven, with negative trends reported monthly to the relevant risk committees.

Performance against all risk appetite metrics is monitored via the Conduct and Risk Committee or Asset and Liability Committee and reported to the Risk Committee.

In addition, the risk appetite framework:

- Ensures that business activity is guided by, controlled by and aligned to our appetite for risk
- Identifies, in both qualitative and quantitative terms, the type and level of risk that we are willing to accept
- Describes the risks that we are willing to take (and those we're not) in pursuit of our strategic objectives
- Establishes a framework for decision-making based on statements and metrics
- Enables a view of risks across the whole business
- Dovetails with and/or informs other key processes, such as the internal capital adequacy assessment process (ICAAP), internal liquidity adequacy assessment process (ILAAP), recovery plan and resolution plans

The Board is responsible for keeping our risk appetite consistent with shareholders' appetite and tolerance for risk.

Cynergy Bank's risk objectives

Identifying and assessing risk and control activities provides assurance that our business objectives will be met.

Our ERMF sets clear risk objectives to keep the level of risk we take on consistent with the approved risk appetite and business strategy. These objectives aim to:

- Create and protect value for our stakeholders, to improve performance and sustainability, encourage innovation and support us to achieve our objectives
- Make sure we manage risk in a structured and comprehensive way
- Identify the principal and emerging risks we face in delivering our strategy and how to manage them
- Make sure we're making decisions within a Board-approved risk framework which:
 - addresses our objectives in the context of both our internal and external environment
 - articulates the nature, types and levels of risk we're willing to assume, aligned to our business model and long-term business strategy
- Recognise the dynamic nature of risk management so that we can anticipate, detect, acknowledge, report, escalate and respond to changes in an appropriate and timely manner
- Make risk management an integral part of our process of strategic decision-making
- Support business decision-making by taking a balanced view on risk while establishing strong independent review and challenge, allowing for robust oversight and assurance and the operation of a three lines of defence model
- Make risk management the responsibility of all employees
- Encourage a strong risk culture and behaviours by linking to our performance management and remuneration processes
- Develop a risk-aware team by helping people understand the root cause of incidents, minimising the likelihood of them happening again
- Support continuous improvement, taking account of learnings from risk events or incidents, internal or external changes and stakeholder expectations

During the year, we've uplifted and significantly enhanced our ERMF. We have introduced a new risk taxonomy that includes IT and IT change risks within operational risk. A Board-approved risk strategy is also in place, setting out the desired end state for each principal risk component of the ERMF.

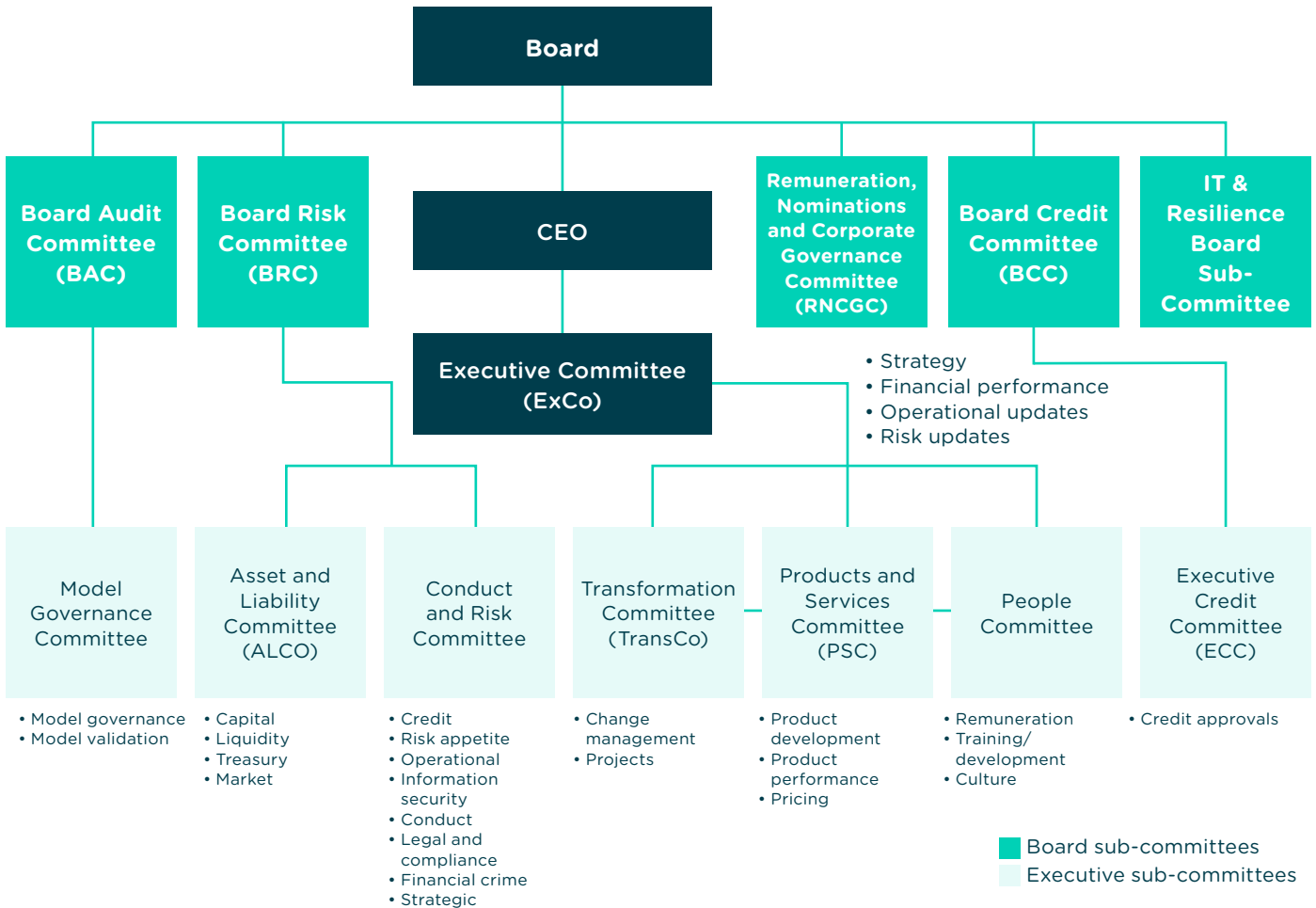
Risk governance

Our corporate governance framework sets out how the Board oversees risk management.

The Board periodically reviews its own composition and skills. The most recent review was completed in 2023.

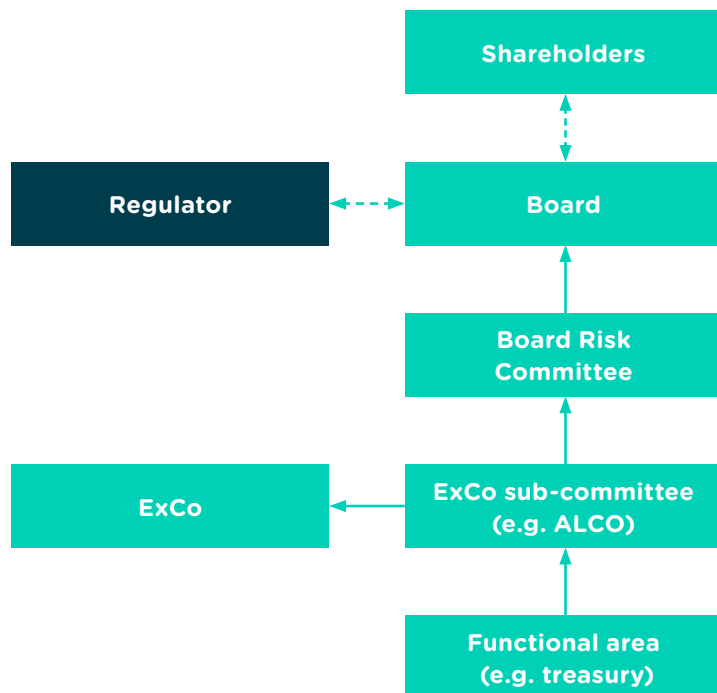
Board members and members of the executive team hold specific Senior Manager Function (SMF) responsibilities under the Financial Conduct Authority's (FCA) Senior Managers and Certification Regime. Other staff are certified under the regime as Material Risk Takers. Cynergy Bank requires its SMF holders to periodically attest that they have met their obligations as SMF holders and that, collectively, the SMF holders cover all the duties the FCA expects of Cynergy Bank.

We have a defined structure of Board- and executive-level sub-committees, and each committee has its own terms of reference. The main risk governance committees are organised as follows:



The reporting and escalation elements of the ERMF ensure that appropriate actions are taken in a timely manner. The objective of risk reporting within Cynergy Bank is to escalate relevant risk information that enables the Board and other governance bodies to monitor and manage our risk exposures in line with our risk appetite framework. Any actual or expected breach of risk appetite is escalated using the following escalation pathway:

Risk escalation path



Risk culture

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

The Board is responsible for setting the tone from the top and making sure there is a strong risk culture across Cynergy Bank. The Board agrees a set of risk culture statements and senior management supports these by:

- Leading the implementation of the ERMF
- Making sure it is fully embedded with a strong focus on the adherence to risk appetite, monitored through its suite of risk appetite metrics and key risk indicators

The risk culture detailed in the ERMF also aligns to our values and supports us to set performance management objectives and performance assessments for all our people.

Risk oversight and assurance

We use a three lines of defence model which clearly categorises duties between day-to-day activities, risk oversight and independent assurance. Each colleague's role is allocated to either the first, second or third line of defence, and all three lines work effectively to manage risk across Cynergy Bank.

The first line of defence against risks lies with the front line. The front line includes all units that onboard risk into Cynergy Bank, including those that enter into business transactions or supplier arrangements with customers/third parties, as well as all associated support functions, including finance, treasury and operations.

The first line of defence is responsible for:

- Identifying all the risks in their activities
- Developing appropriate policies, procedures and controls to govern these activities
- Operating within all limits applicable to their operations as cascaded from the risk appetite statements
- Reporting or escalating risk events as appropriate

The second line of defence consists of the risk function of Cynergy Bank. They are responsible for monitoring the performance of the first line and their adherence to policies, limits or other mandates. They:

- Promote risk awareness by engaging business units in identifying, measuring and mitigating risks as appropriate
- Facilitate the collection and monitoring of key risk indicators and risk appetite metrics
- Provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within Cynergy Bank

The second line undertakes independent oversight activity and reports its findings to senior management via the Executive Committee, the Conduct and Risk Committee or the Asset and Liability Committee. The second line also manages our business support and recoveries activities.

The third line of defence is internal audit. They provide independent assurance to the Board and Executive Committee about the effectiveness of governance, risk management and control over current, systemic and emerging risks.

We have outsourced our internal audit function and have an agreement with BDO LLP to provide these services. The scope of the internal audit programme is agreed with the Board Audit Committee, which also receives the output from the assurance activity. The Board Audit Committee oversees any actions required as a result of any internal audit findings.

Stress testing

Stress testing is an important risk management tool for Cynergy Bank. We use it to inform:

- How we set our risk appetite limits
- Our business plan
- Our key annual assessments and determination of required capital and liquidity capacity
- Calculations of our resilience to stress, as articulated in the ICAAP, ILAAP, recovery plan and resolution pack

Stress testing helps the Board understand our key risks and the scenarios and sensitivities that could adversely affect our risk appetite.

PRINCIPAL RISKS AND UNCERTAINTIES

2023 overview

The risks we describe in this section are driven by our strategic objectives. The Board has reviewed our strategy and, in doing so, identified the key emerging risks Cynergy Bank faces, given that strategy. These include:

- Increasing numbers of customers and volumes of customer interactions in line with our growth, which leads us to consider our operational capacity and tests our ability to handle the pace and scale of growth, increasing pressure on manual processes (operational and compliance risk)
- Our use of partner services, which increases the level of outsourcing and regulatory risk (operational, conduct and compliance risk)
- New products and services, which will result in us introducing new and different requirements and processes and new and different levels of risk (operational, compliance, credit and conduct risk)
- Our increased market presence and market share, which increases our exposure to fraud and cyber-related risk

Economic and geopolitical uncertainty resulting from the changing macroeconomic environment remained a notable feature in 2023. Cynergy Bank continued to focus on asset quality and support customers facing potential financial stress as a result of the challenging economic landscape and higher interest rates. We refreshed our lending product offering to provide customers with more fixed rate loans within a carefully controlled risk appetite.

In response to the ongoing challenges in the economic environment, we've maintained our focus on affordability in our lending decisions to make sure our lending policies and credit models remain

appropriate and aligned to customers' behaviours. We've completed regular portfolio reviews to make sure our risk appetite and control environment are still appropriate.

Macroeconomic conditions and high borrowing costs have reduced the demand for lending. We expect this to continue through 2024.

We've carefully scrutinised our liquidity and funding risk, which is heightened thanks to the increasingly competitive consumer deposit market, following the significant interest rate rises during the year. 2023 saw us launch new products to diversify our funding sources, including new entries into the business saver and business current account markets.

Cynergy Bank continues to access funding via the Bank of England's Term Funding Scheme (TFSME) and Indexed Long Term Repo schemes to meet liquidity requirements. With the TFSME scheme winding down from 2024, we are taking steps to source alternative (and more diversified) liquidity sources through the strategic period.

Operational resilience remained in focus and we invested significantly in our back- and middle-office functions. We also invested in IT capacity and capability to support our digital transformation strategy. Our investment in middle-office operations supports the customer experience, and this will remain in focus for 2024.

Change management continued as a key risk in 2023. The Human Digital Bank transformation programme made progress during the year; oversight of this transition is a key risk priority for 2024 and beyond as technology, market dynamics and vendor management continually change.

We refreshed our risk taxonomy to reflect the prominent themes on the horizon. Our risk appetite, capacity and metrics are carefully calibrated to forecast market conditions.

Policies, procedures and controls in all areas of the risk taxonomy have been uplifted. We focused on the areas of the taxonomy most affected by market conditions and prioritised risk and control assessments accordingly.

Using Resolver, our risk management information system, we record and track key risks, controls and incidents across Cynergy Bank and its subsidiaries. During the year, we worked extensively to embed Resolver in line with our plans to mature the enterprise risk management framework.

As well as identifying risks across their respective business lines, senior management has continued to assess the effectiveness of controls that mitigate those risks, using our risk and control self-assessment process. The methodology we use for these assessments has been reviewed and materially enhanced during the year and will be further matured through 2024.

Strategic risk	
Definition	
<p>The risk that failed business decisions, or lack thereof, create unintended financial or non-financial losses to Cynergy Bank.</p>	
2023 update	
<p>Strategic risk stems from our business strategy and whether the advancement of the strategy is aligned to the risk appetite and the associated risks inherent in the execution of the strategy. It is the role of the Board and the Executive Committee to make sure the execution of the strategy aligns with our risk appetite.</p> <p>Our strategy is carefully calibrated to the prevailing economic conditions. We stress tested a range of risks to earnings, both through business as usual stress testing and through the ICAAP process. We use the results of these tests to plan scenarios and test our resilience to a range of stressed conditions.</p> <p>Our lending policies and associated risk capacity and appetite have all been updated to account for prevailing economic forecasts. We have taken measures to adapt our strategy to a higher interest rate environment. This included adapting to the changing landscape in the funding market by diversifying our liquidity sources. Our balance sheet has transitioned from being a substantially floating rate lending portfolio to being evenly split between floating and fixed rate loans. The liability portfolio has transitioned congruently, and this has affected the nature of market risk and conduct risk we are managing.</p> <p>All our credit policies are regularly reviewed considering market conditions. 2023 saw adjustments to account for the higher interest rate environment. We took significant steps to adjust our policies and procedures to appropriately support customers facing the early stages of financial difficulty.</p> <p>Human Digital Bank: we took some time in early 2023 to review and reset our delivery programme for the Human Digital Bank. This strategy is a pillar of our future; it will redefine how we serve our customers.</p> <p>Environment, social and governance (ESG) framework: we made progress with implementing our overarching ESG framework during 2023. In line with the expectations of the Prudential Regulation Authority (PRA), we are specifically progressing our approach to managing climate-related financial risk, analysing both physical and transition risk from climate risk on our portfolio and setting appropriate science-based targets aligned to a net zero pathway.</p>	
Risk appetite statement	
<p>Cynergy Bank accepts a moderate appetite for strategic risk in pursuit of our strategic plan. The strength of our business operations is a major way of mitigating industry risk as well as the economic risk of the environment where we operate. The stability or fragility of our franchise, our governance, our strategy and the quality of our management are all indicators that could combine to increase or reduce the overall risk to Cynergy Bank. Therefore we must manage these factors prudently.</p>	
Supporting risks	
	Definition
Business model risk	The risk that our business model falters or fails to keep pace with the industry. The economic risk of the environment where we operate.
Climate risk	The risk that we do not manage the transition and physical risks we face, today and under future scenarios, from climate change and the requirement to align to net zero emissions by 2050.
Social and governance risk	The risk of a social or governance event or condition that, if it occurs, could have an adverse impact on Cynergy Bank.

Earnings risk

The risk that we fail to achieve the quality and quantity of earnings assumed in our stress-tested financial models and are therefore unable to meet our business plan and/or capital/liquidity minimum requirements.

Examples of how we mitigate and control the risk

- We regularly and formally review our corporate strategy alongside our risk appetite, assessing the appropriateness of the business model, risk frameworks, values, culture and objectives, considering prevailing market conditions.
- We have a risk maturity strategy that supports the corporate strategy.
- We regularly monitor our strategic and business performance against market commitments, our balanced business scorecard and our risk appetite.
- We have a diversified suite of products and services.
- We operate a defined governance structure covering all areas of risk. Including executive and Board sub-committees.
- We use stress tests to flex core business planning assumptions to assess potential performance under stressed operating conditions.
- We set specific strategic risk appetite metrics that are reported to the Risk Committee.
- We survey customer satisfaction to identify how well our strategy is meeting customers' needs.
- We have developed a framework and suite of policies that govern our climate and ESG goals under the wider enterprise risk management framework.

Credit risk

Definition

The risk to earnings and capital arising from a customer’s failure to meet the terms of their lending contract or failure to perform as agreed.

2023 update

Cynergy Bank closely manages the quality of its book. Our relationship manager-led approach ensures we stay close to our customers. This year we made significant preparations to support customers through a more difficult economic environment.

Economic uncertainty has intensified in 2023. While some customers’ business models and lending exposures have seen increased stress throughout 2023, we saw overall stability in arrears across our core loan portfolio. Provisions have remained stable during the period. An increase in individually assessed stage 2 and stage 3 impairments was offset by some significant reductions in provisions from our legacy bridging portfolio.

We’re proactive about supporting our customers. We updated our credit policies to allow us to identify customer stress early and apply customer support strategies. We reviewed our watchlist process in 2023 and increased resources for our business support and recoveries function in anticipation of higher levels of customer stress entering 2023. We seek to agree prompt and appropriate action plans for customers who are having difficulty.

Our legacy bridging loans portfolio, which was launched just months before the onset of the pandemic, has been wound down to a residual two exposures, which have been individually assessed under IFRS 9 for expected credit losses.

The loan book has several defensive risk mitigants. It is predominantly secured by residential or commercial property, with an average weighted loan to value of 56%. Facilities in Cynergy Business Finance are secured via receivables, plant and machinery or property. 52% of the loan book is on a fixed rate loan product (23% in 2022), offering resilience to the onset of higher interest rates. £268m loans are provided under the coronavirus business interruption loan scheme or recovery loan scheme, which both offer credit mitigation in the form of a guarantee for a share in any credit loss experienced.

Risk appetite statement

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

Supporting risks

	Definition
Credit quality risk	The risk of disproportionately high credit losses arising as a result of lending to customers exhibiting weak credit characteristics.
Credit performance and stewardship risk	The risk of credit losses as a result of weak or uncontrolled underwriting and/or credit monitoring processes.
Credit concentration risk	The risk that overexposure to single names, asset classes, sectors or geographies results in disproportionate credit losses in the event of material adverse events.

Examples of how we mitigate and control the risk

- We regularly set our credit risk appetite and monitor our lending performance against risk appetite, with escalation routes in place for any breaches.
- We have a credit risk management framework that includes detailed lending policies, underwriting manuals and standard operating procedures.
- We choose to lend in sectors where we have experience and expertise.
- If a customer is in financial distress, the business support and recoveries team works with them to reach a satisfactory conclusion. The team's purpose is to protect our capital while treating customers fairly.
- We regularly review our loan portfolios and complete ongoing assurance testing of our credit processes.
- We have specific Executive and Board Credit Committees for larger credit approvals as part of our governance structure.
- We segregate duties in our underwriting processes.
- We regularly stress test the loan book using a range of stressed but plausible credit-related economic scenarios.
- We work within clearly defined portfolio limits approved by the Board covering, for example, loan to value, affordability, sector and geographic concentrations.
- We show evidence of affordability and complete credit search, fraud and/or customer due diligence checks when underwriting loans.
- We make credit decisions using a combination of due diligence, reviewing credit agency reports, reviewing financial information and credit scores, overlaid with the expert opinion of our underwriters.
- We take tangible security and, where appropriate, guarantees to support our lending.

Capital, liquidity and funding risk

Definition

The risk that Cynergy Bank’s financial and funding structure fails to meet minimum regulatory standards and/or results in our inability to deliver our corporate strategy or meet our commitments as they fall due.

2023 update

Cynergy Bank remains adequately capitalised both for a stable and stressed economic environment. Our capital resources are formally assessed annually via the ICAAP and are constantly reviewed and monitored by the Asset and Liability Committee (ALCO) and the Board. Capital ratios are monitored and managed through monthly reporting to ALCO.

We raised a £20m tier 2 instrument during the period and drew down £15m of the commitment in 2023. We also increased tier 1 resources during the period by £18.8m after regulatory adjustments.

We held surplus regulatory capital during 2023 and are forecast to hold a surplus during the forecast strategic period through to 2026.

ALCO monitors liquidity and funding risks in line with our risk appetite and the outcomes of our annual ILAAP. We primarily operate in the UK retail deposit market and have continued to provide customers with retail savings products, diversifying into the business savings market during the year. The liquidity coverage ratio has continued to exceed the regulatory requirements throughout 2023.

We have arrangements in place to maintain adequate liquid assets to meet our liabilities. For more details on liquidity risk management, see note 30 to the financial statements.

Liquidity has remained stable during 2023, notwithstanding the increase in funding costs driven by the increased rate environment. We benefit from access to certain Bank of England funding schemes, and continually review our headroom according to scheme availability and the quantum and quality of collateral we pledge.

The outcome of a regulatory consultation known as Basel 3.1 is a key risk on the horizon. We are preparing to either comply with this regime for capital purposes or adopt an alternative regime known as the strong and simple framework. We will consider the final form of the respective policy requirements, which are due to come into force in July 2025, once they’re published.

Risk appetite statement

Cynergy Bank has a low appetite for capital, liquidity and funding risk. We will maintain a sufficient level of capital, liquidity and funding to effectively support the business under stressed conditions. Cynergy Bank has no appetite for a failure to comply with regulatory minimal requirements.

Supporting risks

	Definition
Capital risk	The risk that we will not have enough capital to cover unexpected losses, meet regulatory requirements or support our growth plans.
Liquidity and funding risk	The risk that we do not hold sufficient liquid assets to meet our liabilities, either during business as usual or under stress.
Funding risk	The risk that there is not enough funding to support our balance sheet, so we cannot meet demand from customers to withdraw their deposits.

Examples of how we mitigate and control the risk

- We set a prudent risk appetite which is approved by the Board and reviewed at least annually.
- Our large number of depositors provides diversification, and a high proportion of balances covered by the financial services compensation scheme mitigates the risk of a retail run.
- We monitor current and forecast levels of capital and liquidity against our risk appetite and key risk indicators and regularly report to the Asset and Liability Committee and Risk Committee.
- We have a capital planning framework which requires us to maintain appropriate levels of capital in a range of stressed scenarios.
- The capital forecast forms an integral part of the annual budgeting process and is stress tested through our ICAAP.
- We maintain liquidity buffers based on various stressed liquidity scenarios and liquidity stress testing informs our ILAAP.
- We monitor our liquidity position daily and have clearly documented escalation procedures.
- We have controls in place to mitigate capital, liquidity and funding risks. These controls are tested regularly and are subject to a formal risk control self-assessment process. Any identified weaknesses in the control framework are remediated with oversight from the second line of defence.
- Our lending book is funded by our deposits, capital and retained profits. We do not wholly rely on wholesale markets.
- We seek an appropriately diverse and stable funding base, including maintaining our access to Bank of England facilities, rather than rely on a small range of products and maturities.
- Liquidity resolution, recovery and contingency plans are developed alongside the ICAAP and ILAAP and detail the action we will take in the event of a liquidity shortfall.

Market risk

Definition

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

2023 update

Interest rates increased throughout 2023, rising nine times in the course of the year from 3.5% in January to 5.25% by December. These rate rises were applied by the Bank of England to tackle escalating inflation, which remained above the Bank of England target during 2023.

We consider future interest rate scenarios within our risk appetite framework for market risk. We also consider future interest rate scenarios within the strategic planning process and within stress testing. Various ‘rate up’ and ‘rate down’ scenarios (including those recommended under European Banking Authority stress testing) pose a risk to our earnings. We manage our exposure to these scenarios within a Board-approved level of risk appetite by testing scenarios every month and adapting our strategy accordingly.

Interest rate increases had a positive impact on income generation for Cynergy Bank during 2023. These benefits are expected to subside during 2024, with risk of an impact on earnings if the UK base rate starts to fall. We adopt central planning scenarios to prepare for such impacts and calibrate our strategy accordingly.

Due to the interest rate increases, we increased the amount of lending to customers on fixed rate products, with £1,840m/52% of loans provided on a fixed rate as at year end 2023 (£756m/23% 2022). We adopt a hedging strategy, such that fixed rate loans are matched to interest rate swaps or designated liabilities throughout their duration. We oversee this strategy through carefully monitored risk appetite metrics.

During 2023, we continued our work on reference rate reform, further reducing the number of customers on LIBOR linked facilities and transitioning them to the Bank of England base rate. A very small balance of customers had not transitioned at the end of 2023, so we took appropriate steps to move these customers to a new reference rate.

We are closely managing these challenges. Our market risk appetite ensures that market risk is managed and monitored to reduce the risk of instability of earnings.

Risk appetite statement

Cynergy Bank has a low appetite for market risk. Any market risk can only be incurred to ensure efficient management of the balance sheet: that is, we will not operate a trading book and will not (for example) take open positions on our own account (known as proprietary trading).

Supporting risks

	Definition
Currency risk	The current or prospective risk to our earnings and own funds from adverse movements in currency rates.
Interest rate risk	The current or prospective risk to our earnings and own funds arising from adverse movements in interest rates.
Treasury counterparty risk	The risk that acquired securities or cash deposits with other financial institutions are not repaid in part or in full or meet contractual timeframes.

Examples of how we mitigate and control the risk

- We have a policy that only allows deposits to be placed with higher rated banks or invested in high-quality liquid assets, in line with the PRA's guidance on credit ratings.
- We set a risk appetite for market risk that is monitored and reported to the Executive Committee, Asset and Liability Committee and Risk Committee.
- Breaches of triggers or limits are escalated.
- We measure exposure to interest rate risk in the banking book and currency exposure on a regular basis and, where mismatches exist that are outside of risk appetite, our treasury function actively hedges the exposures to match the repricing dates of assets and liabilities and any currency exposure.
- In 2023, we used interest rate swaps to hedge interest rate risk of new fixed rate lending, among other hedging activity.
- We segregate duties within the finance team covering treasury activities.
- A dedicated second-line prudential risk team provides oversight.
- We regularly test the controls we have in place to mitigate market risk, which are subject to formal risk control self-assessments.
- Any weaknesses we identify in the control framework are remediated with oversight from the second line of defence.

Operational risk

Definition

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks are diverse: they can arise from all our activities and business lines.

2023 update

The second line of defence’s operational risk capability has now been enhanced to cover most operational risks in the taxonomy. We’ve issued new operational risk policies and incident handling guidelines. Extensive work on Resolver, our risk management system, has enhanced the consistency and uniformity of our approach to risk management, especially in respect of risk dashboards, incident management and reporting to governance committees via thematic reviews, trend analysis and oversight. We enhanced our internal control framework and invested in new colleagues with expertise in the various operational risks we face.

The following operational risk themes were high on our agenda through 2023:

Operational resilience:

- An assessment of the operational resilience framework and the preparedness for regulatory compliance by March 2025 was undertaken by the second line of defence and reviewed by the Board.
- We have an operational resilience strategy and policy and business continuity plans, which we test regularly.
- We have recovery time objectives for critical business services where a sustained operational failure would be detrimental to customers.
- We maintained our business continuity certification (ISO 223001:2019).

Suppliers and outsourcing:

- As part of our Human Digital Bank strategy, we continued and enhanced our material outsourcing arrangements with third-party providers of IT services and customer operations.
- We also enhanced our vendor management and outsourcing framework with a new contract management system, which provides improved oversight and risk management of these third-party relationships.
- The Board approved an updated IT strategy and an investment plan for the strategic period.
- We extended the licence for our core banking platform by five years to 2031.
- We continually assess change management risks under the risk management framework.
- Our transformation programme is supported by a governance structure and risk oversight programme under the ERMF, which ensures that all issues affecting the delivery of the programme are tracked and reported. This governance extends to the change control process for all material projects.

Information security/cyber risk:

- We continued investing in information security controls to strengthen the detection and anti-penetration measures we use to prevent and mitigate the impact of IT security breaches.
- Colleagues get regular training and information about information security.

People risk:

- The number of people we recruited grew significantly.
- Staff turnover remains at planned levels that are within risk appetite.
- We embedded our post-Covid office-based working policy.
- All colleagues are set up to work in one of our offices and remotely.

Premises risk:

- We moved to new London premises in 2023 while reducing the IT risks surrounding the move, including the risk of moving key IT equipment.

Data risk:

- We reviewed and updated our data governance policies, procedures and supporting controls.
- Embedding the data governance policy more deeply is a priority for the forthcoming strategic period.

Risk appetite statement	
<p>Cynergy Bank has a low appetite for operational risk and must make resources available to control operational risks to acceptable levels. We recognise that it is not possible, or necessarily desirable, to eliminate some of the risks inherent in our activities. Tolerance of some operational risk is often necessary to foster innovation and efficiencies within business practices; however, these risks must be assessed and understood before they are accepted.</p>	
Supporting risks	
	Definition
People risk	The risk that we are unable to recruit or retain sufficient people with the right skills and knowledge to deliver our strategic objectives.
Supplier/outsourcing risk	The risk of damage as a result of failure in selection and/or ongoing management and oversight of a third party.
Business continuity and premises risk	The risk that we are unable to continue to deliver our products and services at acceptable levels following a disruptive event which impacts on our premises or other physical assets.
Change management risk	The risk that our material change programmes fail to deliver the intended outcomes. The risk that change programmes fail to deliver on time or to budget, resulting in impact on customers and/or a material adverse impact on our financial position.
IT operational risk	The risk that any adverse events could threaten and harm our IT infrastructure and assets, ultimately leading to us being unable to carry out our business operations and deliver critical products and services to customers.
IT change risk	The risk that poorly designed or controlled IT changes could have an adverse impact on critical IT systems and infrastructure, ultimately resulting in us being unable to deliver products and services to customers.
Information security and cyber risk	The risk to us or our customers from the potential for unauthorised access, loss, use, disclosure, disruption, modification or destruction of paper or digital information.
Financial control and reporting risk	The risk of inaccurate or late reporting of financial information (internally or externally) and/or Cynergy Bank failing to maintain effective control over financial planning and cost management processes.
Process risk	The risk that our colleagues fail to execute processes correctly, resulting in financial loss and/or customer detriment.
Data risk	The risk to us or our customers due to poor quality, unavailable and/or underutilised data – leading to inaccurate regulatory data operations, substandard analytical operations and/or the loss of competitive advantage.
Model risk	The risk that our models are designed incorrectly, are based on inaccurate data, do not achieve the purpose for which they have been designed and/or that models are not used correctly or are applied inappropriately.

Health and safety risk

The risk of our colleagues, contractors, visitors or customers being harmed as a result of our failure to identify and control workplace hazards.

Examples of how we mitigate and control the risk

- Our processes and standards are established by an operational risk management framework that is aligned to meet regulatory standards.
- We have an operational resilience policy and business continuity plans, which are tested regularly.
- We have a risk management information system for monitoring the key risks, issues and incidents across the business.
- We use a series of tools designed to identify and prevent network/system intrusions.
- The effectiveness of our controls is overseen by our IT security forum and we employ specialist IT security staff.
- We have a second-line Cyber Risk Manager to oversee and challenge first-line cyber risk controls.
- We invest in information security controls to make sure our detection and anti-penetration measures effectively prevent and mitigate the impact of IT security breaches.
- Colleagues get regular training and information about information security.
- We design recovery time objectives for critical business services (those where a sustained operational failure would be detrimental for customers).
- We have operational processes and procedures that are clearly documented, understood and subject to second-line oversight and challenge.
- Senior management identify operational risks across their businesses and regularly assess the effectiveness of controls that mitigate those risks.
- We apply a material change risk process for higher risk activity and appropriate business-wide governance for smaller change programmes.
- We monitor the operational risk profile versus risk appetite using metrics and key risk indicators, reporting and escalating any breaches to the Risk Committee and the Conduct and Risk Committee.
- We have a Model Governance Committee and model governance framework.
- We have a vendor management and outsourcing framework, which uses a risk-based approach to categorising outsourcing risk.
- We have established cross-coverage of critical roles to ensure continuity of service to our customers.

Conduct risk

Definition

Any action of Cynergy Bank or an individual identified within Cynergy Bank that leads to customer detriment or has an adverse effect on market stability or effective competition.

2023 update

We have a robust conduct risk management framework supported by relevant policies and procedures to manage conduct risk as a core component of our strategic plans. New and emerging regulatory-driven changes are overseen through a formal horizon-scanning (emerging risks) process.

In 2023, we embedded our approach to conduct risk across a range of initiatives related to treating customers fairly and the Consumer Duty regulations. We paid particularly careful attention to how we approach borrowers and savers faced with a more uncertain interest rate and inflationary environment – and supported those customers facing financial difficulty.

Our Products and Services Committee oversees fair customer outcomes and regulatory compliance associated with implementing, changing and reviewing products and services.

We implemented frameworks, supporting systems and controls to meet the FCA’s Consumer Duty deadline, phase 1, which came into regulation on 31 July 2023. Our provisions to comply with phase 2 of the Duty by the FCA’s deadline of 31 July 2024 for closed book products are also advanced. We’ve made significant preparations for these new regulations, overseen by the Conduct and Risk Committee and Audit Committee. In support of this, as part of the steps to comply with the Duty, we:

- Carried out an organisation-wide review to make sure the Consumer Duty is embedded into the culture of the business
- Introduced specific management information
- Introduced a price and fair value framework
- Refreshed our product and services governance framework

Following a root-cause analysis into the drivers of customer complaints, we made significant investments to enhance customer experience. We tracked the results of this investment and identified priorities for 2024 to improve targeted areas of customer experience even more.

Risk appetite statement

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

Supporting risks

	Definition
Product and pricing risk	The risk that our products and services do not meet the needs of the customers they are targeted at and/or are not kept up to date and fair via a regular review process.
Customer journey conduct risk	The risk that our customers are not treated fairly and/or experience detriment as a result of the way in which our business model operates.
Competency, culture and reward risk	The risk that the way in which our people are trained, managed or rewarded does not deliver fair customer outcomes.

Vulnerable customer risk

The risk that by failing to identify and manage vulnerable customers correctly, we fail to treat them fairly and/or cause them detriment.

Examples of how we mitigate and control the risk

- We have a conduct risk management framework supported by relevant policies and procedures, as a core component of our strategic plans.
- We set conduct risk appetite and key risk indicators that are reported to the Conduct and Risk Committee, Audit Committee and Risk Committee.
- Our business units review conduct risks and the four Consumer Duty outcomes (plus a separate vulnerable customer outcome) once a month.
- Management information from first-line risk owners is presented to the Conduct and Risk Committee monthly for senior management to challenge and review.
- Our new product approval process gives us clear oversight of fair customer outcomes and regulatory compliance associated with implementing, changing and reviewing products.
- Our risk and controls assessment process provides a framework for identifying and testing how we control conduct risks.
- We have a conflicts of interest register and controls to make sure conflicts do not create conduct issues.
- We segregate duties where required to protect customer interests.
- We complete regular assurance testing of business activities with the potential to cause customers harm.
- We record and use root cause analysis to investigate risk events, Consumer Duty outcomes and complaints that result in poor customer outcomes.
- We monitor product sales against expectations and forecasts and, where these are materially different, review why this is happening.
- New and emerging regulatory-driven changes are overseen through a formal horizon-scanning (emerging risks) process.
- Our values and our risk culture statements promote customer-focused behaviours among our colleagues.

Legal, compliance and financial crime risk

Definition

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

2023 update

Cynergy Bank adopts all regulatory, legal and compliance requirements in a proportionate way that satisfies the requirements of the regulatory organisations overseeing its activities.

In 2023, our exposure to compliance risk was stable. Our assessment of Cynergy Bank’s ability to effectively manage ongoing and new regulatory change with effects on our strategy also remained stable.

With regard to financial crime, we actively track and report against seven risk categories:

- Money laundering
- Tax evasion
- Sanctions
- Terrorist financing
- Fraud
- Proliferation financing
- Bribery and corruption

The financial crime risk we face remained stable after a programme of enhancement and investment. We enhanced controls and invested in technology to reduce the likelihood and impact of fraud.

Nevertheless, we’re still seeing rapidly evolving, new and emerging fraud risks that have the potential to affect operational stability unless we mitigate the risk and invest in preventative controls.

Risk appetite statement

Cynergy Bank has no appetite for material breaches, financial losses or reputational damage arising from the systematic failure to comply with laws and regulations. We have a very low appetite for loss as a result of non-systemic events.

Supporting risks

	Definition
Legal risk	The risk of loss resulting from a legally defective transaction or claim against the Cynergy Bank and/or a failure to recognise the impact of a change in law relating to our activities.
Compliance risk	The risk of legal or regulatory sanctions, material financial loss or loss to reputation we may suffer because of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our banking activities.
Money laundering risk	The risk of financial loss, sanctions or reputational damage as a result of us failing to comply with money laundering regulation and legislation.
Tax evasion risk	The risk of financial loss, sanctions or reputational damage as a result of us failing to comply with tax evasion regulation and legislation.

Terrorist financing risk	The risk of financial loss, sanctions or reputational damage as a result of us failing to comply with terrorist financing regulation and legislation.
Sanctions risk	The risk of financial loss, regulatory sanctions or reputational damage caused by a failure by us to identify transactions undertaken with individuals or countries subject to government-imposed sanctions.
Proliferation financing risk	The risk of financial loss, regulatory sanctions or reputational damage caused by a failure by us to identify transactions which could result in the development or deployment of weapons of mass destruction.
Fraud risk	The risk of loss as a result of fraudulent activity undertaken by a member of staff (internal fraud) or by third parties (external fraud).
Bribery and corruption risk	The risk of financial loss, sanctions or reputational damage as a result of a failure to comply with the requirements of relevant bribery and corruption legislation.

Examples of how we mitigate and control the risk

- We set risk appetite and key risk indicators that are reported to the Conduct and Risk Committee and the Risk Committee.
- Our risk and controls assessment process identifies and tests our key controls over compliance and financial crime risks.
- We maintain incident logs for compliance breaches and near misses; incidents are investigated and escalated to senior management and the Board (as required).
- Roles and responsibilities are clearly assigned, and we segregate duties for key compliance processes.
- We complete regular assurance testing of our business activities, including thematic reviews of relevant regulatory topics and emerging themes.
- We scan the horizon for new and emerging regulatory-driven changes.
- All significant regulatory initiatives are managed by structured programmes, sponsored at executive level.
- We make use of independent expert legal and regulatory advice where appropriate.
- We have a Compliance Director and a Head of Financial Crime who lead our compliance and financial crime functions, respectively.
- We have a programme of colleague training and awareness on compliance and financial crime matters.
- We have financial crime policies and procedures.
- We use bespoke data-monitoring systems for onboarding and transaction monitoring.
- We check and screen new joiners.
- We conduct a financial crime risk assessment every year and report the findings to the Board.

EMERGING RISKS

New risks emerge all the time, so risk management has to be dynamic. We follow a structured approach to identifying and monitoring emerging risks that could, in the future, affect our business model.

Cynergy Bank is monitoring the following emerging risks:

Risk	Assessment	Approach
<p>Geopolitical uncertainty</p>	<p>Global political uncertainty is heightened. The Russian invasion of Ukraine followed by tensions in the Middle East have and will continue to cause uncertainty within the global supply chains and the UK economy. The impact of sanctions, global inflation and reduced economic growth, together with interest rate rises, present us with strategic, credit and operational risks.</p>	<p>We have considered a range of severe but plausible scenarios as part of our stress testing. These have informed our capital, liquidity and funding plans. We recalibrated the pace at which we execute our strategy as a result of these risks.</p> <p>We continually monitor our strategy and risk appetite metrics in the face of these uncertainties.</p> <p>We have invested in operational capability and capacity to keep our important business services resilient in the event of prolonged global uncertainty.</p>

Risk	Assessment	Approach
<p>Regulatory change and intervention</p>	<p>Cynergy Bank operates in a rapidly evolving regulatory environment. There are significant changes to conduct and prudential regulations on the horizon. In particular, we are monitoring and developing our approach to two key changes:</p> <p>Basel 3.1 Strong and Simple Regime Basel 3.1 is a new set of rules about capital adequacy, now in consultation and due to come into effect in July 2025. Simultaneously, the PRA is creating a more specific regulatory regime for small domestic deposit takers. The final regulatory rules for both, arising from key consultation papers covering capital requirements and credit risk, are due in the second quarter of 2024. These could result in new or increased capital requirements for smaller banks, including Cynergy Bank. We will need to take steps to transition to the scheme of choice.</p> <p>Consumer Duty This set of three cross-cutting rules, regulated by the FCA, requires firms to act in good faith, avoid causing foreseeable harm and enable and support customers to pursue their financial objectives.</p>	<p>We set up a project team to focus on assessing the capital and other prudential impacts on Cynergy Bank, to inform the consequences of the final consultations and to take appropriate steps to transition to the scheme of choice.</p> <p>We’ve made significant preparations for these new regulations, overseen by the Conduct and Risk Committee and Board Audit Committee. This included an organisation-wide review to embed Consumer Duty into our systems, controls and culture.</p>

Risk	Assessment	Approach
<p>Change and operational resilience</p>	<p>Our strategy depends on successfully delivering significant change. We refreshed our IT strategy in 2023 and also have a significant portfolio of investments to support our transformation.</p> <p>At the same time, we have to balance our growth ambitions with the rapidly changing market conditions and economic forecasts. The changes to the interest rate environment have driven significantly more customer interactions. We have also had to adapt our suite of lending and deposit products to reflect the changing needs of our customers. This has increased the operational risk and change risk we face.</p> <p>Maintaining operational resilience is a priority. PRA Supervisory statements 1/21 (operational resilience: impact tolerance for important business services) and 2/21 (outsourcing and third party risk management), published as complementary documents, set expectations that we will look beyond normal measures to prevent incidents. We are expected to plan and test our response to and recovery from, and provide contingency arrangements for, disruptions that would affect customers’ access to important business services. This affects all material third-party contracts, with demanding requirements related to our use and oversight of outsourced arrangements.</p> <p>As several of our key services are outsourced, and outsourcing arrangements will continue to increase as part of the Human Digital Bank strategy, making sure our service providers’ performance is satisfactory is an essential part of ensuring operational resilience.</p>	<p>We constantly evaluate the business as usual and strategic risk arising from our strategic programme. Risks arising from delays experienced in the programme are evaluated under the risk management framework. Where necessary, we make mitigation plans and consider the impacts on the strategy to make sure the programme risks are appropriately calibrated.</p> <p>We’ve invested in additional specialist capability and developed an operational risk and resilience roadmap to make sure we meet the emerging regulatory requirements.</p> <p>We are embedding our vendor risk assessment process. We have tools to monitor suppliers’ and vendors’ performance and reduce the risk and impact of incidents arising from outsourced activities and supplier arrangements.</p> <p>We have contingency plans for all material contracts. We’ve implemented the findings of independent assurance work to monitor and manage the risks associated with outsourcing critical services.</p>

Risk	Assessment	Approach
<p>Volatile interest rates and uncertain economic outlook for the UK economy</p>	<p>As a UK-centric bank, the uncertainties around the UK economy – created by the recent high inflationary environment and consequent interest rate increases – continue to influence our ability to deliver our strategy.</p> <p>The medium-term impact of these adjustments on the UK economy remains unclear, but prolonged periods of uncertainty within the UK and global economies may affect the performance of certain segments of our lending portfolio, leading to higher impairments.</p> <p>A rapidly changing and volatile interest rate environment may affect our ability to adequately manage our earnings risk. Marked movements in interest rates pose a material risk to our earnings.</p> <p>Customers’ expectations of higher rates, coupled with increased market competition, may require us to offer higher rates to retain customers and meet our liquidity and funding requirements.</p> <p>The reality of high levels of unemployment, high energy prices, high inflation and interest rates, plus issues with global supply chains, imposes significant credit and operational challenges.</p> <p>Maintaining a competitive proposition, in the face of cost pressure resulting from the elevated inflationary environment, could result in a net interest margin squeeze that has a negative impact on our earnings.</p>	<p>We’ve carefully reviewed our market risk appetite and calibrated our risk capacity to allow for a greater proportion of our loan book to be provided on fixed rate products. We monitor market risk through a range of risk appetite metrics, overseen by the Asset and Liability Committee and Board Risk Committee.</p> <p>We use regular stress testing to examine the risk to and impacts on our balance sheet from changes in economic conditions, including higher interest rates and loan impairments. Our strategy is periodically reviewed and calibrated to the results of these tests in line with the requirements of our risk management framework.</p> <p>We emphasise asset quality, preparing to support customers facing potential financial stress because of the changing economic landscape and higher interest rates.</p> <p>We have scrutinised liquidity and funding risk, which has increased thanks to the changing landscape in the consumer deposit market, following the year’s significant interest rate increases. We launched new products in the business savings space to diversify our funding options, and, at the same time, protect against margin erosion. We continue to access Bank of England funding schemes as part of our liquidity diversification.</p> <p>We stress test our resilience to short, sharp interest rate movements and manage our risk exposure to these potential scenarios within Board-agreed appetite levels. We use the results of these stress tests to plan for potential scenarios so we can adapt our strategy and reduce earnings risk accordingly.</p>

Risk	Assessment	Approach
<p>Broader range of competitors and intermediation</p>	<p>Competition in our selected markets arises from a range of sources, including traditional challenger banks and mainstream lenders. The emergence and growth of fintechs, non-bank lenders and new entrants from outside of the financial services sector, with increasingly sophisticated digital offerings, heightens competition. This competition could compress margins and slow growth, both of which are key drivers of our profitability.</p>	<p>We invest in ongoing customer, market, competitor and industry insight to understand our customers’ needs and how we compare with peer group competitors.</p> <p>Recognising the pace of change in the banking industry, including the consequent impact on customers’ expectations, we have a strategic change programme that will provide infrastructure, enhanced capability and the ability to adapt and launch new products, features and services in an agile and cost-efficient way.</p> <p>We refreshed our IT strategy in 2023 to support the rollout of products and services envisaged in our strategic plan.</p>
<p>Cyber sophistication and digital pace of change</p>	<p>Cyber risk is an ongoing risk. However, the emergence of increasingly sophisticated, targeted and destructive ransomware and phishing attacks, combined with the increasingly rapid deployment of digital solutions for delivering our products and services, means that it is also classed as an ‘emerging’ risk.</p> <p>Our regulators are also focused on cyber-security. New regulatory requirements around digital platforms, outsourcing services and operational resilience are likely to emerge.</p> <p>Furthermore, the increasingly rapid deployment of digital solutions in our markets creates several potential wider digital risks:</p> <ol style="list-style-type: none"> 1. Accelerating digital technologies, which could lead to labour shortages if we can’t upskill our people to use them 2. The pace of digital transformation and the threat of emerging digital disruption 3. Overall cyber-security and privacy visibility 	<p>To keep pace with the ever-changing cyber-security landscape, we introduced new security services including, among other things, a 24/7 security event information management system and a security operations centre.</p> <p>To support our colleagues, cyber-security training is conducted on a regular basis.</p> <p>We mitigate the risks associated with the rapid adoption of digital technologies using robust reviews by our technical design authority and security service. These reviews ensure we can introduce and transition any new technology in a secure and supportable manner. We have also upgraded programme management and adopted component-based implementation alongside simplified monitoring tools.</p> <p>We will continue to roll out and enhance cyber-security tools, simulate cyber-security events to hone our response to incidents and complement this with more cyber-security awareness training for our people.</p>

FINANCIAL STATEMENTS

Contents

Independent auditors' report to the members of Cynergy Bank Limited.....	80
Consolidated and company income statement	89
Consolidated and company statement of comprehensive income	89
Consolidated and company statement of financial position	90
Consolidated and company statement of changes in equity	91
Consolidated and company statement of cash flows	93
Notes to the financial statements	95
Alternative performance measures (unaudited)	163

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYNERGY BANK LIMITED

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's and company's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts, which comprise: the consolidated and company statement of financial position as at 31 December 2023; the consolidated and company income statement, the consolidated and company statement of comprehensive income, the consolidated and company statement of cash flows and the consolidated and company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

We remained independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than those disclosed in note 11, we have provided no non-audit services to the group and company in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

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

Materiality

- Overall group materiality: £3,495,500 (2022: £3,095,000) based on 1% of Net Assets.
- Overall company materiality: £3,300,000 (2022: £3,109,000) based on 1% of Net Assets.

- Performance materiality: £2,621,600 (2022: £2,321,000) (group) and £2,475,000 (2022: £2,331,000) (company).

The scope of our audit

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

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or

not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit loss allowances for loans and advances to customers (group and company)</p> <p>Refer to the accounting policy note 3.11: Impairment of financial assets, 3.12: Collateral Valuation and note 12: Credit loss on financial assets.</p> <p>The group has recorded an impairment loss for the year of £4.4m and the company has recorded an impairment loss of £3.8m.</p> <p>We focus on this area given the judgements and degree of estimation uncertainty involved in the assessment of expected credit losses.</p> <p>We consider the following judgements and assumptions used in the determination of the modelled expected credit loss (ECL) allowance to be significant:</p> <ul style="list-style-type: none"> • Setting of appropriate thresholds for what represents a significant increase in credit risk (SICR). • The determination of forward-looking (FLI) macroeconomic scenarios and the probability weights applied to the respective scenarios. • The completeness of and reasonableness of judgements involved in estimating post-model adjustments (PMA) to adapt parameters estimated by the models to the conditions and current environment. <p>There is heightened risk in the individually assessed Stage 3 loan PMAs, where key assumptions evaluated include expected future cash flows and valuations of collateral held where relevant, and the weightings applied to scenario outcomes. In addition, the bridging sector loans can be subject to delays in refinancing and planning considerations.</p>	<p>We updated our understanding over the expected credit loss allowance process.</p> <p>We evaluated the design and implementation of the key controls.</p> <p>We independently recalculated critical model components and re-performed the calculation of modelled ECL using management’s data.</p> <p>We assessed whether the ECL calculations were consistent with the company’s approved model methodologies.</p> <p>We independently performed key aspects of model monitoring relating to accuracy and sensitivity analysis across probability of default (PD), loss given default (LGD) and exposure at default (EAD).</p> <p>Significant increase in credit risk (SICR)</p> <p>We assessed SICR methodology against IFRS 9. This included an evaluation of the methodology to assess whether the methodology appropriately reflected various macro-economic factors on certain model assumptions, as well as the criteria set by management for determining whether there had been a SICR.</p> <p>We tested staging criteria assessments, on a sample basis and with reference to underlying evidence, to assess whether loans were categorised into the appropriate stage.</p> <p>Forward looking economic scenarios and scenario probability weightings</p> <p>We assessed the reasonableness of the multiple economic scenarios, the scenario probability weightings adopted by management and considered external economic data and consensus forecasts and whether management’s forecasts appropriately reflected the possible macroeconomic consequences, and wider UK economic developments.</p> <p>As part of our testing of the scenario probability weightings implemented, we considered the reasonableness of the weights assigned to the outer scenarios and made a comparison to external consensus forecasts, historic events and external scenarios.</p>

Key audit matter	How our audit addressed the key audit matter
	<p>Similarly, we evaluated the severity of downside scenarios and the loss distribution implied by these scenarios to assess whether non-linearity was adequately captured.</p> <p>Post model adjustments (PMAs) and overlays</p> <p>We considered whether management had identified PMAs and overlays where risks were not captured in the modelled ECL allowance, and whether appropriate methodologies and assumptions were applied in their calculation to evaluate the appropriateness of each of the PMAs.</p> <p>We assessed the individually assessed stage 3 loans on a sample basis and tested key assumptions underpinning the expected future cash flows, the valuations of collateral held, to underlying evidence.</p> <p>Overall, based on the procedures performed and the evidence obtained, we found management’s determination of expected credit loss provision to be reasonable and materially compliant with the requirements of IFRS 9.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Recognition of revenue on loans and advances (group and company)</p> <p>Refer to the company’s accounting policy in note 3.5: Effective interest Rate and note 5: Interest income.</p> <p>The group and company recognise interest income using the effective interest rate method. Arrangement fees and expected early repayment charges are deferred over the expected lives of the loans.</p> <p>The expected life is considered a significant assumption to management’s methodology and the area of significant risk.</p> <p>We focus on this area because the expected life assumptions that are applied to each category of loans are judgemental and formed using actual experience of redemptions and customer behaviours. While the expected life assumption utilises past customer experience, management judgement is involved in determining the period of data to be used and if that is sufficiently predictive of future customer behaviour.</p>	<p>We updated our understanding over the effective interest rate (EIR) process.</p> <p>We evaluated the design and implementation of the key controls.</p> <p>We performed substantive testing over recorded interest income and assessed the application of judgement to the treatment of effective interest rate accounting for fees and costs.</p> <p>The audit work we performed over the EIR included the following:</p> <ul style="list-style-type: none"> • Assessed the reasonableness of assumptions used by management including the behavioural life of the loans and amortisation profiles. • Performed sensitivity analysis over the expected life assumptions used in management’s upfront fee and early repayment charges model. • Performed analysis of historic behavioural lives and contractual lives to assess the applicability of management’s past data to predict customer behaviour moving forward. • Assessed the appropriateness and consistency of the model calculation and corresponding methodology. • Evaluated the disclosures made in the financial statements. <p>Based on the work performed, we found the methodology, judgements and assumptions used to be appropriate and the financial statements disclosures to be materially compliant with the requirements of IFRS 9.</p>

How we tailored the audit scope

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

The group, which includes Cynergy Bank Limited and its subsidiary Cynergy Business Finance, is based in the UK, operating across five locations. Cynergy Bank provides retail and wholesale banking services. Cynergy Business Finance provides invoiced based lending and block discounting lending to customers in the United Kingdom.

We performed a risk assessment, giving consideration to relevant external and internal factors, including macroeconomic risk, climate change, relevant accounting and regulatory developments, as well as the company's strategy. The scope of the audit work performed was predominantly substantive as we placed limited reliance upon the group's internal control over financial reporting. We performed audit procedures over all material account balances and financial information of the group and company, with reference to the materiality levels set out below.

The impact of climate risk on our audit

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

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

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

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole for the year ended 31 December 2023.

Materiality

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

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

	Financial statements - group	Financial statements - company
Overall materiality	£3,495,500 (2022: £3,095,000).	£3,300,000 (2022: £3,109,000).
How we determined it	1% of Net Assets	1% of Net Assets
Rationale for benchmark applied	Net assets is a key measure used by the shareholders in assessing the performance of the group as it represents the equity invested, and is relevant to the financial stability of the group.	The company is a wholly owned subsidiary of Cynergy Capital Limited. The principal users of the financial statements are the shareholders and directors of the parent company who have their equity invested and regulators who would be focussed on the adequacy of capital resources. Other measures such as total assets are not considered more relevant as being a bank, the total assets can be volatile depending on the nature of transactions entered into. In addition, net assets, although a financial accounting measure, is more closely aligned with the regulatory capital. Accordingly, we concluded that net assets is the more relevant measure when assessing the performance of the company, and is an accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £2,990,000 to £3,300,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £2,621,600 (2022: £2,321,000) for the group financial statements and £2,475,000 (2022: £2,331,000) for the company financial statements.

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

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £175,000 (group audit) (2022:

£155,000) and £174,000 (company audit) (2022: £155,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons

Conclusions relating to going concern

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

- assessing and challenging key assumptions used by directors in their determination of going concern of the group and company;
- assessing the liquidity and capital forecasts prepared by management. This included reviewing the results of stress testing performed by management of both liquidity and regulatory capital, including considering the severity of the stress scenarios that were used;
- assessing the external and intragroup arrangements with respect to financing and operational support on which the group and company depend, and the continued availability of these;
- evaluation of the liquidity resources held, and the maturity and diversification profile of customer and bank deposits;

- evaluation of the liquidity facilities available to the company, for example from the Bank of England;
- review of correspondence with, and making enquiries of the Prudential Regulation Authority (PRA), to assess whether there were any issues which may impact the going concern of the group and company;
- consideration as to whether our audit procedures have identified events or conditions which may impact going concern of the group and company; and
- review of the appropriateness of the disclosures in the financial statements.

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

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, the relevant rules of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and management bias in significant accounting estimates.

Audit procedures performed by the engagement team included:

- Making enquiries of the Board Audit Committee, Internal Legal Counsel, Chief Compliance Officer, Internal Audit and key members of the executive management team, to determine whether there are any instances of known or suspected fraud and or non-compliance with laws and regulations;
- Critically assessing significant accounting estimates, in particular in relation to the expected credit loss allowance for loans and advances to customers, and revenue recognition from effective interest rate adjustments, for evidence of bias (see related key audit matters above);
- Identifying and testing journal entries based on risk-based criteria, in particular journal entries posted by senior management, journal entries with unexpected account combinations and journal entries posted and then approved by the same individual; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

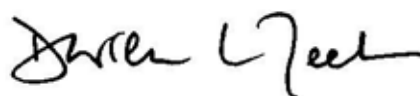
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board Audit Committee, we were appointed by the members on 5 July 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2019 to 31 December 2023.



Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 April 2024

Consolidated and company income statement

For the year ended 31 December 2023					
	Note	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Interest income calculated using the effective interest method	5	276,395	268,323	167,199	163,622
Other interest and similar income	5	41,559	41,559	1,610	1,610
Interest expense calculated using the effective interest rate method	6	(128,355)	(128,346)	(44,103)	(44,091)
Other interest and similar expense	6	(34,811)	(34,811)	(1,578)	(1,578)
Net interest income		154,788	146,725	123,128	119,563
Fee and commission income	7	2,606	1,012	1,667	1,101
Foreign exchange gains/(losses)	8	42	150	(1,194)	(1,253)
Fair value gain on derivative instruments	17	2,110	2,110	3,983	3,983
Total operating income		159,546	149,997	127,584	123,394
Staff costs	9	(49,464)	(44,710)	(40,306)	(37,109)
Depreciation, amortisation and impairment	10	(7,072)	(6,951)	(5,758)	(5,700)
Other operating expenses	11	(43,684)	(42,833)	(31,161)	(30,452)
Total operating expense		(100,220)	(94,494)	(77,225)	(73,260)
Gain on sale of property	21	276	276	9,230	9,230
Profit before credit loss expense on financial assets		59,602	55,779	59,589	59,364
Credit loss expense on financial assets	12	(4,445)	(3,836)	(9,100)	(8,184)
Profit before tax		55,157	51,943	50,489	51,180
Income tax expense	13	(14,544)	(13,753)	(10,233)	(10,369)
Profit after tax		40,613	38,190	40,256	40,811
Profit/(loss) attributable to:					
Owners of the company		40,307	38,190	40,299	40,811
Non-controlling interest		306	-	(43)	-
Profit after tax		40,613	38,190	40,256	40,811

Consolidated and company statement of comprehensive income

For the year ended 31 December 2023					
	Note	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Other comprehensive income					
Profit for the year		40,613	38,190	40,256	40,811
Other comprehensive income not to be reclassified to profit or loss:					
Revaluation of property on transfer to held for sale		-	-	1,474	1,474
Income tax relating to own properties	13	(509)	(509)	-	-
Total comprehensive profit for the period attributable to the equity holders		40,104	37,681	41,730	42,285

The notes on pages 95 to 163 form an integral part of these financial statements.

Consolidated and company statement of financial position

For the year ended 31 December 2023					
	Note	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Assets					
Cash and balances with central banks	14	697,790	697,790	553,007	553,007
Placements with banks	14	63,156	42,071	102,320	90,265
Loans and advances to customers	15	3,564,297	3,405,194	3,254,230	3,157,024
Other assets	16	82,142	81,940	42,031	41,995
Derivative assets	17	4,512	4,512	12,404	12,404
Investment in securities	18	127,547	127,547	113,377	113,377
Intangible assets	19	49,303	49,137	27,469	27,196
Intercompany receivable		-	175,428	-	109,686
Right-of-use assets	20	11,553	11,553	11,891	11,891
Property and equipment	21	3,861	3,853	914	892
Assets classified as held for sale	21	7,070	7,070	7,070	7,070
Investment in subsidiary	31	-	1	-	1
Total assets		4,611,231	4,606,096	4,124,713	4,124,808
Liabilities					
Customer deposits	22	3,758,037	3,758,037	3,336,442	3,336,442
Bank deposits	23	359,667	359,667	390,170	390,170
Lease liabilities	20	12,873	12,873	12,065	12,065
Other liabilities*	24	83,883	79,304	72,752	71,332
Derivative liabilities	17	32,374	32,374	3,838	3,838
Intercompany payable		-	354	-	-
Subordinated loan	25	14,847	14,847	-	-
Total liabilities		4,261,681	4,257,456	3,815,267	3,813,847
Equity					
Share capital	26	202,000	202,000	202,000	202,000
Revaluation reserve		2,433	2,433	3,148	3,148
Accumulated profits		145,003	144,207	104,490	105,811
Equity attributable to owners of the company		349,436	348,640	309,638	310,959
Non-controlling interest		114	-	(192)	-
Total equity		349,550	348,640	309,446	310,959
Total liabilities and equity		4,611,231	4,606,096	4,124,713	4,124,808

*Prior year balances have been reclassified as detailed in note 24.

The notes on pages 95 to 163 form an integral part of these financial statements.

The financial statements on pages 89 to 163 were approved by the Board of Directors on 12 April 2024 and were signed on its behalf by:



Nick Fahy

Chief Executive Officer
Company number 04728421

Consolidated and company statement of changes in equity

Consolidated For the year ended 31 December 2023						
2023						
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total attributable to owners of the company £000	Non-controlling interests £000	Total £000
1 January	202,000	3,148	104,490	309,638	(192)	309,446
Profit for the year after tax	-	-	40,307	40,307	306	40,613
Other comprehensive income	-	(509)	-	(509)	-	(509)
Transfer from revaluation reserve to retained earnings	-	(206)	206	-	-	-
31 December	202,000	2,433	145,003	349,436	114	349,550

Company For the year ended 31 December 2023				
2023				
	Share capital £000	Revaluation reserve* £000	Accumulated profits £000	Total £000
1 January	202,000	3,148	105,811	310,959
Profit for the year after tax	-	-	38,190	38,190
Other comprehensive income	-	(509)	-	(509)
Transfer from revaluation reserve to retained earnings	-	(206)	206	-
31 December	202,000	2,433	144,207	348,640

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

*Property revaluation reserve.

Consolidated and company statement of changes in equity – continued

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

*Property revaluation reserve.

The notes on pages 95 to 163 form an integral part of these financial statements.

Consolidated and company statement of cash flows

For the year ended 31 December 2023					
	Notes	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Operating activities					
Profit before tax		55,157	51,943	50,489	51,180
Adjustments for:					
Allowance for expected credit losses on financial assets	12	4,445	3,836	9,100	8,184
Depreciation of property and equipment	21	1,730	1,717	378	365
Amortisation of intangible assets	19	4,636	4,529	3,876	3,831
Impairment of fixed and intangible assets	21	706	706	1,215	1,215
Gain on disposal of property	21	-	-	(9,230)	(9,230)
Deferred gain on disposal of property		(276)	(276)	(277)	(277)
Lease interest	20	937	937	81	81
Interest on subordinated loan	6	783	783	2,328	2,328
Interest on asset-backed securities	18	(5,667)	(5,667)	(2,570)	(2,570)
Amortisation of issuance costs relating to subordinated loan	25	21	21	-	-
Tax paid	13	(17,052)	(17,052)	(9,937)	(10,096)
Foreign exchange (gains)/losses	8	(42)	(150)	977	1,036
Fair value gains on derivative instruments	17	(2,111)	(2,111)	(3,983)	(3,983)
Changes in operating assets					
Increase in mandatory deposits with central bank	14	(549)	(549)	(1,576)	(1,576)
Increase in loans and advances to customers	15	(313,908)	(251,501)	(313,752)	(223,224)
Increase in intercompany receivables		-	(65,742)	-	(95,146)
Increase in other assets	16	(41,284)	(41,118)	(23,449)	(23,703)
Decrease/(increase) in derivative assets	17	10,003	10,003	(12,350)	(12,350)
Changes in operating liabilities					
Increase in customer and bank deposits	22,23	391,092	391,092	493,923	493,923
Increase/(decrease) in intercompany payable		-	354	-	(30)
Increase in derivative liabilities	17	28,536	28,536	3,409	3,409
Increase in other liabilities	24	13,796	11,426	6,206	5,606
Net cash flow generated from operating activities		130,953	121,717	190,786	184,901

Consolidated and company statement of cash flows – continued

For the year ended 31 December 2023					
	Notes	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Investing activities					
Purchase of property and equipment	21	(3,343)	(3,344)	(877)	(877)
Purchase of intangible assets	19	(27,176)	(27,176)	(6,048)	(5,962)
Purchase of debt securities	18	(76,396)	(76,396)	(17,650)	(17,650)
Redemption of debt securities	18	67,893	67,893	44,625	44,625
Proceeds from sale of property	21	-	-	16,370	16,370
Net cash flow (used in)/generated from investing activities		(39,022)	(39,023)	36,420	36,506
Financing activities					
Proceeds from issuance of new share capital	26	-	-	47,000	47,000
Proceeds from issuance of subordinated loan	25	14,826	14,826	-	-
Capital repayment from finance lease obligations	20	(1,125)	(1,125)	34	34
Net cash flow generated from financing activities		13,701	13,701	47,034	47,034
Net increase in cash and cash equivalents for the year		105,632	96,395	274,240	268,441
Cash and cash equivalents (see note 14)					
1 January 2023		646,528	634,473	372,288	366,032
Net increase in cash and cash equivalents for the year		105,632	96,395	274,240	268,441
Effects of exchange rate changes on cash and cash equivalents		(562)	(355)	760	370
31 December 2023		751,598	730,513	646,528	634,473
Operational cash flows from interest					
Interest paid		(157,755)	(157,747)	(45,681)	(45,669)
Interest received		310,869	302,797	167,199	163,622

Refer to notes 14 and 25 for disclosures of cash and cash equivalents and changes in liabilities arising from financing activities respectively.

The notes on pages 95 to 163 form an integral part of these financial statements.

Notes to the financial statements

1. Corporate information

These financial statements are prepared for Cynergy Bank Limited and its subsidiaries ('the group', 'Cynergy Bank', 'we', 'us', 'our'). Cynergy Bank Limited is registered in England and Wales under company number 04728421, with registered office 4th Floor, One New Change, London EC4M 9AF, is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

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

At 31 December 2023, Cynergy Bank is the immediate owner of 87.5% of the £1,000 ordinary shares of a UK company, Cynergy Business Finance Limited, incorporated on 8 April 2021 in England and Wales, company number 13322121, registered office 4th Floor, One New Change, London EC4M 9AF. This subsidiary is consolidated within these financial statements. The accounting policies used by Cynergy Bank that are relevant to an understanding of the financial statements are stated in note 3.

2. Basis of preparation

These consolidated and company financial statements, including the accounting policies, are prepared on a going concern basis and in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. They have been prepared on a historical cost basis, except for land and buildings classified as property, share-based transaction liabilities and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

In preparing the going concern statement, we took into account all information of which we were aware about the future, which was at least, but not limited to, 12 months from the date that the financial statements were signed. We considered:

- Financial plans and forecast performance
- Capital and liquidity requirements
- Stress testing performed under the internal capital adequacy assessment process (ICAAP), internal liquidity adequacy assessment process (ILAAP) and operational risk, including operational resilience and reliance on outsourced suppliers

The Directors are satisfied that Cynergy Bank is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments. Due to its current financial position, Cynergy Bank Limited has committed to support its subsidiary Cynergy Business Finance Limited for at least, but not limited to, 12 months from the date that the financial statements were signed. The Directors are satisfied that the capital and liquidity positions of the group more than meet regulatory requirements and are adequate for the foreseeable future.

Statement of compliance

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

Presentation of financial statements

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

Cynergy Bank presents its balance sheet broadly in order of decreasing liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within 12 months after the reporting date and more than 12 months after the reporting date is presented in note 30.

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis and to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the **income statement** unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the group's accounting policies.

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 (that is, translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3. Accounting policies

3.1. Accounting standards and interpretations adopted during the period

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

3.2. New accounting standards and interpretations issued by the International Accounting Standards Board but not yet adopted

There have been no new standards or interpretations issued, but not yet adopted, that are mandatory for accounting periods beginning on or after 1 January 2023, up to the date of issuance of Cynergy Bank's financial statements, which are relevant to its operations or are expected to have a material effect on the group.

3.3. Segmental information

Cynergy Bank operates in the United Kingdom in one principal activity, namely the provision of banking services to business and personal customers. There is no requirement for segmental reporting under the International Financial Reporting Standards (IFRS) 8.

3.4. Revenue recognition

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

Net interest income

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

Fee and commission income integral to the effective interest rate

Fees that Cynergy Bank considers to be an integral part of the corresponding financial instruments include:

- Loan origination fees
- Invoice discounting service fees
- Early redemption fees

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

Banking fees and commissions

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

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

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

3.5. Effective interest rate

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

3.6. Provisions

Provisions are recognised when Cynergy Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, we determine 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.

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 for using the liability method.

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

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

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

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

3.8. Financial instruments

Date of recognition

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

Initial measurement of financial instruments

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

Measurement categories of financial assets and liabilities

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

- Amortised cost: Assets that are held for the collection of contractual cash flows – where those cash flows represent solely payments of principal and interest (SPPI) – and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by an expected credit loss (ECL) allowance recognised and measured as described in 3.11. Interest income from these financial assets is included in **interest income** using the effective interest method.
- 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 other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on instruments' amortised cost, which are recognised in the profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within **total operating income** in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held-for-trading, in which case they would be presented separately in **net investment income**.

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

Hedge accounting policy

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

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

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

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

Fair value hedge accounting for portfolio hedges of interest rate risk

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

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

We measure at least monthly, the movements in fair value of the portfolio relating to the interest rate risk that is being hedged. Provided that the hedge has been highly effective, we recognise the change in fair value of each hedged item in the **income statement** with the cumulative movement in their value being shown on the **statement of financial position** as an adjustment to the carrying value of the hedged item.

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

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

3.9. Financial assets and liabilities

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

Cynergy Bank only measures the above at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective of holding 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 SPPI on the principal amount outstanding.

Trade and other receivables at amortised cost

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

Customer and bank deposits at amortised cost

Customer and bank deposits are our sources of debt funding. They comprise deposits from retail customers and collateralised loan advances from the Bank of England under the indexed long-term repo scheme and the term funding scheme with additional incentives for SMEs. These financial liabilities are initially measured at fair value less direct transaction costs and subsequently held at amortised cost using the EIR method.

Derivatives recorded at FVPL

Cynergy Bank classifies and measures its derivative portfolio at FVPL. We enter into derivative transactions with one counterparty. These include interest rate swaps, futures and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fully collateralised derivatives that are settled net in cash on a regular basis through HSBC UK Bank PLC are recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in note 17. Changes in the fair value of derivatives are included in **fair value gain/(loss) on derivative instruments**.

Financial guarantees, letters of credit and undrawn loan commitments

Cynergy Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within provisions) at fair value, being the premium received. Subsequent to initial recognition, our liability under each guarantee is measured at the higher of:

- The amount initially recognised less cumulative amortisation recognised in the **income statement**
- The corresponding 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 arrangement.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, Cynergy Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the **statement of financial position**. The nominal values of these instruments together with the corresponding ECLs are disclosed in note 30.

3.10. Derecognition of financial assets and liabilities

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

3.11. Impairment of financial assets

The impairment of financial assets under IFRS 9 is based on an ECL model. IFRS 9 requires:

- A 12-month (stage 1) ECL calculation where financial assets have not experienced a significant increase in credit risk since origination
- A lifetime ECL calculation where it has been demonstrated that there has been a significant increase in credit risk (stage 2)

The lifetime ECL calculation is further refined into separate stages depending on whether the financial asset is credit-impaired or not.

i) Overview of the ECL principles

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss (12m ECL) as outlined in note 30. Cynergy Bank's policies for determining if there has been a significant increase in credit risk are set out in note 30.

The 12m ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Based on the above process, Cynergy Bank groups its loans into stage 1, stage 2 and stage 3 as described below:

- *Stage 1:* When loans are first recognised, we recognise 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, we record 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. we record an allowance for the LTECLs.

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

ii) The calculation of ECLs

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

- *Probability of default (PD):* 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):* An estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 30.
- *Loss given default (LGD):* An estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 30.

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

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

The mechanics of the ECL method are as follows.

Stage 1:

When a loan is originated or purchased, ECLs resulting from default events that are possible within the next 12 months are recognised (12m ECL) and a loss allowance is established. On subsequent reporting dates, 12m ECL also applies to existing loans with no significant increase in credit risk since their initial recognition. Interest revenue is calculated on the loan's gross carrying amount (that is, without deduction for ECLs). These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios and used within our macroeconomic scenarios, as explained above.

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

Stage 2:

When a loan has shown a significant increase in credit risk since origination, we record an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. The calculation of interest revenue is the same as for stage 1.

Stage 3:

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

Loan commitments:

When estimating LTECLs for loan commitments, we estimate the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at the expected EIR on the loan.

Overdrafts:

Cynergy Bank does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects its expectations of the customer's behaviour, the likelihood of default and our future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on experience and our expectations, the period over which we calculate ECLs for these products is five years for corporate and seven years for retail products. The interest rate used to discount the ECLs for overdrafts is based on the average EIR that is expected to be charged over the life of the instrument.

iii) Use of forward-looking economic information

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information using key economic variables which have an impact on the credit risk and credit losses of the lending portfolio. We have continued to deploy quantitative assessments supported by qualitative expert judgement in the management of our portfolio and to support the identification of SICR in the book. The IFRS 9 model has been updated periodically throughout the year with new macroeconomic forecasts and wider risk monitoring has been utilised to identify areas of risk that are not fully accounted for in our modelled outputs.

The variables of Cynergy Bank's economic modelling are deployed to forecast the PD, LGD and EAD across different scenarios. We partner with a market leader in global forecasting and quantitative analysis to ensure that the economic updates made to its inputs are aligned to market best practice estimates. The four scenarios we use in our macroeconomic forecasting provide an appropriate degree of non-linearity within the ECL calculation. The economic scenarios applied within the IFRS 9 forecasting at year end are outlined below.

Scenario	UK economy output in each scenario
<p>Base (50th percentile)</p>	<ul style="list-style-type: none"> • Gross domestic product (GDP) is expected to expand by 0.5% in 2024, marginally up from 0.4% last quarter due to looser fiscal policy. Though the bulk of the inflation shock is now behind us, the lagged impact of monetary policy tightening will mean the recovery will struggle to gain momentum next year. • The current downturn in house price growth is expected to continue throughout 2024 as falling real incomes, higher interest rates and stretched affordability take their toll. Oxford Economics forecast prices to fall by 5.9% over 2024. • Given that wage growth and inflation are likely to prove sticky, the Monetary Policy Committee (MPC) expected to keep policy steady in the first half of 2024, even though activity is set to remain soft. But these dynamics will change as inflation moves closer to the central bank’s target, and this will create room for rate cuts from next summer. The bank rate is projected to be cut to 4.75% by the end of 2024.
<p>Mild upside (15th percentile)</p>	<ul style="list-style-type: none"> • The mild upside scenario can be thought of as an alternative, more optimistic base case. Households run down savings accumulated during the pandemic at a faster pace than assumed in the baseline, permanent scars to the supply side are avoided, and the economy reverts to its pre-crisis trajectory within a couple of years. • In this scenario, UK GDP accelerates, recording growth of 3% in 2024 and 2.9% in 2025. • The labour market recovers gradually and falls back to its recent decade low of 3.6% by early 2029. • Supported by the turnaround in confidence, incomes and employment, residential house prices only see a mild fall in 2023–25 and recover thereafter. • Inflation also accelerates further in this scenario, reflecting cost-push pressures from higher commodity prices and demand-pull forces from stronger demand, inducing the Bank of England to tighten policy faster than assumed in our baseline forecast. The bank rate reaches a peak of 5.75% by mid-2024 and converges to a higher terminal rate thereafter. Amid increased demand for loans and higher interest rates, gearing in the economy picks up faster than expected in the baseline.

Scenario	UK economy output in each scenario
<p>Downside scenario (85th percentile)</p>	<ul style="list-style-type: none"> • The downside scenario results in a global recession in the near-term. This scenario captures the current risks from higher inflation, higher interest rates, weakening domestic and global demand and continued supply chain disruptions. The subsequent recovery in this scenario is subdued, as the combination of increased risk aversion, lower real incomes and long-term scarring weigh heavily on the global economy. • UK output sees a return to sustained weakness, contracting sharply in 2023 and recovering only gradually from the recession. UK GDP falls around 3.1% start-to-trough as both consumer and business spending is sharply scaled back, and with external demand much weaker than in the baseline. • Employment is severely hit in this scenario as jobs are cut, with much lower demand leading to freezes in hiring plans and inducing firms to lay off staff. The unemployment rate rises sharply over 2023 and 2024, reaching a peak of more than 7.2% in 2026 – a level last seen more than a decade ago during the global financial crisis. • House prices fall sharply, seeing a start-to-trough fall of around 16%. Recovery is only gradual, and current price levels are still out of reach by the end of the decade. • To counter the downturn in the economy, the MPC swiftly abandons its tightening cycle and starts lowering the bank rate again.
<p>Severe downside scenario (95th percentile)</p>	<ul style="list-style-type: none"> • The effects of the severe downside scenario on UK GDP are similar to the magnitude of the shock during the global financial crisis. • By the end of 2024, GDP falls by more than 7% below the baseline forecast, similar to the peak-to-trough fall experienced in 2008–09. The severe downside scenario sees a sharp and immediate drop in UK output (–3.3% quarter on quarter in the first quarter of 2024, compared with 0.1% in the baseline) and GDP does not recover over the following 12 months as financial stress. • Unemployment in the UK surges to 6.1% by the end of 2024 and peaks at 7.5% in 2026, 3.5ppts higher than in the baseline. The unemployment rate only falls below 6% in the final year of the scenario. • House prices collapse – at the trough they are 24% below their starting level – erasing all growth seen since 2016 and reflecting the unparalleled hit to incomes, significantly impaired confidence levels and tighter access to credit. • The MPC abandons its tight monetary policy stance in short order, and begins to aggressively cut the bank rate again, to 0.75 by the end of 2026, as the impairment to the supply side and labour market remains considerable.

Model scenario probability weightings

During 2023 Cynergy Bank has implemented a new macroeconomic regression model which is considered to better capture downside risks which previously required a heavier downside weighting. These developments have made our IFRS 9 modelling more sensitive to macroeconomic forecasts, including affordability risk, which is now captured in the macroeconomic modelling, and allows the model to better capture the risks related to the impact of higher inflation and interest rates. Following this enhancement, the weightings applied to economic scenarios have been reviewed and updated as shown below to ensure a balanced and representative outcome is achieved. The scenario weightings will continue to be reviewed on a quarterly basis.

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

Cynergy Bank uses various macroeconomic variables to forecast asset movements, default rates and economic impacts, such as a house price index (HPI), commercial real estate (CRE) index, unemployment forecasts and interest rates. The revised macroeconomic multiple regression model incorporated GDP and real household disposable income as variables, enhancing its ability to estimate the impact of affordability risk, which has become more acute in the current UK macroeconomic environment.

All the macroeconomic variables mentioned above are also applied in the IFRS 9 model developed for Cynergy Business Finance (CBF). The bank rate within the CBF model is used to forecast interest rates for the cash flow, property, plant and machinery loans. The CRE index is used to index property collateral.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2023 are as follows:

2023		GDP	HPI	CRE	Bank rate	Unemployment	Mortgage interest gearing	Equity
Base scenario economic parameters								
5-year average increase/(decrease)	%	1.41	1.68	3.16	(0.65)	(0.10)	1.51	(0.03)
Cumulative growth/(fall) to peak/(trough)	%	13.41	(5.85)	23.46	0.00	0.24	0.88	(1.33)
Mild upside economic parameters								
5-year average increase/(decrease)	%	2.37	3.27	4.48	(0.55)	(0.13)	1.72	0.27
Cumulative growth/(fall) to peak/(trough)	%	18.43	0.21	27.65	0.50	(0.66)	1.08	0.13
Downside economic parameters								
5-year average increase/(decrease)	%	0.36	(1.33)	1.82	(0.75)	0.45	0.91	(0.34)
Cumulative growth/(fall) to peak/(trough)	%	(3.81)	(16.39)	(7.13)	(3.75)	2.87	(0.23)	(4.64)
Severe downside economic parameters								
5-year average increase/(decrease)	%	(0.25)	(3.00)	1.09	(0.90)	0.51	0.67	(0.79)
Cumulative growth/(fall) to peak/(trough)	%	(6.26)	(23.87)	(11.77)	(4.50)	3.25	(0.29)	(7.37)

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

The following table demonstrates the gross carrying amount and the effect on ECL resulting from applying a 100% weighting to the scenarios applied in the calculation of our ECL model (base, mild upside, downside and severe downside).

For the year ended 31 December 2023	Weighted	Mild upside	Baseline	Downside	Severe downside
Gross carrying amount £000					
Business	680,942	-	-	-	-
Property	2,418,391	-	-	-	-
Private	331,062	-	-	-	-
Cynergy Business Finance	160,692	-	-	-	-
ECL £000					
Business	6,714	6,117	6,615	7,583	8,129
Property	17,892	16,357	17,424	20,421	22,311
Private	595	479	558	792	934
Cynergy Business Finance	1,589	1,530	1,573	1,698	1,740
Proportion of ECLs in stage 2 (%)					
Business	44%	42%	44%	47%	48%
Property	30%	27%	29%	34%	36%
Private	3%	4%	3%	3%	3%
Cynergy Business Finance	13%	13%	13%	13%	14%

As at 31 December 2022	Weighted	Mild upside	Baseline	Downside	Severe downside
Gross carrying amount £000					
Business	633,775	-	-	-	-
Property	2,241,966	-	-	-	-
Private	302,642	-	-	-	-
Cynergy Business Finance	98,185	-	-	-	-
ECL £000					
Business	3,956	3,542	3,782	4,318	4,687
Property	16,921	15,793	16,344	18,041	19,278
Private	462	345	402	581	705
Cynergy Business Finance	979	944	960	1,020	1,050
Proportion of ECLs in stage 2 (%)					
Business	48%	46%	47%	49%	50%
Property	17%	14%	16%	20%	23%
Private	26%	24%	25%	28%	29%
Cynergy Business Finance	42%	41%	42%	43%	44%

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

ECL sensitivity of HPI change relative to baseline scenario (difference) £000			
Scenario	HPI mild upside	HPI downside	HPI severe downside
Stage 1	(180)	466	798
Stage 2	(406)	1,030	1,709
Stage 3	(235)	573	979
Total	(820)	2,068	3,486

ECL sensitivity of CRE change relative to baseline scenario (difference) £000			
Scenario	CRE mild upside	CRE downside	CRE severe downside
Stage 1	(231)	391	680
Stage 2	(620)	797	1,238
Stage 3	(556)	783	1,270
Total	(1,407)	1,972	3,189

ECL sensitivity of unemployment change relative to baseline scenario (difference) £000			
Scenario	Unemployment mild upside	Unemployment downside	Unemployment severe downside
Stage 1	(74)	268	319
Stage 2	(156)	681	803
Stage 3	-	-	-
Total	(230)	948	1,122

Post-model adjustments and management overlays

Cynergy Bank utilises:

- Post-model adjustments (PMAs) to account for model limitations or latent risks not captured by modelled ECLs
- Management overlays where management’s expert judgement is applied to assess an appropriate ECL when the underlying data may not provide a true reflection of the risk from a modelled output

All PMA and overlay methodologies applied are subject to challenge and review through Cynergy Bank’s model governance process and approved by the Audit Committee. The following PMAs and overlays were applied at 31 December 2023.

- **Interest-only and amortising term loan PMA:** This is applied to all loans which have a significant final payment on the expiry of their facility. It is calculated by analysing the historic performance of this cohort and applying an adjusted PD to account for the increase in PD risk over the final 12 months of the loan before expiry.
- **Bridging sector overlay:** This segment of Cynergy Bank’s loan book has been under pressure since the start of the Covid pandemic. Reduced appetite and liquidity constraints have resulted in a devaluation of assets and reduced refinancing opportunities in the market. The two remaining bridging loans are designated as stage 3 loans under IFRS 9 and are going through Cynergy Bank’s recovery process. ECLs for these loans have been individually assessed outside of the model to ensure that the circumstances of each of these loans is considered and appropriate provisions are applied based on the characteristics of each of the loans.

- **Coronavirus business interruption loan scheme (CBILS) and recovery loan scheme (RLS) PMA:** This is applied to account for the guarantee provided by the British Business Bank and backed by the UK Government which covers 80% of the non-recoverable outstanding amount after default, leaving Cynergy Bank liable for the remaining 20% of the non-recoverable exposure. To account for this, an adjustment is made to the LGD to reduce this figure by 80%. This is applied in accordance with accepted industry practice.
- **Individual assessments overlay:** This is the segment of Cynergy Bank’s loan book where expert judgement is applied to assess the appropriate ECL. Individual assessments are applied when the underlying data may not provide a true reflection of the risk from a modelled output. These are discussed and challenged through the relevant Cynergy Bank forums and committees with focus concentrated on the higher risk profile accounts within business support and recoveries.

No PMAs applied at year end 2022 were removed in 2023.

The cumulative impact of the PMAs and overlays at 31 December 2023 is £12.8m (of total ECL provision £25.8m), a reduction of £0.4m on 2022, driven by a combination of a reduction in the bridging sector overlay due to repayment of exposures and an increase due to the new business watchlist PMA.

£000	Interest-only amortising term loan	Bridging sector overlay	CBILS and RLS PMA	Individual assessments overlay	Business watchlist PMA	Total impact
2022	£449	£6,949	(£809)	£6,660	-	£13,249
2023	£900	£4,870	(£1,042)	£7,288	£816	£12,832

3.12. Collateral valuation

To mitigate its credit risks on financial assets, Cynergy Bank seeks to use collateral where possible. The collateral comes in various forms, such as real estate, cash, securities, letters of credit/guarantees, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on Cynergy Bank’s **statement of financial position**. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and reassessed on a quarterly basis.

Commercial and residential property is revalued at least quarterly through indexation. It is also subject to physical revaluation periodically and fully revalued when entering Cynergy Bank’s business support team or recoveries.

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

3.13. Write-offs

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

3.14. Forborne and modified loans

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

Cynergy Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and we 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 our credit risk department.

Forbearance may involve extending the payment arrangements agreeing 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 our policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between stage 2 and stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, Cynergy Bank also reassesses whether there has been a significant increase in credit risk, as set out in note 30. We also consider whether the assets should be classified as stage 3 credit-impaired. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. For the loan to be reclassified out of the forborne category, the customer must meet the following criteria:

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

3.15. Cash and cash equivalents

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

3.16. Property and equipment

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

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

Property and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of:

- The asset's fair value less costs to sell
- The asset's value in use

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

- Buildings: 30 years
- Computer equipment: 3–5 years
- Furniture and fixtures: 3 years

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

3.17. Non-current assets held for sale

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

3.18. Leases

Cynergy Bank leases its primary office. Rental contracts are typically made for fixed periods of either one year or up to 20 years. We have elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis. Leased assets may not be used as security for borrowing purposes.

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

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

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

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

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs

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

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

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

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

3.19. Intangible assets

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

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

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

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

- Computer software: 3 years
- Core application software: 5-10 years

3.20. Employee benefits

3.20.1. Retirement benefits

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

3.20.2. Share-based payments

In 2022, Cynergy Bank provided share-based compensation benefits to employees via the long-term incentive plan (LTIP). Under the plan, participants were granted cash settled awards which only vest upon satisfaction of certain performance or other conditions.

In 2023, the LTIP was altered to remove reference to the value of Cynergy Bank's shares and therefore the arrangement is no longer classified as a share-based compensation scheme. The new scheme has been accounted for under IAS 19 as at the balance sheet date. Any change in the value of the liability recognised as a result of the changes has been recognised in P&L during the period.

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

3.21. Government grants and other assistance

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

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

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

Cynergy Bank has also participated in the RLS, which replaced CBILS. The terms and accounting treatment remain the same under the new scheme.

Cynergy Bank has not received any government grants.

3.22. Investment in subsidiary

Investments in subsidiaries are accounted for at cost less any provision for impairment. Details of Cynergy Bank's subsidiaries are provided in note 31.

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

4. Significant accounting judgements and estimates

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

Critical judgements

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

Significant estimates

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

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

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

Allowances for credit losses

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

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

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

Sensitivities to the above elements are detailed in note 3.11.

The effective interest method

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

Cynergy Bank recognises interest income at a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life cycle of the instruments, as well as expected changes to Cynergy Bank's and the Bank of England base rate and other fee income/expense that are integral parts of the instrument. The key sensitivity relates to the spreading of arrangement fees on the lending portfolio, and increasing/decreasing the behavioural life of the lending portfolio by 20% would result in reducing/increasing income by £1.2m/£1.4m.

Valuation of long-term incentive scheme liability

The Board and the Remuneration, Nominations and Corporate Governance Committee approved amendments to the current LTIP for senior leaders, including Executive Directors, in November/December 2023. The scheme has now been extended by one year to run over four years from 2022 to 2025.

The LTIP is designed to provide long-term incentives for senior leaders to deliver long-term shareholder returns. The conditions of the revised scheme and basis of award value no longer reference the value of Cynergy Bank’s equity or shares and therefore the scheme is no longer classified as a share-based payment. The revised scheme settlement amount is based on achievement of target growth in retained earnings and delivery of Cynergy Bank’s technology roadmap, alongside other conditions.

The valuation of the award liability has been estimated based on forecast performance under Cynergy Bank’s strategy and management’s estimate of the likelihood of achieving those results and delivering the technology roadmap, alongside other conditions.

The liability relating to the scheme has been measured at £3.5m at 31 December 2023. The most significant assumption included in estimating the liability value is considered to be the probability of Cynergy Bank achieving profit targets. Increasing/decreasing that probability by 20% would result in increasing/reducing the liability value by £1.0m at 31 December 2023.

Cynergy Bank Limited (CBL) has also entered into a shareholder agreement with its subsidiary Cynergy Business Finance Limited (CBF). Under the agreement, CBL has the right to exercise an option to purchase the minority shareholding held by the managers in CBF. Equally, the managers can request CBL to purchase the shares. The fair value of this option is nil as at 31 December 2023 (2022: nil).

5. Interest income				
	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Interest income calculated using the effective interest rate method				
Loans and advances to customers	239,392	231,320	156,778	153,201
Investment in securities	5,667	5,667	2,570	2,570
Balances with banks	31,336	31,336	7,851	7,851
Total interest income calculated using the effective interest rate method	276,395	268,323	167,199	163,622
Interest and other similar income				
Interest rate swaps	41,559	41,559	1,610	1,610
Total interest and other similar income	41,559	41,559	1,610	1,610
Total interest income	317,954	309,882	168,809	165,232

Categorisation of interest income within this note has been revised and prior year comparatives have subsequently also been reclassified.

6. Interest expense

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Interest expense calculated using the effective interest rate method				
Customer deposits	107,853	107,853	35,615	35,615
Bank deposits	1,020	1,011	22	10
Subordinated loan	783	783	2,328	2,328
Lease liabilities	937	937	81	81
Government funding scheme	17,762	17,762	6,057	6,057
Total interest expense calculated using the effective interest rate method	128,355	128,346	44,103	44,091
Interest and other similar expense				
Interest rate swaps	34,811	34,811	1,578	1,578
Total interest and other similar expense	34,811	34,811	1,578	1,578
Total	163,166	163,157	45,681	45,669

Categorisation of interest expense within this note has been revised and prior year comparatives have subsequently also been reclassified.

7. Fee and commission income

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Service fees for current accounts	408	408	418	418
Service fees for debit/credit cards	143	143	163	163
Services fees for handling payments	36	36	40	40
Foreign exchange	221	221	218	218
Invoice finance fees	1,594	-	570	-
Other fees	204	204	258	262
Total	2,606	1,012	1,667	1,101

8. Foreign exchange gains/(losses)

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

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Foreign exchange gains/(losses)	42	150	(1,194)	(1,253)
Total	42	150	(1,194)	(1,253)

9. Staff costs				
	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Wages and salaries	39,857	35,819	31,459	28,745
Social security costs	4,156	3,698	3,242	2,944
Retirement benefit costs – defined contribution scheme	2,876	2,618	2,139	1,953
Other benefits (LTIP)	2,575	2,575	1,494	1,494
Total	49,464	44,710	38,334	35,136

The monthly average number of staff (excluding contractors) employed during the year ended 31 December 2023 is shown as follows.

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Number of staff	363	323	323	298
Total	363	323	323	298

10. Depreciation, amortisation and impairment				
	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Depreciation of property and equipment	396	382	378	365
Amortisation of intangible assets	4,636	4,529	3,876	3,831
Depreciation of right-of-use assets	1,334	1,334	289	289
Impairment	706	706	1,215	1,215
Total	7,072	6,951	5,758	5,700

11. Other operating expenses				
	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Information technology	13,125	12,964	8,693	8,587
Professional fees, including co-sourcing and contractor costs	18,948	18,892	15,506	15,226
Clearing charges	1,132	991	1,174	1,121
Communication	404	403	281	281
Advertising	1,141	1,119	820	813
Premises	2,008	1,882	805	736
Printing and stationery	67	64	60	57
Other operating expenses – refer to analysis below	6,859	6,518	5,794	5,603
Total	43,684	42,833	33,133	32,424

Professional fees include fees payable to Cynergy Bank’s auditor of £927,000 (2022: £764,000), which are analysed below (amounts excluding VAT).

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Audit fees payable to Cynergy Bank’s auditors for the audit of Cynergy Bank’s annual accounts	759	639	712	680
Other assurance services	164	164	48	48
Other non-audit services	4	4	4	4
Total	927	807	764	732

Other non-audit services relates to subscription services permissible under the Financial Reporting Council’s ethical standard.

Other operating expenses are further analysed below:

Subscriptions and publications	1,700	1,692	1,588	1,579
Directors’ fees	541	518	463	443
Recruitment	1,717	1,625	1,712	1,683
Training	419	410	269	265
Travel and entertaining	777	584	640	526
FSCS levy and registration fees	348	347	328	326
Other insurances	402	392	301	298
Penalties	229	229	-	-
Other operating expenses	726	721	493	483
Total	6,859	6,518	5,794	5,603

12. Credit loss/(gain) on financial assets

Consolidated	2023			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	1,989	3,195	(745)	4,439
Undrawn loan commitments	6	-	-	6
Recoveries	-	-	-	-
Total	1,995	3,195	(745)	4,445

Company	2023			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loans and advances to customers	1,395	3,403	(968)	3,830
Undrawn loan commitments	6	-	-	6
Recoveries	-	-	-	-
Total	1,401	3,403	(968)	3,836

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

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

13. Income tax expense

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
UK corporation tax				
Charge for the year	11,355	10,940	9,082	9,082
Adjustments in respect of prior year	2,229	2,229	(632)	(632)
	13,584	13,169	8,450	8,450
Deferred tax				
Charge for the year	2,062	1,686	1,971	2,104
Adjustment in respect of prior year	(1,102)	(1,102)	(188)	(185)
Tax charge for the year	14,544	13,753	10,233	10,369

A reconciliation of the tax charge in the **income statement** for the year ended 31 December 2023 and the accounting profit multiplied by the standard rate of corporation tax in the United Kingdom of 19%/25% (2022: 19%) is presented below:

Profit before tax	55,157	51,943	50,489	51,180
Tax calculated at 19%/25% (December 2022: 19%)	12,962	12,207	9,593	9,724
Tax effect of:				
Banking surcharge	397	397	1,311	1,311
Expenses not deductible for tax purposes	38	25	20	20
Tax rate adjustment	20	(3)	(73)	(71)
R&D expenditure credit	-	-	(73)	(73)
Property revaluation	-	-	(128)	(128)
Property sale	-	-	403	403
Adjustment in respect of prior year – corporation tax	2,229	2,229	(632)	(632)
Adjustment in respect of prior year – deferred tax	(1,102)	(1,102)	(188)	(185)
Tax charge for the year	14,544	13,753	10,233	10,369

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
The net deferred tax liability arises from:				
Difference between capital allowances and depreciation	(2,746)	(2,703)	(2,202)	(2,129)
Property revaluation	(1,076)	(1,076)	(1,166)	(1,166)
Losses to be used against future profits	-	-	406	-
Provision for remuneration expenditure not deductible for tax purposes in the current period	993	960	1,602	1,569
Net deferred tax liability	(2,829)	(2,819)	(1,360)	(1,726)
The movement in the net deferred tax (liability)/asset is set out below:				
1 January	(1,360)	(1,726)	424	194
Revaluation of properties	(509)	(509)	-	-
Deferred tax recognised in the income statement	(960)	(584)	(1,784)	(1,919)
31 December	(2,829)	(2,819)	(1,360)	(1,726)
The analysis of the net deferred tax credit/(charge) recognised in the income statement is set out below:				
Difference between capital allowances and depreciation	(544)	(574)	(2,435)	(2,369)
(Losses)/profits to be used against future profits	(406)	-	199	-
Other temporary differences	(610)	(610)	136	137
Change in tax rates	-	-	-	-
Adjustment in respect of prior years	-	-	188	185
Deferred tax on property revaluation	600	600	128	128
Deferred tax charge for the year	(960)	(584)	(1,784)	(1,919)

Cynergy Bank has no unrecognised deferred tax assets.

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

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Balances with the Bank of England	697,790	697,790	553,007	553,007
Placements with banks	63,156	42,071	102,320	90,265
Cash and cash equivalents	760,946	739,861	655,327	643,272

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 £9,347,723 (31 December 2022: £8,799,015) which are not available for use in Cynergy Bank’s day-to-day business. These comprise cash ratio deposits which are non-interest-bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

Cash and cash equivalents for the purposes of the **statement of cash flows** are as follows.

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Balances with the Bank of England	697,790	697,790	553,007	553,007
Less: mandatory deposits with the central bank	(9,348)	(9,348)	(8,799)	(8,799)
Placements with banks	63,156	42,071	102,320	90,265
Cash and cash equivalents per the statement of cash flows	751,598	730,513	646,528	634,473

15. Loans and advances to customers

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Loans	3,575,619	3,414,927	3,261,855	3,163,670
Overdrafts	15,468	15,468	14,714	14,714
	3,591,087	3,430,395	3,276,569	3,178,384
Less: allowance for ECL/impairment losses	(26,790)	(25,201)	(22,339)	(21,360)
Total	3,564,297	3,405,194	3,254,230	3,157,024

The following two tables show the credit quality and the maximum exposure to credit risk based on Cynergy Bank’s internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of Cynergy Bank’s internal grading system are explained in note 30.

Consolidated loans £000				
2023				
Internal rating grade	Gross carrying amount of loans			Total
	Stage 1	Stage 2	Stage 3	
Standard grade	2,953,117	239,424	-	3,192,541
Watchlist medium risk	11,678	299,341	-	311,019
Credit-impaired	-	-	72,059	72,059
Total	2,964,795	538,765	72,059	3,575,619

Consolidated overdrafts £000				
2023				
Internal rating grade	Gross carrying amount of overdrafts			Total
	Stage 1	Stage 2	Stage 3	
Standard grade	3,452	176	-	3,628
Watchlist medium risk	-	10,637	-	10,637
Credit-impaired	-	-	1,203	1,203
Total	3,452	10,813	1,203	15,468

Company loans £000				
2023				
Internal rating grade	Gross carrying amount of loans			Total
	Stage 1	Stage 2	Stage 3	
Standard grade	2,818,384	219,671	-	3,038,055
Watchlist medium risk	11,678	293,789	-	305,467
Credit-impaired	-	-	71,405	71,405
Total	2,830,062	513,460	71,405	3,348,614

Company overdrafts £000				
2023				
Internal rating grade	Gross carrying amount of overdrafts			Total
	Stage 1	Stage 2	Stage 3	
Standard grade	3,452	176	-	3,628
Watchlist medium risk	-	10,637	-	10,637
Credit-impaired	-	-	1,203	1,203
Total	3,452	10,813	1,203	15,468

Consolidated loans £000				
2022				
Internal rating grade	Gross carrying amount of loans			Total
	Stage 1	Stage 2	Stage 3	
Standard grade	2,812,296	199,008	-	3,011,304
Watchlist medium risk	-	185,905	-	185,905
Credit-impaired	-	-	64,646	64,646
Total	2,812,296	384,913	64,646	3,261,855

Consolidated overdrafts £000				
2022				
Internal rating grade	Gross carrying amount of overdrafts			Total
	Stage 1	Stage 2	Stage 3	
Standard grade	13,867	80	-	13,947
Watchlist medium risk	-	156	-	156
Credit-impaired	-	-	611	611
Total	13,867	236	611	14,714

Company loans £000				
2022				
Internal rating grade	Gross carrying amount of loans			Total
	Stage 1	Stage 2	Stage 3	
Standard grade	2,752,002	164,963	-	2,916,965
Watchlist medium risk	-	182,624	-	182,624
Credit-impaired	-	-	64,081	64,081
Total	2,752,002	347,587	64,081	3,163,670

Company overdrafts £000		2022		
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Standard grade	13,867	80	-	13,947
Watchlist medium risk	-	156	-	156
Credit-impaired	-	-	611	611
Total	13,867	236	611	14,714

The reconciliations of movements of the loss allowance and gross carrying amounts provide insight into the movements in ECL and the charge to the income statement. The increase in ECL over 2023 is primarily related to increases in stage 2 provisions driven by exposures moving to Cynergy Bank’s watchlist during the year. This uplift is visible in the ‘transfers to stage 2’ movement.

Consolidated loans		2023						
£000	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January	2,812,294	3,311	384,914	5,302	64,647	13,565	3,261,855	22,178
New assets originated	1,179,760	2,427	81,954	869	2,186	361	1,263,900	3,657
Assets derecognised or repaid	(709,294)	(774)	(141,040)	(1,658)	(28,428)	(3,830)	(878,762)	(6,262)
Transfers to stage 1	77,268	285	(78,484)	(656)	(927)	(12)	(2,143)	(383)
Transfers to stage 2	(320,456)	(476)	320,707	5,356	(317)	(3)	(66)	4,877
Transfers to stage 3	(21,404)	(26)	(23,963)	(401)	42,764	2,857	(2,603)	2,430
Within-stage movements	(53,373)	597	(5,323)	(732)	(7,866)	(508)	(66,562)	(643)
Write-offs	-	-	-	-	-	-	-	-
At 31 December	2,964,795	5,344	538,765	8,080	72,059	12,430	3,575,619	25,854

Consolidated overdrafts		2023						
£000	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
At 1 January	13,867	27	236	19	611	115	14,714	161
New assets originated	1,093	6	1,548	62	573	492	3,214	560
Assets derecognised or repaid	(863)	(3)	(121)	(6)	(3)	(3)	(987)	(12)
Transfers to stage 1	50	-	(60)	(1)	-	-	(10)	(1)
Transfers to stage 2	(10,445)	(10)	9,241	333	(2)	-	(1,206)	323
Transfers to stage 3	-	-	-	-	5	-	5	-
Within-stage movements	(250)	8	(30)	(2)	19	(101)	(262)	(95)
Write-offs	-	-	-	-	-	-	-	-
At 31 December	3,452	28	10,813	405	1,203	503	15,468	936

Company loans		2023							
		Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	
At 1 January	2,752,002	2,966	347,587	4,888	64,081	13,345	3,163,670	21,199	
New assets originated	1,086,466	1,716	72,232	780	1,751	40	1,160,449	2,536	
Assets derecognised or repaid	(703,986)	(750)	(113,082)	(1,330)	(28,426)	(3,830)	(845,494)	(5,910)	
Transfers to stage 1	77,183	283	(78,297)	(648)	(927)	(12)	(2,041)	(377)	
Transfers to stage 2	(314,026)	(445)	313,471	5,302	(317)	(3)	(872)	4,854	
Transfers to stage 3	(20,559)	(22)	(23,670)	(399)	42,658	2,847	(1,571)	2,426	
Within-stage movements	(47,018)	656	(4,781)	(718)	(7,415)	(401)	(59,214)	(463)	
Write-offs	-	-	-	-	-	-	-	-	
At 31 December	2,830,062	4,404	513,463	7,875	71,405	11,986	3,414,927	24,265	

Company overdrafts		2023							
		Stage 1		Stage 2		Stage 3		Total	
£000	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	
At 1 January	13,867	27	236	19	611	115	14,714	161	
New assets originated	1,093	6	1,548	62	573	492	3,214	560	
Assets derecognised or repaid	(863)	(3)	(121)	(6)	(3)	(3)	(987)	(12)	
Transfers to stage 1	50	-	(60)	(1)	-	-	(10)	(1)	
Transfers to stage 2	(10,445)	(10)	9,241	333	(2)	-	(1,206)	323	
Transfers to stage 3	-	-	-	-	5	-	5	-	
Within-stage movements	(250)	8	(31)	(2)	19	(101)	(262)	(95)	
Write-offs	-	-	-	-	-	-	-	-	
At 31 December	3,452	28	10,813	405	1,203	503	15,468	936	

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

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

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

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

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

16. Other assets

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Debtors	24	24	23	24
Receivables from the Bank of Cyprus Public Company Limited towards redress payments	525	525	1,013	1,013
Prepayments	4,493	4,370	7,385	7,385
Accrued income	2,549	2,549	1,684	1,684
Receivables from payment service provider	1,647	1,647	1,686	1,686
Cash pledged as collateral	71,604	71,604	30,007	30,007
VAT receivable	1,279	1,201	228	194
Other	21	20	5	2
Total	82,142	81,940	42,031	41,995

17. Derivative financial instruments

Derivatives are used to manage Cynergy Bank's own exposure to fluctuations in interest rates and exchange rates. The use of derivatives is an integral part of Cynergy Bank's activities. Cynergy Bank classifies and measures its derivative portfolio at FVPL.

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

The fair value of the derivatives can be either positive (an asset) or negative (a liability) as a result of fluctuations in market interest rates or foreign exchange rates in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time. The table below includes such fair value gains or losses recorded as at the year ended 31 December 2023.

Consolidated and company	2023 £000	2022 £000
Fair value gain on derivative instruments	2,110	3,983
Total	2,110	3,983

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

Consolidated and company	2023			2022		
	Notional amount £000	Fair value		Notional amount £000	Fair value	
		Assets £000	Liabilities £000		Assets £000	Liabilities £000
Exchange rate contracts						
By type						
Foreign exchange swaps	22,920	52	(6)	34,809	790	(157)
Foreign exchange spots	81	1	-	32	1	-
Total exchange rate contracts	23,001	53	(6)	34,841	791	(157)
By maturity						
Up to 1 year	23,001	53	(6)	34,809	791	(157)
1-5 years	-	-	-	32	-	-
Over 5 years	-	-	-	-	-	-
Total exchange rate contracts	23,001	53	(6)	34,841	791	(157)
By counterparty						
Banks and building societies	22,960	52	(6)	34,809	790	(157)
Customers	41	1	-	32	1	-
Total exchange rate contracts	23,001	53	(6)	34,841	791	(157)
Interest rate contracts						
By type						
Interest rate swaps	1,145,000	4,459	(32,368)	550,000	11,613	(3,681)
Total interest rate contracts	1,145,000	4,459	(32,368)	550,000	11,613	(3,681)
By maturity						
Up to 1 year	-	-	-	-	-	-
1-5 years	1,145,000	4,459	(32,368)	320,000	11,613	-
Over 5 years	-	-	-	230,000	0	(3,681)
Total interest rate contracts	1,145,000	4,459	(32,368)	550,000	11,613	(3,681)
By counterparty						
Banks and building societies	1,145,000	4,459	(32,368)	550,000	11,613	(3,681)
Total interest rate contracts	1,145,000	4,459	(32,368)	550,000	11,613	(3,681)
Total derivative contracts	1,168,001	4,512	(32,374)	584,841	12,404	(3,838)

Hedge accounting

Cynergy Bank continues to apply fair value hedge accounting for portfolio hedges of interest rate risk on loans and advances to customers.

The amounts relating to items designated as hedging instruments at 31 December 2023 were as follows.

Consolidated and company	2023			Fair value loss used to calculate hedge ineffectiveness £000
	Notional £000	Assets £000	Liabilities £000	
Fair value hedges of interest rate risk:				
Interest rate swaps	1,145,000	4,459	(32,368)	(36,322)

Consolidated and company	2022			Fair value gain used to calculate hedge ineffectiveness £000
	Notional £000	Assets £000	Liabilities £000	
Fair value hedges of interest rate risk:				
Interest rate swaps	550,000	11,613	(3,681)	4,738

The amounts relating to items designated as hedged items at 31 December 2023 were as follows.

Consolidated and company	2023		Accumulated amount of fair value hedge adjustments on the hedged item £000	Fair value gain used to calculate hedge ineffectiveness £000
	Carrying amount of the hedging item (fair value)			
	Assets £000	Liabilities £000		
Fair value hedges of interest rate risk:				
Fixed rate loans*	1,163,962	-	38,394	38,653

Consolidated and company	2022		Accumulated amount of fair value hedge adjustments on the hedged item £000	Fair value loss used to calculate hedge ineffectiveness £000
	Carrying amount of the hedging item (fair value)			
	Assets £000	Liabilities £000		
Fair value hedges of interest rate risk:				
Fixed rate loans*	659,455	-	4,733	(4,451)

*Fixed rate loans are included in the line item **loans and advances to customers** in the **statement of financial position**.

The amounts recognised as hedge ineffectiveness at 31 December 2023 were as follows.

Consolidated and company	Ineffectiveness recognised in the income statement	
	2023 £000	2022 £000
Fair value hedges of interest rate risk:		
Fixed rate loans**	2,332	287

Hedge ineffectiveness is included in the line item **fair value gain on derivative instruments in the **income statement**.

18. Investment in securities held at amortised cost

Consolidated and company	2023		2022	
	Amortised cost £000	Fair value £000	Amortised cost £000	Fair value £000
Asset-backed securities	90,801	90,067	113,377	111,572
Covered bonds	36,746	36,508	-	-
Total	127,547	126,575	113,377	111,572

Maturities of investments in debt securities at their carrying amount and weighted average yields

Consolidated and company	2023	2022
	Amortised cost £000	Amortised cost £000
By type		
Asset-backed securities	90,801	113,377
Covered bonds	36,746	-
Total at 31 December	127,547	113,377
By maturity		
Up to 1 year	14,933	42,811
1-5 years	100,481	70,566
Over 5 years	12,133	-
Total at 31 December	127,547	113,377

The weighted average yield on debt securities during the year ended 31 December 2023 was 4.44% (2022: 2.27%).

19. Intangible assets			
Consolidated	2023		
	Computer software £000	Assets under construction £000	Total £000
Cost as at 1 January	23,493	13,964	37,457
Additions	8,106	19,070	27,176
Disposals and write-offs	-	(706)	(706)
Transfers	5,333	(5,333)	-
Cost at 31 December	36,932	26,995	63,927
Accumulated amortisation at 1 January	(9,988)	-	(9,988)
Amortisation charge for the year	(4,636)	-	(4,636)
Disposals and write-offs	-	-	-
Accumulated amortisation at 31 December	(14,624)	-	(14,624)
Net book value at 31 December	22,308	26,995	49,303

Company	2023		
	Computer software £000	Assets under construction £000	Total £000
Cost as at 1 January	23,175	13,964	37,139
Additions	8,106	19,070	27,176
Disposals and write-offs	-	(706)	(706)
Transfers	5,333	(5,333)	-
Cost at 31 December	36,614	26,995	63,609
Accumulated amortisation at 1 January	(9,943)	-	(9,943)
Amortisation charge for the year	(4,529)	-	(4,529)
Disposals and write-offs	-	-	-
Accumulated amortisation at 31 December	(14,472)	-	(14,472)
Net book value at 31 December	22,142	26,995	49,137

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

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

20. Leases

Consolidated and company	2023 £000	2022 £000
Right-of-use assets		
Buildings	11,553	11,891
	11,553	11,891
Lease liabilities		
Current	1,237	308
Non-current	11,636	11,757
Total	12,873	12,065

During the year, there was one disposal (2022: one addition and one disposal) to the right-of-use asset.

The leased asset utilised by Cynergy Bank includes extension and termination options. Management has evaluated whether these options shall be exercised and has reflected this in the estimation of the lease liability and right-of-use asset.

Consolidated and company	2023 £000	2022 £000
Depreciation charge of right-of-use assets – buildings	1,334	289
Interest expense (included in interest expense)	937	81
Expense relating to short-term leases (included in other operating costs)	366	26
Expense relating to low-value assets that are not shown above as short-term leases (included in other operating costs)	-	(16)

The total cash outflow for leases in 2023 was £426,382 (2022: £531,168).

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

Consolidated and company	£000
Within 1 year	2,525
Between 2 and 5 years	7,076
More than 5 years	8,217

21. Property and equipment

Consolidated	2023		
	Computer equipment £000	Furniture & equipment £000	Total £000
Cost at 1 January	2,295	355	2,650
Additions	209	3,134	3,343
Cost at 31 December	2,504	3,489	5,993
Accumulated depreciation at 1 January	(1,736)	-	(1,736)
Depreciation charge for the year	(206)	(190)	(396)
Accumulated depreciation at 31 December	(1,942)	(190)	(2,132)
Net book value at 31 December	562	3,299	3,861

Company	2023		
	Computer equipment £000	Furniture & equipment £000	Total £000
Cost at 1 January	2,256	355	2,611
Additions	209	3,134	3,343
Cost at 31 December	2,465	3,489	5,954
Accumulated depreciation at 1 January	(1,719)	-	(1,719)
Depreciation charge for the year	(192)	(190)	(382)
Accumulated depreciation at 31 December	(1,911)	(190)	(2,101)
Net book value at 31 December	554	3,299	3,853

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

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

During 2022, freehold property with total cost £7m and accumulated depreciation of £0.136m was sold subject to leaseback for a term of ten months. A gain on sale of £9.23m was recognised and is presented in the income statement within the line item '**Gain on sale of property**'. In 2023, £0.276m of the remaining gain on sale relating to the leaseback element was recognised and the leaseback period was completed.

The remaining freehold property and land with a total cost of £6.1m and accumulated depreciation of £0.504m was reclassified as held for sale as at 31 December 2022. On classification to held for sale, the property was revalued to fair value, less costs to sell, of £7.07m, with the resulting gain recognised in reserves. During 2023, completion of the sale was deferred at the request of the buyer. The sale is expected to complete during 2024 and the property remains classified as held for sale as at 31 December 2023.

22. Customer deposits				
	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
By category				
Demand	2,166,543	2,166,543	2,160,499	2,160,499
Notice	194,826	194,826	16,002	16,002
Term	1,396,668	1,396,668	1,159,941	1,159,941
	3,758,037	3,758,037	3,336,442	3,336,442
By geographical area				
United Kingdom	3,641,663	3,641,663	3,206,366	3,206,366
Cyprus	84,173	84,173	105,554	105,554
Greece	19,354	19,354	22,614	22,614
Other	12,847	12,847	1,908	1,908
Total	3,758,037	3,758,037	3,336,442	3,336,442

23. Bank deposits				
	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Bank deposits by category				
Demand	-	-	7,513	7,513
Term	359,667	359,667	382,657	382,657
Bank deposits by geographical area				
United Kingdom	359,667	359,667	390,170	390,170

24. Other liabilities				
	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Accruals	28,545	27,565	17,838	17,117
Accrued interest payable	7,077	7,077	1,503	1,503
Subordinated loan – amounts to be repaid*	41,082	41,082	41,082	41,082
PAYE and NI settlement	1,468	1,468	1,367	1,367
Items in the course of settlement	40	(2,665)	2,000	1,243
Share-based payment liability	-	-	3,917	3,917
Deferred tax liability (note 13)	2,829	2,819	1,360	1,726
Tax payable (note 13)	2,564	1,677	2,951	2,643
Provision for customer redress**	261	261	716	716
Other	17	20	18	20
Total	83,883	79,304	72,752	71,334

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

On 21 December 2022, following receipt of permission from the PRA to reduce Cynergy Bank’s eligible regulatory own funds by the tier 2 loan amount, Cynergy Bank took the option to redeem the loan. Since the payment of amounts due under the tier 2 facility with Lamesa Investment Ltd is currently subject to UK sanctions and US secondary sanctions, and accordingly amounts due cannot be paid, the amount to be repaid (including accrued interest) of £41m (2022: £41m) has been classified as an other liability as at 31 December 2023.

**Provision for customer redress (previously separately disclosed) has been reclassified to be included within other liabilities above. Such reclassifications have no impact on previously reported net assets.

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

25. Subordinated loan

Consolidated and company	2023 £000	2022 £000
Unsecured subordinated loan	14,847	-

Changes in liabilities arising from financing activities:

Consolidated and company				
2023	1 January £000	Deposits £000	Other £000	31 December £000
Unsecured subordinated loan	-	15,000	(153)	14,847

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

26. Share capital

Consolidated and company	2023		2022	
	Shares (no.)	Value £000	Shares (no.)	Value £000
Authorised, issued and fully paid:				
Ordinary shares of £1 each	202,000,000	202,000	202,000,000	202,000

27. Contingent liabilities and commitments

As part of the services provided to its customers, Cynergy Bank enters into financial guarantees and undrawn commitments to lend. Guarantees include those given on behalf of a customer to stand behind the current obligations of the customer and to carry out those obligations should the customer fail to do so. Where guarantees are issued on behalf of customers, Cynergy Bank usually holds collateral against the exposure and has a right of recourse to the customer.

In relation to acceptances and guarantees, the following table shows Cynergy Bank’s maximum exposure should contracts be fully drawn upon and customers default without taking account of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held. In relation to commitments to advance, this represents the maximum amount Cynergy Bank has committed to lend, should the customer draw down on the facility.

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Acceptances, guarantees and cashing facilities	572	572	649	649
Commitments to advance	117,136	85,209	167,728	145,814
Total	117,708	85,781	168,377	146,463

The balances above represent Cynergy Bank’s maximum exposure to credit risk under these arrangements.

As at 31 December 2023, and at 31 December 2022, all exposures are assessed as standard grade under Cynergy Bank’s internal rating grade system.

Details of Cynergy Bank’s internal grading system are explained in note 30.

The following is an analysis of changes in the gross carrying amount.

Consolidated and company				
Acceptances, guarantees and cashing facilities	2023			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2023	642	7	-	649
Net new exposures	572	-	-	572
Exposure derecognised or matured/lapsed	(642)	(7)	-	(649)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2023	572	-	-	572

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

Consolidated				
Commitments to advance				
	2023			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2023	167,728	-	-	167,728
Net new exposures	117,136	-	-	117,136
Exposure derecognised or matured/lapsed	(167,728)	-	-	(167,728)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2023	117,136	-	-	117,136

Company				
Commitments to advance				
	2023			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2023	145,814	-	-	145,814
Net new exposures	85,209	-	-	85,209
Exposure derecognised or matured/lapsed	(145,814)	-	-	(145,814)
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Modifications	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2023	85,209	-	-	85,209

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

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

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

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

28. Financial Services Compensation Scheme levy

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

29. Fair value of financial assets and liabilities

Consolidated		31 December 2023		31 December 2022	
		Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
	Notes				
Financial assets					
Cash and balances with central banks	(i, Level 1)	697,790	697,790	553,007	553,007
Placements with banks	(ii, Level 1)	63,156	63,156	102,320	102,320
Derivative financial assets	(v, see below)	4,512	4,512	12,404	12,404
Investment in securities	(vii, Level 1)	127,547	126,575	113,377	111,572
Loans and advances to customers	(iii, Level 3)	3,564,297	3,593,678	3,254,230	3,190,786
Financial liabilities					
Bank deposits	(ii, Level 1)	359,667	359,667	390,170	390,170
Customer deposits	(iv, Level 3)	3,758,037	3,803,873	3,336,442	3,300,150
Derivative financial liabilities	(v, see below)	32,374	32,374	3,838	3,838
Subordinated loan	(vi, Level 3)	14,847	14,878	-	-
Company					
		31 December 2023		31 December 2022	
		Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
	Notes				
Financial assets					
Cash and balances with central banks	(i, Level 1)	697,790	697,790	553,007	553,007
Placements with banks	(ii, Level 1)	42,071	42,071	90,265	90,265
Derivative financial assets	(v, see below)	4,512	4,512	12,404	12,404
Investment in securities	(vii, Level 1)	127,547	126,575	113,377	111,572
Loans and advances to customers	(iii, Level 3)	3,405,194	3,434,518	3,157,024	3,093,304
Financial liabilities					
Bank deposits	(ii, Level 1)	359,667	359,667	390,170	390,170
Customer deposits	(iv, Level 3)	3,758,037	3,803,873	3,336,442	3,300,150
Derivative financial liabilities	(v, see below)	32,374	32,374	3,838	3,838
Subordinated loan	(vi, Level 3)	14,847	14,878	-	-

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

- The carrying amounts of these financial assets, largely due to the short-term maturities of these instruments, approximate fair value.
- The carrying value of placements with banks and bank deposits is considered to approximate fair value. Placements with banks are repayable on demand or within 12 months. Amounts due to banks and related entities are repriced every three months at market rates. As a result, these carrying values approximate fair values.
- 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 Cynergy Bank.

- iv) 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.
- v) The fair value of derivatives (including foreign exchange contracts and interest rate swaps) designated as being carried at fair value through profit or loss is 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.
- vi) The subordinated loan is non-traded and the fair value is calculated by discounting the cash flows using prevailing market interest rates.
- vii) The carrying value of investment in securities is measured at amortised cost based on principal and coupon amount. The estimated fair value of investment in securities is based on quoted prices in an active market for the specific instrument.

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

Consolidated and company 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial assets	-	4,512	-	4,512
Derivative financial liabilities	-	(32,374)	-	(32,374)
2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial assets	-	12,404	-	12,404
Derivative financial liabilities	-	(3,838)	-	(3,838)

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

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

Consolidated Description	Fair value at		Range of inputs		Relationship of discount rate input to fair value
	31 Dec 2023 £000	31 Dec 2022 £000	31 Dec 2023 %	31 Dec 2022 %	
Loans and advances to customers	3,593,678	3,190,786	2.83% - 5.19%	3.15% - 4.40%	A shift in discount rate of +/-10bps results in a change of fair value of £6.3m (2022: £12m)
Customer deposits	3,803,873	3,300,150	2.90% - 5.19%	3.62% - 4.20%	A shift in discount rate of +/-10bps results in a change of fair value of £1.4m (2022: £1m)
Investment in securities	126,575	111,572	5.74% - 6.09%	(2.10%) - 0.22%	Based on quoted prices
Subordinated debt	14,878	-	11.9%	n/a	A shift in discount rate of +/-10bps results in a change of fair value of £0.5m (2022: n/a)

Company Description	Fair value at		Range of inputs		Relationship of discount rate input to fair value
	31 Dec 2023 £000	31 Dec 2022 £000	31 Dec 2023 %	31 Dec 2022 %	
Loans and advances to customers	3,434,518	3,093,304	2.83% - 5.19%	3.15% - 4.40%	A shift in discount rate of +/-10bps results in a change of fair value of £6.3m (2022: £11m)
Customer deposits	3,803,873	3,300,150	2.90% - 5.19%	3.62% - 4.20%	A shift in discount rate of +/-10bps results in a change of fair value of £1.4m (2022: £1m)
Investment in securities	126,575	111,572	5.74% - 6.09%	2.10% - 0.22%	Based on quoted prices
Subordinated debt	14,878	-	11.9%	n/a	A shift in discount rate of +/-10bps results in a change of fair value of £0.5m (2022: n/a)

30. Risk management

Liquidity risk

Liquidity risk is the risk of failure to realise assets or raise funds to meet current and future commitments. Liquidity risk is managed each day by Cynergy Bank's treasury department under the supervision of the Asset and Liability Committee.

To manage liquidity risk, Cynergy Bank maintains a portfolio of high-quality liquid and marketable assets to meet the liquidity requirements of the PRA and Cynergy Bank's internal policies. These assets can be converted into cash to meet its liquidity needs for a 30 calendar day liquidity stress scenario, and Cynergy Bank must ensure it maintains this liquidity coverage ratio (LCR) in adherence with its regulatory requirements.

Analysis of assets and liabilities by expected maturity						
Consolidated 31 December 2023	Carrying value £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	697,790	688,442	-	9,348	-	-
Placements with banks	63,156	63,156	-	-	-	-
Loans and advances to customers	3,564,297	52,380	115,318	296,453	2,702,094	398,052
Derivative assets	4,512	53	-	-	4,459	-
Investment in securities	127,547	-	1,130	13,803	100,481	12,133
Total assets	4,457,302	804,031	116,448	319,604	2,807,034	409,119
Financial liabilities:						
Customer deposits	3,758,037	2,393,458	226,375	821,735	307,743	8,726
Bank deposits	359,667	-	5,086	354,581	-	-
Derivative liabilities	32,374	6	-	-	32,368	-
Subordinated loan	14,847	-	-	-	14,847	-
Total liabilities	4,164,925	2,393,464	231,461	1,176,316	354,958	8,726

Analysis of assets and liabilities by expected maturity						
Company	Carrying value	Demand	Up to	3 months	1 year to	Over
31 December 2023	£000	£000	3 months	to 1 year	5 years	5 years
			£000	£000	£000	£000
Financial assets:						
Cash and balances with central banks	697,790	688,442	-	9,348	-	-
Placements with banks	42,071	42,071	-	-	-	-
Loans and advances to customers	3,405,194	39,675	107,245	260,608	2,607,217	390,449
Derivative assets	4,512	53	-	-	4,459	-
Investment in securities	127,547	-	1,130	13,803	100,481	12,133
Intercompany receivable	175,428	175,428	-	-	-	-
Total assets	4,452,542	945,669	108,375	283,759	2,712,157	402,582
Financial liabilities:						
Customer deposits	3,758,037	2,393,458	226,375	821,735	307,743	8,726
Bank deposits	359,667	-	5,086	354,581	-	-
Derivative liabilities	32,374	6	-	-	32,368	-
Intercompany payable	354	354	-	-	-	-
Subordinated loan	14,847	-	-	-	14,847	-
Total liabilities	4,165,279	2,393,818	231,461	1,176,316	354,958	8,726

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

Analysis of assets and liabilities by expected maturity						
Company 31 December 2022	Carrying value £000	Demand £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	553,007	544,208	-	8,799	-	-
Placements with banks	90,265	90,265	-	-	-	-
Loans and advances to customers	3,157,024	42,267	112,968	176,509	2,302,125	523,155
Derivative assets	12,404	-	791	-	11,613	-
Investment in securities	113,377	-	4,201	38,610	70,566	-
Intercompany receivable	109,686	109,686	-	-	-	-
Total assets	4,035,763	786,426	117,960	223,918	2,384,304	523,155
Financial liabilities:						
Customer deposits	3,336,442	2,160,499	128,936	805,155	241,852	-
Bank deposits	390,170	7,513	-	-	382,657	-
Derivative liabilities	3,838	-	157	-	-	3,681
Total liabilities	3,730,450	2,168,012	129,093	805,155	624,509	3,681

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

Credit risk

Credit risk arises principally from lending activities, but also from other on and off balance sheet transactions where there is a risk that the counterparty may not meet its obligations to Cynergy Bank. Credit risk occurs mainly in customer advances.

To control credit risk, Cynergy Bank establishes lending policies and exposure limits by various categories, including counterparty, sector and country, which are reviewed on a continuing basis.

Credit policies are approved by the Board of Directors on recommendation from the Conduct and Risk Committee, which has management oversight of credit risk. Cynergy Bank maintains a dedicated credit risk function with responsibility for managing credit risk and monitoring management of advances by Cynergy Bank's business units. The Conduct and Risk Committee meets monthly and reviews reports on credit concentration, portfolio performance and provisions. The Executive Credit Committee, a sub-committee of the Board Credit Committee, approves credit facilities within its authority or makes recommendations to the Board of Directors for approval at Board Credit Committee where, on an exception basis, facilities are outside of our risk appetite statement.

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

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

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

ii) Treasury, trading and interbank relationships

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

iii) Corporate, small business lending and property financing

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

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

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

iv) Exposure at default

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

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

v) Loss given default

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

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

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

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

vi) Significant increase in credit risk

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

- The exposure is placed on the watchlist.
- The exposure is forborne.
- The exposure is downgraded to D or E using our internal grading methodology.
- The exposure has been downgraded from A to C using our internal grading methodology.

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

Company As at 31 December 2023 £000	Business			Private			Property		
	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage	Gross carrying amount	ECL	Coverage
PD movement ¹	50,678	335	0.66%	1,620	8	0.49%	172,781	1,252	0.72%
Forbearance support provided	202	6	2.97%	-	-	-	104	-	0.05%
Watchlist or other qualitative reasons ²	123,750	2,591	2.09%	3,378	13	0.38%	171,760	4,074	2.37%
30 days past due	-	-	-	-	-	-	-	-	-
Total	174,630	2,932	1.70%	4,998	21	0.41%	344,645	5,326	1.55%

¹ PD movement: Includes cases that moved due to staging criteria in our IFRS 9 model – for example, two-notch downward internal grading, expired loans, unauthorised overdraft.

² Watchlist or other qualitative reason: Watchlist cases that are classified stage 2 following internal process, including watchlist addition.

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

¹ PD movement: Includes cases that moved due to staging criteria in our IFRS 9 model – for example, two-notch downward internal grading, expired loans, unauthorised overdraft.

² Watchlist or other qualitative reason: Watchlist cases that are classified stage 2 following internal process, including watchlist addition.

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

vii) Annual review process

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

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

	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Business sector				
Property investment	2,366,844	2,366,844	2,193,376	2,193,376
Property development	51,528	51,528	48,591	48,591
Hotels, catering and leisure	342,423	342,423	327,377	327,377
Manufacturing	47,281	189	39,183	1,087
Retail and wholesale	27,461	8,687	52,675	10,612
Other business sectors	422,390	327,564	311,587	293,561
Personal sector	333,160	333,160	303,780	303,780
	3,591,087	3,430,395	3,276,569	3,178,384
Less: Allowance for ECL/impairment losses	(26,790)	(25,201)	(22,339)	(21,360)
Carrying amount	3,564,297	3,405,194	3,254,230	3,157,024

Forbearance

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

Where cases are considered to be forborne and non-performing, they are considered as stage 3 and must complete an 18-month cure period followed by a 24-month monitoring period (probation period) as a performing forborne loan before these accounts would be returned to the good book (a total of 42 months). In a performing forborne case, they would not go through the 18-month cure period and would only have to meet the 24-month probation period. An outline of the forbearance and the trigger for this is provided in the following table and the 2022 position is presented for comparison.

Consolidated and company 31 December 2023	Total £000	Stage 2 £000	Stage 3 £000
Interest-only conversion	970	970	-
Payment holidays	7,914	1,265	6,648
Amortisation profile change	27	-	27
Refinance	202	202	-
Other	147	-	147
Total	9,260	2,437	6,822

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

Definition of default and cure

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

As a part of a qualitative assessment of whether a customer is in default, Cynergy Bank also considers a variety of instances that may indicate unlikelihood to pay criteria. When such events occur, we carefully consider 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 Cynergy Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower being 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 Cynergy Bank
- The debtor (or any legal entity within the debtor’s group) filing for bankruptcy application/protection

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

Non-performing loans vs credit-impaired

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

Consolidated and company Stage 3 analysis 31 December 2023	Gross carrying amount £000
NPL ¹	72,608

Consolidated and company Stage 3 analysis 31 December 2022	Gross carrying amount £000
NPL ¹	64,691

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

Maximum exposure to credit risk and collateral and other credit enhancements

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

Consolidated		£000			
31 December 2023	Gross carrying amount	Property collateral	Cash collateral	Receivables	Net exposure
Business	23,026	36,723	64	-	-
Private	2,458	4,732	-	-	-
Property	47,124	74,869	-	-	-
Cynergy Business Finance	654	-	-	548	106
Total	73,262	116,324	64	548	106

Company		£000			
31 December 2023	Gross carrying amount	Property collateral	Cash collateral	Receivables	Net exposure
Business	23,026	36,723	64	-	-
Private	2,458	4,732	-	-	-
Property	47,124	74,869	-	-	-
Total	72,608	116,324	64	-	-

Consolidated		£000			
31 December 2022	Gross carrying amount	Property collateral	Cash collateral	Receivables	Net exposure
Business	9,348	14,994	-	-	-
Private	423	1,670	-	-	-
Property	54,921	83,052	-	-	-
Cynergy Business Finance	565	-	-	970	-
Total	65,257	99,716	-	970	-

Company		£000			
31 December 2022	Gross carrying amount	Property collateral	Cash collateral	Receivables	Net exposure
Business	9,348	14,994	-	-	-
Private	423	1,670	-	-	-
Property	54,921	83,052	-	-	-
Total	64,692	99,716	-	-	-

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

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

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

The following table provides the distribution of LTV ratios for Cynergy Bank’s portfolio.

Consolidated December 2023 £000 LTV	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash covered	36,923	(27)	1	-	-	-	36,924	(27)
Less than 50%	831,732	(707)	112,950	(893)	8,319	(670)	953,001	(2,270)
50% to 59%	1,063,533	(1,745)	209,965	(3,405)	17,374	(864)	1,290,872	(6,014)
60% to 69%	783,958	(1,514)	152,710	(2,634)	23,712	(2,166)	960,380	(6,314)
70% to 79%	155,109	(573)	34,057	(659)	2,131	(325)	191,297	(1,557)
80% to 89%	59,249	(244)	9,956	(64)	-	-	69,205	(308)
90% to 99%	8,118	(57)	929	(10)	5,754	(91)	14,801	(158)
100% and more	25,649	(284)	15,709	(673)	13,587	(7,381)	54,945	(8,338)
Unsecured	3,976	(221)	13,301	(147)	2,385	(1,436)	19,662	(1,804)
Total	2,968,247	(5,372)	549,578	(8,485)	73,262	(12,933)	3,591,087	(26,790)

Company December 2023 £000 LTV	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Cash covered	36,923	(27)	1	-	-	-	36,924	(27)
Less than 50%	811,095	(470)	110,900	(876)	8,045	(511)	930,040	(1,857)
50% to 59%	1,047,080	(1,650)	208,996	(3,400)	17,374	(864)	1,273,450	(5,914)
60% to 69%	753,244	(1,349)	144,361	(2,566)	23,712	(2,166)	921,317	(6,081)
70% to 79%	113,221	(338)	26,792	(596)	1,751	(40)	141,764	(974)
80% to 89%	43,089	(152)	4,216	(22)	-	-	47,305	(174)
90% to 99%	5,359	(44)	-	-	5,754	(91)	11,113	(135)
100% and more	19,527	(181)	15,709	(673)	13,587	(7,381)	48,823	(8,235)
Unsecured	3,976	(221)	13,298	(147)	2,385	(1,436)	19,659	(1,804)
Total	2,833,514	(4,432)	524,273	(8,280)	72,608	(12,489)	3,430,395	(25,201)

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

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

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. Cynergy Bank tracks and analyses events which represent a risk of loss, whether or not it crystallises, and takes remedial action to prevent future recurrence.

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.

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

A summary of Cynergy Bank’s interest rate gap position based on the contractual repricing date of assets and liabilities is as follows.

Analysis of assets and liabilities by contractual repricing						
Consolidated 31 December 2023	Carrying value £000	Non-interest- bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	697,790	-	697,790	-	-	-
Placements with banks	63,156	-	63,156	-	-	-
Loans and advances to customers	3,564,297	-	1,679,932	67,593	1,700,906	115,866
Investment in securities	127,547	-	127,547	-	-	-
Total assets	4,452,790	-	2,568,425	67,593	1,700,906	115,866
Financial liabilities:						
Customer deposits	3,758,037	201,105	2,418,728	821,735	307,743	8,726
Bank deposits	359,667	-	359,667	-	-	-
Subordinated loan	14,847	-	-	-	14,847	-
Total liabilities	4,132,551	201,105	2,778,395	821,735	322,590	8,726
Interest rate derivatives	-	-	1,145,000	-	(1,145,000)	-
Interest rate gap	320,239	(201,105)	935,030	(754,142)	233,316	107,140

Analysis of assets and liabilities by contractual repricing						
Company 31 December 2023	Carrying value £000	Non-interest- bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	697,790	-	697,790	-	-	-
Placements with banks	42,071	-	42,071	-	-	-
Loans and advances to customers	3,405,194	-	1,547,062	67,593	1,674,673	115,866
Investment in securities	127,547	-	127,547	-	-	-
Intercompany receivable	175,428	-	175,428	-	-	-
Total assets	4,448,030	-	2,589,898	67,593	1,674,673	115,866
Financial liabilities:						
Customer deposits	3,758,037	201,105	2,418,728	821,735	307,743	8,726
Bank deposits	359,667	-	359,667	-	-	-
Intercompany payable	354	354	-	-	-	-
Subordinated loan	14,847	-	-	-	14,847	-
Total liabilities	4,132,905	201,459	2,778,395	821,735	322,590	8,726
Interest rate derivatives	-	-	1,145,000	-	(1,145,000)	-
Interest rate gap	315,125	(201,459)	956,503	(754,142)	207,083	107,140

Analysis of assets and liabilities by contractual repricing						
Consolidated 31 December 2022	Carrying value £000	Non-interest- bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	553,007	-	553,007	-	-	-
Placements with banks	102,320	-	102,320	-	-	-
Loans and advances to customers	3,254,230	-	2,474,702	23,860	695,789	59,879
Investment in securities	113,377	-	4,201	38,610	70,566	-
Total assets	4,022,934	-	3,134,230	62,470	766,355	59,879
Financial liabilities:						
Customer deposits	3,336,442	167,626	2,121,810	805,155	241,851	-
Bank deposits	390,170	-	390,170	-	-	-
Total liabilities	3,726,612	167,626	2,511,980	805,155	241,851	-
Interest rate derivatives	-	-	550,000	-	(320,000)	(230,000)
Interest rate gap	296,322	(167,626)	1,172,250	(742,685)	204,504	(170,121)

Analysis of assets and liabilities by contractual repricing						
Company 31 December 2022	Carrying value £000	Non-interest- bearing £000	Up to 3 months £000	3 months to 1 year £000	1 year to 5 years £000	Over 5 years £000
Financial assets:						
Cash and balances with central banks	553,007	-	553,007	-	-	-
Placements with banks	90,265	-	90,265	-	-	-
Loans and advances to customers	3,157,024	-	2,377,496	23,860	695,789	59,879
Investment in securities	113,377	-	4,201	38,610	70,566	-
Intercompany receivable	109,686	-	109,686	-	-	-
Total assets	4,023,359	-	3,134,655	62,470	766,355	59,879
Financial liabilities:						
Customer deposits	3,336,442	167,626	2,121,810	805,155	241,851	-
Bank deposits	390,170	-	390,170	-	-	-
Total liabilities	3,726,612	167,626	2,511,980	805,155	241,851	-
Interest rate derivatives	-	-	550,000	-	(320,000)	(230,000)
Interest rate gap	296,747	(167,626)	1,172,675	(742,685)	204,504	(170,121)

The annualised impact of a potential 1.0% change, both increase and decrease, in the interest rates against Cynergy Bank’s interest-bearing assets and liabilities is as follows.

	2023 £000	2022 £000
Increase of 1.0% (prior year: 0.6%)	6,844	7,228
Decrease of 1.0% (prior year: 0.6%)	6,972	2,228

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

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

Set-off

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

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

Consolidated	2023			2022		
	Gross amounts presented in the balance sheet £000	Offset amounts £000	Net amounts £000	Gross amounts presented in the balance sheet £000	Offset amounts £000	Net amounts £000
Financial assets						
Loans and advances to customers	3,564,297	61,127	3,503,170	3,254,230	69,578	3,184,652
Derivative assets	4,512	4,459	53	-	-	-
Other assets	82,142	27,909	54,233	-	-	-
Financial liabilities						
Customer deposits	3,758,037	61,127	3,696,910	3,336,442	69,578	3,266,864
Derivative liabilities	32,374	32,368	6	-	-	-

Company	2023			2022		
	Gross amounts presented in the balance sheet £000	Offset amounts £000	Net amounts £000	Gross amounts presented in the balance sheet £000	Offset amounts £000	Net amounts £000
Financial assets						
Loans and advances to customers	3,405,194	61,127	3,344,067	3,157,024	69,578	3,087,446
Derivative assets	4,512	4,459	53	-	-	-
Other assets	81,940	27,909	54,031	-	-	-
Financial liabilities						
Customer deposits	3,758,037	61,127	3,696,910	3,336,442	69,578	3,266,864
Derivative liabilities	32,374	32,368	6	-	-	-

Conduct risk

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

31. Investments in subsidiaries

As at 31 December 2023, the group includes the following subsidiary companies whose results are included in the consolidated financial statements.

Name	Country of incorporation	Class of shares	Ownership (%)	Principal activity
Cynergy Business Finance Limited	United Kingdom	Ordinary	87.5	Invoice financing and asset-based lending
North Star Audit Limited	United Kingdom	Ordinary	100	Dormant

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

32. Capital management

Cynergy Bank is supervised by the PRA, as a UK authorised bank. This requires it to satisfy the liquidity and capital requirements as prescribed by the PRA.

Cynergy Bank uses the standardised approach for credit risk. It is required to demonstrate to the PRA that it can withstand liquidity and capital stresses, and carries out regular reviews of the adequacy of its capital to support its current and future activities, including during periods of stress. Credit risk stress testing is performed every year and full reviews are documented in the ICAAP document, which is approved by the Board of Directors and submitted to the PRA for review in years where there is an SREP (a supervisory review and evaluation process). The PRA reviews the ICAAP and issues total capital requirements (TCR) plus buffers setting out the minimum capital requirements for Cynergy Bank.

Cynergy Bank manages its capital with a view to ensuring that it will have adequate capital resources to support its plans and to meet the regulatory requirements as set out in the TCR plus buffers, including during periods of stress. Cynergy Bank maintains a corridor of capital in excess of the regulatory requirements. The preparation of annual plans, budgets and forecasts includes a projection of the capital position and capital requirements to help ensure that capital resources will continue to be adequate.

Capital resources	Consolidated 2023 £000	Company 2023 £000	Consolidated 2022 £000	Company 2022 £000
Ordinary share capital	202,000	202,000	202,000	202,000
Retained earnings and other reserves	145,003	144,207	104,490	105,811
Property revaluation reserve	2,433	2,433	3,148	3,148
Regulatory deductions	(43,185)	(43,019)	(22,191)	(22,191)
Total eligible tier 1 capital (CET1)	306,251	305,621	287,447	288,768
Tier 2 capital: Subordinated debt	15,000	15,000	-	-
Total eligible regulatory capital	321,251	320,621	287,447	288,768

33. Related party transactions

Cynergy Bank's ultimate controlling entity is Cynergy Capital Ltd, which owns 100% of the ordinary share capital.

Directors and key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management are identified as the Directors of Cynergy Bank and those other persons having authority and responsibility for planning, directing and controlling the activities of Cynergy Bank. Total key management compensation, including Directors, for the period is £9,509,320 (2022: £7,169,821). The first table below shows key management personnel compensation excluding Directors, whose compensation is presented separately in the second table below.

Key management personnel compensation

Consolidated and company	2023 £000	2022 £000
Short-term benefits	3,125	2,583
Long-term benefits	990	528
Post-employment benefits	230	99
Termination benefits	1,240	834
Total compensation for key management personnel, excluding Directors	5,585	4,044

Directors' compensation

Consolidated and company	2023 £000	2022 £000
Short-term benefits	2,002	2,340
Long-term benefits	761	648
Post-employment benefits	148	138
Termination benefits	1,013	-
Total compensation for Directors	3,924	3,126

The total remuneration of the highest-paid Director for qualifying services to Cynergy Bank was £1,880,156 (2022: £2,034,830). The amount of pension contributions paid by the company to the pension scheme on behalf of the highest-paid Director was £96,580 (2022: £4,000). The highest-paid Director did not exercise any share options during the period. The highest-paid Director was not awarded, and did not exercise, any shares under the LTIP in respect of qualifying services. Payments to key management during 2023 included cash settled awards under the 2019 to 2021 LTIP, totalling £1,910,130 (2022: £2,400,000).

In January 2021, an agreement was entered into between an Executive Director and the Board of the parent company Cynergy Capital Limited. Under that agreement, the Director is eligible to receive remuneration based on the value of the parent company. This has been calculated as £2.2m for the year ended 31 December 2023 (2022: £1.3m) based on a third-party valuation, and this is disclosed in the financial statements of Cynergy Capital Limited. There is no financial impact on the financial statements of Cynergy Bank and its subsidiaries. As the agreement is with a Director of Cynergy Bank, it is also disclosed in these financial statements as a related party transaction.

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

There were six related party loans outstanding at 31 December 2023 totalling £30.4m (31 December 2022: £29.5m). There were no other loan transactions during the year or balances outstanding at the year end for key management personnel.

Related party deposits totalling £0.6m were held as at 31 December 2023 (31 December 2022: £0.7m).

Other transactions with related parties

Consolidated and company	2023 £000	2022 £000
Transactions with related parties:		
Management fees paid to parent	160	126
Total	160	126

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

In addition to the above, Cynergy Bank had an intercompany loan to its subsidiary Cynergy Business Finance with a balance at 31 December 2023 of £175.4m (2022: £109.7m). Interest during the year on the intercompany loan was £5.1m (2022: £1.3m).

34. Share-based payments

In November 2023, the Board and the Remuneration, Nominations and Corporate Governance Committee approved amendments to the current LTIP for senior leaders, including Executive Directors, which has now been extended by one year to run over four years from 2022 to 2025.

The LTIP is designed to provide long-term incentives for senior leaders to deliver long-term shareholder returns.

The conditions of the revised scheme and basis of award value no longer reference the value of Cynergy Bank's equity or shares. Therefore the scheme is no longer classified as a share-based payment. The revised scheme settlement amount is based on achievement of target growth in retained earnings and delivery of Cynergy Bank's technology roadmap alongside other conditions.

For 2022 the valuation of the award was calculated using the Black-Scholes pricing model as a share-based scheme. For the revised scheme in 2023, the valuation of the award has been estimated based on forecast performance under Cynergy Bank's strategy and management's estimate of achieving those results.

The final award is at the discretion of the Board in consideration of satisfaction of the performance conditions.

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

Consolidated and company	2023 Number of shares (thousands)	2022 Number of shares (thousands)
As at 1 January	4,999	4,363
Granted during the year	-	2,948
Exercised during the year	(2,051)	(2,312)
Forfeited during the year	-	-
Cancelled	(2,948)	-
As at 31 December	-	4,999

On recognition of the new scheme during 2023, the liability relating to the old scheme has been derecognised and a new liability recognised, measured at £3.5m at 31 December 2023.

Cynergy Bank Limited (CBL) has also entered into a shareholder agreement in relation to its subsidiary Cynergy Business Finance Limited (CBF). Under that agreement, CBL has the right to exercise an option to purchase the minority shareholding held by the managers in CBF. Equally, the managers can request CBL to purchase the shares. CBF commenced trading late in 2021 and has recorded a first profit during 2023 following losses in its first and second periods. CBF remains reliant on funding from CBL. The fair value of this option is considered to be nil as at 31 December 2023.

35. Events after the reporting period

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

Alternative performance measures (unaudited)

Figures quoted in the strategic report are unaudited unless stated otherwise.

Reconciliation of statutory and alternative performance measures		
	Consolidated 2023 Actuals £m	Consolidated 2022 Actuals £m
Statutory profit before tax:	55.2	50.5
Operational investment		
- Regulatory and mandatory costs	1.7	1.8
- Gain on sale of property	(0.3)	(9.2)
Strategic investment		
- Processes, systems and people	9.3	9.0
- New product investment	0.4	0.6
- Incentive plan adjustment	-	1.5
- Redundancies	1.2	-
Underlying profit before tax:	67.5	54.2

Definitions

Cost income ratio: Total reported costs expressed as a percentage of reported income.

Liquidity coverage ratio: The value of high-quality liquid assets held by Cynergy Bank expressed as a percentage of net cash outflows over the next 30 days.

Loan/deposit ratio: Total customer lending expressed as a percentage of total funding, being customer-placed deposits and monies drawn down from sterling monetary framework.

Net interest margin: Interest income earned from customer lending and cash at bank less interest paid on customer deposits, subordinated tier 2 debt and sterling monetary framework expressed as a percentage of two-point average interest-earning assets.

Return on equity (RoE): Reported profit after tax expressed as a percentage of average equity.

Total capital ratio: Regulatory total capital expressed as a percentage of risk-weighted assets.

Underlying cost/income ratio: Reported costs adjusted for one-off items as detailed in the reconciliation above expressed as a percentage of reported income.

Underlying profit before tax: Reported profit before tax adjusted for multi-year investments supporting strategic and regulatory projects, the cost of long-term incentive plans and one-off gains, to provide an operational performance metric which is comparable between reporting periods.

Underlying return on equity: Underlying profit after tax expressed as a percentage of average equity.

