Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements

31 December 2019

Turkish Bank (UK) Limited
Report and financial statements 2019

Contents

Officers and professional advisors

Directors

I H Bortecene (Chairman)
S M Bennett
S Betteridge **
J W Heales *
J Gillan
M Arig
M Y Rahmioglu (resigned 4 April, 2019)
Mustafa Kemal Sahin (appointed 4 April, 2019)
Mustafa Kursat Asardag (appointed 23 October 2019)

* Chairman of the Audit Committee
** Chairman of the Risk Committee

Registered office

84-86 Borough High Street
London SE1 1LN

Auditor

Mazars LLP
Chartered Accountants
Tower Bridge House,
St Katharine's Way,
London
E1W 1DD

Chairman's Statement

When we look back at the year 2019, we will most likely remember it in the context of the ''Digitalisation'' era. The unprecedented change to the way we work that has been brought about by the rapid developments in technology, as well as other macro-economic developments is changing the way that we all do business. Banking is one of the leading sectors that has been at the forefront of this change and is also one that has been most dramatically transformed by it. The bustling Fin-Tech environment in the United Kingdom has forced incumbent Banks both big and small to reconsider their traditional strategies. As a result of low interest rates (heading towards ultra-low) coupled with new legislation such as PSD2 and GDPR, Banks have started to change their strategies to adapt to this dynamic environment. One should not forget to take into account the start of trade wars in 2019 to be able to understand the surrounding conditions. In addition to this, there are the lingering risks and opportunities around climate change, which undoubtedly started making its way onto our agendas. We must also mention Brexit and its impact on the UK Financial Sector, an important fact we have been dealing for some while now.

In brief, we can say that while the UK economy had adopted an almost 'wait and prepare for post Brexit' status during most of 2019, Turkey and Cyprus were on their way towards recovering from the 2018 turmoil. In line with similar performances of the past, both economies were once more successful in surprising the markets, with their rate of quick recovery, especially thanks to tourism incomes which boomed in both countries.

The Group Digital Transformation Program (DTP) reached its 3rd year. We have started to see the fruits of the strategic pivot that had been initiated. This follows the global trend of Banks' business models shifting from "balance sheet banking" to a focus on growing the Assets under Management (AUM). The Group particularly in Turkey and Cyprus, with the help of the investment arm, has started to experience significant growth in this area, where AUM levels are quickly approaching the size of the balance sheets. The underlying work for this includes significant changes to performance management and technology.

On other good news; a project in development for almost a year has been finalised. I am proud to announce that from April 2020, TB Cyprus will be producing all its electricity needs from solar energy technology. This project is part of a wider group initiative I wrote about last year called the "Green Bank".

In both Turkey and Cyprus, we have earmarked significant spaces in our Headquarter Buildings to house co-working facilities that will cater to our suppliers, customers and existing and potential partners and collaborators. We believe this model will help us increase the use of expert Third Party Providers and foster greater collaboration, expertise and technological know-how to fuel our DTP. Pending the success of the project, we are hoping to expand to the UK.

With ever increasing customers engaging with us through alternative channels, we have established Super Branch model which started in Turkey and Cyprus in 2019. This was finalised in early 2020, where in a matter of weeks 80% of the customers were allocated to Super Service Centres. This is scheduled to happen in the UK during 2020. These centres will give us an opportunity to redefine the number, location and composition of our branches for the changing needs of our customers.

Looking at Turkish Bank (UK) Limited (TBUK), the most noticeable impact of Brexit has been on our mortgage book. Most of our overseas customers were hesitant to purchase property before having more clarity on the Brexit process. In addition to this, the fall in house prices led many potential buyers to adopt a 'wait and see' approach. We took this opportunity to completely review and upgrade our loan infrastructure in anticipation of the pick-up we expect this year.

Firstly, we have upgraded our workforce with new members on our credit team and have cut the time it takes us to issue new mortgages. We have also redesigned our credit department with more emphasis on establishing clearer lines between first and second line of credit operations and credit risk. All processes and controls around credit have been checked, improved and new processes and controls have been installed. It is the hope of the Bank that the mortgage business will grow rapidly in 2020 in line with the diminishing levels of uncertainty after the elections helped stimulate desire of many home buyers after a long period of delayed decisions.

The successful implementation of PSD2 ahead of our peer group was one of the highlights of 2019. Our experience with APIs, seeing how this new architecture will play out, is important in future strategic decisions. TBUK will continue to grow by way of increased Transaction Banking services to its clientele in a much more efficient and swift way thanks to its upgraded payments systems infrastructure and direct membership of FPS, BACS and Cheque and Credit (ICS) Clearing Schemes.

Chairman's Statement (Continued)

On HR transformation, TBUK has continued to strengthen its management team in 2019. After our success of joining the UK Payments Schemes, TBUK concentrated its' efforts on building a senior team to deliver its strategies. This work is almost complete. Emre Kunduracı of Turkish Bank Turkey, Head of Corporate Banking and FI, was transferred to TBUK as Head of Business. Emre served TBUK during 2019 as part of Group support SME on several strategic projects. In his new role as General Manager he will be responsible for delivering the Bank's strategies in the markets which it operates. He will also be acting as Board Secretary.

The strengthening of the second line has been finalized, and though it has dramatically increased the bank's cost base, there are several measures in place to neutralize this effect.

This year Mr. Erhan Raif, CEO of our parent, Turk Bankası, is joining the Board to replace Mr. Sahin. Erhan Bey has been with the Group for more than 30 years, and has also worked in TBUK at the beginning of his career during late 80s and early 90s. I am sure we will benefit from his presence and the support he can provide at every level of the business personally and through the resources of the parent.

Finally I need to mention the shock created at the time of this report by Covid-19. Certainly an unforeseen and unprecedented event that none of us is familiar with.

In such times, one can only feel privileged to be the Chairman of a 119 years Group where resilience is in the genes of the organisation. I hope the historical high level of liquidity, healthy capital position, low loan to value ratios of our credit book and the floating rate nature of our assets are among the many encouraging measures that will ease the effects of the challenges we will encounter during 2020. We are also fully aware that we can only survive the adverse conditions only if we act as one. I want to specially thank all of our staff and their supporting families; who are working very hard in this environment of uncertainty and anxiety, to deliver our services to the public without interruption through this difficult time.

Hakan Bortecene

Chairman of the Board

April 24, 2020

The Strategic Report

For the year ended 31 December 2019

Review of the Year

Key performance indicators	2019	2018
(Loss) before tax as % of equity	(2.79) %	(0.90) %
Equity as % of total assets	15.34 %	14.07 %
General expenses as a % of net income	117.43 %	104.07 %

The Bank reported a loss before tax of £936k. This is mainly due to a reduction in the volume of non-resident loans and advances off the back of Brexit uncertainty, a non-recurring provision of £384k for VAT compliance audit and Project related expenses of £130k, as the bank continued to invest in the development of its processes, controls and governance infrastructure. Notwithstanding this, equity as a percentage of total assets increased, a result of the reduction in lending and more active management of the Banks surplus cash and cash equivalents. General expenses as a % of net income increased off the back of the items mentioned above.

Continuous efforts to strengthen and upgrade the second line SMF roles of the Bank have continued to contribute significantly during 2019 to our human resource cost base. The difference with 2018 in this area is an increase by £236 K.

In addition, the bank spent £234k on tangible and intangible assets in relation to the development of its new Open Banking capabilities and enhancement of the IT infrastructure. Although in its early stages of development, Open Banking is very much part of the ongoing digitalisation of financial services. This demonstrates TBUK's commitment to invest in the future of the Bank and to offer an accessible, superior and flexible service to its customers well into the future.

Impairment losses for the year remained low at £55k (2018: £18k). ECL provisions in accordance with IFRS 9 stood at £212k (2018: £158k). The increase is primarily due to the Bank placing a reasonably higher probability weight to worst case scenarios and also a slight change in the profile of the lending portfolio, and not reflective of any underlying credit issue. This level of provisioning, against a loan book of £82.4 million, is below the norm for the industry. It reflects the Bank's policy of concentrating on secured lending at cautious margins of collateral and debt serviceability. The Bank continues to monitor its loan book closely to identify cases of financial stress with a view to providing assistance wherever possible.

As anticipated, total assets decreased to £171.3m (2018: £194.4m) driven primarily by the decrease in overseas Group funds. After the turmoil in the financial markets in 2018 in Turkey, TBUK's balance sheet has enjoyed an increase of Group deposits part of a flight to quality. In 2019, by the normalisation of the markets we have seen a return of these funds to their homeland and hence the drop on the balance sheet size. The lower lending volumes came off the back of continued Brexit uncertainty, as many homeowners and buy to let investors, especially on the non-resident side, delayed their purchases. Towards the end of 2019 it was apparent this uncertainty was lifting, with the pent-up demand evident through an increased number of applications. This will be realised in 2020.

The reduction in the deposits from banks of £15.6m was a result of the planned withdrawal of funds, as mentioned above, following the significant inflow the Bank saw in 2018 (an increase of £15.7m) off the back of geopolitical uncertainty. Customer retail and SME deposits at year end decreased by £7.6m (2018: increase £1.2mn) to £138.6m (2018: £146.2mn). Of the decrease of £7.6m, resident and non-resident customers accounted for £4.7m and £2.9m respectively.

Notwithstanding this Brexit related reduction in lending and associated fee income, fees and commissions received overall remained relatively stable during the year.

During 2019 the Bank continued to invest heavily in its platform, which included integrating into the UK's Open Banking infrastructure (as it had the UK payments infrastructure in 2017 and 2018) as well as its IT and digital capabilities. This investment is in line with the Bank's intention to keep pace with changes in the financial services industry. The Bank continues to closely monitor competition on the High Street and from Fin-Techs to ensure it does so.

The Strategic Report (Continued)

For 2020, these investments, combined with TBUK's strong liquidity, robust capital base and an ongoing drive to improve customer service and efficiency, put the Bank in a strong position to take advantage of opportunities as the Brexit uncertainty lifts. These opportunities include the potential for enhanced cooperation between the markets in which the Turkish Bank Group operates.

As always, our focus will be on providing our clients with the quality service to which they are entitled, in line with the Bank's history and values.

Section 172(1) statement

Section 172 of the UK Companies Act 2006 sets out general duties for Directors to adhere to, which are summarised below.

A director of a company must act in the way he/she considers, 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 (amongst other matters) to;

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

The Directors are fully aware of the factors set out above in discharging their duties under section 172. The key stakeholders of the Bank are our people, our customers, our business solution partners, our regulators, our shareholders and the community we serve and live in. The Board recognises that building strong relationships with our stakeholders is key in delivering our strategy to achieve sustainable growth for the benefit of all our stakeholders.

Directors are provided with an induction and development plan that covers their roles and responsibilities. They have access to resources from the Bank as well as external professional advice. Directors fulfil their responsibilities partly through the governance framework of the Bank and delegating the day to day decision making to the executive of the Bank. The following paragraphs summarise how the Directors fulfil their duties.

- **Long term development**

The Directors are fully engaged in the long-term direction and considerations for the Bank, principally through approving the strategy. In 2016, the Bank became a member of Faster Payments, BACS and Cheque and Credit Clearing (ICS) systems to ensure its long term existence without needing correspondent banking services. The Bank developed systems in 2019 to adopt Open Banking with a view to serve its customers. The Directors, in close liaison with the Group Office, are engaged in discussions about the digitalisation of banking services and the opportunities it brings.

- **Risk management**

For details of our principal risks and uncertainties and how we manage our risk environment, please see the relevant sections included in the Strategic Report below. The Directors are involved in the oversight of the risk management framework through setting the risk appetite of the Bank and overseeing this via Board Risk Committee and Board Audit Committee. Non-executive directors also have a standing invite to the Management Risk Committee and Conduct Risk Committee.

- **People**

People are at the core of providing services to our customers. We manage our people's performance and development to make sure we operate effectively and efficiently, with high standards of conduct and regard for our customers. We also make sure that we share common values and seek to model the standards and values expected of all staff through day to day engagements. Executive directors keep in touch with staff through day to day activities and non-executive directors through collaboration in various Committees of the bank and through scheduled events and branch visits involving the employees.

The Strategic Report (Continued)

- **Business Partners**

We value all our business partners and have long term relationships with key stakeholders. The Directors encourage close cooperation with our solution partners and take part in events involving these key stakeholders. One such example was an event run by the Bank at the SIBOS 2019 London.

- **Community and Customers**

Being a community bank it is our purpose to serve the Turkish community and bring about change with the community with which we interact. We make a point of being at the heart of the community we serve. In 2019 the Bank was the main sponsor for an event hosting a high profile Turkish Comedian and the Directors were able to make significant contact with customers and the community. The Bank also was represented at a Turkish Cypriot Community festival and employees and Directors made contact with business leaders and the general community.

- **Regulators**

The Bank is in regular contact with the Regulators and both executive and non-executive directors proactively and regularly meet with the Bank's regulators.

Principal risks and uncertainties

The Bank's activities expose it to a number of financial risks including credit risk, interest rate and currency risk, operational risk, reputational risk, liquidity risk, funding risk and IT related risks including Cyber Risks. The Bank uses only "plain vanilla" currency swaps and does not enter into any exotic contracts. Such swaps are used to hedge the Bank's currency positions and are not used for trading purposes. Risk policies have been disclosed in Note 34 of the financial statements, which also provides greater detail of how risk is managed.

Impact of Brexit

Although Brexit has progressed, there remains a level of uncertainty as the UK negotiate its future relationship with the European Union. As the Bank does not offer banking services in any other EU or EEA country other than UK, the direct impact is expected to be minimal. Notwithstanding this, the Bank continues to undertake comprehensive risk assessments across credit, liquidity and contractual risks in relation the indirect consequences of Brexit, such as house price decline, increased unemployment, a significant depreciation of sterling or other negative economic indicators. Given the conservative approach to lending, the high liquidity and the limited number of customers who have trading relationships with Europe, the impact is expected to be minimal.

Impact of Covid-19

Since the Balance Sheet date there has been a global pandemic outbreak of Covid-19. During the latter stages of finalising the financial statements, the potential impact of Covid-19 had increased, with widespread disruption to normal patterns of business across the world and the UK

The Bank has taken immediate measures to adapt and implement Business Continuity Planning Strategies to make sure service to customers is uninterrupted. Measures have been put in place to monitor and support the health of our staff, our customers and our operational resilience.

The immediate effect of Covid-19 has been through reduced interest income due to a cut in the base rate. Business growth assumptions as well as the non-interest income increase may not be realised due to the lock-down measures introduced. Some customers have approached the bank for mortgage holidays. Although it is too early to say, current information does not imply underlying credit concerns. The Bank has taken measures to manage its cost of funding as well as the cost of operations to counteract the potential effect of Covid-19 on its income stream.

Whilst the UK Government has put in place significant support to guide the economy through this period, the impact of Covid-19 cannot be reliably estimated at this stage. However, TBUK's high liquidity, robust capital base and focus on secured lending at cautious margins of collateral and debt serviceability, put it in a strong position to support our customers through this difficult time. The Bank has revised its 2020 Budget and applied stress testing to its financial forecasts. Stress testing included Bank of England stress scenarios as well as the Bank's own. The assessment shows that the TBUK financial position is strong enough to withstand the stress and that that there is no Material Uncertainty regarding the going concern assumption.

The Strategic Report (Continued)

Climate Change

The Bank has started to monitor the potential effects of climate change as part of its Board deliberations and has appointed a non-executive Director to help oversee this important work. Due to the nature of its business and locality of its loan book climate change does not currently present a material risk to the operations of the Bank.

Interest rate and currency risk: The Bank's activity exposes it primarily to the financial risk of changes to the interest rate environment and to a lesser extent to foreign currency exchange rate movements. With regard to interest rate risk the Bank has only a very small part of its loan portfolio on fixed interest rates, and the majority is on variable rates, reducing the Bank's exposure to interest rate fluctuations. Money market placements are at fixed rate, but these are typically for a short period, up to three months to minimise risks.

Credit risk: The Bank has no significant concentration of credit risk, with lending mainly against UK property and LTVs (Loan to Value) which are at the lower end of the UK mortgage market. The average LTVs for resident and non-resident customers are 42.61% and 44.73% respectively. Regular stress testing of the Bank's collateral security is carried out and the Directors are satisfied with the levels of equity where lending is against majority freehold and very little long dated leasehold property which is itself restricted to the London market.

Liquidity and funding risk: In order to maintain liquidity and funding to ensure that sufficient funds are available for on-going operations and future developments, the Bank has set a cautious risk appetite with a significant proportion of the total assets held mainly short-term money market and some medium term. The directors believe that the Bank has a strong liquidity and funding position that meets with their Policy guidelines, which are set at the higher end of the market in line with the Bank's values and culture.

The Bank operates a risk management policy and has set quantifiable risk appetite limits and uses financial instruments based on the operations it undertakes. This risk management policy, which includes a description of how financial instruments are used, is disclosed in Note 34 to the financial statements.

Operational Risk can arise from internal or external factors. These include attempted fraud, cyber-attacks, terrorist activities, systems failures and legal risk. The Bank's risk appetite is to mitigate these as far as is practical. Various techniques are used including firewall protection, security controls, back up procedures and recovery plans.

Future developments

The directors aim to maintain the policies that have resulted in the Bank's historic growth, with a focus on enhancing customer service and driving efficiency. As stated in the review, the Bank has invested to enhance the Bank's digital and IT infrastructure and is also reviewing its product portfolio with the intention to expand the range of products for the benefit of its customers. Other future activities are covered in the Chairman's Report.

Approved by the Board of Directors and signed on behalf of the Board

Steve Bennett
April 24, 2020

84-86 Borough High Street
London SE1 1LN
United Kingdom

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2019.

Duties of Directors

Please see **Section 172(1) statement** in the Strategic Report on page 6.

Activity Report

The principal activities of Turkish Bank (UK) Limited ("TBUK or the Bank") are twofold, namely;

- to provide a superior community banking service to the Turkish-speaking people of London particularly and the UK in general; and
- meet the UK banking needs of Corporate clients and high net worth individuals who are customers of our parent or sister organisations within the Turkish Bank Group.

TBUK is a subsidiary of Turkish Bank Limited and a member of the Turkish Bank Group (Group) headquartered in Istanbul. The Chairman of the Group also performs the role of Chairman of TBUK. TBUK operates within and is guided by the overall strategic objectives of the Group. These focus on providing quality customer service at a competitive price to our clients and to provide a reasonable return on capital to our shareholders. More information regarding TBUK activities can be obtained by accessing the Bank's website at **www.turkishbank.co.uk** or the Group website at **www.turkishbankgroup.com**.

Review of the Year

Information regarding the Bank's financial performance and position during the year ended 31 December 2019 is presented in the Strategic Report on page 5.

Principal risks and uncertainties

Information regarding the exposure of credit risk, interest rate and currency risk, liquidity and funding risk are included in the Strategic Report on page 7.

Future developments in the business

Information regarding the future developments in the business is included in the Strategic Report on page 8.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The Directors have considered the effects of COVID19 and are of the opinion that it does not cast a significant doubt on the going concern basis. Please see a detailed discussion about the effect of Covid-19 in the Strategy Report on page 7.

Further details regarding the Bank's accounting policies can be found in the statement of accounting policies in these financial statements on page 22.

Post Balance Sheet Events

Please see Note 36 on page 66 for the post balance sheet event disclosures.

Results and dividends

The loss for the year after taxation amounted to £735,000 (2018 – loss £125,000). The Directors do not recommend the payment of a dividend (2018 - £nil).

Political and charitable contributions

The Bank does not make political contributions but does support registered charities that operate in the same community. The Bank made no charitable contributions in 2019 (2018 £200).

Directors' Report (Continued)

Directors and their interests

The Directors who served during the year were as follows:

I H Bortecene (Chairman)
S M Bennett
S Betteridge **
J W Heales *
J Gillan
M Arig
M Y Rahmioglu (resigned 4 April 2019)
M K Sahin (appointed 4 April 2019)
M K Asardag (appointed 23 October 2019)

* Chairman of the Audit Committee
** Chairman of the Risk Committee

Directors' indemnities

The Bank has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Audit Committee

The Bank has an Audit Committee comprising three non-executive directors, all of whom are experienced bankers or Subject Matter Experts in their respective field. The Committee met on five occasions in 2019 (2018: five times).

Risk Committee

The Bank has a Risk Committee comprising three independent non-executive directors whom are all experienced bankers or Subject Matter Experts in their respective field, plus members of the executive management. The Committee met on seven occasions in 2019 (2018: five times).

Disclosure of information to the auditor

Each of the Directors of the Bank holding office at the date of approval of this report confirms that: so far as each of the Directors are aware, there is no relevant audit information of which the Bank's auditor is unaware; and so far as each of the Directors are aware they have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. This confirmation is given and shall be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Mazars LLP will therefore continue in office.

Steve Bennett
April 24, 2020

84-86 Borough High Street
London SE1 1LN
United Kingdom

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Steve Bennett
April 24, 2020

84-86 Borough High Street
London SE1 1LN
United Kingdom

Registered in England. Company No. 2643004

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURKISH BANK (UK) LIMITED

Opinion

We have audited the financial statements of Turkish Bank (UK) Limited (the 'Bank') for the year ended 31 December 2019 which comprise of the Statement of Profit or Loss and Other Comprehensive Income, the statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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 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.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURKISH BANK (UK) LIMITED

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

<table>
<tr><th>Area of Focus</th><th>How our audit addressed the area of focus</th></tr>
<tr><td>Credit Risk in relation to loan loss provisions

Refer to Accounting Policies (Note 6.b); and Notes 12 and 19 of the financial statements.

The impairment of loans and advances is estimated through the calculation of expected credit losses (ECL), which involves the exercise of judgmental and highly subjective assumptions including forward looking information.

At 31 December 2019, the loan loss provision was £213k (2018: £158k) and the charge to income statement was £55k (2018: £18k).

The measurement of ECLs depends on the change in credit quality of each loan since initial recognition. ECLs are determined relative to the stage of changes in credit quality.

Due to the inherent subjectivity in estimating the recoverability of the loan balances on a forward-looking basis, the assessment of the ECLs becomes highly judgmental. The key assumptions include probability of default and loss given default.</td><td>We have assessed the design and tested the operating effectiveness of the key controls operating in the Bank in relation to credit processes. This included reviewing the credit files for all watch list loans and a sample of performing loans.

In respect of the model used by management for their expected loss calculations under IFRS9 we:

- Assessed the appropriateness of methodology used by management;
- Tested the mathematical integrity of the model;
- Reviewed assumptions used in applying the methodology adopted and assessed for reasonableness;
- Tested the completeness of the loan portfolio and the accuracy of data inputs applied to the model;
- Tested the process in place at the Bank to allocate loans to the credit risk stages;
- Assessed the suitability and relevance of the key assumptions applied in determining probability of default and loss given default.

Our observations

We found the approach taken in respect of loan loss provisions to be consistent with the requirements of IFRS 9 and judgements made were reasonable.</td></tr>
<tr><td>Risk of fraud in revenue recognition

Refer to Accounting Policies (Note 6.a); and Note 8 of the financial statements.

The financial reporting fraud risk over revenue recognition specifically relates to income recognised on an effect interest method (EIR).

The EIR takes into account fees that are an integral part of the instrument's yield, premiums, discounts and acquisition costs. Management monitor EIR manually and adjust where necessary.

Judgement is required to determine whether fees are recognised as EIR or recognised when a service has been performed.</td><td>We assessed the design and tested the operation of the controls in place at the Bank relating to revenue recognition.

With respect to EIR calculation, we:

- Re-performed the EIR calculations;
- Verified details to underlying agreements;
- Assessed the period over which yield adjustments are applied;
- Considered the appropriateness of judgement applied in determining the basis of revenue recognition.

Our observations

We found that the judgements and estimates applied in determining the basis for revenue recognition were reasonable.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURKISH BANK (UK) LIMITED

Area of Focus	**How our audit addressed the area of focus**
Impact of the outbreak of COVID-19 on the financial statements *Refer to Strategic Report and Note 36 of the financial statements.* Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19, The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK and Turkey. The directors' consideration of the impact on the financial statements are disclosed in strategic report on page 6. Whilst the situation is still evolving, based on the information available at this point in time, the directors have assessed the impact of COVID-19 on the business and have concluded that adopting the going concern basis of preparation is appropriate. As per Note 36 to the financial statements, the directors have also concluded that COVID-19 is a non-adjusting post balance sheet event.	We assessed the directors' conclusion that the matter be treated as a non-adjusting post balance sheet event and that adopting the going concern basis for preparation of the financial statements is appropriate. We considered: • The timing of the development of the outbreak across the world and in the UK; and • How the financial statements and business operations of the Bank might be impacted by the disruption. In forming our conclusions over going concern, we evaluated how the directors' going concern assessment considered the impacts arising from COVID-19 as follows: • We reviewed the directors' going concern assessment including COVID-19 implications based on a range of scenarios and a 'reverse stress tested scenario' as approved by the board of directors. • We made enquiries of directors to understand the period of assessment considered, potential impact of COVID 19 on the Bank's performance, business operations, and regulatory and liquidity positions; • We evaluated the key assumptions used in all scenarios indicated above and considered whether these appeared reasonable; • We assessed the potential impact of COVID-19 on the Bank's capital utilisation and considered whether the directors' conclusion that adequate capital headroom remained on all scenarios assessed was reasonable; and • We evaluated the adequacy and appropriateness of the directors' disclosure in respect of COVID-19 implications, in particular disclosures within principal risks and uncertainties, post balance sheet events and going concern. **Our observations** Based on the work performed, we are satisfied that the matter has been appropriately reflected in the financial statements. Our conclusions on going concern is set out above.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURKISH BANK (UK) LIMITED

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

Overall materiality	£263,000
How we determined it	1% of net assets
Rationale for benchmark applied	We have used net assets as the benchmark to calculate materiality. In determining this threshold, we have taken into consideration that the Bank is a Public Interest Entity. The Bank was loss making in 2019 so income statement benchmarks were not considered appropriate as a basis for materiality. Net assets were therefore considered to better reflect more appropriately the size of the Bank's operations. Furthermore, it remains the focus of the regulator and shareholders in terms of capital adequacy.
Performance materiality	£184,000 Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality of the financial statements as a whole.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £8,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit, including extent to which the audit was considered capable of detecting irregularities, including fraud

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Bank, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- at planning stage, we gained an understanding of the legal and regulatory framework applicable to the Bank, the industry in which it operates and considered the risk of acts by the Bank which were contrary to the applicable laws and regulations;
- we discussed with management the policies and procedures in place regarding compliance with laws and regulations;
- we discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance; and
- during the audit, we focused on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the Prudential Regulation Authority and the Financial Conduct Authority. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURKISH BANK (UK) LIMITED

Our procedures in relation to fraud included but were not limited to:

- inquiries of management whether they have knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risk related to fraud;
- discussion amongst the engagement team regarding risk of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation loan impairments and revenue recognition requiring the application of EIR method of income recognition, and significant one-off or unusual transactions; and
- addressing the risk of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any additional “Key audit matters” relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the report and the financial statements, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors’ Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors’ Report.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURKISH BANK (UK) LIMITED

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by Bank's board on 20 September 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 2 years.

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

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

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

Greg Simpson (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Tower Bridge House

St Katharine's Way

London

E1W 1DD

24 April 2020

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Interest income	8	5,561	6,166
Interest expense	8	(1,263)	(1,275)
Net interest income	8	**4,298**	**4,891**
Fees and commissions receivable	9	1,023	1,155
Fees and commissions payable	9	(163)	(163)
Net fee and commission income		**860**	**992**
Net trading income	10	183	156
Other operating income		11	4
Total operating income		**5,352**	**6,043**
Impairment losses on financial instruments	12, 19	(55)	(18)
Personnel expenses	11	(2,881)	(2,722)
Premises and equipment		(406)	(607)
Administrative expenses		(2,259)	(2,299)
Depreciation and amortisation	21,22	(681)	(638)
Other expenses		(3)	(5)
Total operating expenses		**(6,285)**	**(6,289)**
Finance Cost		(3)	0
Loss before taxation	13	**(936)**	**(246)**
Income tax credit	14	201	121
Loss after taxation		(735)	(125)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value		203	199
Deferred tax effect of net change in fair value of equity investments		(35)	(31)
Revaluation of properties		(554)	-
Deferred tax on property revaluation		94	-
Total other comprehensive (expense) / income		(291)	168
Total comprehensive (expense) / income		(1,026)	43

The notes on pages 22 to 66 form an integral part of these financial statements.
All activities relate to continuing operations.

Statement of Financial Position
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Cash and cash equivalents	15	77,092	85,862
Loans and advances to banks	17	5,738	1,773
Loans and advances to customers	18	76,648	94,480
Investment Securities	20	683	498
Current taxation assets	14	206	206
Other assets	23	1,151	1,189
Deferred tax assets	27	75	-
Property and equipment	22	8,461	8,979
Intangible assets	21	1,280	1,386
Total assets		**171,334**	**194,373**
Liabilities			
Deposits from banks	24	4,318	18,854
Deposits from customers	25	138,596	146,164
Deferred tax liabilities	27	189	374
Derivative liabilities	30	-	78
Lease liabilities	26	484	284
Other liabilities	26	1,446	1,263
Total Liabilities		**145,033**	**167,017**
Equity			
Called up share capital	28	12,000	12,000
Retained earnings		7,322	8,069
OCI reserves		618	467
Revaluation reserve		6,361	6,820
Total equity		**26,301**	**27,356**
Total liabilities and equity		**171,334**	**194,373**

The Board of Directors approved these financial statements and authorised for issue on April 24, 2020

Signed on behalf of the Board of Director

I H Bortecene
Chairman

S Betteridge
Director

Registered number 2643004

The notes on pages 22 to 66 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Loss after taxation	(735)	(125)
Adjustments for:-		
Depreciation of property plant and equipment	454	414
Amortisation of intangible assets	227	223
Profit from disposal of fixed assets	-	(3)
Net Interest income	(4,298)	(4,891)
Interest paid on lease liabilities	3	-
Income tax (credit)	(201)	(122)
	(4,550)	(4,504)
Changes in:-		
Loans and advances to customers	17,853	4,082
Loans to banks	(3,985)	(19)
Other assets	37	1,335
Derivative liabilities held for risk management	(78)	28
Deposits from banks	(14,536)	15,716
Deposits from customers	(7,568)	1,155
Other liabilities	235	(231)
	(8,042)	22,066
Interest received	5,561	6,166
Interest paid	(1,263)	(1,275)
Income tax received (paid)	-	79
Net cash flows from operating activities	(8,294)	22,532
Cash flows from financing activities		
Payment for lease liabilities	(189)	-
Interest Paid on lease liabilities	(3)	-
Net cash used in financing activities	(193)	-
Cash flows from investing activities		
Acquisition of property and equipment	(161)	(141)
Acquisition of intangible assets	(122)	(150)
Proceeds from disposal of fixed assets	-	3
Proceeds from disposal of investment securities	-	546
Net cash used in investing activities	(284)	258
Net (decrease) / increase in cash and cash equivalents	(8,770)	22,791
Cash and cash equivalents as at 1 January	85,862	63,088
IFRS 9 Adjustment at January 1, 2018	-	(17)
Cash and cash equivalents as at 31 December	77,092	85,862

The notes on pages 22 to 66 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2019

	Called up Share Capital £'000	OCI Reserve £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2017	12,000	299	6820	8194	27,283
IFRS 9 Adjustment		34		(4)	30
Balance as at 1 January 2018	**12,000**	**299**	**6,820**	**8,194**	**27,313**
Loss for the year	-	-	-	(125)	(125)
Other comprehensive income	-	168	-		168
Balance as at 31 December 2018	**12,000**	**467**	**6,820**	**8,069**	**27,356**
IFRS 16 initial adjustment (please see note 3)	-	-	-	(11)	(11)
Balance as at 1 January 2019	**12,000**	**467**	**6,820**	**8,058**	**27,345**
Loss for the year	-	-	-	(735)	(735)
Other comprehensive income / (expense)	-	151	(459)	-	(308)
Balance as at 31 December 2019	12,000	618	6,361	7,322	26,301

OCI reserve relates to the gain/loss on the fair valuation of marketable securities which are classified as fair value assets through other comprehensive income. Please see Note 20.

Revaluation reserve relates to the revaluation of freehold land and buildings. Please see Note 22.

The notes on pages 22 to 66 form an integral part of these financial statements.

Notes to the accounts
For the year ended 31 December 2019

1. **Reporting Entity**

   Turkish Bank (UK) Limited (the "Bank") is domiciled in the United Kingdom. The Bank's registered office is 84-86 Borough High Street, London SE1 1LN. The Bank is a regulated Bank, in the retail banking sector.

2. **Basis of preparation**

   The financial statements have been prepared in accordance with IFRS, as adopted by the EU. They were authorised for issue by the Bank's Board of Directors on April 22, 2020.

   These financial statements are presented in pounds sterling which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

   Going concern

   These financial statements have been prepared on the going concern basis.

   In making the assessment of the Bank's ability to continue on the going concern basis, the Directors evaluated all information at their disposal and considered possible future events and conditions and how the Bank may reasonably respond to these events and conditions. The Directors also considered the financial position of the Bank, its liquidity and capital position, the Bank's financial forecasts and applied stress testing to the financial forecasts to take into account potential risks affecting them.

   The Directors also assessed the impact of Covid-19 on the Bank and its 2020 financial plans and forecasts. Whilst the UK Government has put in place significant support to guide the economy through this period, the impact of Covid-19 cannot be reliably estimated at this stage. The Bank has revised its 2020 Budget and applied stress testing to its financial forecasts including reverse stress testing. Even under severe stress scenarios TBUK's high liquidity, robust capital base and focus on secured lending at cautious margins of collateral and debt serviceability give comfort to the Directors that the TBUK financial position is strong enough to withstand the stress and that that there is no Material Uncertainty regarding the going concern assumption.

   The Directors concluded as a result of this assessment that it was appropriate for the Bank to adopt the going concern basis to prepare these financial statements.

3. **Change in accounting policies**

   Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 6 below to all periods presented in these financial statements.

   The Bank has initially adopted IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

   IFRS 16 Leases

   IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

   Due to the transition method chosen by the Bank in applying IFRS 16, comparative information throughout these financial statements has not been restated to reflect its requirements.

   The adoption of this new Standard has resulted in the Bank recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

   The new Standard has been applied using the modified retrospective method detailed in Paragraph C8(b)(ii) of IFRS 16, therefore recognising right of use asset by reference to the lease liability that would have been recognised on inception, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

   Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The effect of initially applying IFRS 16 is mainly attributed to the following:

- On transition to IFRS 16, the Bank recognised an additional £ 161,000 of right of use assets and £ 172,000 of lease liabilities, recognising the difference of £ 11,000 in retained earnings.
- When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rate applied is 4.5%.
- Additional disclosures related to IFRS 16 (see Notes 13, 22, 26 and 29)
- The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

Amounts expressed as £'000	**Carrying Amount at 31 December 2018**	**Remeasurement**	**IFRS 16 Carrying Amount at 1 January 2019**
Property, plant and equipment	8,979	161	9,140
Lease liabilities	284	172	456
Retained earnings	8,069	(11)	8,058

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	£'000
Total operating lease commitments disclosed at 31 December 2018	271
Recognition exemptions:	
• Leases of low value assets	-
• Leases with remaining lease term of less than 12 months	(50)
Other minor adjustments relating to commitment disclosures	(43)
Operating lease liabilities before discounting	178
Discounted using incremental borrowing rate	4.5%
Operating lease liabilities	172
Finance lease obligations (Note 26)	284
Total lease liabilities recognised under IFRS 16 at 1 January 2019	456

4. Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that effect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2019 are included in the notes:

Judgements

Note 19: determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Estimates

Note 19: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information, estimates of probability of default and loss given default.

Note 6 and 9: recognition and deferral of loan administration commissions based on the expected life of the loans and advances to customers and banks.

Note 6: calculating the appropriate discount rate to use and estimating the lease term of right of use assets.

5. Measurement of fair values

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Bank has an established control framework with respect to the measurement of fair values.

Significant valuation issues are reported to the Bank's Audit Committee.

When measuring the fair value of an asset or liability the Bank uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognises transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

6. Accounting Policies

a. Revenue recognition

(i) Interest income

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

The gross carrying amount of the financial asset; or

The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(ii) Rendering of services and commissions

Fees that are an integral part of generating an involvement with a resulting financial instrument together with the related direct costs are deferred and recognised as part of the effective interest rate.

If a specific lending arrangement is entered into, the administration fee received is deferred based on the expected life of the asset. If the commitment expires without making the loan, the fee is recognised as revenue on expiry. If it is unlikely that a specific lending arrangement will be entered into, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

Estimating the expecting life of the loan assets is significant in determining the recognition of administration fee income. The average loan life is estimated to be 36 months. If average loan life is increased by one month the effect on loan administration income would be an increase of £ 1K.

Fees earned for banking services provided are recognised as revenue as the services are provided.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank. Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place. Fees earned for banking services provided are recognised as revenue as the services are provided

(iii) Trading income

Trading income relate to;

- foreign exchange commissions earned from customer transactions and are recognised as income at the point transactions are realised.
- dividend income from equities, which are recognised as declared.
- sale of loan assets, recognised when agreement is unconditionally signed.

b. Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;

- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

(iii) **Derecognition**

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) **Modifications of financial assets and financial liabilities**

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any third party costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Bank of similar transactions such as in the Bank’s trading activity.

(vi) Fair value measurement

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment of financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a deduction from the carrying amount of loans and advances;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

c. Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

d. Investment securities

The 'investment securities' caption in the statement of financial position includes:

- equity investment securities designated as at FVOCI.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss.

Dividends are recognised in profit or loss. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

e. Pension schemes

Contributions to a defined contribution scheme are charged to profit or loss so as to reflect the amounts payable to the pension schemes in respect of the accounting period.

f. Foreign currency translation

Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the mid-day rates of exchange ruling at the reporting date. All differences arising are taken to profit or loss.

g. Derivatives

Derivative contracts consist of foreign currency swap contracts, which are outstanding at the reporting date. Derivatives are measured at fair value, with changes in the fair value recognised in the profit and loss account. The Bank does not use derivative financial instruments for speculative or trading purposes. The Bank has not designated any of the derivative contracts in hedging relationships for hedge accounting purposes.

h. Depreciation

Depreciation is provided on all property and equipment, except freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	Over 50 years
Short leasehold land and buildings	Over the lease term
Fixtures, fittings and equipment	5% to 20%
Right of use assets – IT equipment	20%
Right of use assets – Branch network	Individual Lease Terms 2-5 years
Motor vehicle	20%

i. Current and deferred taxation

Current tax including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

j. Leases

Policy applicable from 1 January 2019

The Bank as a lessee

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’.

To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Bank has the right to direct the use of the identified asset throughout the period of use.

The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Effect of estimation of discount rates

The Bank does not use any borrowing and estimates the incremental borrowing rate as 4.5% benchmarking to the loan rates for similar assets. If the discount rate used was the deposit rate offered to customers at 1.7% the right of use assets recognised would have increased by £ 15K.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included as a separate line item.

The Bank as a lessor

The Bank's accounting policy under IFRS 16 has not changed from the comparative period. The bank does not have any lease contract where the bank is a lessor.

Policy applicable before 1 January 2019

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Bank, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet, while the interest elements are charged to profit or loss over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Rentals under operating leases are charged to profit or loss account on a straight-line basis over the term of the lease.

k. Intangible assets – Software licences and software purchased

Software licences are included at cost and amortised in equal annual instalments over a period of five years which is their estimated useful economic life. These software licences amortizations coincide with hardware depreciation over a period of five years. Provision is made for any impairment loss. Costs relating to the core banking system, and external costs relating to self-developed software are amortised over ten years.

l. Property revaluations

The accounting policy for freehold land and buildings is to revalue to market value every three years unless there is evidence that the value has changed significantly. The last professional valuation was undertaken by London's Surveyors & Valuers Ltd, a chartered surveyor external to the Bank, in August 2019 which resulted in a reduction in net book value of £553,810.

m. Segment analysis

The Bank has produced segmental analysis based on geographical sectors and reportable business sectors as described in Note 7.

n. Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

o. Other standards

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2019 but have not had a material effect on the Bank and so have not been discussed in detail in the notes to the financial statements:

- IFRIC 23 Uncertainties over Income Tax Treatments
- IFRS 9 (2014) Financial Instruments (Amendment – Prepayment Features with Negative Compensation and Modification of Financial Liabilities)
- IAS 28 Investments in Joint Ventures (Amendment – Long-term Interests in Associates and Joint Ventures)
- Annual Improvements to IFRSs 2015 – 2018 Cycle (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs)
- IAS 19 Employee Benefits (Amendment – Plan Amendment, Curtailment or Settlement)

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

The Bank does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Bank.

7. Segmental analysis

The Bank's profit and loss and balance sheet is analysed by business sector below:

	Retail Banking £'000	**Treasury £'000**	**Central £'000**	**Total £'000**
2019				
Net Interest Income	3,306	732	260	4,298
Net fee and commission income	702	107	51	860
Net trading income	11	172	-	183
Other operating income	-	10	-	10
Total segment revenues	**4,019**	**1,022**	**311**	**5,351**
Impairment losses	2	(57)	-	(55)
Operating expenses	(1,864)	(187)	(4,178)	(6,229)
Finance Cost	-	-	(3)	(3)
Segment profit / (loss) before tax	**2,156**	**778**	**(3,870)**	**(936)**
Segment Assets	140,864	5,443	25,028	171,334
Segment liabilities	139,126	5,136	770	145,033
2018				
Net Interest Income	3,575	1,067	249	4,891
Net fee and commission income	832	97	63	992
Net trading income	-	156	-	156
Other operating income	1	-	3	4
Total segment revenues	**4,408**	**1,320**	**315**	**6,043**
Impairment losses	(18)	-	-	(18)
Operating expenses	(2,314)	(230)	(3,727)	(6,271)
Segment profit / (loss) before tax	**2,076**	**1,090**	**(3,412)**	**(246)**
Segment Assets	92,688	90,507	11,178	194,373
Segment liabilities	146,552	19,327	1,138	167,017

In the classifications above, Retail Banking is defined as the Bank's customer based business, Treasury is the money market, foreign exchange and financial instrument business, and Central is the remaining revenue and overheads relating to the shareholders equity and central operating costs.

Notes to the accounts
For the year ended 31 December 2019

Sector analysis continued

The Bank's profit and loss account can be analysed by geographic region as follows:

Geographic analysis

	UK	Rest of Europe	Total
	£'000	**£'000**	**£'000**
2019			
Net interest income	2,651	1,647	4,298
Net fee and commission income	374	487	860
Net trading income	183	-	183
Other operating income	10	-	10
Total segment revenues	**3,218**	**2,134**	**5,351**
Impairment losses	2	(57)	(55)
Operating expenses	(6,009)	(220)	(6,229)
Finance Cost	(3)	-	(3)
Segment profit (loss) before tax	**(2,793)**	**1,857**	**(936)**
Segment assets	106,336	64,999	171,334
Segment liabilities	47,970	97,063	145,033
2018			
Net interest income	2,496	2,395	4,891
Net fee and commission income	540	452	992
Net trading income	156	-	156
Other operating income	3	1	4
Total segment revenues	**3,195**	**2,848**	**6,043**
Impairment losses	(18)	-	(18)
Operating expenses	(5,912)	(359)	(6,271)
Segment profit (loss)before tax	(2,735)	2,489	(246)
Segment assets	119,606	74,767	194,373
Segment liabilities	52,876	114,141	167,017

Europe excluding UK is mainly Turkey and the Turkish Republic of Northern Cyprus.

Notes to the accounts
For the year ended 31 December 2019

8. Net interest income

	2019 £'000	2018 £'000
Interest income		
Cash and cash equivalents	959	1,036
Loans and advances to banks	62	17
Loans and advances to customers	4,503	4,983
Debt Securities	37	130
Total interest income	**5,561**	**6,166**
Interest expense		
Deposits from banks	(14)	(12)
Deposits from customers	(1,249)	(1,263)
Total interest expense	(1,263)	(1,275)
Net interest income	**4,298**	**4,891**

9. Net fee and commission income

	2019 £'000	2018 £'000
Major Service Lines		
Remittances	286	347
Account charges	366	375
Commission on Loans and Advances	370	433
Total fee and commission income from contracts with customers	**1,023**	**1,155**
Fee and commission expense	(163)	(163)
Net fee and commission income	**860**	**992**

Net fee and commission income was all derived from retail banking customer fees for both 2019 and 2018.

10. Trading income

	2019 £'000	2018 £'000
Dividends from Visa Shares	13	4
Profit on sale of loans to related party	60	-
Net foreign exchange gain	110	152
Total trading income	**183**	**156**

11. Personnel expenses

	2019	2018
	£'000	£'000
Personnel expenses during the year (including directors)		
Wages and salaries	2,403	2,167
Social security costs	219	231
Pension costs	77	97
Other staff costs	182	227
Total personnel expense	**2,881**	**2,722**

The average monthly number of employees during the year was made up as follows:

	2019	2018
	No.	No.
Commercial banking activities	86	82

Directors' remuneration during the year consisted of:

	2019	2018
	£'000	£'000
Emoluments	345	294

The emoluments of the highest paid director were £160,000 (2018: £111,000). Total pensions contributions for the director and the pension contribution for the highest paid director were £ 1,581 and £ 1,434 respectively (2018: £ 604.8 for the total and highest paid director)

The Bank operates a stakeholder pension arrangement, whereby the staff contribute, and the Bank makes a contribution with reference to current National Insurance rates.

12. Impairment losses on cash equivalents, loans and advances

	2019	2018
	£'000	£'000
Impairment charge for the year	(55)	(18)
Recoveries	-	-
Net impairment charge	**(55)**	**(18)**

13. Profit on ordinary activities before taxation

	2019	2018
Profit is stated after charging:	£'000	£'000
Foreign currency gains	(110)	(151)
Operating lease rentals	-	214
Branch leases with less than 12 months maturity	42	-
Depreciation and amortisation		
Property and equipment	454	414
Intangible fixed assets	227	223
Fees payable to the Bank's auditor		
Audit of the Bank's annual accounts	118	110
Total	731	810

14. Income Taxes

	2019 £'000	2018 £'000
Tax paid in respect of current year	-	-
Tax receivable in respect of prior years	206	206
United Kingdom corporation tax at 19.00% (2018: 19.00%) based on taxable profit	-	-
Current taxation asset	206	206
United Kingdom corporation tax at 19.00% (2018: 19.00%) based on taxable profit	-	-
Adjustment in respect of prior years	-	134
Total current tax	-	134
Deferred tax		
Current year movement	201	(13)

Deferred tax has been calculated at 17% as this is the enacted rate for the period when the timing difference is expected to reverse.

The current tax charge for the year can be reconciled to the standard rate of corporation tax at 19.00% (2018: 19.00%) as explained below:

	2019 £'000	2018 £'000
(Loss)/ Profit on ordinary activities before tax	(936)	(246)
Tax at 19.00% (2018: 19.00%) thereon	(178)	(47)
Expenses not deductible for tax purposes	-	5
Depreciation lower/(in excess) of capital allowances	98	42
Prior period adjustment	-	134
Rate variance between deferred tax asset and current tax	5	-
Recognition of deferred tax asset on current year tax losses	75	-
Total current tax	-	134
Deferred tax:		
Current year movement	201	(13)
Income tax credit for the year	201	121

15. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	2019 £'000	2018 £'000
Cash in hand	695	768
Deposits at the Bank of England	37,728	54,981
Deposits with other banks payable on demand	9,259	17,320
Deposits with other banks payable within three months	29,489	12,814
ECL Allowance	(79)	(21)
	77,092	85,862

Included within cash and cash equivalents is an amount of £355,446 in respect of Group companies (2018: £2,745,987). The interest received from Group companies during the year was £44,056 (2018: £37,359).

Geographical analysis of cash and cash equivalents is as follows:

	2019	2018
	£'000	£'000
UK		
- Cash	695	768
- Deposits with Bank of England	37,728	54,981
- On current account	2,426	2,859
- On deposit account in money market lending	4,865	2,917
Outside UK:		
- On current account	6,833	14,461
- Money Market Lending	24,545	9,876
	77,092	**85,862**

By Credit Rating

	2019	2018
Cash	695	768
AA- to AA+	47,948	72,294
A- to A+	-	880
BB	-	-
B	28,172	9,175
Not rated	277	2,745
Total	**77,092**	**85,862**

16. Financial assets and financial liabilities

See accounting policies in Note 6.

(i) The following table provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2019 £'000

Financial Assets	**Note**	**Mandatorily at FVTPL**	**Designated as at FVTPL**	**FVOCI– debt instruments**	**FVOCI– equity instruments**	**Amortised Cost**	**Total carrying amount**
Cash and cash equivalents	15	-	-	-	-	77,092	77,092
Loans and advances to banks	17	-	-	-	-	5,738	5,738
Loans and advances to customers	18	-	-	-	-	76,648	76,648
Investment securities – debt	20	-	-	-	-	-	0
Investment securities – equity	20	-	-	-	683	-	683
Total financial assets		-	-	-	**683**	**159,478**	**160,161**
Financial Liabilities	**Note**						
Deposits from banks	24	-	-	-	-	4,318	4,318
Deposits from customers	25	-	-	-	-	138,596	138,596
Derivative Liabilities	30	-	-	-	-	-	0
Total financial liabilities		-	-	-	-	**142,914**	**142,914**

31 December 2018 £'000

Financial Assets	Note	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI–debt instruments	FVOCI–equity instruments	Amortised Cost	Total carrying amount
Cash and cash equivalents	15	-	-	-	-	85,862	85,862
Loans and advances to banks	17	-	-	-	-	1,773	1,773
Loans and advances to customers	18	-	-	-	-	94,480	94,480
Investment securities – debt	20	-	-	-	-	-	-
Investment securities –equity	20	-	-	-	498	-	498
Total financial assets		-	-	-	498	182,115	182,613

Financial Liabilities	Note	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI–debt instruments	FVOCI–equity instruments	Amortised Cost	Total carrying amount
Deposits from banks	24	-	-	-	-	18,854	18,854
Deposits from customers	25	-	-	-	-	146,164	146,164
Derivative Liabilities	30	78	-	-	-	-	78
Total financial liabilities		78	-	-	-	165,018	165,096

Certain debt securities are held by the Bank Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

Certain equity investments held by the Bank for strategic purposes have been designated under IFRS 9 as at FVOCI.

17. Loans and advances to banks

	2019	2018
	£'000	£'000
Loans to Turkish banks original maturity less than 1 year	5,758	1,795
Loss allowance	(20)	(22)
	5,738	1,773

18. Loans and advances to customers

	2019	2018
	£'000	£'000
Loans are repayable as follows:		
On demand	5,227	5,468
Within three months	2,620	2,932
Between three months and one year	11,625	8,729
Between one and five years	54,688	56,119
Five years or more	2,602	21,346
ECL Allowance		
Specific	(35)	(35)
Collective	(79)	(79)
	76,648	94,480

Loans and advances are classified as non-performing if repayments are not made within 90 days of the due date. Non-performing loans and advances totalled £6,077,532 at the year-end (2018: £4,362,093). Such loans are subject to Stage 3 impairment.

Loans and advances to customers includes £ 4,384,935 (2018: £ 4,316,602) which has been in the watch list Stage 3 but no provision was made against them. The following information is given in respect of the nature and type of loans and advances to customers:

2019

	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	**Unsecured**	**Secured**	**Unsecured**	
Overdraft	-	-	4,875	352	5,227
Fixed term					
- Retail	847		59,663	106	60,616
- Corporation	500		10,419		10,919
	1,347	-	74,957	458	76,762
ECL Allowance	-	-	(31)	(83)	(114)
	1,347	-	74,926	375	76,648

2018

	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	**Unsecured**	**Secured**	**Unsecured**	
Overdraft	-	-	5,275	146	5,421
Fixed term					
- Retail	3,265	-	71,608	107	74,980
- Corporation	900	3,185	10,104	4	14,193
	4,165	3,185	86,987	257	94,594
ECL Allowance	-	(30)	-	(84)	(114)
	4,165	3,155	86,987	173	94,480

The following information is given in respect of origin and currency of loans and advances.

	2019 £'000				2018 £'000			
	GBP	**USD**	**EURO**	**Total**	**GBP**	**USD**	**EURO**	**Total**
UK	40,848	-	-	40,848	52,231	-	-	52,231
Non UK								
- Turkey	32,505	1,504	-	34,009	36,320	4,630	-	40,950
- Others	1,791	-	-	1,791	1,299	-	-	1,299
Total	**75,144**	**1,504**	**-**	**76,648**	**89,850**	**4,630**	**-**	**94,480**

19. Provisions for impairment losses

The following table shows reconciliations from the opening to the closing balance of the loss allowance.

Loss allowance	2019				2018			
Amounts expressed in £'000	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	112	-	45	158	100	-	35	135
Net re-measurement of loss allowance	-	-	-	0	5	-	-	5
Derecognition of loans and advances	(29)	-	-	(29)	-	-	-	-
Changes in model/risk parameters	-	-	22	22	-	-	-	-
New Financial Assets	62	-	-	62	8	-	10	18
Balance at 31 December	145	-	67	213	112	-	45	158

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 6

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables;

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The Bank uses a maximum of a 12-month PD for Stage 1 financial assets. For Stage 2 and Stage 3 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For portfolios in respect of which the Bank has limited historical data, external benchmark information such as Moody's Default Rates and Loss Recovery Rates are used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of PD and ECL are as follows.

- Corporate Loans
- Loans to Banks
- Money Market Deposits to Banks

The Bank considers three macro scenarios with accompanying PD and LGDs and arrives at the ECL based on the weighted average of the three scenarios with attached probabilities. For these scenarios, the LGD for mortgage portfolio is based on the assumptions about the following variables;

Costs of recovery

Costs of Repossession

Recovery period

Property haircuts pertinent to the macro scenario

Forced Sale Discounts relevant to the property type

Any expected valuation declines over recovery period

Discount rate EIR

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort.

The Bank has not experienced significant losses in the past and has a very highly collateralised loan portfolio with very low loan to value. Loans with less than 30 days overdue are classified as Stage 1, 30-90 days are classified as Stage 2 and over 90 days are classified as Stage 3. The methodology of estimating the PD's and LGD is provided below.

Accounts that are in excess of agreed limits are discussed at the monthly care lending meetings and escalated to the Credit Committee if appropriate. Provision is made on the advice of Credit Committee if an exposure is deemed to be at risk of non-recovery. All the provisions are approved by the Board of Directors.

20. Investment securities

	2019	2018
	Share in Visa Inc.	Share in Visa Inc.
	£'000	£'000
Share in Visa Inc. / Visa Europe	683	498

During 2016 there was a reorganisation of the Visa network which included the sale of Visa Europe to Visa Inc. As a result the Bank received 743 preference shares valued at £325k at the time of the transaction. The investment in securities is treated as FVOCI. The bank revalues these shares through other comprehensive income.

Analysis by currency of origin is as follows:

	2019		2018	
Origin of investment securities	**USD**	**Total**	**USD**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Europe	-	-	-	-
Turkey	-	-	-	-
USA	902	683	616	498
Total	**902**	**683**	**616**	**498**

21. Intangible fixed assets

	Computer Software £'000
Cost	
At 1 January 2019	3,555
Additions	122
Disposals	-
At 31 December 2019	3,677
Amortisation	
At 1 January 2019	2,169
Charge for the year	227
Disposals	-
At 31 December 2019	2,396
Net book value	
At 31 December 2019	1,280
At 31 December 2018	1,386

The intangible fixed assets comprise software purchased, and external costs relating to developed systems. The additions represent the costs incurred in the project to develop open banking application as well as other purchased software licenses. Payment project costs as well as the licence for the core banking system are being amortised over 10 years, other software is amortised over 5 years.

Notes to the accounts
For the year ended 31 December 2019

22. Property and Equipment

	Freehold land and buildings	Right of Use Assets Branch Network	Right of Use Assets Lease Equipment	Fixtures, fittings and equipment	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost/Revaluation					
At 31 December 2018	**8,520**	**-**	**399**	**2,782**	**11,701**
IFRS 16 Adjustment at 1 January 2019	-	161	-	-	161
At 1 January 2019	**8,520**	**161**	**399**	**2,782**	**11,863**
Additions	-	216	-	112	328
Disposals	-	-	-	-	-
Revaluation	(554)	-	-	-	(554)
At 31 December 2019	**7,966**	**378**	**399**	**2,895**	**11,637**
Depreciation					
At 31 December 2018	**167**	**-**	**136**	**2,420**	**2,722**
IFRS 16 Adjustment at 1 January 2019	-	-	-	-	-
At 1 January 2019	**167**	**-**	**136**	**2,420**	**2,722**
Charge for the year	154	108	66	125	454
Disposals	-	-	-	-	-
At 31 December 2019	**321**	**108**	**202**	**2,545**	**3,176**
Net book value					
At 31 December 2019	**7,645**	**269**	**198**	**350**	**8,461**
At 31 December 2018	**8,353**	**-**	**264**	**362**	**8,979**

The land and buildings are occupied by the Bank for its own activities. Freehold land and buildings were revalued to fair value as at December 2019. The properties were revalued by an independent surveyor in August 2019 resulting in a reduction in net book value of £553,810 (2018: £NIL). The hierarchy of the fair value measurement was Level 3. The valuation was performed according to the standards of Royal Institution of Chartered Surveyors Valuation – Professional Standards ("Red Book") incorporating the International Valuation Standards 2017.

The carrying value of freehold buildings if they were carried at historical cost would be £ 2,201,869 (net of depreciation). It is intended to next revalue these assets as at 31 December 2022.

The bank leases three of its branches on a lease terms longer than 12 months. The remaining length of contracts varies from one to five years. These leases are accounted for in accordance with IFRS 16 and capitalised as right of use assets. The bank also leases IT equipment with remaining maturities of up to three years and these are also capitalised in accordance with IFRS 16.

The Bank also has one branch on a short lease less than 12 months and this is expenses directly to the profit and loss.

Notes to the accounts
For the year ended 31 December 2019

23. Other assets

	2019 £'000	2018 £'000
Items in the course of collection	234	206
Prepayments	489	453
Other assets	428	530
	1,151	1,189

24. Deposits from banks

	2019 £'000	2018 £'000
Deposits from banks are repayable as follows:		
On demand		
- Group	3,412	18,043
- Other	906	811
	4,318	18,854

The interest paid to Group companies during the year was £ 13,529 (2018: £10,821). All bank deposits mature the next day.

Geographical analysis of deposit by banks is as follows:

	2019 £'000	2018 £'000
In UK:		
On current account	-	-
Outside UK:		
On current account	4,318	18,854
	4,318	18,854

25. Deposits from customers

	2019 £'000	2018 £'000
Customer deposits are repayable as follows:		
On demand	75,641	82,831
Within three months	31,099	31,344
Between three months and one year	27,368	28,095
Between one year and five years	4,488	3,894
	138,596	146,164

The following information is given in respect of the nature and type of customer deposits:

	2019 £'000 Fixed rate interest	2019 £'000 Floating rate interest	2019 £'000 Total	2018 £'000 Fixed rate interest	2018 £'000 Floating rate interest	2018 £'000 Total
Current account	-	46,040	46,040	-	40,789	40,789
Deposit account	-	29,602	29,602	-	40,805	40,805
Fixed deposit	62,955	-	62,955	64,570	-	64,570
	62,955	75,641	138,596	64,570	81,594	146,164

The following information is given in respect of currency and origin of customer deposits:

	2019 £'000 GBP £'000	USD £'000	EUR £'000	TRY £'000	Total £'000	2018 £'000 GBP £'000	USD £'000	EUR £'000	TRY £'000	Total £'000
UK	38,227	2,294	724	308	41,553	46,147	3,651	735	343	50,876
Turkey	34,384	22,721	5,232	5	62,342	27,415	23,403	6,102	5	56,925
TRNC	25,551	2,849	5,398	61	33,859	28,353	4,022	5,202	60	37,637
Others	456	126	257	2	842	242	458	24	-	724
Total	98,618	27,990	11,612	377	138,596	1,102,158	31,535	12,063	408	146,164

TRNC is the Turkish Republic of Northern Cyprus

26. Lease liabilities and other liabilities

Other Liabilities	2019 £'000	2018 £'000
Amounts owed to Group companies	38	25
Other taxes and social security costs	68	59
Deferred income	658	905
Items in the course of transmission	11	11
Other liabilities	671	263
Total Other Liabilities	**1,446**	**1,263**

Lease Liabilities	2019 £'000	2018 £'000
Equipment	212	284
Branch Network	272	-
Total	**484**	**284**

	2019 Branch Network £'000	Equipment £'000	Total £'000	2018 Total £'001
Short Term	117	72	190	72
Long Term	155	140	295	212
Total	**272**	**212**	**484**	**284**

27. Deferred tax liabilities

Deferred Tax Liabilities £'000	Revaluation of land and buildings	Fair valuation of Visa shares	Other short term timing differences	Total
At 31.12.2017	**269**	**-**	**63**	**332**
IFRS 9 adjustment at 1.1.2018	-	-	(1)	(1)
At 1.1.2018	**269**	**0**	**62**	**331**
Charge (credit) to income	(28)	-	41	13
Charge (credit) to comprehensive income		30		30
At 31.12.2018	**241**	**30**	**103**	**374**
Charge (credit) to income	(26)	-	(100)	(126)
Charge (credit) to comprehensive income	(94)	35	-	(61)
At 31.12.2019	**121**	**65**	**3**	**189**

Deferred Tax Assets £'000	Deferred tax asset on tax losses
At 31.12.2017	**-**
IFRS 9 adjustment at 1.1.2018	-
At 1.1.2018	**-**
Charge (credit) to income	-
Charge (credit) to comprehensive income	-
At 31.12.2018	**-**
Credit (charge) to income	75
Credit (charge) to comprehensive income	-
At 31.12.2019	**75**

Deferred Tax asset and liabilities have been calculated at 17% of the timing difference.

On 17 March 2020, the repeal of the 17% rate of corporation tax which had been expected to take effect on 1 April 2020 was substantively enacted by Budget Resolutions, which also substantively enacted a corporation tax rate of 19% for the fiscal years commencing 1 April 2020 and 1 April 2021. If the unrecognised deferred tax asset and liability had been computed at the 19% rate, they would have amounted to £84K and £ 211K respectively.

The Bank's financial forecasts, even under stress scenarios show that taxable profits will be realised to support the deferred tax asset recognised.

28. Called up share capital

	Called up, allotted and fully paid	
	2019	2018
	£'000	£'000
12,000,000 Ordinary shares of £1 each	12,000	12,000

All shares have the same rights. There are no restrictions on the distribution of dividends and the repayment of capital subject to regulatory capital adequacy restrictions.

29. Commitments

The amounts shown below are intended to provide an indication of the volume of business transacted and not of the underlying credit or other risks.

	2019	2018
	£'000	£'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	-	-
Less than one year	2,871	5,066
	2,871	5,066

There are annual commitments under non-cancellable leases as follows:

	31.12.2019		
Nominal Lease Commitments	**Branch Leases**	**Equipment**	**Total**
Within one year	123	72	195
Between two and five years	161	140	300
More than five years	-	-	-
Total	**284**	**212**	**496**

30. Assets and liabilities in foreign currencies

The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	2019	2018
	£'000	£'000
Assets	43,620	33,209
Liabilities	43,187	49,649

There were no open foreign exchange swaps as at 31 December 2019 (2018: £78,014).

31. Transactions with directors and managers

As at 31 December 2019 £29,355 was outstanding by way of loans to managers of the Bank (or persons connected with them) (2018:£30,655). During the year, £12,891 (2018: £3,828) was paid back and £42,246 drawn by the managers (or persons connected to them) (2018: £34,483). There were transactions with parties related to directors for £31,038 (2018: £58,908). The transactions with related parties are on standard commercial terms.

32. Ultimate parent company

The ultimate parent and controlling company is Ozyol Holding A.S., which is incorporated in Turkey, registered address:- Macka Polat Apartmani, 10 V Alaaddin Yavasca Sokak, Istanbul. The parent company of the largest and smallest groups of which the Bank is a member and for which consolidated accounts are prepared is Turkish Bank Limited, incorporated in Cyprus, registered address 92 Girne Cad, Lefkosa, Cyprus. Copies of its financial statements can be obtained from 84-86 Borough High Street, London SE1 1LN.

33. Related party transactions

Transactions with senior managers and staff are described in Note 31. The only other related party transactions are described below. All the transactions below were at "arm's length" prices:

	2019	2018
	£'000	**£'000**
Placements with group companies	355	2,746
Deposits from group companies	3,412	18,043
Sales of loans to group companies	2,567	-
Interest received from group companies	44	37
Interest paid to group companies	14	11
Charges to Group Companies	38	-

34. Risk management framework

Risk taking is central to banking activity. The Bank evaluates business opportunities in terms of a prudent risk-reward relationship. The risks that the Bank takes on are managed within an established control environment, within its financial resources and credit competence.

The diversity of our business requires us to identify measure and manage risks effectively. At TBUK, the risk is managed through an organisational structure including risk management and the monitoring of processes that are closely aligned with the activities of the Bank and in line with the guidelines given by the Regulators.

The following key principles form part of TBUK's approach to risk management:
The Board, through its subcommittee, the Risk Committee, (Chaired by a Non-Executive Director) oversees risk management, and sets the framework and risk appetite. The Risk Committee overviews all risks and controls and in particular the Risk Management System operated by the Bank and is also responsible for monitoring emerging risks and keeping the Board advised. It also is the Committee that takes the lead on the Recovery and Resolution Plan (RRP), Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) plus associated risk documents. The risk appetite sets out detailed tolerance limits within which the business operates, and this is supported by Bank Policies. All Policies are approved by the Board and subject to review at least once each calendar year.

The Audit Committee (Chaired by a Non-Executive Director) reports to the Board and is responsible for ensuring that the controls set out by the Board and Risk Committee and by various policies are carried out in practice and remain effective. The Internal Audit function reports direct to the Audit Committee and the external auditor is invited to all meetings of the Audit Committee, which meets at least quarterly.

There are then various committees at functional level to oversee the implementation of risk management and associated policies. The principal committees are:

- Executive Committee (EXCO) – responsible for day to day management of the business under the direction of the Managing Director.
- Assets and Liabilities Committee (ALCO), which manages the market and liquidity risks, and now reports direct to the Board (through the Risk Committee on certain issues such as the RRP). ALCO is responsible for the Recovery and Resolution Plans and also the contingency Funding Plan (CFP) and its members have direct responsibility for the ICAAP and ILAAP.

- Management Risk Committee – day to day responsibility for risk reporting to the Risk Committee. This involves all management taking a role in the Risk Management System overseen by the Chief Risk Officer and deals with all risks issues not covered by the Conduct Risk Committee.
- The Conduct Risk Committee deals with risk matters of a conduct nature (e.g. Anti-Money Laundering, Treating Customers Fairly, product risk) and this aligns with the principles of the Financial Conduct Authority.
- Credit Committee – dealing specifically with all matters of credit risk.

The Business Development Committee is responsible for developing business, marketing and product development.

Credit Risk Management

Credit risk, with its closely associated concentration risk, is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms.

Credit risk makes up the largest part of the Bank's risks exposure. The Bank's credit process is guided by a well-established credit policy, rules and guidelines aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return. The Credit Committee is responsible for controlling credit risk and implementing the Credit Policies as authorised by the Board. All decisions require unanimous agreement at each level of lending authority as prescribed by the Board.

The Bank has a system of checks and balances in place around the extension of credit that are:

- an independent credit management function;
- multiple credit approvers; and
- an independent audit and risk review function.

The Credit Risk Policy reflects TBUK's tolerance for risk, i.e. credit risk appetite and the level of expected return. This, as a minimum, reflects TBUK's strategy to grant credit based on various products, economic sectors, client segments and target markets giving due consideration to risks specific to each target market, and the impact of concentration risk.

Salient features of our Risk approval process are delineated below:

- every extension of credit to any counterparty requires unanimous approval by the pre-defined level of authority sanctioned by the Board;
- all business Banks must apply consistent standards in arriving at their credit decisions;
- every material change to a credit facility requires approval at the appropriate, pre-defined level; and
- credit approval authority is assigned to individuals according to their qualifications and experience.

The Bank uses risk rating systems to supplement the credit risk measurement procedure. This process previously only applied to exposures exceeding a certain threshold, but during 2016 was expanded to cover all exposures. Risk rating of counterparties is considered an essential requirement of the credit approval process.

Stress testing on the credit portfolio is performed quarterly and more often if required.

The disbursement, administration and monitoring of credit facilities are managed by the Central Credit Unit (CCU). CCU is also responsible for collateral/documents management.

The Bank monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of this early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The Credit Committee also takes responsibility for monitoring non-performing loans and managing loan recovery.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	2019				2018
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Total £'000
Loans and advances to banks at amortised cost	5,778	-	-	5,778	1,795
Loss allowance	(20)	-	-	(20)	(22)
Carrying amount	5,758	-	-	5,758	1,773
Loans and advances to customers at amortised cost	70,684	-	6,078	76,762	94,594
Loss allowance	(18)	-	(67)	(85)	(94)
Carrying amount	70,666	-	6,011	76,677	94,500
Equity investment securities at FVOCI	683	-	-	683	498
Loss allowance	-	-	-	-	-
Carrying amount	683	-	-	683	498
Off balance sheet Loan commitments	2,871	-	-	2,871	5,066
Loss allowance	(29)	-	-	(29)	(20)
Carrying amount	2,842	-	-	2,842	5,046

The Bank also monitors, as part of its credit risk assessment, its concentration risk in various sectors.

The Bank's maximum exposure to credit risk at the year-end is £161 million (2018: £184 million). Credit risk exposure of £76 million (2018: £90 million) is secured against the first charge on properties and lien on customers' deposits.

Collateral in the form of cash, freehold or bank guarantees are accepted by the Bank as credit risk mitigating factors.

Total Collateral held as at 31 December:	**2019**	**2018**
	£'000	**£'000**
Cash	777	1,514
Freehold	174,793	189,749
Guarantees	630	630
Total	**176,200**	**196,108**

All collateral is held by the Bank in its original form until the debt has been repaid. The Bank holds collateral and is permitted to sell in the event of default by the owner. Collateral of freehold properties is valued by independent professional values on inception of a loan.

All the above collateral is held against the loans and advances to customers as follows:-

	2019	**2019**	**2018**	**2018**
	Loans	**Collateral**	**Loans**	**Collateral £'000**
	£'000	**£'000**	**£'000**	
Loans & advances to customers	76,648	174,793	94,480	196,108

The collateral value in the above table excludes the value of such collateral which the Bank may accept to manage its risks more effectively such as second charge on assets, other liens and corporate guarantees and related support undertakings from the borrower Bank entities.

Mortgages: The loan to value ratio of lending secured against property is as follows:-

LTV Ratio	**2019**	**2018**
	£'000	**£'000**
Less than 50%	36,873	36,550
51-70%	37,627	51,846
71-90%	2,262	1,574
Over 90%	-	-
Total	**76,762**	**89,970**

Note the above table shows the maximum facility amount and is greater than the actual exposure mortgages.

Debt Securities – External Ratings

The issuers of the available for sale securities have ratings as follows:-

	2019	**2018**
Corporate Bonds	**£'000**	**£'000**
A+	683	498
BBB/BBB+	-	-
BB	-	-
Unrated	-	-
Total	**683**	**498**

Internal credit rating

The Bank assigns internal credit ratings to each of its counterparties. The rating structure is kept under regular review to ensure that the ratings are appropriate.

Sectoral distribution of exposures

	2019	**2018**
	£'000	**£'000**
Real Estate	6,263	8,626
Hotels & Restaurants	1,758	3,849
Retail & Wholesale	1,744	4,127
Construction	3,091	3,453
Service Providers	139	772
Financial	-	-
Individuals & Individual trusts	63,767	73,766
Recreational, Cultural, Sport Activities		-
Total	76,762	94,594
Provision for impairment losses	(114)	(114)
Total	**76,648**	**94,480**

The Bank's policy on forbearance is to consider each loan on a case by case basis. All such cases are discussed and approved by the Credit Committee. During the year no credit or interest was foregone.

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2019

	Cash equivalents	Loans and advances to customers	Loans and advances to banks	Investment securities	Lending commitments
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Maximum exposure to credit risk	77,170	76,762	5,758	683	2,871
At amortised cost					
Performing	77,170	70,649	5,758	683	2,871
Watch list	-	6,078	-	-	-
Impaired	-	35	-	-	-
Total Gross amount	**77,170**	**76,762**	**5,778**	**683**	**2,871**
Impairment provisions	(79)	(85)	(20)	-	(29)
Net carrying amount	**77,092**	**76,677**	**5,738**	**683**	**2,842**

2018

	Cash equivalents	Loans and advances to customers	Loans and advances to banks	Investment securities	Lending commitments
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Maximum exposure to credit risk	**30314**	**94594**	**1795**	**498**	**5066**
At amortised cost					
Performing	30,314	90,232	1,795	498	5,066
Watch list	-	4,327	-	-	-
Impaired	-	35	-	-	-
Total Gross amount	**30,314**	**98,594**	**1,795**	**498**	**5,066**
Impairment provisions	(21)	(94)	(22)	-	(20)
Net carrying amount	**30,293**	**94,500**	**1,773**	**498**	**5,046**

Encumbered Assets

The Bank has no encumbered assets and has not pledged any of its assets as collateral.

ICAAP (Internal Capital Adequacy Assessment Process)

The ICAAP is managed by ALCO and presented to the Risk Committee then Board for challenge and approval. The ICAAP process identifies the risks that are involved in the business and the amount of capital that should be held against each of the risks. As an outcome from this process the Bank has determined that it should hold additional capital for the following risks:

- Credit Risk (including concentration risk)
- Market Risk
- Operational Risk (including Systems and Controls; Personnel and Reputational)
- Currency and FX Risk
- Interest Rate Risk

The Bank also has liquidity risk but does not hold capital against this. These risks are discussed further in this section

Credit Risk

The Bank has established limits for Cross Border Transfer Risk (CBTR) based on the ratings assigned by internationally recognised rating agencies. CBTR arises from exposure to counterparties in countries other than the country where exposure is located. The Bank defines transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of Governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

Market Risk

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and market prices. The Bank only operates positions housed in its Banking book within strict Board approved guidelines. Currently Market Risk reporting is made to the Regulator on the ‘‘Standard Method’’ base. Derivative transactions currently permitted include foreign currency, Forward Rate Agreements. At present the Bank is only dealing in Foreign Exchange Currency Swaps on a very limited scale and purely to reduce its foreign exchange exposure. Valuation and accounting policies in line with IFRS have been formulated and are operative. There was a notional amount outstanding at the year-end of £ NIL with a book value of £NIL (book value £78,000 31 December 2018).

Currency and Foreign Exchange Risk

The Bank’s assets are typically funded in the same currency as that of the business transacted to minimise foreign exchange exposure. However, the Bank does incur small open positions in various currencies resulting from the trade related transactions handled by the Bank.

Foreign Exchange risks are controlled and monitored through the limits monitored by ALCO and notified to the PRA. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence the risk generated through foreign exchange activities is not significant and therefore sensitivity analysis has not been presented. End of the day positions are marked to market according to the IFRS and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by Treasury.

Currency of denomination	**Net currency position**	**Net currency position**
	2019	**2018**
	£’000	**£’000**
US Dollar	432	286
Euro	18	5
Turkish Lira	(17)	(7)
Total	434	284

The above table sets out those currency exposures that the Bank has at the year end. The amounts shown in the table take into account the effect of any currency swaps and forward contracts entered into to manage these currency exposures and are consistent with the position throughout the year. The disclosures include all monetary assets and liabilities including short-term debtors and creditors. Those assets and liabilities denominated in sterling have been excluded.

For the purposes of the net currency disclosure above, sterling has been used as the Bank's functional currency.

The Bank enters into short-term foreign exchange currency swap transactions for funding purposes. These currency swap transactions are utilised purely for economic hedging purposes. The Bank does not apply hedge accounting

Interest Rate Risk

Interest rate risk is the risk that an investment value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

A substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small portion of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments. The overall potential impact of the mismatches on the earnings in the short-term and economic value of the portfolio in the longer term is not material and is being managed within the tolerance limits approved by the Board.

Exposure to interest rate movements arise where there is an imbalance between rate sensitive assets and liabilities. The tables on pages 64 and 65 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2019, and 31 December 2018. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

Liquidity Risk Management

Liquidity Risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due because of an inability to liquidate assets, or to obtain adequate funding.

The ALCO has the responsibility for the formulation of overall strategy and oversight of the asset/liability management function.

The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and Board. The policy stipulates maintenance of various ratios, funding preferences and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioural study on its core deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to project realistically the reliance on such funding sources. As a result of close monitoring and strict policies towards reliance on core deposits, the Bank has been able to avoid concentration / reliance on volatile deposits in its books.

Liquidity risk

The Bank is regulated in the United Kingdom by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), which, from time-to time, sets required liquidity mismatch parameters. The Bank manages the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and the required mismatch parameters are not exceeded. The policy of the Bank is to match to maturity as far as is practicable and the Treasury Department will not take on large exposures or placements that cannot easily be matched in the market as to currency or maturity.

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Maturity analysis of assets and liabilities

The table below shows the remaining contractual maturities for assets and liabilities.

£'000	Carrying amount	Demand	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years
31-Dec-19						
Cash and cash equivalents	77,092	47,603	29,489	-	-	-
Loans and advances to banks	5,738	-	1,700	4,038	-	-
Loans and advances to customers	76,648	5,113	2,620	11,625	54,689	2,601
Investment securities	683	-	-	-	-	683
Other assets	11,173	-	1123	234	1355	8461
Total assets	**171,334**	**52,716**	**34,932**	**15,897**	**56,044**	**11,745**
Derivative liabilities	-	-	-	-	-	-
Deposits from banks	4,318	4,318	-	-	-	-
Deposits from customers	138,596	75,641	31,099	27,368	4,488	-
Other liabilities	2,119	189	214	184	1,343	189
Equity	26,301	-	-	-	-	26,301
Total liabilities and equity	**171,334**	**80,148**	**31,313**	**27,552**	**5,831**	**26,490**

£'000 31-Dec-18	Carrying amount	Demand	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years
Cash and cash equivalents	85,862	73,069	12,793			
Loans and advances to banks	1,773	-	-	1,773	-	-
Loans and advances to customers	94,480	5,422	2,911	8,709	56,090	21,348
Investment securities	498	-	-	-	-	498
Other assets	11,760	-	1,189	206	1,386	8,979
Total assets	**194,373**	**78,491**	**16,893**	**10,688**	**57,476**	**30,825**
Derivative liabilities	78	-	78	-	-	-
Deposits from banks	18,854	18,854	-	-	-	-
Deposits from customers	146,164	82,831	31,344	28,095	3,894	-
Other liabilities	1,921	-	373	-	1,174	374
Equity	27,356					27,356
Total liabilities and equity	**194,373**	**101,685**	**31,795**	**28,095**	**5,068**	**27,730**

Operational Risk

Operational Risk controls are incorporated in the Temenos (Globus T24) system that allows an overall control of transactions centrally by Compliance Unit. The Board has approved the Operational Risk Policy. It has been further enhanced by the introduction over the last two years of a dedicated Risk Management System (in Globus T24) which records and assesses individual risks to ensure they are properly monitored and controlled.

The policy covers the core governing principles for operational risk management and provides guidelines to identify, control, monitor measure and report operational risk in a consistent manner across the Bank. The online authorisations level based control infrastructure is one of the main tools that prevent Operational Risk losses. In addition, Internal Control Unit is able to perform “Transaction Based Control” with the new software (T24). Operational losses and near misses are monitored and assessed. The Board of Director’s risk appetite is to keep Operational risk at the minimal level possible within the Bank’s business model. The Bank’s assessment and control of all Operational risks, which include diverse areas such as cyber-attacks, fraud, human error is the responsibility of the Risk Management committee which reports to the Board of Directors.

Operational Risk is now calculated according to the ‘‘Basic Indicator Approach’’.

Risk monitoring process is performed at both transaction and portfolio levels.

Monitoring at transaction levels is a function of the managers of business units where transactions are actually carried out, which is described as Local Monitoring. In cases where the managers originate business themselves exercising their discretionary authorities, monitoring is performed by their immediate line managers.

Monitoring at portfolio levels is carried out by Head Office committees, under the overview of the Risk and Compliance Manager, or by the Managing Director depending on the nature of risks involved and described as Central Monitoring. Information required for monitoring at a portfolio level is provided by the relative Head Office department manager using information gleaned from appropriate Management reports.

Monitoring of financial risks also covers related operational, statutory and regulatory risks.

Operational risk also includes any risks arising from Systems and Controls failures, Reputational Risk and Key Personnel Risk, all of which are managed through the Risk Management System.

35. Financial instruments

The Bank maintains a proprietary investment portfolio whereby capital funds are invested in fixed and floating interest rate Corporate Bonds. Additionally, the Bank has financial assets in the form of cash, loans and advances to banks and loans and advances to customers. The Bank also has financial liabilities in the form of deposits by banks and customer accounts and derivatives.

The Bank does not assume in the normal course of business any significant foreign exchange exposures. The Bank is exposed to movements in interest rates and manages this exposure on a continuous basis within limits set by the Board. Short-term foreign exchange currency swaps are utilised, where cost-efficient, as a funding mechanism, principally to convert sterling capital funds to US dollars. The Bank does not utilise derivatives to assume any form of credit or market risk. The Bank utilises derivatives for economic hedging purposes.

The directors of the Bank have established policies relating to large exposures, interest rate gaps, foreign exchange exposure, liquidity management and credit provisioning. In addition, the Bank operates within limits set by the directors relating to country exposure, credit exposure and risk asset maturities. These policies and limits are reviewed on a regular basis, and any amendment to these policies and limits require the consent of the Board of Directors.

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Levelling disclosure

	Level 1	Level 2	Level 3	Total
	£'000	**£0**	**£'000**	**£'000**
31-Dec-19				
Financial Assets				
Equity Instruments FVOCI	-	-	683	683
Financial Liabilities				
Derivative liabilities	-	-	-	-

	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31-Dec-18				
Financial Assets				
Equity Instruments FVOCI	-	-	498	498
Financial Liabilities				
Derivative liabilities	-	(78)	-	(78)

Equity investment consists of preferred shares convertible into ordinary shares in the future. Valuation has been made using the market value of converted shares at December 31, 2019 with a 50% haircut applied to the share price. A 10% change in the haircut applied value would go up or down by £ 136K (2018:£ 100K).

There were no transfers of assets between levels during 2019 or 2018 and no significant changes in valuation techniques. The Bank has not separately disclosed the fair values for financial instruments such as loans and advances and customer accounts because carrying amounts are a reasonable approximation to fair value.

Derivative financial instruments:

At the reporting date the Bank had derivative assets and liabilities from foreign currency swap contracts. The total notional amount of outstanding forward foreign exchange contracts that the Bank has committed is as below.

		2019	
	Notional amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	-	-	-

		2018	
	Notional Amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	16,798	-	(78)

The foreign currency swaps as at 31 December 2018 were due to mature in less than three months. The swaps were over the counter short term swaps with a non-connected third party.

No collateral was given or received in respect of the swaps in 2018. The cash flows associated with the swap are that on maturity, the Bank will exchange currency amounts equivalent to the notional amount above with the contracted counterparty.

Capital risk management

The Bank's lead regulator is the Prudential Regulatory Authority "PRA". The PRA sets and monitors capital requirements for the bank. The Bank's regulatory capital requirements are based on Basel III.

The Bank's policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence. During the years ended 31 December 2019 and 2018 capital has been maintained at a level above minimum PRA requirements. Such levels have been established by reference to an Internal Capital Adequacy Assessment Process (''ICAAP'') assessment. The Bank's capital resources consist of Share Capital, retained earnings, and other reserves.

The Bank holds their cash with a number of reputable financial institutions. All cash and cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash.

The Bank's regulatory capital position was as follows:

	2019	**2018**
	£'000	**£'000**
Share capital	12,000	12,000
Retained earnings	7,322	8,069
fair value reserve	618	467
Revaluation reserve	6,361	6,820
Less intangible assets	(1,280)	(1,386)
Total regulatory capital	**25,021**	**25,970**

Note the figures above include changes in fair value and revaluation reserves, as it has been audited. The actual capital returns submitted would have excluded these items at the time of submission.

The information in the table below does not form part of the audited financial statements.

	2019	**2018**
	£'000	**£'000**
Capital surplus taking into account buffers	**5,466**	**7,145**

Risk weighted assets are:

	2019	**2018**
	£'000	**£'000**
Credit Risk	83,764	87,558
Operational Risk	10,650	10,975
FX Risk	468	-
Total risk weighted assets	**94,881**	**98,533**

The Bank's main risk is credit risk arising from its loans to customers and placements in the money market. The Bank's main mitigation of credit risk is to secure the lending against real estate. The Bank does not use any risk models for regulatory risk, it adopts the standardised approach to determine risk weighted assets.

Analysis of financial assets and liabilities by measurement basis 2019

	Loans and receivables £'000	Fair value assets through OCI £'000	Financial assets/ liabilities at amortised cost £'000	Derivatives at fair value through profit & loss £'000	Total £'000
Assets					
Cash and cash equivalents	-	-	77,092	-	77,092
Loans and advances to banks	-	-	5,738	-	5,738
Loans and advances to customers	-	-	76,648	-	76,648
Investment securities-OCI	-	683	-	-	683
Other assets	-	-	-	-	-
Total financial assets	-	683	159,478	-	160,161
Total non-financial assets					11,173
Total assets					171,334
Liabilities					
Deposits by banks	-	-	4,318	-	4,318
Customer accounts	-	-	138,596	-	138,596
Derivative liabilities	-	-	-	-	-
Other liabilities	-	-	1,930	-	1,930
Deferred tax liabilities	-	-	189	-	189
Total financial liabilities	-	-	145,033	-	145,033
Equity					26,301
Total liabilities and equity					171,334

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Analysis of financial assets and liabilities by measurement basis 2018

	Loans and receivables £'000	Fair value assets through OCI £'000	Financial assets/ liabilities at amortised cost £'000	Derivatives at fair value through profit & loss £'000	Total £'000
Assets					
Cash and cash equivalents	-	-	85,862	-	85,862
Loans and advances to banks	-	-	1,773	-	1,773
Loans and advances to customers	-	-	94,480	-	94,480
Investment securities- OCI	-	498	-	-	498
Other assets	-	-	-	-	-
Total financial assets	-	498	182,115	-	182,613
Total non-financial assets					11,760
Total assets					194,373
Liabilities					
Deposits by banks	-	-	18,854	-	18,854
Customer accounts	-	-	146,164	-	146,164
Derivative liabilities	-	-	-	78	78
Other liabilities	-	-	1,547	-	1,547
Deferred tax liabilities	-	-	374	-	374
Total financial liabilities	**-**	**-**	**166,939**	**78**	**167,017**
Equity					27,356
Total liabilities and equity					**194,373**

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For the year ended 31 December 2019

Interest rate sensitivity gap analysis 2019

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and cash equivalents	76,476	-	-	-	-	616	77.092
Loans and advances to banks	1,700	4,058	-	-	-	(20)	5,738
Loans and advances to customers	7,847	1,915	9,710	54,689	2,601	(114)	76,627
Investment securities	-	-	-	-	-	683	683
Other assets	-	-	-	-	-	11,174	11,174
	86,023	5,993	9.710	54,689	2.601	12,338	171,334
Liabilities							
Deposits by banks	4,318	-	-	-	-	-	4,318
Customer accounts	106,740	10,881	16,487	4,488	-	-	138,596
Other liabilities	-	-	-	-	-	2,119	2,119
Shareholders' funds	-	-	-	-	-	26,301	26,301
	111,058	10,881	16,487	4,488	-	28,420	171,334
Interest rate sensitivity gap	(25,035)	(4,888)	(6,777)	50,201	2,601	(16,102)	-
Cumulative gap	(25,035)	(29,923)	(36,700)	13,501	16,102	-	-

The table above provides only an indication of the sensitivity of the Bank's earnings to movements in interest rates and is consistent with the position throughout 2019.

Other assets are classified as non-interest bearing in the above table and have contractual maturities of less than three months.

The Bank had no outstanding financial guarantee contracts at the year-end (2018: £0).

Interest rate sensitivity gap analysis 2018

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and cash equivalents	85,115	-	-	-	-	747	85,862
Loans and advances to banks	-	-	1,795	-	-	(22)	1,773
Loans and advances to customers	8,399	2,626	6,103	56,119	21,347	(114)	94,480
Investment securities	-	-	-	-	-	498	498
Other assets	-	-	-	-	-	11,760	11,760
	93,514	2,626	7,898	56,119	21,347	12,869	194,373
Liabilities							
Deposits by banks	18,854	-	-	-	-	-	18,854
Customer accounts	114,175	12,367	15,728	3,894	-	-	146,164
Other liabilities	-	-	-	-	-	1,999	1,999
Shareholders' funds	-	-	-	-	-	27,356	27,356
	133,029	12,367	15,728	3,894	-	29,355	194,373
Interest rate sensitivity gap	(39,515)	(9,741)	(7,830)	52,225	21,347	(16,486)	-
Cumulative gap	(39,515)	(49,256)	(57,086)	(4,861)	16,486	-	-

The table above provides only an indication of the sensitivity of the Bank's earnings to movements in interest rates and is consistent with the position throughout 2018.

Other liabilities are classified as non-interest bearing in the above table and have contractual maturities of less than three months.

A liability (negative) gap position exists when liabilities re-price more quickly than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (positive) gap position exists when assets reprise more quickly than liabilities during a given period and tends to benefit interest income in a rising interest rate environment. The Bank's off balance sheet items carry no interest rate risk. Loans and advances to customers are shown net of provisions totalling £115,000 (2018: £114,000).

The weighted average interest rates are as follows: 1.19% (2018: 1.19%) for the loans and advances to banks; 4.80% (2018: 4.85%) for the loans and advances to customers; NIL (2018: 9.38%) for the debt securities; 0.07% (2018: 0.08%) for the deposits by banks; and 1.28% (2018: 1.27%) for the customer accounts.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rate fluctuation for both derivative and non-derivative instruments at the balance sheet date. At reporting date, if interest rate had been 200 basis points higher/lower and all other variables were held constant the Bank's net profit would decrease/increase by £322,000. As at 31 December 2018 the average impact of 200 basis point movement in interest rates was £330,000. However, management believes that Bank interest rate risk is limited since the majority of customers' deposits are repriced within three months as per the terms of their issue.

36. Post Balance Sheet Events

News about the COVID-19 (Coronavirus) outbreak emerged from China in late 2019. World Health Organisation categorised the outbreak as a pandemic on March 11, 2020. The British Government took measures to slow down the potential spread of the virus in the United Kingdom therefore having a significant effect on businesses and people's normal lives. On the other hand the Bank of England, HMRC and the Treasury implemented unprecedented measures to support the banking system, people and businesses in these difficult times.

It is widely accepted that on December 31, 2019 only a limited number of cases of an unknown virus had been reported to the World Health Organization. There was no explicit evidence of human-to-human transmission at that date. The negative impact of the pandemic on the UK economy was felt to a large extent in March 2020. Management therefore are of the opinion that the pandemic cannot be construed to consist of events or conditions that were known at the reporting date and treat the pandemic as a non-adjusting event.

The Bank has taken immediate measures to adapt and implement Business Continuity Planning Strategies to make sure service to customers is uninterrupted. Measures have been put in place to monitor and support the health of our staff, our customers and our operational resilience.

The immediate effect of Covid-19 has been through reduced interest income due to a cut in the base rate. Business growth assumptions as well as the non-interest income increase may not be realised due to the lock-down measures introduced. Some customers have approached the bank for mortgage holidays. The Bank has taken measures to manage its cost of funding as well as the cost of operations to counteract the potential effect of Covid-19 on its income stream.

Whilst the UK Government has put in place significant support to guide the economy through this period, the impact of Covid-19 cannot be reliably estimated at this stage. However, TBUK's high liquidity, robust capital base and focus on secured lending at cautious margins of collateral and debt serviceability, put it in a strong position to support our customers through this difficult time. The Bank has revised its 2020 Budget and applied stress testing to its financial forecasts. The assessment shows that the TBUK financial position is strong enough to withstand the stress and that that there is no Material Uncertainty regarding the going concern assumption.

There are no other significant post balance sheet events.