Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements
31 December 2020

Turkish Bank (UK) Limited
Report and financial statements 2020

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Officers and professional advisors

Directors

I H Bortecene (Chairman)
M P Joyce (appointed 9 December 2020)
S M Bennett (resigned 12 November 2020)
S Betteridge **
J W Heales *
J Gillan
M Arig
Mustafa Kemal Sahin (resigned 24 April, 2020)
Erhan Raif (appointed 24 April, 2020)
Mustafa Kursat Asardag

* 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

The year 2020 will always have a special place in our memories. Covid-19 has deeply affected the lives of people and caused severe damages globally in many countries and industries. It is very fitting to us that we remember our long history during times such as these, because it shows the inherent resilience that is so ingrained into our culture. The difficulties encountered always lead us to find comfort in the fact that our institution has thrived through two World Wars, several Financial Crises, a few pandemics and countless other historic challenges. This year is no exception.

Though we have had our challenges with Covid-19, we are happy, overall, with our 2020 results. The challenge of preserving our team's health together with customers was sometimes overwhelming; however, the fact that we had no serious incident in this context is a great source of comfort and pride. The United Kingdom, Turkey and TRNC have all suffered their share of lock downs and disruption; and, this has affected all concerned countries in various different ways. Those sectors that were most affected by the pandemic such as tourism, international travel and hospitality were sectors that the Group had very little, if any, exposure to both in UK and the rest.

In order to reduce the negative effects of the closures, governments have opted to provide an environment of abundant liquidity with fiscal stimulus packages, in addition to the excessively expansionary monetary policies of central banks in developed countries. With the positive effects of these measures on economies towards the end of the year, uncertainties regarding the global recovery have decreased somewhat, but concerns such as the risk of mutation of the virus and the lengthening of the vaccine's applicability to large populations keep the downside risks on the growth outlook alive.

The Bank of England's Monetary Policy Committee (MPC) announced it had left interest rates unchanged. There is growing expectation that a negative interest rate might be on the cards for the UK. We have concluded our preparations in this field, and though it will cause its challenges for the sector, we feel confident that the operational impact on our business will be minimal.

This was also the year that Brexit was finally concluded, and it was no surprise to observe deepening relations between Turkey and the UK post-Brexit. The probable political and economic forecasts seem to favour this close relationship for the near future.

In 2020, UK house price growth has averaged 7.3% despite the contraction in the economy by 7.8%. Net mortgage borrowing by UK households reached 5.2 billion GBP by the end of last year, increasing by 1.5 Billion GBP from the beginning of 2020. Our credit book took its share and we observed a healthy growth especially on growing mortgage demand by our customers. It was positively surprising to see the resilience of our community during the pandemic.

Close contacts with the community helped TBUK keep open and close communication channels with its clientele. To hear compliments from our customer base for the way we handled their demands through this period will certainly help increase the value of "community banking" in their eyes. There has been a permanent shift in the way our customers engaged with our branches during the pandemic. This has led to a restructuring of our branch network. In addition to this, work on Credit Infrastructure has been completed in 2020 and is now followed by further digitisation work. We are pleased to observe the benefits of embedding these measures.

TBUK's heavy investment period is now in its 3rd year and has come to a completion at the end of 2020. Starting with the joining of the payments schemes, the enhanced systems and controls together with investment in human capital and culture has almost unveiled a new bank. This together with a revision of the branch network has put TBUK back on track for profitability at the beginning of 2021. The reduced number of branches by the beginning of the year has now pushed digital channels enhancement plans into 2021 agenda. We will soon be offering point of sale services to our customers thanks to cooperation initiatives with third party solution providers, a product that we believe will increase TBUK's competitiveness in the SME market.

With a fresh start to 2021, I am pleased to announce the appointment of our new CEO, Mr. Michael Joyce. Michael has extensive experience in the retail-banking sector, particularly in the mortgage business. I am sure we will benefit enormously from his experience in this area. Another important addition to our Senior Management team is Mr. Jervis Rhodes, who has joined us as CRO in April 2020. Jervis is another highly experienced addition to our team, having worked in a range of functions across the Banking sector.

Chairman's Statement (Continued)

We have entered our Group's 120th year with all guns blazing. I will briefly recount some highlights as it has been a very busy year, especially around T-Gate, a Group wide initiative started in 2019. T-Gate is a platform, a collection of finance and technology centres, spread across the three countries we operate, that incorporate education, investment products and corporate finance. The program will continue in phases, with Turkish and TRNC sites due to be completed this year and the UK site should hopefully be kicking off by the end of the year as well. We are working on acquiring incentives for those companies that will join us in Turkey in the first instance. An accelerator/education program offered to members will follow. We have already started working with the Fintech firms for various corporate finance efforts; these are ranging from fundraising, M&A and IPO's, to help setting up companies globally, but mainly in the UK. This program has created a great alternative investment for our clients as well. Sensing the decline of more traditional industries, our clients are keen to explore investing in these fast growing technology companies. This enhanced engagement with third parties is only growing in importance, which will bring us to an important initiative, Turkish Digital Technologies (TDT).

TDT is the newest member of the Group, founded to assist all members in their challenges with their solution providers, a topic becoming more and more challenging every year with ever-increasing number of Fintechs and third parties we cooperate with. TDT is also charged with the mission to pioneer all leading technologies incorporation and dissemination to Group entities. It will play a leading role in T-Gate to coordinate relations with all Fintechs and Regtechs, it will help Group banks and companies better their mobile applications, open banking APIs and similar functions. It will also assist with the introduction of important new technologies such as RPA.

Another important agenda we had for the year has been Social Responsibility, made all the more important given the year we have had. Turkish Bank Cyprus has shown wonderful leadership in terms of their Social Responsibility Agenda. This is a very important mission for us that we have been trying to increase across the Group. Increasing the Entrepreneurship of women on the Island with EBRD's support, planting 30,000 trees for our 120th year forest are just some of the great work that was done this year. The conditions of the pandemic that have brought our community closer are also encouraging TBUK to take further initiatives for social responsibility programs.

Another lesson from the Pandemic is to heighten the risk of Climate Change which has been on our agendas for the last few years, I believe that the pandemic has urged all of us to consider once more the importance of this subject and we will ramp up our efforts in the Group both from a risk perspective and a mitigation perspective, such as our green energy projects in Cyprus. This year Turk Bankası has successfully implemented wonderful projects in this field, including a 120th Year Forest planting 30,000 trees.

In any case, it would be fair to say that during 2020 we accelerated our Group wise Digital Transformation Program, during a time where the business was slow. As T-Gate is developing as a Digital ecosystem, we started seeing the benefits of collaborating with platform players and Fintech firms. The 'Open Investment' program, that is offering third party products on a platform, has already proved to be the leading product for the Group.

I will again finish this year's letter by thanking all members of the greater Turkish Bank Family for their very hard work this year against all odds. I hope 2021 will be a normalisation year for the whole world and we can start soon on repairing the damages inflicted on those seriously affected by the pandemic conditions.

Hakan Bortecene
Chairman of the Board
April 14, 2021

The Strategic Report

For the year ended 31 December 2020

Review of the Year

Key performance indicators	**2020**	**2019**
(Loss) before tax as % of equity	(2.10) %	(3.56) %
Equity as % of total assets	13.88 %	15.34 %
Total operating expenses as a % of total operating income	109.56 %	117.43 %

The Bank reported a loss before tax of £530K compared to a loss before tax of £936K in 2019.

There has been a global pandemic outbreak of Covid-19 in early 2020. The potential impact of Covid-19 had increased by March 2020, 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 first to 25 bps and then to 10bps. TBUK's high liquidity position with the Bank of England reserves resulted in loss of income due to the cut in the base rates. Business growth assumptions as well as the net commission and fee income increase have also been impacted due to the lock-down measures introduced as well the continued uncertainty surrounding the final agreement with the EU on the future of the EU-UK relationship. Non-resident mortgage loans use LIBOR as the benchmark rate for repricing and over the year the reduction in interest rates lowered the yields on these customer loans. 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. The effect of these factors resulted in a reduction in net interest income of £ 579K. Similarly, net commission and fee income decreased by GBP 258K.

The negative effects described above were counterbalanced by one-off other operating income amounting to £ 1 Million. £ 739K has been recorded as other operating income which related to the receipt of 47 "A" Preference Shares as stock dividend on 24 September, 2020. This was measured using the Visa Ordinary Share prices on the day of stock issuance. The other significant income was £ 171 K related to a partial release of a provision for the VAT compliance audit following final agreement with HMRC. The provision last year was £ 384 K.

TBUK actively managed its cost base and reduced total expense from £ 6.3 Million to £ 6.0 Million. In 2020 TBUK implemented a major restructuring program to commence its strategy of digital transformation. Three branches and a relationship office were closed by June 2020 and the Head Office structure has been aligned to the change in the branch network accordingly. This restructuring has meant one-off restructuring costs of £ 318K. 2020 also included Project related expenses of £ 134 K. 2019 costs had included a non-recurring provision of £384 K for VAT compliance audit and Project related expenses of £130 K.

As a result the Bank was able to reduce its loss before tax ratio as a percentage of its equity even though equity has also gone down. Toward the end of 2020 the Bank was able to increase its assets and lending to banks and individuals and this increase in assets coupled with a reduction in equity caused a reduction in the ratio of equity to total assets. However, the positive effect of this increase in interest yielding assets will be realised in 2021. Total operating expenses as a % of total operating income decreased as a result the reduction in total expenses.

The full year effect of the continuous efforts to strengthen and upgrade the second line SMF roles of the Bank in the second half of 2019 have continued to contribute significantly to the 2020 human resource cost base.

Impairment losses for the year remained low at £34 K (2019: £55 K). ECL provisions in accordance with IFRS 9 stood at £246 K (2019: £212 K). The increase is primarily due to the Bank placing a reasonably higher probability weight to worst case scenarios and also increasing the stress on the collateral value of properties in the worst case scenario 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 total loans and advances exposure of £95.7 Million to banks and customers, 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.

The Strategic Report (Continued)

Total assets increased to £182.1m (2019: £171.3). The lower lending volumes during the first half of 2020 came off the back of continued Brexit uncertainty and the effect of Covid-19 lock down, as many homeowners and buy to let investors, especially on the non-resident side, delayed their purchases. Towards the end of 2020 it was apparent this uncertainty was lifting, with the pent-up demand evident through an increased number of applications. This increase was realised in the second half of 2020 and resulted in an increase in loan and advance to banks (£8 Million) and loans and advances to customers (£5 Million) compared to December 31, 2019.

The increase in the deposits was driven primarily by the increase in customer deposits (£7 Million) and overseas Group funds (£ 5 Million). The increase in customer deposits was mainly due to an increase in non-resident deposits while resident customer deposits remained stable.

During 2020 the Bank continued its integration into the UK's Open Banking infrastructure (as it had the UK payments infrastructure in 2017 and 2018) as well as reviewing 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.

For 2021, these investments, combined with TBUK's strong liquidity, robust capital base (see page 68) and an ongoing drive to improve customer service and efficiency, put the Bank in a strong position to take advantage of opportunities as there is a return to normality following the expected lifting of the lock down measures in the second half of 2021. These opportunities include the potential for enhanced cooperation between the markets in which the Turkish Bank Group operates.

Strategic Objectives

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.

TBUK's purpose is to be the pre-eminent institution serving the Turkish speaking community's banking needs in Britain. TBUK's strategic focus remains on delivering a sustainable business through the distribution of its product and services to the Turkish resident and non-resident community.

TBUK 4 strategic priorities are defined as:

- Delivering a superior quality service to its customers
- Enhancing the businesses distribution capability and operating model
- Delivering business transformation to underpin sustainability
- To deliver our strategy through people

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.

The Strategic Report (Continued)

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.

2020 has seen an unprecedented year of challenges due to the effects of Covid-19 and the continued uncertainty related to Brexit. The impact of Covid-19 has been significant in the form reduced interest income due to the rate cut and reduced business growth in the first half for 2020. Net commission and fee income has also been adversely affected with transaction volumes going down due to the effects of the lock down.

The Directors reviewed the conditions and took a decision to bring forward the long term strategy of digital transformation where customers would be served via more digital channels to reflect their wants and needs. Three branches and a relationship office were closed by June 2020 and the Head Office structure was aligned to reflect the change in the Branch Network.

- **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.

- **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. Due to the pandemic the directors were not able to join events and branch visits involving the employees.

In order to protect the health of our employees during the pandemic directors monitored the measures taken to make the branches and the Head Office Covid-19 secure. Appropriate risk assessments have been completed in liaison with external consultants in full compliance with the legal guidance by the government and regulators. Being a key business identified by the government we ensured safety of our employees while continuing to serve our customers.

- **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. It has not been possible to arrange face to face events with our key business partners but the directors look forward to such events once the lock down measures are lifted.

- **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 2020 our relationship with our customers has been dictated by the pandemic conditions. The directors ensured that we continued to provide services to our customers while protecting their health by employing necessary precautions to mitigate the risk of infection to our customers and employees at the branches.

In accordance with the guidance by the regulators the directors encouraged and approved mortgage holiday initiatives to customers in need. Directors took a decision for executive and branch people to contact all vulnerable customers of the Bank to make sure we could meet their needs under the difficult condition in these unprecedented times

The Strategic Report (Continued)

- **Regulators**

The Bank is in regular contact with the Regulators and both executive and non-executive directors proactively and regularly liaise with the Bank's regulators. During 2020, the directors approved the ICAAP which was presented to the PRA for setting the capital requirements of the bank. There has been regular communication with the PRA and the FCA in respect of the effects of Covid-19, the measures employed to protect the health of staff, customers, business continuity and the financial health of the Bank. In accordance with the guidance given by the regulators TBUK's directors adopted measures to provide mortgage holidays to customers in need.

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

Brexit has now progressed and the UK negotiated 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 of Brexit is expected to be minimal on the operations of TBUK. 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

The potential impact of Covid-19 had increased, with widespread disruption to normal patterns of business across the world and the UK from March 2020 onwards. After a relatively lower lock down measure in the summer a second lock down in the last quarter of 2020 increased further the impact of Covid-19.

The Bank had taken immediate measures in Quarter 1 2020 to adapt and implement Business Continuity Planning Strategies to make sure service to customers was 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 had been through reduced interest income due to a cut in the base rate. Business growth assumptions as well as the net commission and fee income increase was not realised due to the lock-down measures introduced. In accordance with government guidance and our commitment to our customers, some customers have been provided mortgage payment holidays. In the second lock down some more clients have been provided mortgage payment holidays. During the year 23 customers have used mortgage holidays. The maximum exposure was GBP 9.3 Million, representing approximately 10% of the loan portfolio. There were no customers using mortgage holidays at the year end. With the current information we have TBUK does not believe these mortgage payment holidays 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.

TBUK has accelerated its longer term strategy of digital transformation to serve its customers in more effective digital channels and closed three branches and one relationship office by June 2020. The number of employees excluding directors has gone down from 82 to 57. In the second half 2020 loan growth picked up and there is a healthy loan pipeline going into 2021. By employing these measures TBUK reached break even by the month of December 2020.

Whilst the UK Government has put in place significant support to guide the economy through this period and extended government support to be available in 2021, the impact of Covid-19 cannot be reliably estimated at this stage. It is, however, expected that following the completion of the vaccination program, UK government may lift lock down measures from July 2021 onwards. In any case, 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 2021 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)

Interest Rate Benchmark Reform

In 2017 the FCA and the Financial Policy Committee (FPC) concluded that LIBOR submissions by panel banks would cease at the end of 2021 with Financial Markets and firms being required to put plans in place to transition from LIBOR to alternative risk free rates (RFRs) by this date. In September 2018, the FCA and the PRA, through a joint "Dear CEO letter" clearly set out their expectations of firms to prepare action plans to manage and monitor this transition.

In accordance with the regulatory guidance and requirements, TBUK has since started to take all reasonable steps and put in place a strong governance framework under the oversight of the Board and its senior Executive and Non-Executive Committees including Risk Committees to ensure accountability in terms of project direction and delivery in managing the transition from LIBOR and potential conduct risks associated with this transition.

The Plan has been constructed and executed to take account of the scale and nature of TBUKs business model and the size of exposure to LIBOR as well as the absence of any complex instruments or products offered by the Bank using LIBOR as reference rate.

TBUK LIBOR exposure relates to retail mortgage loans to non-resident customers (51 mortgage loans with total outstanding exposure of GBP 24.1 Million all maturing beyond 2022) and 2 syndicated loan exposures with a total exposure of GBP 3.2 Million, all maturing within 2021.

All Retail Mortgage loans to non-resident customers were priced using LIBOR as the reference rate for ease of reference to non-residents (as Turkish and TRNC nationals were more familiar with LIBOR than the concept of a base rate). All new non-resident loans have been priced using the Bank of England Base Rate as the reference rate since the last quarter of 2019.

TBUK reviewed all relevant loan agreements for LIBOR linked exposures and confirmed that there are strong fall-back clauses in the contracts. TBUK will engage with customers in full compliance with the regulatory conduct rules to replace LIBOR with Bank of England Base Rate as an acceptable alternative rate before the end of 2021.

TBUK will not develop any new products or originate new loans depending on LIBOR as the reference rate for pricing. TBUK will closely monitor industry initiatives (particularly Loan Enablers Taskforce under RFRWG) and timelines for the application and adaptation of Risk Free Rates (SONIA) for loan products particularly for mortgages.

Climate Change

The financial risks from climate change are classified as physical or transition risks, as defined in the PRA’s Supervisory Statement 3/19 (SS3/19) and FCA’s Feedback Statement on Climate Change and Green Finance (FS19/6). These risks are manifested in the form of credit, markets and operational risks for banks.

Physical Risks:

Physical risks from climate change arise from a number of factors and relate to specific weather events (such as floods, fires, droughts, cyclones) and longer-term shifts in the climate (such as rising sea levels, changing temperatures). These arise from increasing severity and frequency of climate and weather-related events and have the potential to severely damage property and other infrastructure, disrupt supply chains and more broadly can lead to loss of life and migration. Direct impact of the physical risks on UK banks can be in the form of decline in the collateral values under mortgage exposures on properties that are in flood risk zones, hence may translate into higher credit risks for banks.

The Strategic Report (Continued)

Transition Risks:

These risks arise from the process of adjustment towards a low carbon or carbon-neutral economy, which will require significant structural changes to the economy. The UK Government has set a target of achieving net zero greenhouse gas emissions by 2050 to respond to the risks posed by the climate change.

These shifts cause broader and longer term impacts and changes in government policies, legislations and budgets, emergence of disruptive technologies and business models. These changes have the potential to prompt reassessment of a wide range of asset values including energy prices and could affect various economic sectors including the oil and gas industry, energy intensive sectors, utilities, transportation and construction sectors. It could also cause a fall in income and creditworthiness of some borrowers that may result in credit losses for lenders and tightening energy efficiency standards for residential and commercial buildings may impact the banks' buy-to-let lending portfolios.

The Bank monitors 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 It is the view of the executive management and the Board that TBUKs exposure to these physical and transitional risks are limited in scope given the locality of the loan book of TBUK with concentration in the Central and Greater London area. However, the Bank is committed to analyse its exposure to these risks through undertaking a review of its current loan book and other physical assets.

TBUK has little to no exposure to financial markets risks through climate change due to no equity risk or trading portfolio in its balance sheet and absence of other counterparty risks through financial derivatives.

TBUK does not currently have a distinct long term scenario to stress test for the impact of the climate change as the nature of the business and strategy is such that balance sheet exposures are of relatively short maturities. However, operating with portfolio LTV of 43%, which reaches a level of only 72% when stressed against a worst case scenario of 40% drop in property prices in UK (where London market remains as the most relevant one as per the Bank's risk appetite and target market); it can be concluded that TBUK has room to manage and absorb a fall in property prices through materialization of physical and transitional climate change related risks; this, however, will be reviewed regularly.

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% and 47% 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

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.

The Strategic Report (Continued)

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 through a program of digital transformation. As stated in the review, the Bank has invested to enhance its 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

Mustafa Kursat Asardag
Company Secretary
April 14, 2021
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 2020.

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 in particular 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 2020 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 8.

Future developments in the business

Information regarding the future developments in the business is included in the Strategic Report on page 11.

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 8.

Further details regarding the Bank's going concern basis of preparation can be found in the statement of accounting policies in these financial statements on page 25.

Post Balance Sheet Events

There are no significant post balance sheet events.

Results and dividends

The loss for the year after taxation amounted to £414,000 (2019 – loss £735,000). The Directors do not recommend the payment of a dividend (2019 - £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 2020 (2019 £nil).

Directors' Report (Continued)

Directors and their interests

Directors

I H Bortecene (Chairman)
M P Joyce (appointed 9 December 2020)
S M Bennett (resigned 12 November 2020)
S Betteridge **
J W Heales *
J Gillan
M Arig
Mustafa Kemal Sahin (resigned 24 April, 2020)
Erhan Raif (appointed 24 April, 2020)
Mustafa Kursat Asardag

* 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 seven occasions in 2020 (2019: 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 six occasions in 2020 (2019: seven 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.

Mustafa Kursat Asardag
Company Secretary
April 14, 2021
84-86 Borough High Street
London SE1 1LN
United Kingdom
Registered in England. Company No. 2643004

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 international accounting standards in conformity with the requirements of the Companies Act 2006.

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 international accounting standards in conformity with the requirements of the Companies Act 2006; 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

Mustafa Kursat Asardag
Company Secretary
April 14, 2021
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 2020 which comprise Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash flows, 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 accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of the Bank's loss for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity 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

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

Our audit procedures to evaluate the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by the them, and the potential impact of Covid-19 on the Bank's financial performance, business operations, and liquidity and regulatory positions;
- Reviewing the directors' going concern assessment as approved by the board of directors, including Covid-19 implications based on a range of scenarios and reasonableness of key assumptions used in these scenarios;
- Reviewing the Bank's most recent Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) which contain the results of the Bank's latest stress tests; and
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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

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

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

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

Key Audit Matter	How our scope addressed this matter
Credit risk: Impairment provisions in relation to Loans and advances to customers **Expected credit loss - £ 246,000 (2019: £213,000*)*** *[Refer to Notes 4; 6; 12 and 19 of the financial statements]* Credit risk is an inherently judgmental area. Determining expected credit loss ('ECL') involves significant management judgement and is subject to a high degree of estimation uncertainty. The significant assumptions that we focused on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. These included: • staging of loans and the identification of Significant Increase in Credit Risk including the impact of COVID-19 and payment holidays on staging; and • key assumptions in the model including macro-economic scenario weightings and loss given default ("LGD").	**Controls testing** We assessed the design and implementation and tested operating effectiveness of the key controls operating in the Bank in relation to disbursements and provisioning. **Test of detail** We have reviewed a sample of credit files in order to verify the data used in the determination of PD and LGD assumptions for a sample of loans across all the credit risk stages. **Expected credit loss model** In respect of the model used by management for their ECL calculation under IFRS 9: • We engaged our credit risk specialists to review the appropriateness of the ECL model used, recalculate the ECL and compare the results with the Bank's position to assess reasonableness; • We assessed the methodology for identifying Significant Increase in Credit Risk including considerations given to COVID-19 payment holidays or deferrals. • We considered the appropriateness of the methodology used by management and compliance with the requirements of IFRS 9; • We reviewed the assumptions used in applying the methodology adopted and assessed these for reasonableness; • We tested the completeness and accuracy of the loan portfolio applied to the model; and • We assessed the suitability and relevance of key assumptions applied in determining probability of default, macro-economic scenario weightings and loss given default

	We evaluated the adequacy and appropriateness of the disclosures made in the financial statements **Conclusion** We found the approach taken in respect of ECL to be consistent with the requirements of IFRS 9 and judgements made were reasonable.

Our application of materiality and an overview of the scope of our audit

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	£252 000.
How we determined it	1% of net assets.
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered reflects more appropriately the size of the Bank's operations. Furthermore, net assets approximate regulatory capital resources which is a key focus for the shareholder, management, and the regulator.
Performance materiality	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 overall materiality. Performance materiality of £151,000 (based on 60% of overall materiality) was applied to the audit.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7 000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

Other information

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 14 , 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.

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

Based on our understanding of the Bank and its industry, we identified that the principal risks of non-compliance relate to regulations and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) laws and regulations, such as the Companies Act 2006, that have a direct impact on the preparation of the financial statements, and UK tax legislation.

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

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Bank, the industry in which they operate and considered the risk of acts by the Bank which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing 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 Bank's 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 PRA and the FCA. 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.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks 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 to impairment of loans and advances to customers, and significant one-off or unusual transactions; and
- Addressing the risks 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 the directors 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.

The risks of material misstatement that had the greatest effect on our audit, including fraud and irregularities, are discussed under "key audit matters" within this report.

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.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Bank's Board to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2018 to 31 December 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank 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's members as a body for our audit work, for this report, or for the opinions we have formed.

GR Simpson

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
April 14, 2021

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Interest income	8	4,509	5,561
Interest expense	8	(780)	(1,263)
Net interest income	8	**3,729**	**4,298**
Fees and commissions receivable	9	769	1,023
Fees and commissions payable	9	(167)	(163)
Net fee and commission income		**602**	**860**
Net trading income	10	149	183
Other operating income	10	743	11
Total operating income		**5,223**	**5,352**
Impairment losses on financial instruments	12, 19	(34)	(55)
Personnel expenses	11	(2,875)	(2,881)
Premises and equipment		(478)	(406)
Administrative expenses		(1,673)	(2,259)
Depreciation and amortisation	21,22	(679)	(681)
Other expenses		(8)	(3)
Total operating expenses		**(5,747)**	**(6,285)**
Finance Cost		(6)	(3)
Loss before taxation	13	**(530)**	**(936)**
Income tax credit	14	116	201
Loss after taxation		(414)	(735)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value		(291)	203
Deferred tax effect of net change in fair value of equity investments		(11)	(35)
Revaluation of properties		(436)	(554)
Deferred tax on property revaluation		92	94
Total other comprehensive (expense) / income		(646)	(291)
Total comprehensive (expense) / income		(1,060)	(1,026)

The notes on pages 25 to 72 form an integral part of these financial statements.
All activities relate to continuing operations.

Turkish Bank (UK) Limited

Statement of Financial Position
For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Cash and cash equivalents	15	75,073	77,092
Loans and advances to banks	17	14,096	5,738
Loans and advances to customers	18	81,555	76,648
Investment Securities	20	1,131	683
Current taxation assets	14	-	206
Other assets	23	1,193	1,151
Deferred tax assets	27	376	75
Property and equipment	22	7,602	8,461
Intangible assets	21	1,067	1,280
Total assets		**182,093**	**171,334**
Liabilities			
Deposits from banks	24	9,757	4,318
Deposits from customers	25	145,462	138,596
Deferred tax liabilities	27	292	189
Derivative liabilities	30	-	-
Lease liabilities	26	295	484
Other liabilities	26	1,046	1,446
Total Liabilities		**156,852**	**145,033**
Equity			
Called up share capital	28	12,000	12,000
Retained earnings		6,908	7,322
OCI reserves		316	618
Revaluation reserve		6,017	6,361
Total equity		**25,241**	**26,301**
Total liabilities and equity		**182,093**	**171,334**

The Board of Directors approved these financial statements and authorised for issue on April 14, 2021

Signed on behalf of the Board of Directors

M K Asardag
Company Secretary
Registered number 2643004
The notes on pages 25 to 72 form an integral part of these financial statements.

Turkish Bank (UK) Limited

Statement of Cash Flows
For the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Loss after taxation	(414)	(735)
Adjustments for:-		
Depreciation of property plant and equipment	449	454
Amortisation of intangible assets	230	227
Non-cash stock dividends received from Visa	(739)	-
Net Interest income	(3,729)	(4,298)
Interest paid on lease liabilities	6	3
Income tax (credit)	(116)	(201)
	(4,313)	(4,550)
Changes in:-		
Loans and advances to customers	(4,907)	17,853
Loans to banks	(8,358)	(3,985)
Other assets	163	37
Derivative liabilities held for risk management	-	(78)
Deposits from banks	5,439	(14,536)
Deposits from customers	6,866	(7,568)
Other liabilities	(400)	235
	(1,197)	(8,042)
Interest received	4,509	5,561
Interest paid	(780)	(1,263)
Net cash flows from operating activities	(1,781)	(8,294)
Cash flows from financing activities		
Payment for lease liabilities	(190)	(189)
Interest Paid on lease liabilities	(6)	(3)
Net cash used in financing activities	(196)	(193)
Cash flows from investing activities		
Acquisition of property and equipment	(26)	(161)
Acquisition of intangible assets	(16)	(122)
Proceeds from disposal of fixed assets	-	-
Proceeds from disposal of investment securities	-	-
Net cash used in investing activities	(42)	(284)
Net (decrease) in cash and cash equivalents	(2,019)	(8,770)
Cash and cash equivalents as at 1 January	77,092	85,862
Cash and cash equivalents as at 31 December	75,073	77,092

The notes on pages 25 to 72 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2020

	Called up Share Capital £'000	OCI Reserve £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total £'000
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**
Balance as at 1 January 2020	**12,000**	**618**	**6,361**	**7,322**	**26,301**
Loss for the year	-	-	-	(414)	(414)
Other comprehensive income / (expense)	-	(302)	(344)	-	(646)
Balance as at 31 December 2020	**12,000**	**316**	**6,017**	**6,908**	**25,241**

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 25 to 72 form an integral part of these financial statements.

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 international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been authorised for issue by the Bank's Board of Directors on April 14, 2021.

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of equity investments and properties owned by the Bank, to the extent required or permitted under IFRS as set out in the relevant accounting policies.

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 reassessed the impact of Covid-19 on the Bank and its 2021-2023 financial plans and forecasts. Whilst the UK Government has put in place significant support to guide the economy through this period and there are signs that with a successful vaccination program the economy may be expected to return to normal from July 2021, the impact of Covid-19 cannot be reliably estimated at this stage. The Bank has revised its 2021 Budget downward and applied stress testing to its financial forecasts.

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 TBUK has the resources to continue in business for the foreseeable future 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

The Bank has consistently applied the accounting policies as set out in Note 6 to the financial statements to all the periods presented in these financial statements. There are no new standards or amendments published by the IASB effective from January 1, 2020 that would be applicable to TBUK.

There are also no amendments published by the IASB effective from January 1, 2021 that are applicable to TBUK. However, the IASB has published a number of minor amendments to accounting standards that are effective from January 1, 2022 and January 1, 2023. TBUK expects they will not have a significant effect, when adopted, on the financial statements of TBUK.

4. Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect 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 of uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2020 are included in the notes:

Judgements

Note 19: determining methodology for incorporating forward-looking information into the 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.

With the onset of Covid-19 and the uncertainties brought about by the global pandemic, the Bank has revisited the estimation of probability of default (PDs) for retail mortgage customers as well as the macro scenarios related to the estimation of loss given default (LGDs) for the these retail customers. The following key changes have been made to the estimations.

- The probability of default of the base case has been increased from 1.0% to 1.75%. The PDs for the different macro scenarios have been adjusted similarly. Due to low LTV of the portfolio of retail mortgage loans in Stage 1, the effect of changes in the PDs does not significantly affect the output of the ECL model.
- The macro scenario weightings for the better case, base case and worse case have been changed from 10%, 80% and 10% in 2019 to 5%, 75% and 20% in 2020 respectively. The effect has been to increase the ECL for retail customers by GBP 55K.
- Stress on property valuations has been increased to 40% for the worst case macro scenario reflecting the potential long term stress on property prices due to the pandemic. This has increased the ECL for retail customers by GBP 27K.

The total ECL provision as of December 31, 2020 amounts to GBP 247K which may be subject to significant risk of adjustment within the next financial year. The carrying value of assets subject to ECL risk and related ECL provision is set out below.

2020	**Cash and Cash Equivalents**	**Loans and advances to banks**	**Loans and advances to customers**	**Total**
Gross Exposure	75,096	14,143	81,731	170,970
ECL Loss Allowance	(23)	(47)	(176)	(246)
Net Carrying amount	75,073	14,096	81,555	170,724

2019	**Cash and Cash Equivalents**	**Loans and advances to banks**	**Loans and advances to customers**	**Total**
Gross Exposure	77,170	5,758	76,762	159,690
ECL Loss Allowance	(79)	(20)	(114)	(213)
Net Carrying amount	77,092	5,738	76,648	159,478

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 Board 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 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.

(iv) Other operating income

Other operating income relates to recognition of Visa Preference "A" shares issued for nil consideration. This income is recognised based on the value of such shared measured in the date the shares are issued.

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.

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 is the portion of ECL that results 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 is the ECL that results 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 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. Stage 3 exposures are credit impaired assets and they are also categorised as exposures in default or vice versa.

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 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.
The definition of default for internal credit risk management purposes, the accounting definition of default and the regulatory definition of default are consistent except in cases where a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default may be different.

A 6-month probation period is applied to a defaulted stage 3 account. If a customer is in default and ceases to fulfil any of the stage 3 criteria, then the default flag shall not be removed until 6 months of consecutive non-default behaviour is observed.

Stage 2 Staging criteria indicate a raised but mild level of default risk from loan origination and include the following.

• Covenant breach

• Derogatory movement (>2) of internal rating model grade

• Mortgage account between 30 and 90 days past due (DPD)

• >£500 in excess of limit with no credit for 40 days on any associated current account

For stage 2 accounts, where the risk that manifested to warrant allocation to stage 2 has receded, the account can be reclassified as Stage 1 after a 6-month period of satisfactory performance. Satisfactory performance means there has been no payment default and the exposure has operated within covenants.

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

The Bank as a lessee

For any new contract 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.

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 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.

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 full 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. Due to Covid-19 the Bank decided to get a desk top valuation update from the same chartered surveyor which resulted in a reduction in net book value of £ 436,046 which has been reflected in these financial statements.

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 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
2020				
Net Interest Income	3,278	196	255	3,729
Net fee and commission income	516	55	32	602
Net trading income	6	143	-	149
Other operating income	18	739	244	1,001
Total segment revenues	**3,818**	**1,132**	**531**	**5,480**
Impairment losses	(62)	28	-	(34)
Operating expenses	(1,441)	(97)	(4,431)	(5,970)
Finance Cost	-	-	(6)	(6)
Segment profit / (loss) before tax	**2,314**	**1,063**	**(3,906)**	**(530)**
Segment Assets	147,675	11,094	23,324	182,093
Segment liabilities	145,718	10,180	919	156,818
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

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 2020

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**
2020			
Net interest income	2,317	1,412	3,729
Net fee and commission income	254	348	602
Net trading income	149	-	149
Other operating income	1,001	-	1,001
Total segment revenues	**3,720**	**1,760**	**5,480**
Impairment losses	(62)	28	(34)
Operating expenses	(5,714)	(256)	(5,970)
Finance Cost	(6)	-	(6)
Segment profit (loss) before tax	**(2,062)**	**1,532**	**(530)**
Segment assets	112,382	69,711	182,093
Segment liabilities	47,733	109,085	156,818
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

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

Notes to the accounts
For the year ended 31 December 2020

8. Net interest income

	2020 £'000	2019 £'000
Interest income		
Cash and cash equivalents	336	959
Loans and advances to banks	147	62
Loans and advances to customers	3,847	4,503
Debt Securities	179	37
Total interest income	**4,509**	**5,561**
Interest expense		
Deposits from banks	(3)	(14)
Deposits from customers	(777)	(1,249)
Total interest expense	(780)	(1,263)
Net interest income	**3,729**	**4,298**

9. Net fee and commission income

	2020 £'000	2019 £'000
Major Service Lines		
Remittances	244	286
Account charges	300	366
Commission on Loans and Advances	226	370
Total fee and commission income from contracts with customers	**769**	**1,023**
Fee and commission expense	(167)	(163)
Net fee and commission income	**602**	**860**

Net fee and commission income was all derived from retail banking customer fees for both 2020 and 2019.

10. Trading income and Other Operating Income

Trading Income	2020 £'000	2019 £'000
Dividends from Visa Shares	18	13
Profit on sale of loans to related party	-	60
Net foreign exchange gain	131	110
Total trading income	**149**	**183**

Other Operating Income

	2020 £'000	2019 £'000
"A" preference shares issued by Visa	739	-
Other income	4	11
Total other operating income	**743**	**11**

Visa made "Conversion Adjustments" to the Class A Common Equivalent Numbers separately for the B and C Series Preferred Stock. On the deposit date, Visa's transfer agent, EQ Shareowner Services, deposited Series A Preferred Stock as stock dividend proportional to the release amounts into the account for the stockholders based on their ownership as of the record date.

As described in the Certificates of Designations, the number of shares of Series A Preferred Stock issued to each holder was equal to the Liability Coverage Reduction Amount divided by the number of shares of the applicable series of Preferred Stock then outstanding divided by the per-share Fair Market Value of the Class A Common Stock as of June 21, 2020, divided by 100. After the issuance of Series A Preferred Stock, the Class A Common Equivalent Numbers for each series of Preferred Stock were commensurately reduced to reflect the Conversion Adjustments that took place.

As a result of these transactions TBUK was issue as a stock dividend 47 Visa A preference shares on September 24, 2020. These shares were valued at GBP 739K using the Visa common stock share prices and booked as other operating income. From September 24, 2020 any change in the value of these shares is booked through other comprehensive income.

11. Personnel expenses

Personnel expenses during the year (including directors)

	2020 £'000	2019 £'000
Wages and salaries	2,427	2,403
Social security costs	243	219
Pension costs	96	77
Other staff costs	109	182
Total personnel expense	**2,875**	**2,881**

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

	2020 No.	2019 No.
Commercial banking activities	78	86

The number of employees at 31 December, 2020 was 66.

Directors' remuneration during the year consisted of:

	2020 £'000	2019 £'000
Emoluments	386	345

The emoluments of the highest paid director were £159,897 (2019: £160,000). Total pensions contributions for the director and the pension contribution for the highest paid director were £ 3,504 and £ 1,752 respectively (2019: £ 1581 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

	2020	2019
	£'000	£'000
Impairment charge for the year	(34)	(55)
Recoveries	-	-
Net impairment charge	**(34)**	**(55)**

13. Loss on ordinary activities before taxation

	2020	2019
Loss is stated after charging:	£'000	£'000
Foreign currency gains	(131)	(110)
Branch Leases with less than 12 months maturity	24	42
Depreciation and amortisation		
Property and equipment	449	454
Intangible fixed assets	230	227
Fees payable to the Bank's auditor		
Audit of the Bank's annual accounts	154	118
Total	**726**	**731**

14. Income Taxes

	2020	2019
	£'000	£'000
Tax paid in respect of current year	-	-
Tax receivable in respect of prior years	-	206
United Kingdom corporation tax at 19.00% (2018: 19.00%) based on taxable profit	-	-
Current taxation asset	-	206
United Kingdom corporation tax at 19.00% (2018: 19.00%) based on taxable profit	-	-
Adjustment in respect of prior years	-	-
Total current tax	-	-
Deferred tax		
Current year movement	116	201

Deferred tax has been calculated at 19% as this is the enacted rate for the period when the timing difference is expected to reverse.

On 3 March 2021 it was announced that the UK corporation tax rate would increase from 19% to 25% from 1 April 2023. This is not enacted at the balance sheet date but will result in an increase in the carrying value of deferred tax in the future.

Notes to the accounts
For the year ended 31 December 2020

The current tax charge for the year can be reconciled to the standard rate of corporation tax at 19.00% (2019: 19.00%) as explained below:

Current Tax:	**2020** **£'000**	**2019** **£'000**
(Loss) / Profit on ordinary activities before tax	(530)	(936)
Tax at 19.00% (2019: 19.00%) thereon	(101)	(178)
Depreciation lower/(in excess) of capital allowances	41	98
Rate variance between deferred tax asset and current tax	-	5
Non-taxable unrealised income items	(143)	-
Allowable transitional expenses from prior years	(2)	-
Prior Year Tax Adjustment	(31)	-
Increase in deferred tax asset on current year tax losses	236	75
Total current tax charge	-	-
Deferred tax:		
Effect of rate change in deferred tax, 2020 - 19% (2019 - 17%)	8	-
Current year movement	108	201
Total Deferred Tax Credit	**116**	**201**
Income tax credit for the year	**116**	**201**

15. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:	**2020** **£'000**	**2019** **£'000**
Cash in hand	494	695
Deposits at the Bank of England	28,227	37,728
Deposits with other banks payable on demand	19,578	9,259
Deposits with other banks payable within three months	26,797	29,489
ECL Allowance	(23)	(79)
	75,073	77,092

All gross exposures in cash and cash equivalents are in Stage 1 exposures both in 2019 and 2020.

Included within cash and cash equivalents is an amount of £3,236,886 in respect of Group companies (2019: £355,446). The interest received from Group companies during the year was £15,984 (2019: £44,056).

Geographical analysis of cash and cash equivalents is as follows:

	2020 **£'000**	**2019** **£'000**
UK		
- Cash	494	695
- Deposits with Bank of England	28,227	37,728
- On current account	3,090	2,426
- On deposit account in money market lending	-	4,865
Outside UK:		
- On current account	16,489	6,833
- Money Market Lending	26,774	24,545
	75,073	**77,092**

By Credit Rating	2020 £'000	2019 £'000
Cash	494	695
AA- to AA+	48,682	47,948
A- to A+	5,854	-
BB	2,927	-
B	13,879	28,172
Not rated	3,237	277
Total	**75,073**	**77,092**

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 2020 £'000

Financial Assets	Note	FVOCI– equity instruments	Amortised Cost	Total carrying amount
Cash and cash equivalents	15	-	75,073	75,073
Loans and advances to banks	17	-	14,096	14,096
Loans and advances to customers	18	-	81,555	81,555
Investment securities – debt	20	-	-	-
Investment securities –equity	20	1,131	-	1,131
Total financial assets		**1,131**	**170,724**	**171,855**
Financial Liabilities	**Note**			
Deposits from banks	24	-	9,757	9,757
Deposits from customers	25	-	145,462	145,462
Derivative Liabilities	30	-	-	-
Total financial liabilities		**-**	**155,219**	**155,219**

31 December 2019 £'000

Financial Assets	Note	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**

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

	2020	2019
	£'000	£'000
Loans to Turkish banks original maturity less than and equal to 1 year	900	5,758
Loans to Turkish banks original maturity more than 1 year	301	-
Bonds with original maturity less than and equal to 1 year	12,942	-
Loss allowance	(47)	(20)
	14,096	5,738

18. Loans and advances to customers

	2020	2019
	£'000	£'000
Loans are repayable as follows:		
On demand	4,039	5,227
Within three months	8,783	2,620
Between three months and one year	12,372	11,625
Between one and five years	52,596	54,688
Five years or more	3,940	2,602
ECL Allowance		
Specific	(35)	(35)
Collective	(140)	(79)
	81,555	76,648

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 £5,672,402 at the year-end (2019: £6,077,532). Such loans are subject to Stage 3 impairment.

Loans and advances to customers includes £ 2,963,310 (2019: £ 4,384,935) 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:

	2020				
	Fixed Rate Loan		Floating Rate Loan		Total
		£'000		£'000	£'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	3,921	118	4,039
Fixed term					
- Retail	382	-	56,729	35	57,146
- Corporation	500	-	17,633	2,412	20,546
	882	-	78,283	2,566	81,731
ECL Allowance	-	-	(110)	(66)	(176)
	882	0	78,173	2,500	81,555

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For the year ended 31 December 2020

	2019				
	Fixed Rate Loan		Floating Rate Loan		Total
		£'000		£'000	£'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

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

	2020 £'000				2019 £'000			
	GBP	USD	EURO	Total	GBP	USD	EURO	Total
UK	45,210	-	-	45,210	40,848	-	-	40,848
Non UK								
- Turkey	30,952	3,767	-	34,719	32,505	1,504	-	34,009
- Others	1,625	-	-	1,625	1,791	-	-	1,791
Total	**77,788**	**3,767**	**0**	**81,555**	**75,144**	**1,504**	**-**	**76,648**

19. Provisions for impairment losses

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

Loss allowance	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	**145**	**-**	**67**	**213**	**112**	**-**	**45**	**158**
Net re-measurement of loss allowance	-	-	39	39	-	-	-	-
Derecognition of loans and advances	(141)	-	0	(141)	(29)	-	-	(29)
Changes in model/risk parameters	(3)	-	54	51	-	-	22	22
New Financial Assets	84	-	0	84	62	-	-	62
Balance at 31 December	**86**	**-**	**161**	**246**	**145**	**-**	**67**	**213**

The movement in the ECL provision by asset class is provided below;

Amounts expressed in GBP'000	**2020**	**2019**	**Change**
Cash and Cash Equivalents	24	78	-54
Loans to banks	47	20	27
Loans to Large Corporates	9	0	9
Loans to customers	163	88	75
Commitments	3	26	-23
Total ECL	**246**	**212**	**34**

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

The summary of the key probability of default and loss given default assumptions compared to 2019 are as follows;

2020 **Sensitivity Analysis**	**Probability of Default For Loans**	**Collateral Stress**	**ECL provision**	**Scenario Weighting**	**Weighted ECL Provision Base Case**
Better Case	1.25%	5%	133,914	5%	6,696
Base Case	1.75%	15%	134,323	75%	100,742
Worst Case	2.25%	40%	685,841	20%	137,168
Total ECL Provision				**100%**	**244,606**

2019 **Sensitivity Analysis**	**Probability of Default For Loans**	**Collateral Stress**	**ECL provision**	**Scenario Weighting**	**Weighted ECL Provision Base Case**
Better Case	0.50%	5%	151,373	10%	15,137
Base Case	1.00%	15%	168,994	80%	135,196
Worst Case	1.50%	36%	621,522	10%	62,152
Total ECL Provision				**100%**	**212,485**

The ECL analysis for exposures secured by property is as follows, excluding cash backed loans and unsecured loans.

LTV Band	**Exposure**	**Average LTV**	**ECL Total**
Less than 50%	38,714	35%	-
50% to 59%	27,529	54%	-
60% to 69%	9,616	62%	12
70% to 79%	1,021	73%	1
80% to 89%	1,613	82%	99
Grand Total	78,493	44%	112

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 above and in Note 6.

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

	2020	2019
	Share in Visa Inc.	Share in Visa Inc.
	£'000	£'000
Share in Visa Inc. / Visa Europe	1,131	683

	2020	2019
	£'000	£'000
Repayable:		
3 to 12 months	-	-
Between one and five years	-	-
Five years or more	1,131	683
	1,131	683

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.

In 2020, Visa made "Conversion Adjustments" to the Class A Common Equivalent Numbers separately for the B and C Series Preferred Stock. On the deposit date, Visa's transfer agent, EQ Shareowner Services, deposited Series A Preferred Stock proportional to the release amounts into the account for the stockholders based on their ownership as of the record date.

As described in the Certificates of Designations, the number of shares of Series A Preferred Stock issued to each holder was equal to the Liability Coverage Reduction Amount divided by the number of shares of the applicable series of Preferred Stock then outstanding divided by the per-share Fair Market Value of the Class A Common Stock as of June 21, 2020, divided by 100. After the issuance of Series A Preferred Stock, the Class A Common Equivalent Numbers for each series of Preferred Stock were commensurately reduced to reflect the Conversion Adjustments that took place. As a result TBUK holds the following shares in Visa

47 "A" Preference shares valued at GBP 739K at the time of issuance on September 24, 2021

743 "B" Preference shares valued at GBP 325 at the time of the original transaction in 2016.

Analysis by currency of origin is as follows:

	2020		2019	
Origin of investment securities	**USD**	**Total**	**USD**	**Total**
	$'000	**£'000**	**$'000**	**£'000**
Europe	-	-	-	-
Turkey	-	-	-	-
USA	1,546	1,131	902	683
Total	**1,546**	**1,131**	**902**	**683**

Notes to the accounts
For the year ended 31 December 2020

21. Intangible fixed assets

	Computer Software £'000
Cost	
At 1 January 2020	3,677
Additions	16
Disposals	
At 31 December 2020	3,693
Amortisation	
At 1 January 2020	2,396
Charge for the year	230
Disposals	
At 31 December 2020	2,626
Net book value	
At 31 December 2020	1,067
At 31 December 2019	1,280

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.

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 1 January 2020	**7,966**	**378**	**399**	**2,895**	**11,638**
Additions				26	26
Disposals		(156)			(156)
Revaluation	(436)				(436)
At 31 December 2020	**7,530**	**222**	**399**	**2,921**	**11,072**
Depreciation					
At 1 January 2020	**321**	**108**	**202**	**2,545**	**3,176**
Charge for the year	154	115	66	114	**449**
Disposals		(156)			(156)
At 31 December 2020	**475**	**68**	**268**	**2,659**	**3,470**
Net book value					
At 31 December 2020	**7,055**	**154**	**132**	**262**	**7,602**
At 31 December 2019	**7,645**	**269**	**198**	**350**	**8,461**

The land and buildings are occupied by the Bank for its own activities. Freehold land and buildings are revalued to fair value as at December 2020. The last full 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. 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. Due to the potential effects of Covid-19 the Bank decided to get a desk top valuation update from the same chartered surveyor which resulted in a reduction in net book value of £ 436,046 which has been reflected in these financial statements.

The hierarchy of the fair value measurement is Level 3.

The carrying value of freehold buildings if they were carried at historical cost would be £ 2,157,528 (net of depreciation). It is intended to next revalue these assets as at 31 December 2022.

The bank leased three of its branches on a lease terms longer than 12 months in 2019. Two of these branches have been closed in 2020 and therefore there is only one lease contract remaining with a length of contract of four years and three months. All these three leases were 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 had one branch on a short lease less than 12 months in 2019 and in the first half of 2020 and this was expensed directly to the profit and loss. This branch was also closed in June 2020.

23. Other assets

	2020 £'000	2019 £'000
Items in the course of collection	376	234
Prepayments	477	489
Other assets	339	428
	1,193	**1,151**

24. Deposits from banks

	2020 £'000	2019 £'000
Deposits from banks are repayable as follows:		
On demand		
- Group	8,837	3,412
- Other	920	906
	9,757	4,318

The interest paid to Group companies during the year was £ 3,204 (2019: £13,529). All bank deposits mature the next day.

Geographical analysis of deposit by banks is as follows:

	2020 £'000	2019 £'000
In UK:		
On current account	-	-
Outside UK:		
On current account	9,757	4,318
	9,757	4,318

25. Deposits from customers

	2020 £'000	2019 £'000
Customer deposits are repayable as follows:		
On demand	84,302	75,641
Within three months	28,351	31,099
Between three months and one year	28,550	27,368
Between one year and five years	4,259	4,488
	145,462	138,596

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

	2020 £'000 Fixed rate interest	2020 £'000 Floating rate interest	2020 £'000 Total	2019 £'000 Fixed rate interest	2019 £'000 Floating rate interest	2019 £'000 Total
Current account	-	60,875	60,875	-	46,040	46,040
Deposit account	-	23,427	23,427	-	29,602	29,602
Fixed deposit	61,160	-	61,160	62,955	-	62,955
	61,160	84,302	145,462	62,955	75,641	138,596

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

	2020 GBP £'000	2020 USD £'000	2020 EUR £'000	2020 TRY £'000	2020 Total £'000	2019 GBP £'000	2019 USD £'000	2019 EUR £'000	2019 TRY £'000	2019 Total £'000
UK	38,292	2,068	974	241	41,575	38,227	2,294	724	308	41,553
Turkey	38,573	25,927	6,654	1	71,155	34,384	22,721	5,232	5	62,342
TRNC	24,563	3,174	4,496	0	32,232	25,551	2,849	5,398	61	33,859
Others	416	3	78	2	499	456	126	257	2	842
Total	101,844	31,172	12,201	244	145,462	98,618	27,990	11,612	377	138,596

TRNC is the Turkish Republic of Northern Cyprus

26. Lease liabilities and other liabilities

Other Liabilities	**2020 £'000**	**2019 £'000**
Amounts owed to Group companies	41	38
Other taxes and social security costs	72	68
Deferred income	320	658
Items in the course of transmission	16	11
Other liabilities	592	671
Total Other Liabilities	**1,041**	**1,446**

Lease Liabilities	**2020 £'000**	**2019 £'000**
Equipment	140	212
Branch Network	155	272
Total	**295**	**484**

	2020			2019
	Branch Network	**Equipment**	**Total**	**Total**
	£'000	**£'000**	**£'000**	**£'001**
Short Term	35	72	107	190
Long Term	120	68	188	295
Total	**155**	**140**	**295**	**484**

27. Deferred tax liabilities

Deferred Tax Liabilities £'000	**Revaluation of land and buildings**	**Fair valuation of Visa shares**	**Other short term timing differences**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1.1.2019	**241**	**30**	**103**	**374**
Charge (credit) to income	(26)		(100)	(126)
Charge (credit) to comprehensive income	(94)	35		(59)
At 31.12.2019	**121**	**65**	**3**	**189**
Charge (credit) to income	(29)	-	213	184
Charge (credit) to comprehensive income	(92)	11		(81)
At 31.12.2020	**-**	**76**	**216**	**292**

Deferred Tax Assets £'000	**Deferred tax on tax losses**
	£'000
At 1.1.2019	-
Credit (Charge) to income	75
Credit (Charge) to comprehensive income	-
At 31.12.2019	**75**
Credit (Charge) to income	301
Credit (Charge) to comprehensive income	-
At 31.12.2020	**376**

Deferred tax asset and liabilities have been calculated at 19% (2019:17%) of the timing difference. The effect of the rate change from 17% to 19% has been to increase deferred tax asset and deferred tax liability by £ 8K and £ 22K respectively.

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, the deferred tax asset and liability for the year ended December 31, 2019 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	
	2020	**2019**
	£'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.

	2020	**2019**
	£'000	**£'000**
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	-	-
Less than one year	8,332	2,871
	8,332	2,871

30. Assets and liabilities in foreign currencies

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

	2020	**2019**
	£'000	**£'000**
Assets	48,592	43,620
Liabilities	47,596	43,187

There were no open foreign exchange swaps as at 31 December 2020 (2019: £nil).

31. Transactions with directors and managers

As at 31 December 2020 £10,810 was outstanding by way of loans to managers of the Bank (or persons connected with them) (2019:£29,355). During the year, £20,442 (2019: £12,891) was paid back and £1,897 drawn by the managers (or persons connected to them) (2019: £42,246). There were no transactions with parties related to directors (2019: £31,038). 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:

	2020	2019
	£'000	£'000
Placements with group companies	3,237	355
Deposits from group companies	8,837	3,412
Sales of loans to group companies	4,960	2,567
Interest received from group companies	16	44
Interest paid to group companies	3	14
Charges to Group Companies	0	38

34. Risk management framework

The Board of Directors is responsible for establishing and authorising the business strategies and policies of the Bank. In doing so the Board will determine a risk appetite which sets the parameters of risk that it finds acceptable in pursuit of implementing the strategy. This is set out in the Bank's Risk Appetite Statement. The Board has a Committee dedicated to identify, review and monitor all risk matters: the Board Risk Committee. The Risk Department provides the secretary. To ensure that a risk culture is embedded within the Bank there is an Executive Risk Committee, chaired by the Chief Executive and comprises the Bank's main risk owners, business unit managers and the Chief Risk Officer. This Committee meets monthly to consider risk reports and effect the approved policies and procedures and provide recommendations to the Board Risk Committee.

The Risk Management framework covers all type of risk. As part of the overall framework for risk governance, it guides the firm in its business activities, risk-taking and risk management. A Risk Appetite Statement has been considered and approved by the Board. This sets out the overarching parameters within which the Executive can operate with particular reference to the following ten Core Risk categories:

Risk Type	TBUK Risk Appetite	Risk Owner
Strategic Business Risk	Low	CEO
Credit Risk	Low to Medium	Head of Credit
Credit Concentration Risk	Medium	Head of Credit
Liquidity Risk	Low	Head of Treasury
Market Risk	Low	Head of Treasury
Operational Risk - General	Low	Chief Risk Officer
Operational Risk - IT & Systems	Low	Head of IT
Operational Risk - Personnel	Medium	Head of HR
Financial Crime	Low	MLRO
Regulatory & Conduct	Low	Head of Compliance

Risk Identification

The Board Risk Committee has responsibility to the Board to ensure that systems are in place to properly identify risks and also has the responsibility to identify emerging risks.

The ethos of embedded risk management is to ensure that every member of staff is aware of their responsibilities in ensuring that the policies and procedures of the Bank are maintained through the Policy Hub and the control culture in managing risk is robust and in compliance at all times with established reporting procedures being met in accordance with the Bank's requirements.

The Bank uses a Bank wide Risk Register as the main tool to aid in the identification, and control of risks. Any previously unidentified risks in existing services, processes or procedures in branches or operational or administrative departments of Head Office are added to the Risk Register as they are detected by the Risk Owners. Risk owners report monthly to the Executive Risk Committee as per the monitoring and escalation procedures. Any non-compliance with the Bank's Policies and Procedures identified by Internal Audit are reported to the Board through the Audit Committee. The Audit Committee reviews the findings the management response and the outcomes.

The Risk Register should be formally assessed annually on a Bank wide basis to supplement the ongoing control monitoring. This should consider new breaches, gaps and vulnerabilities and other risks and control issues that may not have been previously identified by Risk Owners.

Risks involved in new products, services, processes or procedures are identified and risk-assessed in accordance with the Business and Product Development Policy. This follows the three lines of defence model for any new or amended products, and must undergo a process of sign off in accordance with the template attached to the Policy.

Risk Measurement / Assessment

The Risk Register is maintained by the Risk Department. Risks are classified in two categories:

- Core Risks: The main risk types
- Sub Risks: Identified risks within the Core risks

Identified risks and the agreed monitoring controls are assessed and a rating applied to each individual risk on a scale of 1-5 based on likelihood and a scale of 1-5 based on impact (5 representing a higher likelihood / impact) for both Inherent and Residual risks. These are factored together and used to calculate an expected residual loss amount which is then compared to the firm's risk appetite and classified into a RAG (Red, Amber, and Green) "traffic light" system. An overall risk profile is produced through the Risk KRI report showing appetite status of Core Risks.

The summary of these risks and any changes in the assessment of sub risks are reported to the Board Risk Committee. The Risk Register records the risks inherent in each aspect of the Bank's business and the controls necessary to manage such risks. The risks are grouped under Core Risk Categories noted earlier. Considering the relatively small size of the Bank risk owners may be in the first or second line of defence.

The Core Risk Owners and the Risk Department assess the residual risk on a yearly basis (or as frequently as required) and approve the assessment once the residual risk level is agreed. If any weaknesses are identified in the control and executions, plans are put in place to enhance ineffective controls. Management Risk Committee monitors this, and material changes are escalated to the Board Risk Committee.

Internal Audit challenges these assessments during their routine audit of each business area and during their annual review of Risk and of Compliance, taking into consideration any changes in events and outside influence.

Risk Control Framework

The bank utilises the three lines of defence model for organising its activities.

The Bank applies the model in the following manner:

- Senior Business and Function managers are the first line of defence in TBUK's Control Management Framework and in most cases are the Risk Owners. These individuals own the responsibility and accountability for identifying and managing day to day operational risks ensuring controls are properly designed and operate effectively. Senior Business and functional managers own the primary responsibility for implementing the Bank's Risk Management policy.
- As a second line of defence, the Risk, Compliance and Financial Crime/MLRO Functions, facilitate the implementation of effective risk management practices by monitoring the design and operations of controls in

the first line of defence, and assist the Risk Owners in identifying and reporting adequate risk information throughout the Bank

- As a third line of defence, the internal auditing function will, through a risk-based plan of audits, provide assurance to the organisation's Board and senior management, on how effective the organisation assesses and manages its risks, including the manner in which the first and second lines of defence operate and recommends enhancements on an ongoing basis. Changes to existing controls necessary to manage each element of the Bank's business are passed by the relevant line manager to the Executive Risk Committee.

Following the review and approval of recommendations to the Executive Risk Committee, the suggested controls should be incorporated into the Procedures Manual and/or related Handbooks and reports such changes, if of significant importance, to the Board Risk Committee.

In cases where risks identified and/or controls suggested require changes in and/or additions to the policy statements, these are submitted to the Board via the Board Risk Committee for consideration and approval.

Clear Levels of Responsibility

The Board has established two Committees with Terms of Reference approved by the Board:

- Audit Committee
- Board Risk Committee

In addition, there are four executive Committees concerned with different aspects of risk management. Terms of reference for these Committees are approved by the Board.

- Executive Committee ("EXCO")
- Executive Risk Committee ("ERC")
- Executive Credit Committee ("ECC")
- Assets and Liabilities Committee ("ALCO")
- Business Acceptance Committee ("BAC")

There are other internal functional committees established by management at a functional level which review for operational review matters, such as the IT Committee and HR Committee.

Staff with regulatory SMCR responsibilities has these responsibilities described in specific statements of responsibilities which are in addition to the job description.

All staff has clear job descriptions, and it is the responsibility of Human Resources and the line managers to ensure that these remain appropriate and are reviewed at least annually. HR is responsible for ensuring that an up to date Organisation Chart is maintained.

There are also appropriate delegated authorities set out covering:

- limits for credit exposures;
- levels of discretionary authorities;
- descriptions of areas of business covered and of nature of risks involved;
- setting budgets and targets;

Those operations which are not covered in the Procedures or exceptional transactions or transactions over and above the authorised limits have to be referred to CFO, General Manager or the CEO before execution who may issue approvals within authorities delegated by the CEO or the Board respectively.

Policies

The Board also sets policies to control and limit the risks entered into by the Bank and the risk appetite pertaining to that area is set out within the relevant policies. Policies are reviewed in accordance with the Policy Framework to ensure that policies are up to date; relevant to the Bank's business and that every member of staff has access to the current policies.

Procedures

Board policies are put into practice through Procedure documents which are approved by Executive Risk Committee unless Board Risk Committee also requests to approve particular Procedures. Implementation of Board policies is the responsibility of the Executive Committees listed above (and the Bank's EXCO). Ownership of the Procedures Manual lies with the various business and functions heads. The Head of Compliance is responsible for ensuring that Policies are maintained up to date and are relevant to the Bank's business practices. All changes to the Procedures Manuals have to be reviewed and updated by the respective business head and managers (as they are formally assigned on the Policy and Procedures Tracker). These individuals are required to make sure that those procedures relevant to their area of responsibility are up to date and always followed, and that all risks have been considered and included in Risk Register. The changes in Procedures of significant importance are to be advised to the Board Risk Committee for feedback to the Board as appropriate.

Handbooks

The Bank has two important handbooks**:**

- The Staff Handbook. Ownership lies with Human Resources who are responsible for ensuring that the Staff Handbook is regularly reviewed and updated, conforms to current law and that all staff are familiar with its content.

- The Compliance Manual is a guide to staff which contains compliance policies, procedures, controls and regulations/legislations and information for how the Bank complies with the regulatory and statutory rules as applicable to TBUK. The Head of Compliance is responsible to keep this document up to date to reflect the changes in the regulatory requirements and the Bank's obligations.

Key Documents and Plans

The following are key documents in relation to controlling and monitoring the risks to which the Bank is exposed. They are presented to the Board for review, challenge and approval on at least an annual basis.

- Strategic Plan – to assess the direction of the business and the resources required and includes the latest financial forecasts which acts as the base case for other documents;
- ICAAP – The Board's assessment of the appropriate level of capital for the business based on the Strategic Plan and including stress conditions;
- ILAAP –The Board's assessment of Liquidity Adequacy – to ensure that the Bank has adequate resources to meet its liabilities as they fall due, including in stressed conditions. This includes an assessment of the required liquidity buffer;
- LCFP – Liquidity Contingency Funding Plan – to plan and mitigate the effects of sudden retail deposit withdrawals;
- Recovery Plan – The Bank's contingency plans in the event that early warning indicators are triggered, and non-recovery plan actions are insufficient. This incorporates the LCFP.

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.

The risk appetite and risk management strategy of TBUK has not changed as a consequence of the introduction of IFRS 9 and ECL credit loss reporting. TBUK has very low appetite for taking on high LTV loan exposures and at origination since the maximum LTV is capped at 65% there is no expectation of an ECL loss at the outset. ECL requirements are therefore not incorporated into the allocation of economic capital.

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	2020				2019
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Total £'000
Loans and advances to banks at amortised cost	14,143	-	-	14,143	5,778
Loss allowance	(47)	-	-	(47)	(20)
Carrying amount	14,096	-	-	14,096	5,758
Loans and advances to customers at amortised cost	75,350	708	5,672	81,731	76,762
Loss allowance	(12)	-	(161)	(173)	(85)
Carrying amount	75,338	708	5,511	81,558	76,677
Equity investment securities at FVOCI	1,131	-	-	1,131	683
Loss allowance	-	-	-	-	-
Carrying amount	1,131	-	-	1,131	683
Off balance sheet Loan commitments	8,332	-	-	8,332	2,871
Loss allowance	(3)	-	-	(3)	(29)
Carrying amount	8,329	-	-	8,329	2,842

All gross exposures in relation to loans and advances to banks, equity instruments and loan commitments have been classed as Stage 1 exposures in both 2020 and 2019.

The analysis of the movement in the staging of exposures in relation to the gross exposures of loans and advance to customers totalling GBP 81,731K (2019: GBP 76,762K) is set out below.

Gross Exposure of Loans and Advances in GBP'000	Stage 1	Stage 2	Stage 3	Total
At 1.1.2020	69,862	823	6,078	76,763
Movement from Stage 1 into Stage 2	(1,668)	1,668	-	-
Movement from Stage 2 into Stage 3	-	(968)	968	-
Movement from Stage 3 into Stage 2	-	1,377	(1,377)	-
Movement from Stage 2 into Stage 1	2,199	(2,199)	-	-
New Loans and Advances	12,618	-	-	12,618
Loans and Advances Redeemed in 2020	(4,041)	(1)	(60)	(4,102)
Capital Repayments and other movements	(3,617)	6	63	(3,548)
At 31.12.2020	75,353	706	5,672	81,731

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 £172 million (2019: £161 million). Credit risk exposure of £82 million (2019: £76 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:	**2020**	**2019**
	£'000	**£'000**
Cash	729	777
Freehold	179,381	174,793
Guarantees	691	630
Total	**180,801**	**176,200**

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:-

	2020	**2020**	**2019**	**2019**
	Loans	**Collateral**	**Loans**	**Collateral £'000**
	£'000	**£'000**	**£'000**	
Loans & advances to customers	81,555	179,381	76,648	174,793

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	**2020**	**2019**
	£'000	**£'000**
Less than 50%	38,859	36,873
51-70%	39,424	37,627
71-90%	3,448	2,262
Over 90%	-	-
Total	**81,731**	**76,762**

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:-

	2020	**2019**
Corporate Bonds	**£'000**	**£'000**
A+	1,131	683
BBB/BBB+	-	-
BB	-	-
Unrated	-	-
Total	**1,131**	**683**

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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

	2020	**2019**
	£'000	**£'000**
Individuals	68,701	6,263
Real Estate	8,038	1,758
Hotels & Restaurants	1,304	1,744
Retail & Wholesale	1,727	3,091
Construction	1,734	139
Other Sectors	226	-
Total	81,731	76,762
Provision for impairment losses	(176)	(114)
Total	**81,555**	**76,648**

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.

2020

	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	75,096	81,731	14,143	1,131	8,332
At amortised cost					
Performing	75.096	76,058	14,143	1.131	8.332
Watch list	-	5,672	-	-	-
Impaired	-	-	-	-	-
Total Gross amount	**75,096**	**81,731**	**14,143**	**1,131**	**8,332**
Impairment provisions	(23)	(173)	(47)	-	(3)
Net carrying amount	**75,073**	**81,558**	**14,096**	**1,131**	**8,329**

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**

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 of £NIL 31 December 2019).

Notes to the accounts
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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**
	2020	**2019**
	£'000	**£'000**
US Dollar	1,025	432
Euro	(21)	18
Turkish Lira	(8)	(17)
Total	996	434

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.

A 10% movement in the exchange rates would cause GBP 100K gain or a loss for the Bank (2019: GBP 43K)

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 71 and 72 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2020, and 31 December 2019. 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.

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-20						
Cash and cash equivalents	75,073	48,276	26,797	-	-	-
Loans and advances to banks	14,096	-	8,157	5,638	301	-
Loans and advances to customers	81,555	3,864	8,783	12,372	52,596	3,940
Investment securities	1,131	-	-	-	-	1,131
Other assets	10,238	-	817	376	1,443	7,602
Total assets	**182,093**	**52,140**	**44,554**	**18,386**	**54,340**	**12,673**
Derivative liabilities	-	-	-	-	-	-
Deposits from banks	9,757	9,757	-	-	-	-
Deposits from customers	145,462	84,302	28,351	28,550	4,259	-
Other liabilities	1,599	258	464	108	512	257
Equity	25,275	-	-	-	-	25,275
Total liabilities and equity	**182,093**	**94,317**	**28,815**	**28,657**	**4,771**	**25,532**

£'000 31-Dec-19	Carrying amount	Demand	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years
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**

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 Board Risk 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.

Levelling disclosure

	Level 1	Level 2	Level 3	Total
	£'000	£0	£'000	£'000
31-Dec-20				
Financial Assets				
Equity Instruments FVOCI	-	752	379	1,131
Financial Liabilities				
Derivative liabilities				

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

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, 2020 with a 50% haircut applied to the share price in respect of "B" Preference shares. "A" preference shares are convertible into ordinary shares with no restrictions and therefore no haircut is applied to these shares. A 10% change in the haircut applied to the "B" preference shares , value would go up or down by £ 52K (2019:£ 136K).

There were no transfers of assets between levels during 2020 or 2021 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 no derivative assets or liabilities from foreign currency swap contracts.

Notes to the accounts
For the year ended 31 December 2020

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 2020 and 2019 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:

	2020	**2019**
	£'000	**£'000**
Share capital	12,000	12,000
Retained earnings	6,908	7,322
fair value reserve	316	618
Revaluation reserve	6,017	6,361
Less intangible assets	(1,067)	(1,280)
Total regulatory capital	**24,174**	**25,021**

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.

	2020	**2019**
	£'000	**£'000**
Capital surplus taking into account buffers	**3,892**	**5,466**

Risk weighted assets are:

	2020	**2019**
	£'000	**£'000**
Credit Risk	97,338	83,764
Operational Risk	10,775	10,650
FX Risk	1,054	468
Total risk weighted assets	**109,167**	**94,881**

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.

Notes to the accounts
For the year ended 31 December 2020

Analysis of financial assets and liabilities by measurement basis 2020

	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	-	75,073	-	75,073
Loans and advances to banks	-	14,096	-	14,096
Loans and advances to customers	-	81,555	-	81,555
Investment securities-OCI	1,131	-	-	1,131
Total financial assets	1,131	170,724	-	171,855
Total non-financial assets				10,238
Total assets				**182,093**
Liabilities				
Deposits by banks	-	9,757	-	9,757
Customer accounts	-	145,462	-	145,462
Derivative liabilities	-	-	-	-
Other liabilities	-	1,341	-	1,341
Deferred tax liabilities	-	258	-	258
Total financial liabilities	-	156,818	-	156,818
Equity				25,275
Total liabilities and equity				**182,093**

Notes to the accounts
For the year ended 31 December 2020

Analysis of financial assets and liabilities by measurement basis 2019

	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
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**

Notes to the accounts
For the year ended 31 December 2020

Interest rate sensitivity gap analysis 2020

Assets	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
Cash and cash equivalents	74,602	-	-	-	-	471	75,073
Loans and advances to banks	8,204	-	5,638	301	-	(47)	14,096
Loans and advances to customers	12,823	7,652	4,721	52,596	3,940	(175)	81,555
Investment securities	-	-	-	-	-	1,131	1,131
Other assets	-	-	-	-	-	10,238	10,238
	95,628	7,652	10,359	52,897	3,940	11,617	182,093
Liabilities							
Deposits by banks	9,757	-	-	-	-	-	4,318
Customer accounts	112,653	13,450	15,100	4,259	-	-	145,462
Other liabilities	722	108	-	512	257		1,599
Shareholders' funds	-	-	-	-	-	25,275	25,275
	123,132	13,557	15,100	4,771	257	25,275	182,093
Interest rate sensitivity gap	(27,503)	(5,906)	(4,741)	48,126	3,682	(13,658)	-
Cumulative gap	(27,503)	(33,409)	(38,150)	9,975	13,658	-	-

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 2020.

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 (2019: £0).

Interest rate sensitivity gap analysis 2019

Assets	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
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 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 £176,000 (2019: £115,000).

The weighted average interest rates are as follows: 0.44% (2019: 1.19%) for the money market placements with banks; 4.92% (2019: 4.80%) for the loans and advances to customers; 2.10% (2019:NIL) for debt securities with Banks; 0.04% (2019: 0.07%) for the deposits by banks; and 0.55% (2019: 1.28%) 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 £273,000. As at 31 December 2019 the average impact of 200 basis point movement in interest rates was £322,000. 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.

Post Balance Sheet Events

There are no significant post balance sheet events.