Turkish Bank (UK) Limited

Annual Report and Financial Statements

31 December 2021

Officers and Professional Advisors

Directors

I H Bortecene (Chairman)
M P Joyce
S Betteridge ** (resigned 30 June 2021)
John Coffey*** (appointed 1 July 2021)
J W Heales * (resigned 30 September 2021)
Alper Akdeniz (appointed 1 November 2021)
J Gillan
M Arig
Erhan Raif
Mustafa Kursat Asardag

* Chairman of the Audit Committee, merged in November 2021 under Board Audit and Risk Committee
** Chairman of the Risk Committee, merged in November 2021 under Board Audit and Risk Committee
*** Chairman of the Board Audit and Risk Committee, formed in November 2021

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

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Chairman's Statement

Dear Stakeholders,

I am writing this year's statement with mixed feelings. On the one hand, we are observing the end of the long pandemic era and enjoying a return to our normal lives. On the other, we are deeply saddened by the war in our continent. After a challenging 2020, last year has been a year of recovery in the global economy. The socio-economic damage caused by the Covid-19 pandemic globally has started to be repaired since the second quarter of the year with the rapid implementation of the vaccine, especially in developed countries. In this, United Kingdom, Turkey, North Cyprus and all the organisations of the Group have managed to pass this process with minimal damage.

Under these circumstances, global inflation has increased to the same levels as in 30-40 years ago due to supply and supply chain issues. The high trajectory in industrial commodity and food prices is likely to continue and an improvement is highly unlikely before the end of the year. In addition, the annual inflation rate; 5.4% in the United Kingdom, due to rising energy and food prices as of the end of 2021, was the highest since March 1992.

The slow recovery of the economies in 2021, the great resignation wave, supply chain disruptions were the main topics of last year and finally an old acquaintance who has come back to our lives; "inflation".

These headings manifested in different ways and all of us are feeling their consequences, but the simple reality is that the average consumer is severely hit by the increase in the cost of living. We are also observing a global movement in interest rates in an effort to control inflation.

Though most of us are excited to return to the offices, it seems like the practice of work from home will be there in the future especially for non-customer facing teams of the financial industries. The growing usage of digital banking everyday as well as Zoom meetings became the norm.

The latter half of 2020 saw the UK's average house price growth accelerating. This trend continued in 2021 and house price growth was 10.35%. Changed spending habits during the pandemic has also allowed prospective home buyers to save more money for larger deposits and thanks to these factors the market continues to look robust.

With 2021 ending we have also seen the completion of infrastructural work around Credit systems and controls, a long outstanding program that attracted a lot of resources, including valuable time of our senior management. This will be an area that we will be focusing on in 2022 where we expect the UK property market, and London in particular, to remain an attractive investment opportunity to both our resident and non-resident clients. The increased capability will therefore be critical in better serving the needs of our customers. In addition to this, I am happy to announce a new product offering to our commercial customers. This year we have launched POS services, a key service for our SME client base that was being demanded.

Although 2021 numbers do not reflect the success in profitability, we are happy to see by Q1 2022 that we are finally back on track for satisfactory profitability levels. It is a fact that increasing rates are fuelling TBUK's profitability as the bank's assets consist of mainly floating interest rates. The deferred activity in the mortgage market is also affecting the loan book positively and the activity level there has almost returned to pre-pandemic levels.

There were important changes at Board level here in Turkish Bank in 2021. The chair of Board Audit and Risk Committee is now John Coffey. John has a strong background in banking and is an expert on risk and performed as CRO for years in a multinational bank, holding roles in different countries. Alper Akdeniz joined the Board also to serve on the same committee; Alper worked for several years as audit partner for one of the big 4 and has vast audit experience in different sectors and geographies.

At this occasion I wish to thank both Steve Betteridge and Jeremy Heales who both served long years on Board before their well-earned retirements.

Our focus topics for 2022 are clear, we will concentrate on Operational Resilience, which has become more important than ever under the current developments. Financial resilience of our customers is a top priority, but our studies shows that there are strong signs our customer base will swiftly ride out the wave of challenges stemming from the end of pandemic related supports.

Chairman's Statement (Continued)

The war has proved to us how important it is for all of us to consider once again focusing on renewable energy sources. It has been a Group wide policy to adopt ESG principles for over 5 years now, and the recent events have served to validate our approach.

On news from the Group, we have launched T-Gate in 2021 and so far it is proving to be a great success. Strong engagement with a lot of UK solution partners is also very promising. I must thank the DIT, Innovate Finance, London and Partners and finally Rise by Barclays for their continuous interest and support to our efforts of building the bridge between UK financial markets and Turkish fintechs. T-Gate Istanbul, only 2 months after its official launch is closing the first quarter having reached 40% member occupancy. From mobile banking to robotic process automation, from cyber security to robo-advice, we are also happy to see a well-balanced curation of members.

One of the most pleasant surprises of 2021 came with an award. It was very motivating to see that the reputable International Banker has awarded TurkishBank Group, an award for best innovation in retail banking category in Turkey. Below you will see for the first time a new practice where attached to this report there are QR Codes that you can scan giving more details for certain headings for those who are interested. The news around the award and the interview of IB is one QR. As the story tells this award is related to the works around T-Gate and mostly for Open Investment, entrepreneurs club and investor club initiatives.

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 2022 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 8, 2022

International Banker Award Interview

International Banker Award

Strategic Report

For the year ended 31 December 2021

Turkish Bank (U.K.) Limited ("TBUK or the Bank") is a privately owned bank based in London and is part of the Turkish Banking Group, established 120 years ago.

Our core purpose is to serve the banking needs of the Turkish speaking community in Britain, as well as providing a gateway for investors from Turkey into Britain seeking superior banking services, in line with the Bank's history and values.

Strategic Objectives

The Bank's strategic priorities focus on:

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

We differentiate ourselves by concentrating on the Turkish speaking community's changing banking requirements in Britain where our expert knowledge, guidance and personalised approach offer us a competitive edge and our customers a distinct experience.

Review of the Year

The global pandemic of Covid-19 from early 2020 introduced widespread disruption to normal patterns of business across the world including the United Kingdom.

The Bank has taken immediate measures to adapt and implement Business Continuity Planning Strategies to ensure services to our customers remained uninterrupted. Measures have been put in place to monitor and support the health of our people, our customers and our operational resilience. We continued actively monitoring developments throughout 2021 and remain alert for changes in the conditions. Thankfully, with the success of the vaccination program and the lock down measures, the disruption caused by the pandemic has been gradually reduced and lock down measures have been eased accordingly towards the end of 2021.

The immediate effect of Covid-19 had been through reduced interest income due to a cut in the base rate first to 25 bps and then to 10bps which continued until the end of 2021 when it was raised to 25bps in December 2021. TBUK's high liquidity position with the Bank of England reserves resulted in loss of income due to the cut in the base rates.

Non-resident mortgage loans used LIBOR as the benchmark rate for repricing. Over the year the reduction in interest rates lowered the yields on these customer loans. All LIBOR related loans have been converted into variable rates linked to the Bank of England base rate.

The Bank continued to take measures to manage its cost of funding to counteract the potential effect of Covid-19 on its income stream. The measures taken to manage the Bank's cost base in 2020 contributed positively into the results of 2021.

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. In 2021, the Bank continued to benefit from this restructuring implemented in 2020 and reduced total expense from £ 5.7 Million to £ 4.9 Million. 2021 included Project related expenses of £109,000 as well as £398,000 other one-off costs compared to Project related expenses and one-off costs of £134,000 and £318,000 respectively in 2020.

The Bank benefited in 2021 from the Furlough scheme implemented by the government and claimed £21,616.

As a result, the Bank was able to record a small profit before tax (0.03%) as a percentage of its equity compared to a loss before tax ratio of 2.1% of equity in 2020.

Strategic Report (Continued)

Key performance indicators	**2021**	**2020**
Profit (Loss) before tax as % of equity	0.03%	(2.10) %
Equity as % of total assets	13.42%	13.86 %
Total operating expenses as a % of total operating income	99.78%	110.04 %

The Bank reported a profit before tax of £9,000 in 2021 compared to a loss before tax of £530,000 in 2020.

The total assets reached £190 Million (2020: £182 Million)

During 2021, the Bank continued to invest in its IT and digital capabilities and the Bank intends to keep pace with changes in the financial services industry.

Looking forward, these investments combined with the Bank's strong liquidity, robust capital base (see page 60) and an ongoing drive to improve customer service and efficiency, will position the Bank to take advantage of opportunities developing after the pandemic. These opportunities include the potential for enhanced cooperation between the markets in which the Turkish Bank Group operates.

Section 172(1) statement

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

A director of a company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to;

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

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

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

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

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

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

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

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

- **Long term development**

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

2020 had 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 which continues until the end of 2021 which affected TBUK interest income. Dynamic deposit pricing counteracted the effect on TBUK so that there was an increase in overall net interest income.

Strategic Report (Continued)

The Directors had reviewed the conditions and took a decision in 2020 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. The benefits of this initiative were felt in 2021 as well considering full year effect thus reducing costs further.

The Directors had an off-site strategy meeting in Istanbul in November 2021 where the strategy of TBUK has been discussed and agreed. The initiatives that will be considered for the long-term development of TBUK are; i) increasing cooperation and synergy with Group ii) focusing on business opportunities arising from Technology Desk and T-Gate, a platform for Fintechs operated by the Group where TBUK will structure its technology desk to effectively capture transactional banking opportunities around technology companies and Fintechs introduced through T-Gate iii) developing a Marketing Plan with a comprehensive study of the market and changing customer needs/profiles to develop propositions to suit to their needs, iv) enhancing effectiveness of Project and Change Management and v) reviewing TBUK Property Strategy considering effects of potential move to remote and flexible working.

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 Audit and Risk Committee.

- **People**

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

In order to protect the health of our employees during the pandemic directors continued to monitor 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, through our actions, 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 in 2022.

- **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 2021 our relationship with our customers continued to be dictated by the pandemic conditions which has been eased towards the end of 2021. 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.

- **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 2021, the Bank continued 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. The Bank also liaised with the regulators on matters including cyber security, operational resilience, LIBOR transition and climate change.

Strategic Report (Continued)

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 occasionally 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 been finalised and the effect on TBUK has been minimal given the conservative approach to lending, the high liquidity and the limited number of customers who have trading relationships with Europe.

Impact of Covid-19

The global pandemic Covid-19 caught the world by surprise and resulted in widespread disruption to normal patterns of business. The Bank has taken a number of measures in response to the pandemic as outlined above in the Strategic Report. In the second half of 2021, following the successful vaccination program of the government, lock down measures have gradually been eased and completely removed in 2022.

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 2021. This continued until the end of the year, however, through dynamic management of deposit pricing net interest income increased in 2021 compared to 2020. At the end of 2021 and beginning of 2022 the Bank of England base rate has been increasing from 10bps to 75bps as at the date of the audit report and there is expectation that rates may go up even further.

Whilst the lock down measures have been lifted by the UK Government, the impact of Covid-19 cannot be reliably estimated as there is still a risk that different variants may appear causing further disruptions. 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. The Bank has revised its 2021 ICAAP 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 there is no material uncertainty regarding the going concern assumption.

Impact of Russia-Ukraine Conflict

The Bank has considered the potential risks that may arise from the conflict that developed into a war between Russia and Ukraine. The Bank has no direct exposure to Russia, Ukraine or Belarus, also involved in the conflict, and has taken immediate action to comply with restrictions and sanctions on all these countries. Based on the current assessment of the Bank, no material impact is expected on the liquidity, capital position and the operations of the Bank.

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 taken 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.

Strategic Report (Continued)

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 has engaged with customers in full compliance with the regulatory conduct rules and replaced 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.

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.

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. As a key action item defined in the Bank's Climate Change Action Plan, TBUK has focused to assess the physical risks it is exposed to as follows.

Review of the potential physical risks on TBUKs Head Office and branches through the publicly available Flood Data published by the Environment Agency shows that physical risks (particularly flood risks) on the Bank's Head Office building and its two branches in North London have been assessed as Low.

TBUK has conducted a quantitative analysis on the potential impact of physical risks on the mortgage portfolio of TBUK under the loan book with a particular focus on flood risks and other relevant environmental risks. TBUK has analysed sensitivity of the collateral properties based on postcodes based on the publicly available Flood Data published by the Environment Agency. Accordingly, Credit Department have completed a study by collecting and analysing flood risk data on the existing collateral book with 410 properties charged to the Bank as security under outstanding mortgages for each postcode. For new originations, Climate Change related risks particularly flood risks are being reviewed as part of the credit application process through independent valuers' comments on the

Strategic Report (Continued)

flood risk sensitivity of the properties and sufficient building insurance cover is ensured to be in place to protect the banks collateral.

The purpose of the study is to assess What Proportion of the mortgage book is geographically located in areas that may be exposed to floods and similar severe weather events under climate change. TBUK will then use this data to take mitigating actions for such Physical Risks so that the potential impact of a decline in property values as a result of these risks do not impact its book. In the absence of complex exposures and vulnerable high-risk industries, TBUK will use these Risk Metrics as Portfolio Level Risk Measures as also recommended by the CFRF Risk Guidance for Retail Banks.

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 41%, which reaches a level of only 69% 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 39% 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 Board has approved the Bank's operational resilience risk framework as required by the regulations.

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. The Bank continues to invest to enhance its digital and IT infrastructure and is also reviewing its options to expand the current product portfolio 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 8, 2022

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

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2021. Certain disclosures are given in the Chairman's statement, Strategic Report and the financial statements and are incorporated here by cross-reference. Specifically, these incorporate the following disclosures:

Duties of Directors – please see **Section 172(1) statement** in the Strategic Report on page 5.

Financial performance review – please see page 4 and 5 of the Strategic Report

Future developments in the business – page 10 in the Strategic Report and page 2 and 3 in the Chairman's Statement

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 2021 is presented in the Strategic Report on page 5.

Principal risks and uncertainties

Information regarding the exposure of credit risk, interest rate and currency risk, liquidity and funding risk are included in the Strategic Report on page 7 to 9.

Future developments in the business

Information regarding the future developments in the business is included in the Strategic Report on page 10 and the Chairman's Statement on page 2 and 3

Going Concern

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

Further details regarding the Bank's 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

The Bank has considered the potential risks that may arise from the conflict that developed into a war between Russia and Ukraine. The Bank has no direct exposure to Russia, Ukraine or Belarus, also involved in the conflict, and has taken immediate action to comply with restrictions and sanctions on all these countries. Based on the current assessment of the Bank, no material impact is expected on the liquidity, capital position and the operations of the Bank. There are no other post balance sheet events.

Results and dividends

The loss for the year after taxation amounted to £29,000 (2020 – loss £414,000). The Directors do not recommend the payment of a dividend (2020 - £nil).

Directors' Report (Continued)

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 2021 (2020 £nil).

Directors and their interests

Directors

I H Bortecene (Chairman)
M P Joyce
S Betteridge ** (resigned 30 June 2021)
John Coffey*** (appointed 1 July 2021)
J W Heales * (resigned 30 September 2021)
Alper Akdeniz (appointed 1 November 2021)
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Mustafa Kursat Asardag

* Chairman of the Audit Committee, merged in November 2021 under Board Audit and Risk Committee
** Chairman of the Risk Committee, merged in November 2021 under Board Audit and Risk Committee
*** Chairman of the Board Audit and Risk Committee, formed in November 2021.

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.

Board Audit and Risk Committee

The Board Audit Committee and the Board Risk Committee were merged in November 2021 and the merged committee had two meetings in 2021 (2020: no meetings). The committee comprises three independent non-executive directors and one non-executive director, all of whom are experienced bankers or Subject Matter Experts in their respective fields.

Prior to the merger of the two committees, the Bank had an Audit Committee comprising three non-executive directors. The Committee met on three occasions in 2021 (2020: seven times). The Bank also had a Board Risk Committee comprising three independent non-executive directors who are all experienced bankers or Subject Matter Experts in their respective field. The Committee met on five occasions in 2021 (2020: six 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 8, 2022

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 8, 2022

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 2021 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 UK-adopted International Accounting Standards.

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 2021 and of the Bank's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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;
- Reviewing the directors' going concern assessment based on a range of scenarios and including stressed scenarios as approved by the board of directors;
- Enquiring with directors to understand the period of assessment considered by the directors on the Bank's financial performance, business operations, and liquidity and regulatory positions;
- Reviewing the Bank's most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Process which contain the results of the Bank's latest stress tests;
- Evaluating the key assumptions used in the scenarios indicated above and considered whether these appear reasonable;
- Assessing the Bank's capital utilization and consider whether the directors' conclusion that adequate capital headroom remains reasonable;
- Reading regulatory correspondence, reviewing minutes of meetings of the Audit Committee and the Board of Directors, and evaluating post balance sheet events to identify events of conditions that may impact the Bank's ability to continue as a going concern;
- Evaluated the adequacy and appropriateness of the director's disclosure included in the Annual Report and Financial Statements including considerations of potential impact as restrictions were lifted and government support scheme ended during the year.

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 Turkish Bank (UK) Limited's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized 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 matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, 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 **Loan loss provision- £ 55,000** **(2020: £175,800)** *[Refer to Notes 4; 6; 17 and 18 of the financial statements]* Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation. IFRS 9 requires the Bank to recognise expected credit losses ("ECL") on financial instruments which involve significant judgement and estimates. The most significant areas where we identified greater levels of management judgement are: • Model estimations - Inherently judgemental modelling is used to estimate ECLs, particularly in determining Probabilities of Default ("PD") and Loss Given Default ("LGD"), including collateral valuations. The LGD assumption used in the model is the key driver of the ECL and is therefore the most significant judgemental aspect of the Bank's ECL modelling approach. • Macroeconomic scenarios - The key economic variables and scenarios used in the model, particularly the severity and likelihood of the base and downturn economic scenarios that form part of the forward looking modelling of default rates and house price values and their impact on ECL.	Our audit procedures included, but were not limited to: We have assessed the design and implementation, and tested the operating effectiveness of the key controls operating in relation to loan underwriting, monitoring and provisioning controls in the Bank. In respect of the model used by management for their expected credit loss calculation under IFRS 9: • We considered the appropriateness of the methodology used by management and assessed reasonableness; • We tested the completeness and accuracy of the loan portfolio applied to the model; • We challenged the suitability and relevance of key assumptions applied in determining probability of default, macro-economic scenario weightings and loss given default; • We engaged and consulted with our credit modelling specialists the appropriateness of the inputs into the ECL model and assessed reasonableness; • We performed independent recalculations of the ECL provision, including sensitivity analysis and benchmarked PD and LGDs against other similar banks to assess the appropriateness and reasonableness of the ECL provision; • We assessed the methodology for identifying Significant Increase in Credit Risk; • We performed back-testing by testing a sample of loans transferring through SICR staging;

Key Audit Matter	How our scope addressed this matter
The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	• We have reviewed a sample of credit files across all SICR stages in order to verify the information used in the determination of the PD and LGD assumptions; and • 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 materially consistent with the requirements of IFRS 9, judgements and disclosures made were reasonable.

Our application of materiality

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

Overall materiality	£252 000.
How we determined it	Based on 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 £8 000 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 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 other information comprises the information included in the annual financial report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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's 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:

- Gaining an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates, and considering the risk of acts by the Bank which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA)
- Reviewing of minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such tax legislation, pension legislation, the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks 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 allowance for credit losses.

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;
  Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Reviewing accounting estimate for management bias when making significant judgements; and
- Introducing elements of unpredictability in audit 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, 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. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Bank's Board on 20 September 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ending 31 December 2018 to 31 December 2021.

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 and the Bank's members as a body for our audit work, for this report, or for the opinions we have formed.

Greg Simpson (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House, St Katharine's Way
London, E1W 1DD

April 8, 2022

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2021

	Notes	2021	2020
		£'000	£'000
Interest income	7	4,405	4,509
Interest expense	7	(393)	(780)
Net interest income	7	**4,012**	**3,729**
Fees and commissions receivable	8	813	769
Fees and commissions payable	8	(136)	(167)
Net fee and commission income		**677**	**602**
Net trading income	9	144	149
Other operating income	9	61	743
Total operating income		**4,895**	**5,223**
Impairment losses on financial instruments	11,18	153	(34)
Personnel expenses	10	(2,290)	(2,875)
Premises and equipment		(357)	(478)
Administrative expenses		(1,853)	(1,673)
Depreciation and amortisation	20,21	(537)	(679)
Other expenses		-	(8)
Total operating expenses		**(4,884)**	**(5,747)**
Finance Cost		(2)	(6)
Profit (Loss) before taxation	12	**9**	**(530)**
Income tax (expense) / credit	13	(38)	116
Loss after taxation		(29)	(414)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value		1	(291)
Deferred tax effect of net change in fair value of equity investments		(24)	(11)
Revaluation of properties		349	(436)
Deferred tax on property revaluation		(12)	92
Total other comprehensive income		314	(646)
Total comprehensive income		285	(1,060)

The notes on pages 25 to 62 form an integral part of these financial statements.
All activities relate to continuing operations.

Statement of Financial Position
For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Assets			
Cash and cash equivalents	14	59,279	75,073
Loans and advances to banks	16	39,954	14,096
Loans and advances to customers	17	78,062	81,555
Investment Securities	19	1,132	1,131
Other assets	22	2,909	1,193
Deferred tax assets	26	349	376
Property and equipment	21	7,619	7,602
Intangible assets	20	845	1,067
Total assets		**190,149**	**182,093**
Liabilities			
Deposits from banks	23	15,378	9,757
Deposits from customers	24	147,702	145,462
Deferred tax liabilities	26	338	292
Lease liabilities	25	187	295
Other liabilities	25	1,018	1046
Total Liabilities		**164,623**	**156,852**
Equity			
Called up share capital	27	12,000	12,000
Retained earnings		6,879	6,908
OCI reserve		293	316
Revaluation reserve		6,354	6,017
Total equity		**25,526**	**25,241**
Total liabilities and equity		**190,149**	**182,093**

The Board of Directors approved these financial statements and authorised for issue on April 8, 2022

Signed on behalf of the Board of Directors

M K Asardag
Company Secretary
Registered number 2643004
The notes on pages 25 to 62 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2021

	2021	2020
	£'000	£'000
Cash flows from operating activities		
Loss after taxation	(29)	(414)
Adjustments for:-		
Depreciation of property plant and equipment	309	449
Amortisation of intangible assets	228	230
Non-cash stock dividends received from Visa	-	(739)
Net Interest income	(4,012)	(3,729)
Interest paid on lease liabilities	2	6
Income tax expense / (credit)	38	(116)
	(3,466)	(4,313)
Changes in:-		
Loans and advances to customers	3,493	(4,907)
Loans and advances to banks	(25,858)	(8,358)
Other assets	(1,716)	163
Deposits from banks	5,621	5,439
Deposits from customers	2,240	6,866
Other liabilities	11	(400)
	(16,209)	(1,197)
Interest received	4,405	4,509
Interest paid	(393)	(780)
Net cash flows from operating activities	(15,663)	(1,781)
Cash flows from investing activities		
Acquisition of property and equipment	(15)	(26)
Acquisition of intangible assets	(6)	(16)
Net cash used in investing activities	(21)	(42)
Cash flows from financing activities		
Payment for lease liabilities	(108)	(190)
Interest Paid on lease liabilities	(2)	(6)
Net cash used in financing activities	(110)	(196)
Decrease in cash and cash equivalents	(15,794)	(2,019)
Cash and cash equivalents as at 1 January	75,073	77,092
Cash and cash equivalents as at 31 December	59,279	75,073

The carrying amounts of lease liabilities and the movement during the year is provided in Note 25. There are no non-cash movements in lease liabilities.

The notes on pages 25 to 62 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2021

	Called up Share Capital £'000	OCI Reserve £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2019	**12,000**	**618**	**6,361**	**7,322**	**26,301**
Loss for the year	-			(414)	(414)
Other comprehensive income / (expense)	-	(302)	(344)		(646)
Total comprehensive income	-	(302)	(344)	(414)	(1,060)
Balance as at 31 December 2020	**12,000**	**316**	**6,017**	**6,908**	**25,241**
Loss for the year	-			(29)	(29)
Other comprehensive income / (expense)	-	(23)	337		314
Total comprehensive income	-	(23)	337	(29)	284
Balance as at 31 December 2021	**12,000**	**293**	**6,354**	**6,879**	**25,526**

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 19.

Revaluation reserve relates to the revaluation of freehold land and buildings. Please see Note 21.

Retained earnings reserve relates to accumulated prior year profits which have not been distributed to shareholders.

The notes on pages 25 to 62 form an integral part of these financial statements.

Notes to the accounts
For the year ended 31 December 2021

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 8, 2022.

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 2022-2024 financial plans and forecasts. With the successful vaccination program implemented by the UK government the economy is returning to normal in the first Quarter of 2022 and the impact of Covid-19 is considered significantly lower even though these risks have not yet been eliminated at this stage. The Bank has considered its 2022 Budget in a prudent manner 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, 2021 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 2021 are included in the notes:

Notes to the accounts
For the year ended 31 December 2021

Judgements

Note 19: determining methodology for incorporating forward-looking information into the measurement of ECL, selection and approval of models used to measure ECL and the determination of significant increase in credit risk.

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 lowering of Covid-19 risks and the uncertainties brought about by the global pandemic following the successful vaccination program implemented by the government and the corresponding easing in lock down measures, 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 decreased from 1.75% to 1.50%. 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 5%, 75% and 20% in 2020 to 5%, 80% and 15% in 2021 respectively. This change did not have a significant effect on the ECL for retail customers.
- Stress on property valuations has been decreased to 36% for the worst-case macro scenario. This has reduced the ECL for retail customers by £2,000.

The PDs for exposures to banks are estimated based on the ratings of the institutions and the reduction in ECL for bank exposures result from lower default rates for the rated banks.

The total ECL provision as of December 31, 2021, amounts to £94,000 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.

2021	Cash and Cash Equivalents	Loans and advances to banks	Loans and advances to customers at amortised cost	Total
Gross Exposure	59,282	39,990	78,117	177,389
ECL Loss Allowance	(3)	(36)	(55)	(94)
Net Carrying amount	59,279	39,954	78,062	177,295

2020	Cash and Cash Equivalents	Loans and advances to banks	Loans and advances to customers at amortised cost	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

Notes to the accounts
For the year ended 31 December 2021

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 and Risk 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.

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

(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 £1,000.

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. Other operating income also includes net realisable gain from repossessed property used as collateral for loans. These are recognised as the net realisable gain after allowing for legal and selling costs of property

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b. Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances and deposits on the date on which they are settled. 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'.

Notes to the accounts
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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 significant increase in credit risk from the date of loan origination and include the following.

• Covenant breach

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 2-month period of satisfactory performance. Satisfactory performance means there has been no payment default and the exposure has operated within covenants.

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).

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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 obtain a desk top valuation update in 2020 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 Bank received a desk top valuation update in January 2022 as well from the same chartered surveyor which resulted in an increase in net book value of £ 348,954 which has been reflected in these financial statements.

m. 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.

n. Other Assets

Properties repossessed to recover receivable from loans and advances are classified as other assets and measured at the net realisable value after allowing for legal and selling costs of property

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.

Notes to the accounts
For the year ended 31 December 2021

7. Net interest income

	2021 £'000	2020 £'000
Interest income		
Cash and cash equivalents	207	336
Loans and advances to banks	426	147
Loans and advances to customers	3,557	3,847
Debt Securities	215	179
Total interest income	**4,405**	**4,509**
Interest expense		
Deposits from banks	-	(3)
Deposits from customers	(393)	(777)
Total interest expense	**(393)**	**(780)**
Net interest income	**4,012**	**3,729**

8. Net fee and commission income

	2021 £'000	2020 £'000
Major Service Lines		
Remittances	245	244
Account charges	296	300
Commission on Loans and Advances	272	226
Total fee and commission income from contracts with customers	**813**	**769**
Fee and commission expense	(136)	(167)
Net fee and commission income	**677**	**602**

Net fee and commission income was all derived from retail banking customer fees for both 2021 and 2020.

9. Trading income and Other Operating Income

Trading Income	2021 £'000	2020 £'000
Dividends from Visa Shares	30	18
Profit on sale of loans to related party	-	-
Net foreign exchange gain	114	131
Total trading income	**144**	**149**

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Other Operating Income	**2021**	**2020**
	£'000	**£'000**
"A" preference shares issued by Visa	-	739
Other Income	61	4
Total Other Operating Income	**61**	**743**

Visa made "Conversion Adjustments" to the Class A Common Equivalent Numbers separately for the B and C Series Preferred Stock in 2020. 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 given as a stock dividend 47 Visa A preference shares on September 24, 2020. These shares were valued at £739,000 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.

Other income in 2021 represents default interest recoverable from the repossession of a property collateral.

10. Personnel expenses

	2021	**2020**
	£'000	**£'000**
Personnel expenses during the year (including directors)		
Wages and salaries	1,950	2,427
Social security costs	211	243
Pension costs	77	96
Other staff costs	52	109
Total personnel expense	**2,290**	**2,875**

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

	2021	**2020**
	No.	**No.**
Commercial banking activities	52	78

The number of employees at 31 December, 2021 was 51.

Directors' remuneration during the year consisted of:	**2021**	**2020**
	£'000	**£'000**
Emoluments	367	386

The emoluments of the highest paid director were £ 162,000 (2020: £159,897). Total pensions contributions for the directors and the pension contribution for the highest paid director were £ 1,756 (2020: 3,504) and £ NIL (2020:1,752) respectively.

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

Notes to the accounts
For the year ended 31 December 2021

11. Impairment losses on cash equivalents, loans and advances

	2021	2020
	£'000	£'000
Impairment release (charge) for the year	153	(34)
Net impairment release (charge)	**153**	**(34)**

12. Loss on ordinary activities before taxation

	2021	2020
Loss is stated after charging:	£'000	£'000
Foreign currency gains	(114)	(131)
Branch Leases with less than 12 months maturity	-	24
Depreciation and amortisation		
Property and equipment	309	449
Intangible fixed assets	228	230
Fees payable to the Bank's auditor		
Audit of the Bank's annual accounts	138	154

13. Income Taxes

	2021	2020
	£'000	£'000
Deferred tax		
Current year movement	(38)	117

Deferred tax asset and liabilities have been calculated at 21.9% and 25% respectively of the temporary differences. Deferred tax has been calculated at 19% in 2020 as this was 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 now enacted at the balance sheet date and deferred tax assets and liabilities have been calculated depending on the expected realisation.

The current tax charge for the year can be reconciled to the standard rate of corporation tax at 19% (2020: 19.00%) as explained below:

	2021	2020
	£'000	£'000
Current Tax:		
Profit / (Loss) on ordinary activities before tax	9	(530)
Tax at 19.00% (2020: 19.00%) thereon	2	(101)
Depreciation lower/(in excess) of capital allowances	49	41
Non-taxable income items	(3)	(143)
Allowable transitional expenses from prior years	-	(2)
Prior Year Tax Adjustment	(26)	(31)
Increase (Decrease) in deferred tax asset on tax losses	(22)	236
Total current tax charge	-	-

Notes to the accounts
For the year ended 31 December 2021

	2021 £'000	2020 £'000
Deferred Tax:		
Effect of rate change in deferred tax, 2021 - 25% for deferred tax liabilities 21.9% for deferred tax assets (2020 - 19%)	30	9
Current year movement	(68)	108
Total Deferred Tax Credit (Charge)	**(38)**	**117**
Income tax credit (charge) for the year	**(38)**	**117**

14. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:	2021 £'000	2020 £'000
Cash	351	494
Deposits at the Bank of England	37,119	28,227
On demand	13,129	19,578
Within three months	8,683	26,797
ECL Allowance	(3)	(23)
	59,279	75,073

All gross exposures in cash and cash equivalents are in Stage 1 exposures both in 2020 and 2021.

Included within cash and cash equivalents is an amount of £24,723 in respect of Group companies (2020: £3,236,886). The interest received from Group companies during the year was £13,775 (2020: £15,984).

Geographical analysis of cash and cash equivalents is as follows:

	2021 £'000	2020 £'000
UK		
- Cash	351	494
- Deposits with Bank of England	37,119	28,227
- On current account	3,308	3,090
Outside UK:		
- On current account	9,822	16,489
- Money Market Lending	8,679	26,774
	59,279	**75,073**

By Credit Rating	2021 £'000	2020 £'000
Cash	351	494
AA- to AAA	51,124	48,682
BBB	-	5,854
BB	-	2,927
B	7,778	13,879
Not rated	26	3,237
Total	**59,279**	**75,073**

Notes to the accounts
For the year ended 31 December 2021

15. 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 2021 £'000

Financial Assets	Note	FVOCI– equity instruments	Amortised Cost	Total carrying amount
Cash and cash equivalents	14	-	59,279	59,279
Loans and advances to banks	16	-	39,954	39,954
Loans and advances to customers	17	-	78,062	78,062
Investment securities –equity	19	1,132	-	1,132
Total financial assets		**1,132**	**177,295**	**178,427**

Financial Liabilities	Note			
Deposits from banks	23	-	15,378	15,378
Deposits from customers	24	-	147,702	147,702
Total financial liabilities		**-**	**163,080**	**163,080**

31 December 2020 £'000

Financial Assets	Note	FVOCI– equity instruments	Amortised Cost	Total carrying amount
Cash and cash equivalents	14	-	75,073	75,073
Loans and advances to banks	16	-	14,096	14,096
Loans and advances to customers	17	-	81,555	81,555
Investment securities –equity	19	1,131	-	1,131
Total financial assets		**1,131**	**170,724**	**171,855**

Financial Liabilities	Note			
Deposits from banks	23	-	9,757	9,757
Deposits from customers	24	-	145,462	145,462
Total financial liabilities		**-**	**155,219**	**155,219**

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 exceptional. 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 at FVOCI.

16. Loans and advances to banks

	2021 £'000	2020 £'000
Loans to Turkish banks original maturity less than and equal to 1 year	28,594	900
Loans to Turkish banks original maturity more than 1 year	-	301
Bonds original maturity less than and equal to 1 year	11,396	12,942
Loss allowance	(36)	(47)
	39,954	14,096

Notes to the accounts
For the year ended 31 December 2021

17. Loans and advances to customers

	2021 £'000	2020 £'000
Loans are repayable as follows:		
On demand	3,112	4,039
Within three months	4,143	8,783
Between three months and one year	16,659	12,372
Between one and five years	49,377	52,596
Five years or more	4,826	3,940
ECL Allowance		
Specific	(35)	(35)
Collective	(20)	(140)
	78,062	81,555

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 £7,242,374 at the year-end (2020: £5,672,402). Such loans are subject to Stage 3 impairment.

Loans and advances to customers includes £ 7,183,366 (2020: £ 2,963,310) which has been in the watch list Stage 3 but no ECL provision was made against them due to low LTVs. The following information is given in respect of the nature and type of loans and advances to customers:

2021

	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	2,955	157	3,112
Fixed term					
- Retail	247	-	54,983	26	55,256
- Corporation	520	-	19,206	24	19,750
	767	-	77,143	207	78,118
ECL Allowance	-	-	-	(55)	(55)
	767	-	77,143	152	78,062

2020

	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	3,921	118	4,039
Fixed term					
- Retail	382	-	56,729	35	57,146
- Corporation	500	-	17,633	2,413	20,546
	882	-	78,283	2,566	81,731
ECL Allowance	-	-	(110)	(66)	(176)
	882	-	78,173	2,500	81,555

Notes to the accounts
For the year ended 31 December 2021

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

	2021 £'000				2020 £'000			
	GBP	USD	EURO	Total	GBP	USD	EURO	Total
UK	45,661	-	-	45,661	45,210	-	-	45,210
Non UK								
- Turkey	29,854	-	-	29,854	30,952	3,767	-	34,719
- Others	2,547	-	-	2,547	1,625	-	-	1,625
Total	78,062	-	-	78,062	77,788	3,767	-	81,555

18. Provisions for impairment losses

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

Loss allowance	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	**87**	-	**161**	**247**	**146**	-	**68**	**214**
Net re-measurement of loss allowance	-	-	(15)	(15)	-	-	39	39
Derecognition of loans and advances	(85)	-	(90)	(175)	(141)	-	-	(141)
Changes in model/risk parameters	-	-	(2)	(2)	(3)	-	54	51
New Financial Assets	39	-	-	39	84	-	-	84
Balance at 31 December	**40**	-	**54**	**94**	**86**	-	**161**	**247**

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

Amounts expressed in £'000	**2021**	**2020**	**Change**
Cash and Cash Equivalents	3	24	(21)
Loans to banks	36	47	(11)
Loans to Large Corporates	-	9	(9)
Loans to customers	55	164	(109)
Commitments	-	3	(3)
Total ECL	**94**	**247**	**(153)**

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).

Notes to the accounts
For the year ended 31 December 2021

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 2020 are as follows;

2021 **Sensitivity Analysis**	**Probability of Default For Loans**	**Collateral Stress**	**ECL provision**	**Scenario Weighting**	**Weighted ECL Provision Base Case**
Better Case	1.00%	5%	92,819	5%	4,641
Base Case	1.50%	15%	93,061	80%	74,449
Worst Case	2.00%	36%	97,236	15%	14,585
Total ECL Provision				**100%**	**93,675**

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**

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

	2021			2020		
LTV Band	**Exposure**	**Average LTV**	**ECL Total**	**Exposure**	**Average LTV**	**ECL Total**
Less than 50%	33,545	34%	-	38,714	35%	-
50% to 59%	24,649	53%	-	27,529	54%	-
60% to 69%	18,115	63%	-	9,616	62%	12
70% to 79%	1,017	75%	-	1,021	73%	1
%80 to %89	-	-	-	1,613	82%	99
Total	**77,327**	**44%**	-	**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.

19. Investment securities

	2021 Share in Visa Inc. £'000	2020 Share in Visa Inc. £'000
Preference Shares in Visa Inc. / Visa Europe	1,132	1,131

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 £325,000 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.

Notes to the accounts
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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 £739,000 at the time of issuance on September 24, 2020

743 "B" Preference shares valued at £325,000 at the time of the original transaction in 2016.

Analysis by currency of origin is as follows:

	2021		2020	
Origin of investment securities	**USD**	**Total**	**USD**	**Total**
	$'000	**£'000**	**$'000**	**£'000**
Europe	-	-	-	-
Turkey	-	-	-	-
USA	1,528	1,132	1,546	1,131
Total	**1,528**	**1,132**	**1,546**	**1,131**

20. Intangible fixed assets

Computer Software	**2021**	**2020**
	£'000	**£'000**
Cost		
At 1 January	3,693	3,677
Additions	6	16
Disposals	-	-
At 31 December	3,699	3,693
Amortisation		
At 1 January	2,626	2,396
Charge for the year	228	230
Disposals	-	-
At 31 December	2,854	2,626
Net book value		
At 31 December	845	1,067

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

Notes to the accounts
For the year ended 31 December 2021

21. Property and Equipment

2021	Freehold land and buildings	Right of Use Asssets Branch Network	Right of Use Asssets Lease Equipment	Fixtures, fittings and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost/Revaluation					
At 1 January 2021	**7,530**	**222**	**399**	**2,921**	**11,072**
Additions	-	-	-	15	15
Disposals	-	-	-	-	-
Revaluation	349	-	-	-	349
At 31 December 2021	**7,879**	**222**	**399**	**2,936**	**11,436**
Depreciation					
At 1 January 2021	**475**	**68**	**268**	**2,659**	**3,470**
Charge for the year	154	35	64	94	347
Disposals	-	-	-	-	-
At 31 December 2021	**629**	**103**	**332**	**2,753**	**3,817**
Net book value					
At 31 December 2021	**7,250**	**119**	**67**	**183**	**7,619**
At 31 December 2020	**7,055**	**154**	**132**	**262**	**7,602**

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 2021. 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 in December 2020 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 Bank received a desk top valuation update in January 2022 as well from the same chartered surveyor which resulted in an increase in net book value of £348,954 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 term 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 the first half of 2020 and this was expensed directly to the profit and loss. This branch was also closed in June 2020.

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For the year ended 31 December 2021

2020	Freehold land and buildings	Right of Use Asssets Branch Network	Right of Use Asssets 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	(130)
Disposals	-	(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**

22. Other assets

	2021	2020
	£'000	£'000
Items in the course of collection	349	376
Prepayments	395	477
Net realisable value of property repossessed	1,778	-
Other assets	387	340
	2,909	**1,193**

23. Deposits from banks

	2021 £'000	2020 £'000
Deposits from banks are repayable as follows:		
On demand		
- Group	14,446	8,837
- Non-Group Vostro Accounts	932	920
	15,378	9,757

Notes to the accounts
For the year ended 31 December 2021

The interest paid to Group companies during the year was £nil (2020: £3,204).

All bank deposits mature the next day. Geographical analysis of deposit by banks is as follows:

	2021 £'000	2020 £'000
In UK:		
On current account	-	-
Outside UK:		
On current account	15,378	9,757
	15,378	9,757

24. Deposits from customers

	2021 £'000	2020 £'000
Customer deposits are repayable as follows:		
On demand	95,391	84,302
Within three months	26,256	28,351
Between three months and one year	24,243	28,550
Between one year and five years	1,812	4,259
	147,702	145,462

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

	2021 £'000			2020 £'000		
	Fixed rate interest	Floating rate interest	Total	Fixed rate interest	Floating rate interest	Total
Current account	-	75,560	75,560	-	60,875	60,875
Deposit account	-	19,832	19,832	-	23,427	23,427
Fixed deposit	52,310	-	52,310	61,160	-	61,160
	52,310	95,392	147,702	61,160	84,302	145,462

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

	2021 £'000					2020 £'000				
	GBP £'000	USD £'000	EUR £'000	TRY £'000	Total £'000	GBP £'000	USD £'000	EUR £'000	TRY £'000	Total £'000
UK	38,156	2,759	1,600	117	42,632	38,292	2,068	974	241	41,575
Turkey	38,351	26,765	5,844	-	70,960	38,573	25,927	6,654	1	71,155
TRNC	25,314	2,578	5,236	-	33,128	24,563	3,174	4,496	-	32,232
Others	463	231	286	2	982	416	3	78	2	499
Total	102,284	32,333	12,966	119	147,702	101,844	31,172	12,201	244	145,462

TRNC is the Turkish Republic of Northern Cyprus

Notes to the accounts
For the year ended 31 December 2021

25. Lease liabilities and other liabilities

Other Liabilities	2021 £'000	2020 £'000
Amounts owed to Group companies	-	41
Other taxes and social security costs	65	72
Deferred income	378	320
Items in the course of transmission	14	16
Other liabilities	561	597
Total	**1,018**	**1,046**

Lease Liabilities	2021 £'000	2020 £'000
Equipment	67	140
Branch Network	120	155
Total	**187**	**295**

	Branch Network	Equipment	2021 Total	2020 Total
	£'000	£'000	£'000	£'001
Short Term	36	67	103	107
Long Term	84	-	84	188
Total	120	67	187	295

The carrying amounts of lease liabilities and the movement during the year are provided below. There are no non-cash movements in lease liabilities

Leased Liabilities	2021 £'000	2020 £'000
Opening Balance	**295**	**485**
Additions	-	-
Interest Charge	2	6
Payment	(110)	(196)
Closing Balance	**187**	**295**

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For the year ended 31 December 2021

26. 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 1.1.2020	**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**
Charge (credit) to income	-	-	11	11
Charge (credit) to comprehensive income	12	23	-	35
At 31.12.2021	**12**	**99**	**227**	**338**

Deferred Tax Assets £'000	Deferred tax on tax losses
	£'000
At 1.1.2020	75
Credit (Charge) to income	301
Credit (Charge) to comprehensive income	-
At 31.12.2020	**376**
Credit (Charge) to income	(27)
Credit (Charge) to comprehensive income	-
At 31.12.2021	**349**

As per the Finance Bill 2021, the government announced that the UK corporation tax would be increasing from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. The rate will be relevant for any temporary differences that reverse on or after this date. Deferred tax and liabilities have therefore been calculated based on the estimated time of reversal and therefore a hybrid rate has been used.

Deferred tax asset and liabilities have been calculated at 21.9% and 25% respectively (2020:19%) of the timing difference. The effect of the rate change from 19% to 21.9%-25% has been to increase deferred tax asset by £53,000 and the deferred tax liability by £93,000 respectively.

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

Notes to the accounts
For the year ended 31 December 2021

27. Called up share capital

	Called up, allotted and fully paid	
	2021	2020
	£'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.

28. 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.

	2021	2020
	£'000	£'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	-	-
Less than one year	4,783	8,332
	4,783	8,332

29. Assets and liabilities in foreign currencies

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

	2021	2020
	£'000	£'000
Assets	49,290	48,592
Liabilities	48,548	47,596

There were no open foreign exchange swaps as at 31 December 2021 (2020: £nil).

30. Transactions with directors and managers

As of 31 December 2021, £16,719 was outstanding by way of loans to managers of the Bank (or persons connected with them) (2020: £10,810). During the year, £10,810 (2020: £20,442) was paid back and £16.719 drawn by the managers (or persons connected to them) (2020: £1,897). There were no transactions with parties related to directors (2020: £nil). The transactions with related parties are on standard commercial terms.

31. 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.

32. Related party transactions

Transactions with senior managers and staff are described in Note 30. The only other related party transactions are described below. All the transactions below were at "arm's length" prices:

	2021	2020
	£'000	£'000
Placements with affiliated companies	25	3,237
Deposits from parent company	5,668	457
Deposits from affiliated companies	8,778	8,379
Sales of loans to affiliated companies	4,479	4,960
Interest received from affiliated companies	14	16
Interest paid to affiliated companies	-	3

33. Credit Risk

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.

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks at amortised cost	39,990	-	-	39,990	14,143
Loss allowance	(36)	-	-	(36)	(47)
Carrying amount	39,954	-	-	39,954	14,096
Loans and advances to customers at amortised cost	70,807	3,289	4,021	78,117	81,731
Loss allowance	(1)	(0.2)	(54)	(55)	(173)
Carrying amount	70,807	3,288	3,967	78,062	81,558
Debt investment securities at FVOCI	1,132	-	-	1,132	1131
Loss allowance	-	-	-	-	-
Carrying amount	1,132	-	-	1,132	1,131
Off balance sheet Loan commitments	4,783	-	-	4,783	8,332
Loss allowance	-	-	-	-	-
Carrying amount	4,783	-	-	4,783	8,329

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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 2021 and 2020.

The analysis of the movement in the staging of exposures in relation to the gross exposures of loans and advance to customers totalling £78,117,000 (2020: £81,731,000) is set out below.

Gross Exposure of Loans and Advances in £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1.1.2021	75,352	707	5,672	81,731
Movement from Stage 1 into Stage 2	(6,888)	6,888	-	-
Movement from Stage 2 into Stage 3	-	(5,003)	5,003	-
Movement from Stage 3 into Stage 2	-	1,208	(1,208)	-
Movement from Stage 2 into Stage 1	1,032	(1,032)	-	-
New Loans and Advances	11,727	-	-	11,727
Loans and Advances Redeemed in 2020	(10,799)	(7)	(647)	(11,453)
Capital Repayments and other movements	(2,267)	(42)	(122)	(2,431)
Loans derecognised in 2021	-	-	(1,457)	(1,457)
At 31.12.2021	**68,157**	**2,719**	**7,241**	**78,117**

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 £178 Million (2020: £172 Million). Credit risk exposure of £78 Million (2019: £82 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:	**2021**	**2020**
	£'000	**£'000**
Cash	675	729
Freehold	190,197	179,381
Guarantees	630	691
Total	**191,502**	**180,801**

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:-

	2021	**2021**	**2020**	**2020**
	Loans	**Collateral**	**Loans**	**Collateral**
	£'000	**£'000**	**£'000**	**£'000**
Loans & advances to customers	78,062	190,197	81,555	179,381

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.

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

LTV Ratio	**2021**	**2020**
	£'000	**£'000**
Less than 50%	44,758	38,859
51-70%	33,055	39,424
71-90%	304	3,448
Over 90%	-	-
Total	**78,117**	**81,731**

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

The loan to value ratio of lending for the portfolio in Stage 3 secured against property is as follows:-

LTV Ratio	**2021**	**2020**
	£'000	**£'000**
Less than 50%	2,860	6,300
51-70%	4,383	7,195
71-90%	-	-
Over 90%	-	-
Total	**7,242**	**13,495**

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

	2021	**2020**
	£'000	**£'000**
Individuals	67,019	68,701
Real Estate	6,725	8,038
Hotels & Restaurants	832	1,304
Retail & Wholesale	1,657	1,727
Construction	1,688	1,734
Other Sectors	196	226
Total	78,117	81,731
Provision for impairment losses	(55)	(176)
Total	**78,061**	**81,555**

Notes to the accounts
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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.

	2021				
	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	59,281	78,117	39,990	1,132	4,783
At amortised cost					
Performing	59,281	70,874	39,990	1,132	4,783
Watch list	-	7,242	-	-	-
Impaired	-	-	-	-	-
Total Gross amount	**59,281**	**78,117**	**39,990**	**1,132**	**4,783**
Impairment provisions	(3)	(55)	(36)	-	-
Net carrying amount	**59,279**	**78,062**	**39,954**	**1,132**	**4,783**

	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**

34. 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. 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.

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Currency of denomination	Net currency position	Net currency position
	2021	2020
	£'000	£'000
US Dollar	791	1,025
Euro	(45)	(21)
Turkish Lira	(4)	(8)
Total	742	996

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 £74,000 gain or a loss for the Bank (2020: £100,000)

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.

35. 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 61 and 62 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2021, and 31 December 2020. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

36. Liquidity risk

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

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Maturity analysis of assets and liabilities

The table below shows the remaining undiscounted 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-21						
Cash and cash equivalents	59,289	50,597	8,691	-	-	-
Loans and advances to banks	40,088	-	306	39,783	-	-
Loans and advances to customers	79,940	3,057	4,147	16,716	50,784	5,237
Investment securities	1,228	-	-	-	-	1,228
Overdraft facilities and loan commitments	4,799	-	-	4,799	-	-
Other assets	359	-	-	-	359	-
Total assets	**185,704**	**53,654**	**13,144**	**61,297**	**51,143**	**6,466**
Deposits from banks	15,378	15,378	-	-	-	-
Deposits from customers	147,865	95,391	26,286	24,325	1,863	-
Other liabilities	1,586	338	302	104	475	367
Total liabilities	**164,829**	**111,107**	**26,588**	**24,430**	**2,337**	**367**

£'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	75,076	48,276	26,800	-	-	-
Loans and advances to banks	14,101	-	8,158	5,640	303	-
Loans and advances to customers	82,017	3,864	8,784	12,377	52,939	4,053
Investment securities	1,164	-	-	-	-	1,164
Overdraft facilities and loan commitments	8,335	-	-	8,335	-	-
Other assets	378	-	-	-	378	-
Total assets	**181,072**	**52,140**	**43,743**	**26,351**	**53,622**	**5,216**
Deposits from banks	9,757	9,757	-	-	-	-
Deposits from customers	145,505	84,302	28,355	28,560	4,287	-
Other liabilities	1,645	292	434	108	511	300
Total liabilities	**156,906**	**94,351**	**28,788**	**28,668**	**4,798**	**300**

37. 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.

The Bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments that use only observable market data and require little management judgement and estimation. Fair values of financial assets that are traded in active markets are based on quoted market prices which reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

The table below analyses financial assets measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which measurement is categorised.

Levelling disclosure

	Level 1	Level 2	Level 3	Total
	£'000	£0	£'000	£'000
31-Dec-21				
Financial Assets				
Equity Instruments FVOCI	-	-	1,132	1,132
Financial Liabilities				
Derivative liabilities	-	-	-	-

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
31-Dec-20				
Financial Assets				
Equity Instruments FVOCI	-	-	1,131	1,131
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 £75,000 (2020: £52,000).

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.

38. 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 has been in compliance with the capital requirements set by the PRA throughout the period.

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 2021 and 2020 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:

	2021	2020
	£'000	£'000
Share capital	12,000	12,000
Retained earnings	6,879	6,908
Fair value reserve	293	316
Revaluation reserve	6,354	6,017
Less intangible assets	(845)	(1,067)
Total regulatory capital	**24,681**	**24,174**

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.

	2021	2020
	£'000	£'000
Capital surplus taking into account buffers	**5,687**	**3,858**

Risk weighted assets are:

	2021	2020
	£'000	£'000
Credit Risk	90,839	97,338
Operational Risk	10,388	10,775
FX Risk	837	1,054
Total risk weighted assets	**102,064**	**109,167**

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.

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39. Interest rate sensitivity gap analysis 2021

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and cash equivalents	58,930	-	-	-	-	349	59,279
Loans and advances to banks	305	-	39,685	-	-	(36)	39,954
Loans and advances to customers	7,255	11,448	5,211	49,377	4,826	(55)	78,062
Investment securities	-	-	-	-	-	1,132	1,132
Other assets	-	-	-	-	-	11,722	11,722
	66,490	11,448	44,896	49,377	4,826	13,112	190,149
Liabilities							
Deposits by banks	15,378	-	-	-	-	-	15,378
Customer accounts	121,647	10,504	13,739	1,811	-	-	147,701
Other liabilities	636	103	-	462	343	-	1,544
Shareholders' funds	-	-	-	-	-	25,526	25,526
	137,661	10,607	13,739	2,273	343	25,526	190,149
Interest rate sensitivity gap	(71,171)	841	31,157	47,104	4,484	(12,415)	-
Cumulative gap	(71,171)	(70,330)	(39,173)	7,931	12,415	-	-

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 2021. 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 (2020: £0).

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Interest rate sensitivity gap analysis 2020

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and cash equivalents	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.

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 re-price 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 £55,000 (2020: £176,000).

The weighted average interest rates are as follows: 0.31% (2020: 0.44%) for the money market placements with banks; 4.67% (2020: 4.92%) for the loans and advances to customers; 1.71% (2020:2.10%) for debt securities with Banks; 0.00% (2020: 0.04%) for the deposits by banks; and 0.27% (2020: 0.55%) 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 £248,000. As at 31 December 2020 the average impact of 200 basis point movement in interest rates was £273,000. 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.

40. Post Balance Sheet Events

The Bank has considered the potential risks that may arise from the conflict that developed into a war between Russia and Ukraine. The Bank has no direct exposure to Russia, Ukraine or Belarus, also involved in the conflict, and has taken immediate action to comply with restrictions and sanctions on all these countries. Based on the current assessment of the Bank, no material impact is expected on the liquidity, capital position and the operations of the Bank. There are no other post balance sheet events.