Turkish Bank (UK) Limited

Annual Report and Financial Statements

31 December 2022

Officers and Professional Advisors

Directors

I Hakan Bortecene (Chairman)
Michael P Joyce (resigned 30 June 2022)
David C Manson (appointed 6 October 2022)
John Coffey *
Alper Akdeniz
James Gillan
Murat Arig
Erhan Raif
Mustafa Kursat Asardag

* Chairman of the Board Audit and Risk Committee

Registered office

84-86 Borough High Street
London SE1 1LN

Auditor

Mazars LLP
Chartered Accountants
30 Old Bailey,
London
EC4M 7AU

Turkish Bank (UK) Limited
Annual Report and Financial Statements 2022

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Chairman's Statement

Dear Stakeholders,

We have passed yet another turbulent year across the Globe. The year has started with the pandemic cautiously leaving our daily lives, which marks the end of an important era; yet the after-effects are still affecting our lives and particularly financial markets. The most pertinent of these effects is undoubtedly further distortion of the supply chain fuelled by war and as a result the arrival of widespread inflation and changes in the interest rate environment. The ultra-loose monetary policies adopted during the Covid-19 period, strong global demand, supply worries due to geopolitical uncertainties and rises in commodity prices were the main reasons behind inflationary pressures. The war in Ukraine was a source of volatility in both money and commodity markets. These factors are expected to weigh on the economic output and designing policies in the year ahead, 2023.

Global growth fell from 6.2% in 2021 to an estimated 3.4% in 2022 and it is projected to fall further down to 2.9% in 2023. Global headline inflation according to consumer prices was up to 8.8% in the same year. Despite a full-scale fight in 2022, this figure is expected to decline moderately in 2023. The full impact of the measures might be seen in 2024, when the global inflation is expected to fall to 4.3%.

Monetary Policy Committee (MPC) of Bank of England (BOE) hiked its policy rate continuously in all of the meetings in 2022, echoing the trajectory of Central Banks in the US and EU. The expectation is for the MPC to signal that some further modest tightening may be appropriate in the coming months depending on the economic outlook.

It is important to note, at the time of this letter, the markets have been experiencing turbulence due to developments in the US and European Banking sector. This turbulence has thrown into doubt the continuation of rate hikes, a trend that was previously widely regarded as a near certainty.

The UK housing market has also undergone change. Average house prices in the UK increased by 9.8% in the 12 months to December 2022. Given the ongoing weakness in demand; however, house prices remain on a downward trajectory, and are expected to see further falls through the first half of the 2023.

The Turkish economy is also facing challenges with high inflation coupled with a low interest rate policy by the Turkish Central Bank. The devastating earthquake has certainly shaken hearts as well as the markets. Thanks to the huge solidarity shown locally and internationally, there are some hopes of earlier recovery. In any case we are certainly talking about something that will have effects for years to come.

Our experience in the Turkish market has allowed us to effectively manage the effects of the inflationary environment and volatility. I am pleased to report that our policies have enabled us to reach a healthy profitability in 2022 throughout all Group members. We have achieved this by calibrating our Treasury asset portfolio to reflect the rapidly changing environment and in anticipation of rising rates in the market.

TBUK also had a bright year for profitability thanks to floating rate assets benefiting from rate hikes. TBUK's balance sheet has seen a healthy growth in 2022 driven mainly by customer deposits. Liquid assets have almost doubled in the same period, in line with the cautious policies mentioned above.

Our priority now for 2023 is to benefit from this favourable positioning to help invest further into the business. In addition to this, a facilities investment program was deployed aiming to reflect the changes to the work life of the UK as well as uplift some of our facilities across our headquarter and branches.

Digitalization remains one of our top agenda items and we have started preparations for RPA and BPM project to further streamline and digitize workflows. Interaction with new technology companies and Fintechs remain as part of our strategy to generate non-interest income and provide a source of innovation for the bank.

TBUK's Human Resources capabilities is a top priority. We have moved to a more dynamic salary review process in order to respond better to the high inflationary market conditions as a result of which Salary packages were reviewed bi-annually during 2022. To bring us closer to our community we have again sponsored cultural events catered to the Turkish community living in London as well as increasing our engagement with non-profit organizations.

This year we have progressed our ESG initiative further and assessed our maturity level through a professional tool. We have now a roadmap driven from this exercise that will lead us to a higher level of ESG maturity.

The Group T-Gate project is successfully growing with 20+ members and scale-ups consisting mostly of Fintechs where many of them are working on projects across the Group. Our corporate finance arm is starting to develop a unique capability in Turkey where it is making an important track record in the scale up sector with several Family and Friends rounds successfully closed, making Turkish Investment a leader in this field.

Our stakeholders can be assured that the Bank is well positioned to take advantage of the opportunities of these most interesting times and would like to thank them for their continued support.

Hakan Bortecene
Chairman of the Board
4 April 2023

Strategic Report

For the year ended 31 December 2022

Turkish Bank (UK) Limited ("TBUK or the Bank") is a privately owned bank based in London and is part of the Turkish Banking Group, established 121 years ago.

Our core purpose is to serve the banking needs of the Turkish speaking community in the United Kingdom (UK), as well as providing a gateway for investors from Turkey into the UK 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 the UK where our expert knowledge, guidance and personalised approach offer us a competitive edge and our customers a distinct experience.

Review of the Year

The effects of the global pandemic of Covid-19 which had introduced widespread disruption to normal patterns of business across the world including the UK has been eased in 2022. The Bank continued actively monitoring the developments throughout 2022 and remained alert for changes in the conditions. Thankfully, with the success of the vaccination program and the lock down measures in 2021 and early 2022, the disruption caused by the pandemic has been gradually reduced.

During 2022, with the onset of the conflict that developed into a war between Russia and Ukraine inflation began to rise to unprecedented levels experienced in the recent past and reached 10.5% by the end of 2022. In response to rising inflation the Bank of England base rate has been gradually increased to 3.5% by the end of 2022 from the low of 10 bps at the end of December 2021. TBUK's high liquidity position with the Bank of England reserves resulted in an increase in income due to the rise in the base rates.

Non-resident and resident mortgage loans are linked to the Bank of England base rate and interest income has been positively affected due to the increase in the base rate.

The Bank continued to take measures to manage its cost of funding to reflect the increase in the base rate to the deposit rates. These measures taken to manage the Bank's deposit base in 2022 contributed to the increase in interest expense in 2022.

As a result, net interest income increased from £4,012,000 to £5,766,000 in 2022.

The Balance Sheet size increased from £190,149,000 to £196,554,000 as at 31 December 2022.

The Bank took measures to reflect the sharp increase in the rate of inflation to the salary increases by adjusting salaries both in April and September 2022. In addition to new employees joining the company, wages and salaries increased from £1,950,000 in 2021 to £2,459,000 in 2022.

The Bank did not benefit from the Government's Furlough scheme in 2022. In 2021 the Bank claimed £21,616 from the Furlough scheme.

As a result, the Bank reported 5.44% profit before tax of the Bank's total equity (2021: 0.03%).

Strategic Report (Continued)

Key performance indicators	**2022**	**2021**
Profit before tax as % of equity	5.44%	0.03%
Return on Equity	4.22%	(0.12)%
Total operating expenses as a % of total operating income	79.76%	99.78%

The Bank reported a profit before tax of £1,470,000 in 2022 compared to a profit before tax of £9,000 in 2021.

TBUK was given a stock dividend of 22 Visa A preference shares on 29 July 2022. These shares were valued at £383,000 using the Visa common stock share prices and booked as other operating income, which is included in the profit before tax of GBP 1,470,000. In 2021, there was other income of GBP 61,000 representing default interest recoverable from the repossession of a property collateral.

The total assets reached £196,554,000 (2021: £190,149,000).

The increase in total assets has been achieved largely by an increase in retail deposits from GBP 147,702,000 to GBP 154,342,000.

The owned properties of the bank have been revalued in 2022 and increased fixed assets by GBP 583,000.

During 2022, 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 pages 62 and 63) and an ongoing drive to improve customer service and efficiency, will position the Bank to take advantage of emerging opportunities. 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.

Strategic Report (Continued)

- **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. This will include investing in Business Process Management tools as well as Robotic Process Automation. The Bank started the process to upskill staff to enable effective use of such digital tools.

The Bank is taking steps to be part of the New Payments Architecture, a new way of processing payments in the UK. It replaces the existing Faster Payments scheme and lays out the framework for a replacement to the Bacs scheme. The Bank is liaising with the Payment Services Regulator and Pay.UK to implement the requirements. The Bank will be using its key business partner as the gateway to the new NPA.

The Directors had an off-site strategy meeting in Istanbul in November 2021 where the strategy of TBUK had been discussed and agreed. The initiatives that were decided to be considered for the long-term development of TBUK were; 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.

The Bank held a strategy meeting in June 2022 with all key staff and directors where the execution of the strategy was discussed at an off-site strategy event. These execution action plans are now monitored.

The Board has been monitoring the development of these initiatives and has taken an active role in increasing the execution capacity of the Bank to realise these initiatives.

The Bank holds an Annual Strategy Meeting with its regulator, the PRA, where long term development and strategy of the Bank are discussed. Directors take into account the regulatory developments and requirements when setting the strategy of the Bank.

- **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 and one board meeting was held in the Harringay Branch with active dialogue with the employees.

The Bank is a small bank with 3 branches and Directors have ability to meet face to face with employees and interact. Directors also had opportunity to engage with staff at strategy events.

- **Business Partners**

We value all our business partners and have long term relationships with key stakeholders. Key business partners operate in payment services, payment schemes connectivity, banking software solution, debit card services, open banking connectivity and infrastructure services.

The Directors encourage close cooperation with our solution partners. It has not been possible to arrange face to face networking events with our key business partners, but the directors look forward to such events in 2023. However, individual meetings have been held with key business partners and Directors have engaged with our solution providers to discuss and progress key strategic initiatives involving our solution providers, as set out below.

Forming strategic partnerships with the key business partners is an important part of the strategic goals of the Bank. Such partnerships are encouraged by the Directors and closely monitored. These developments are being realised in

Strategic Report (Continued)

the payment schemes, payment services and remittances area working closely with our key partners. The Bank has also extended its license for the main banking software for another ten years.

- **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 and the directors ensured that we provide services to our customers with more face to face interaction following the easing of lock down measures. The Bank sponsored an event in 2022 where our customers, employees and directors enjoyed a well-known Turkish celebrity.

- **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 2022, the Bank liaised with the regulators on matters including cyber security, operational resilience, LIBOR transition and climate change and held an annual strategy meeting.

- **Shareholders**

The Bank has close relationship with its shareholder and has three directors who serve both in the Bank's Board as well as the parent's Board. The Parent supports the growth of the Bank by investing the profits made back into the business.

Principal risks and uncertainties

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.

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 Notes 33-36 of the financial statements, which also provides greater detail of how risk is managed.

Impact of Covid-19

The global pandemic Covid-19 caught the world by surprise and resulted in widespread disruption to normal patterns of business. 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.

Whilst the lock down measures have been lifted by the UK Government and the impact of Covid-19 has largely been reduced, there is still a risk that different variants may appear in the future. 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 2022 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

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.

Strategic Report (Continued)

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 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 38%, which reaches a level of only 64% 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

Strategic Report (Continued)

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 36% and 43% 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 Notes 36 to the financial statements.

Operational Risk and Resilience

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.

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
4 April 2023

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 2022. 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:

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 2022 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.

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.

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 pages 25 and 26.

Post Balance Sheet Events

The Bank has considered the potential risks that may arise from the earthquake that has affected multiple cities in Turkey. Based on the current assessment of the Bank, no material impact arising from these events 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 profit for the year after taxation amounted to £1,140,000 (2021 – loss £29,000). The Directors do not recommend the payment of a dividend (2021 - £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 2022 (2021 £nil).

Directors and their interests

Directors

I. Hakan Bortecene (Chairman)
Michael P. Joyce (resigned 30 June 2022)
David C. Manson (appointed 6 October 2022)
John Coffey
Alper Akdeniz
James Gillan
Murat Arig
Erhan Raif
Mustafa Kursat Asardag

* Chairman of the Board Audit and Risk Committee

Directors' indemnities

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

Board Audit and Risk Committee

The Board Audit Committee and the Board Risk Committee were merged in November 2021 and the merged committee had seven meetings in 2022 (2021: two 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. 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 fields. The Committee met on five occasions in 2021.

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.

Directors' Report (Continued)

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
4 April 2023

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
4 April 2023

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 2022 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:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2022 and of its profit 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 interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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 utilisation and consider whether the directors' conclusion that adequate capital headroom remains reasonable;
- Reading regulatory correspondence and reviewing minutes of meetings of the Board Audit and Risk Committee and the Board of Directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation, levels and interest rates;
- Considering whether there were events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- Evaluating the adequacy and appropriateness of the director's disclosure included in the Annual Report and Financial Statements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our 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- £ 97,000** **(2021: £55,000*)*** *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 assessed the design and implementation, and tested the operating effectiveness of the key controls operating at the Bank in relation to loan underwriting, monitoring and provisioning. 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 whether the related accounting policies have been appropriately accounted for and adequately disclosed in accordance with the applicable financial reporting framework; • We tested the completeness and accuracy of the loan portfolio applied to the model; • We challenged the suitability of key assumptions applied in determining probability of default and loss given default, including assessing the reasonableness and relevance of the external data used in the model based on our understanding of the Bank's portfolio; • We assessed the reasonableness and appropriateness of the scenario distribution used by the Bank in the ECL calculation by comparing it to similar lenders.

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 independently recalculated the value of the collateral security for a sample of loans to align with current market value by using the House Price Index (HPI), and subsequently, applied the updated collateral valuation to the ECL model to assess the potential impact of such valuation to the ECL provision balance; • We performed stand back analysis to assess the overall adequacy of the ECL coverage. In performing this procedure, we considered the credit quality of the portfolio, performed analytical review procedures and performed benchmarking across similar banks considering both staging percentages and provision coverage ratios. • We reviewed credit files in order to evaluate the appropriateness of staging and to verify the data used in the determination of PD and LGD assumptions for a sample of loans across all the credit risk stages (e.g. loans under watch lists and performing loans); and • 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. **Our observations** We found the approach taken by the Bank in respect of ECL to be materially consistent with the requirements of IFRS 9 and determined that the impairment provision in relation to loans and advances to customers is appropriate as at 31 December 2022.

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

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

Overall materiality	£271,200 (2021: £252,000).
How we determined it	Based on 1% of Net Assets (2021: Based on 1% of Net Assets).
Rationale for benchmark applied	Due to the volatility of profits, net assets are considered to reflect 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 materiality for the financial statements as a whole. We set performance materiality at £162,700 (2021: £151,000), which represents 60% (2021: 60%) of overall materiality.
Reporting threshold	We agreed with the Board Audit and Risk Committee that we would report to them misstatements identified during our audit above £8,100 (2021 £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 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 our risk assessment, our understanding of the Bank, its environment, controls, and critical business processes, to consider qualitative factors 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 Report and Financial Statements 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 course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 13, 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the Bank and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: anti-money laundering regulation, and regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and of the Financial Conduct Authority (FCA).

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, 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 PRA and the 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 throughout our audit.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation and 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 and management bias through judgements and assumptions in significant accounting estimates.

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;
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates; and
- Introducing elements of unpredictability in audit testing.

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

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available 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 Board Audit and Risk Committee, we were appointed by the Bank's Board of Directors on 20 September 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2018 to 31 December 2022.

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 our additional report to the Board Audit and Risk 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
30 Old Bailey
London
EC4M 7AU

4 April 2023

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Interest income	7	6,417	4,405
Interest expense	7	(651)	(393)
Net interest income	7	**5,766**	**4,012**
Fees and commissions receivable	8	1,135	813
Fees and commissions payable	8	(157)	(136)
Net fee and commission income		**978**	**677**
Net trading income	9	146	144
Other operating income	9	383	62
Total operating income		**7,273**	**4,895**
ECL (Charge) / Release on financial instruments	11,18	(128)	153
Personnel expenses	10	(2,893)	(2,290)
Premise expenses		(439)	(357)
Administrative expenses		(1,710)	(1,853)
Depreciation and amortisation	20,21	(526)	(537)
Other expenses		(105)	-
Total operating expenses		**(5,801)**	**(4,884)**
Finance Cost		(2)	(2)
Profit before taxation	12	**1,470**	**9**
Income tax expense	13	(330)	(38)
Profit after taxation		**1,140**	**(29)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value		(129)	1
Deferred tax effect of net change in fair value of equity investments		34	(24)
Revaluation of properties		583	349
Deferred tax on property revaluation		(111)	(12)
Total other comprehensive income		**377**	**314**
Total comprehensive income		**1,517**	**285**

The notes on pages 25 to 65 form an integral part of these financial statements.
All activities relate to continuing operations.

Statement of Financial Position
For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Cash and cash equivalents	14	93,264	59,279
Loans and advances to banks	16	15,493	39,954
Loans and advances to customers	17	75,754	78,062
Investment Securities	19	1,380	1,132
Swap Derivative Assets	37	182	-
Other assets	22	1,307	2,909
Deferred tax assets	26	86	349
Property and equipment	21	7,984	7,619
Intangible assets	20	1,104	845
Total assets		**196,554**	**190,149**
Liabilities			
Deposits from banks	23	13,047	15,378
Deposits from customers	24	154,342	147,702
Deferred tax liabilities	26	483	338
Lease liabilities	25	84	187
Other liabilities	25	1,555	1,018
Total Liabilities		**169,511**	**164,623**
Equity			
Called up share capital	27	12,000	12,000
Retained earnings		8,019	6,879
OCI reserve		198	293
Revaluation reserve		6,826	6,354
Total equity		**27,043**	**25,526**
Total liabilities and equity		**196,554**	**190,149**

The Board of Directors approved these financial statements and authorised for issue on 4 April 2023

Signed on behalf of the Board of Directors

M K Asardag
Company Secretary

Registered number 2643004
The notes on pages 25 to 65 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit / (loss) after taxation		1,140	(29)
Adjustments for:-			
Depreciation of property plant and equipment	**21**	316	309
Amortisation of intangible assets	**20**	210	228
Non-cash stock dividends received from Visa	**9**	(383)	-
Net Interest income	**7**	(5,766)	(4,012)
Interest paid on lease liabilities	**25**	2	2
Income tax expense	**13**	330	38
		(4,151)	**(3,464)**
Changes in:-			
Loans and advances to customers	**17**	2,308	3,493
Loans and advances to banks	**16**	24,461	(25,858)
Other assets	**22**	1,420	(1,716)
Deposits from banks	**23**	(2,331)	5,621
Deposits from customers	**24**	6,640	2,240
Other liabilities	**25**	112	9
		32,610	**(16,211)**
Interest received	**7**	6,417	4,405
Interest paid	**7**	(651)	(393)
Net cash flows from operating activities		**34,225**	**(15,663)**
Cash flows from investing activities			
Additions to property and equipment	**21**	(97)	(15)
Additions to intangible assets	**20, 25**	(43)	(6)
Net cash used in investing activities		**(140)**	**(21)**
Cash flows from financing activities			
Payment for lease liabilities	**25**	(98)	(108)
Interest Paid on lease liabilities	**25**	(2)	(2)
Net cash used in financing activities		**(100)**	**(110)**
Net increase / (decrease) in cash and cash equivalents		**33,985**	**(15,794)**
Cash and cash equivalents as at 1 January	**14**	**59,279**	**75,073**
Cash and cash equivalents as at 31 December	**14**	**93,264**	**59,279**

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.

Total additions to intangible assets wea1 GBP 468,000 of which GBP 425,000 remains outstanding at 31 December 2022, please see note 25.

The notes on pages 25 to 65 form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2022

	Called up Share Capital £'000	OCI Reserve £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total £'000
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)	285
Balance as at 31 December 2021	**12,000**	**293**	**6,354**	**6,879**	**25,526**
Profit for the year	-	-	-	1,140	1,140
Other comprehensive income / (expense)	-	(95)	472	-	377
Total comprehensive income	-	(95)	472	1,140	1,517
Balance as at 31 December 2022	**12,000**	**198**	**6,826**	**8,019**	**27,043**

OCI reserve relates to the gain/loss on the fair valuation of investment 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 65 form an integral part of these financial statements.

Notes to the accounts
For the year ended 31 December 2022

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 4 April 2023.

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of equity investments, derivatives 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 for the three-year period after the end of the reporting period, 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 Bank makes use of stress testing in reviewing its forecasts as part of the annual Internal Capital Adequacy Assessment Process (hereinafter referred to as "ICAAP"), where testing considered the impact of a number of severe but plausible scenarios. The key stresses considered were:

- The Bank experiences an increase as much as 1% in funding costs covering both market wide stress on the banking sector as well as an idiosyncratic stress on the Bank arising from reputational or political events causing a run on the bank.
- A scenario where the Bank of England base rate is assumed to rise to 6% in early 2023 before later being reduced gradually to under 3.5%. This scenario also assumes the GDP contracting by 5.0%, unemployment more than doubling to 8.5% and inflation going up to 14% in 2023 moving back to 2% at the end of 2025, affecting costs in the plan.
- In the property stress scenario, the Bank applied the assumption of residential property prices falling by 31% until the end of 2024 then recovering to 20% by 2027 while commercial property prices dropping by 45% until the end of 2023 and then recovering to 20% by 2027.

Under all these scenarios, the Bank had the ability to meet its obligations over the forecast period and maintain a surplus over its regulatory requirements for both capital and liquidity through normal balance sheet management activities.

As part of the ICAAP process the Bank also assessed the potential operational risks it could face. This was done through the analysis of the impact and cost of a series of severe but plausible scenarios. This analysis did not highlight any factors which cast doubt on the Group's ability to continue as a going concern.

The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios with the Bank maintaining sufficient liquidity throughout the going concern assessment period.

The bank considered reverse stress testing scenarios based on property price declines since the bank's main business concentrates on secured lending collateralised by commercial and residential property. Such stresses would have direct effect on capital position due its effect on the ECL provision on the loan book as well as the revaluation deficit on branches and Head Office owned by the Bank. A decline in property prices by 60%, which is considered to be an extreme and highly unlikely event, would cause the Bank to have used up all CRD IV and PRA Buffers with just enough capital to keep the Total Capital Requirements. Any further decline would cause capital deficiency. The bank considers that in this reverse stress scenario KRIs would have been triggered and management actions would be taken to improve the capital position.

The Bank has considered the key assumptions for its 2023 Budget in a prudent manner and applied stress testing to its financial forecasts.

In conclusion, 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. New and amended standards and interpretations

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 1 January 2022 that would be applicable to TBUK.

There are also no amendments published by the IASB effective from 1 January 2023 that are applicable to TBUK. However, the IASB has published a number of minor amendments to accounting standards that are effective from 1 January 2022 and 1 January 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 2022 are included in the notes:

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.

On the one hand with the lower 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 and on the other with significant pressure on household incomes caused by rising inflation and interest rates, 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 retail customers. The following key changes have been made to the estimations.

- The probability of default of the base case has been determined for different portfolios separately and overall average increased from 1.50% to 1.84%. 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 materially 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%, 80% and 15% in 2021 to 5%, 75% and 20% in 2022 respectively. This change did not have a significant effect on the ECL for retail customers.

- Stress on property valuations has been estimated for different portfolios separately and the average has been increased from 36% to 46% for the worst-case macro scenario.

Notes to the accounts
For the year ended 31 December 2022

A summary of LGDs, PDs and Property Stress estimations is set out below.

LGDs	Better Case	Base Case	Worst Case	Stress Scenario Testing
Regulated Mortgages	6.30%	21.47%	45.20%	50.20%
Residential BTL	5.71%	19.23%	43.16%	48.16%
Other Secured Loans (Inc. Commercial BTL)	7.07%	22.07%	48.96%	53.96%

PDs	Better Case	Base Case	Worst Case	Stress Scenario Testing
Regulated Mortgages	1.12%	1.62%	2.12%	3.12%
Residential BTL	1.22%	1.72%	2.22%	3.22%
Other Secured Loans (Inc. Commercial BTL)	1.68%	2.18%	2.68%	3.68%

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 31 December 2022, amounts to £222,000 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.

2022	**Cash and Cash Equivalents**	**Loans and advances to banks at amortised cost**	**Loans and advances to customers at amortised cost**	**Total**
Gross Exposure	93,294	15,588	75,851	184,733
ECL Loss Allowance	(30)	(95)	(97)	(222)
Net Carrying amount	93,264	15,493	75,754	184,511

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

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.

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.

Notes to the accounts
For the year ended 31 December 2022

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 using an alternative method that has a high correlation with the effective interest rate method.

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.

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 performance obligations are met.

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.

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.

(iii) 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 shares measured on 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.

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.

Notes to the accounts
For the year ended 31 December 2022

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.

Notes to the accounts
For the year ended 31 December 2022

(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
For the year ended 31 December 2022

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. The definition of default is where a retail loan is overdue for 90 days.

A 3-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 3 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 closing rates of exchange ruling at the reporting date. All differences arising are taken to profit or loss.

Notes to the accounts
For the year ended 31 December 2022

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. Property and equipment

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
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%

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 materially. Please see Note 21 - Property and Equipment.

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 or substantively enacted by the reporting date.

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

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

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

j. Leases

The Bank as a lessee

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

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

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

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

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 licence amortisations 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. Costs relating to payment projects are amortised over ten years.

l. 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.

m. 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.

Notes to the accounts
For the year ended 31 December 2022

7. Net interest income

	2022 £'000	2021 £'000
Interest income		
Cash and cash equivalents	926	207
Loans and advances to banks	759	426
Loans and advances to customers	4,087	3,557
Debt Securities	645	215
Total interest income	**6,417**	**4,405**
Interest expense		
Deposits from banks	(73)	-
Deposits from customers	(578)	(393)
Total interest expense	**(651)**	**(393)**
Net interest income	**5,766**	**4,012**

8. Net fee and commission income

	2022 £'000	2021 £'000
Major Service Lines		
Remittances	241	245
Account charges	428	296
Commission on Loans and Advances	466	272
Total fee and commission income from contracts with customers	**1,135**	**813**
Fee and commission expense	(157)	(136)
Net fee and commission income	**978**	**677**

9. Trading income and Other Operating Income

Trading Income	2022 £'000	2021 £'000
Dividends from Visa Shares	24	30
Profit on sale of loans to related party	16	-
Net foreign exchange gain	106	114
Total trading income	**146**	**144**

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For the year ended 31 December 2022

	2022	2021
Other Operating Income	**£’000**	**£’000**
"A" preference shares issued by Visa	383	-
Other Operating Income	-	62
Total other operating income	**383**	**62**

Visa made “Conversion Adjustments” to the Class A Common Equivalent Numbers separately for the B and C Series Preferred Stock in 2022. 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 July 05, 2022, 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 22 Visa A preference shares on 29 July 2022. These shares were valued at £383,000 using the Visa common stock share prices and booked as other operating income. From 29 July 2022 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

	2022	2021
	£’000	**£’000**
Personnel expenses during the year (including directors)		
Wages and salaries	2,459	1,950
Social security costs	278	211
Pension costs	88	77
Other staff costs	68	52
Total personnel expense	**2,893**	**2,290**

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

	2022	2021
	No.	**No.**
Commercial banking activities	54	52

Directors’ remuneration during the year consisted of:

	2022	2021
	£’000	**£’000**
Emoluments	350	367

The emoluments of the highest paid director were £ 109,476 (2021: £162,000). Total pensions contributions for the directors and the pension contribution for the highest paid director were £ 1,761 (2021: 1,756) and £ 1,761 (2021:NIL) 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 2022

11. ECL (Charge) / Release on financial instruments

	2022	2021
	£'000	£'000
ECL (charge) / release for the year	(128)	153
Net ECL (charge) / release	**(128)**	**153**

12. Profit on ordinary activities before taxation

	2022	2021
Profit is stated after charging:	£'000	£'000
Foreign currency gains	(106)	(114)
Depreciation and amortisation		
Property and equipment	316	309
Intangible fixed assets	210	228
Fees payable to the Bank's auditor		
Audit of the Bank's annual accounts	159	138

The Bank does not have short term leases.

13. Income Taxes

	2022	2021
	£'000	£'000
Current Income Tax	-	-
Deferred Tax	(330)	(38)
Total Tax Charge for the year	(330)	(38)

Deferred tax asset and liabilities have been calculated at 23.5% (2021: 21.9%) and 25% (2021: 25%) respectively of the temporary differences.

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% (2021: 19.00%) as explained below:

	2022	2021
	£'000	£'000
Current Tax:		
Profit on ordinary activities before tax	1,470	9
Tax at 19.00% (2021: 19.00%) thereon	279	2
Depreciation lower/(in excess) of capital allowances	32	49
Non-taxable income items	(77)	(3)
Prior Year Tax Adjustment	(47)	(26)
Increase (Decrease) in deferred tax asset on tax losses	(187)	(22)
Total current tax charge	-	-

Deferred tax:	**2022 £'000**	**2021 £'000**
Effect of rate change in deferred tax, 23.5 % for deferred tax assets (2021 - 21.9 %)	6	30
Current year movement	(336)	(68)
Total Deferred Tax Credit (Charge)	**(330)**	**(38)**
Income tax credit (charge) for the year	**(330)**	**(38)**

14. Cash and cash equivalents

	2022 £'000	**2021 £'000**
Cash and cash equivalents are comprised of the following:		
Cash held at branches	472	351
Deposits at the Bank of England	55,464	37,119
On demand from other banks	30,609	13,129
Within three months from other banks	6,749	8,683
ECL Allowance	(30)	(3)
	93,264	**59,279**

All gross exposures in cash and cash equivalents are Stage 1 exposures both in 2021 and 2022.

Included within cash and cash equivalents is an amount of £53,525 in respect of Group companies (2021:24,723). The interest received from Group companies during the year was £1,497 (2021: £13,775).

Geographical analysis of cash and cash equivalents is as follows:

	2022 £'000	**2021 £'000**
UK:		
Cash held at branches	472	351
Deposits at the Bank of England	55,464	37,119
On demand from other banks	6,134	3,308
Within three months from other banks	-	-
Outside UK:		
On demand from other banks	24,475	9,822
Within three months from other banks	6,719	8,679
	93,264	**59,279**

By Credit Rating	**2022 £'000**	**2021 £'000**
Cash held at branches	472	351
AA- to AAA	86,308	51,124
B	6,222	7,778
Not rated	262	26
Total	**93,264**	**59,279**

Notes to the accounts
For the year ended 31 December 2022

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 2022 £'000

Financial Assets	**Note**	**Mandatorily at FVTPL**	**FVOCI–equity instruments**	**Amortised Cost**	**Total carrying amount**
Cash and cash equivalents	14	-	-	93,264	93,264
Loans and advances to banks	16	-	-	15,493	15,493
Loans and advances to customers	17	-	-	75,754	75,754
Derivative Assets	37	182	-	-	182
Investment securities –equity	19	-	1,380	-	1,380
Total financial assets		**182**	**1,380**	**184,511**	**186,073**
Financial Liabilities	**Note**				
Deposits from banks	23	-	-	13,047	13,047
Deposits from customers	24	-	-	154,342	154,342
Total financial liabilities		-	-	**167,389**	**167,389**

31 December 2021 £'000

Financial Assets	**Note**	**Mandatorily at FVTPL**	**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**

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.

Notes to the accounts
For the year ended 31 December 2022

16. Loans and advances to banks

	2022	2021
	£'000	£'000
Loans to Turkish banks original maturity less than and equal to 1 year	1,661	28,594
Bonds original maturity less than and equal to 1 year	13,927	11,396
ECL allowance	(95)	(36)
	15,493	39,954

17. Loans and advances to customers

	2022	2021
	£'000	£'000
Loans are repayable as follows:		
On demand	4,533	3,112
Within three months	8,309	4,143
Between three months and one year	15,608	16,659
Between one and five years	39,845	49,377
Five years or more	7,556	4,826
ECL Allowance		
Specific	(35)	(35)
Collective	(62)	(20)
	75,754	78,062

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 £2,074,195 at the year-end (2021: £7,242,374). Such loans are subject to Stage 3 impairment.

Loans and advances to customers includes £ 2,014,445 (2021: £ 7,183,366) 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:

	2022				
	Fixed Rate Loan		Floating Rate Loan		Total
		£'000		£'000	£'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	3,581	952	4,533
Fixed term					
- Retail	585	-	51,773	29	52,387
- Corporation	-	-	18,913	18	18,931
	585	-	74,267	999	75,851
ECL Allowance	-	-	-	(97)	(97)
	585	-	74,267	902	75,754

Notes to the accounts
For the year ended 31 December 2022

	2021				
	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	2,954	157	3,111
Fixed term					
- Retail	247	-	54,983	26	55,256
- Corporation	520	-	19,206	24	19,750
	767	-	77,143	207	78,117
ECL Allowance	-	-		(55)	(55)
	767	-	77,143	152	78,062

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

	2022 £'000	2021 £'000
UK	44,603	45,661
Non UK		
- Turkey	28,677	29,854
- Others	2,474	2,547
Total	75,754	78,062

All loans and advances to customers are denominated in GBP.

18. Provisions for impairment losses

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

Loss allowance	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	**40**	**-**	**54**	**94**	**86**	**-**	**161**	**247**
Net re-measurement of loss allowance	-	-	3	3	-	-	(15)	(15)
Derecognition of loans and advances	(8)	-	-	(8)	(85)	-	(90)	(175)
Changes in model/risk parameters	-	-	-	-	-	-	(2)	(2)
New Financial Assets	133	-	-	133	39	-	-	39
Balance at 31 December	**165**	**-**	**57**	**222**	**40**	**-**	**54**	**94**

Notes to the accounts
For the year ended 31 December 2022

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

Amounts expressed in GBP'000	**2022**	**2021**	**Change**
Cash and Cash Equivalents	30	3	27
Loans to banks	95	36	59
Loans to customers	88	55	33
Commitments	9	-	9
Total ECL	**222**	**94**	**128**

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 6

Measurement of ECL

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

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

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

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

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

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

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

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

Notes to the accounts
For the year ended 31 December 2022

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 2021 are as follows;

Sensitivity Analysis	**Average Probability of Default For Loans**	**Average Collateral Stress**	**ECL provision**	**Scenario Weighting**	**Weighted ECL Provision Base Case**
2022					
Better Case	1.34%	6%	196,318	5%	9,816
Base Case	1.84%	21%	201,003	75%	150,752
Worst Case	2.34%	46%	306,224	20%	61,245
Total ECL Provision				**100%**	**221,813**
2021					
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**

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

	2022			**2021**		
LTV Band	**Exposure**	**Average LTV**	**ECL Total**	**Exposure**	**Average LTV**	**ECL Total**
Less than 50%	46,415	31.39%	-	33,545	34%	-
50% to 59%	17,682	54.34%	3	24,649	53%	-
60% to 69%	8,582	63.12%	7	18,115	63%	-
70% to 79%	1,330	70.00%	1	1,018	75%	-
80% to 89%	-	0.00%	-	-	-	-
Total	**74,009**	**38.47%**	**11**	**77,327**	**44%**	**-**

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

	2022	2021
	Share in Visa Inc.	Share in Visa Inc.
	£'000	£'000
Preference Shares in Visa Inc. / Visa Europe	1,380	1,132

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 and 2022, Visa made "Conversion Adjustments" to the Class A Common Equivalent Numbers separately for the B and C Series Preferred Stock. On the deposit date, Visa's transfer agent, EQ Shareowner Services, deposited Series A Preferred Stock proportional to the release amounts into the account for the stockholders based on their ownership as of the record date.

As described in the Certificates of Designations, the number of shares of Series A Preferred Stock issued to each holder was equal to the Liability Coverage Reduction Amount divided by the number of shares of the applicable series of Preferred Stock then outstanding divided by the per-share Fair Market Value of the Class A Common Stock as of 21 June 2020 and 5 July 2022, 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 69 Visa A preference shares.

As a result TBUK holds the following shares in Visa.

69 "A" Preference shares valued at £1,122,000 at the time of issuance on 24 September 2020 and 29 July 2022.

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:

	2022		2021	
Origin of investment securities	**USD**	**Total**	**USD**	**Total**
	$'000	**£'000**	**$'000**	**£'000**
USA	1,662	1,380	1,528	1,132
Total	**1,662**	**1,380**	**1,528**	**1,132**

Notes to the accounts
For the year ended 31 December 2022

20. Intangible fixed assets

Computer Software	2022 £'000	2021 £'000
Cost		
At 1 January	3,699	3,693
Additions	468	6
At 31 December	4,167	3,699
Amortisation		
At 1 January	2,853	2,626
Charge for the year	210	228
At 31 December	3,063	2,854
Net book value		
At 31 December	1,104	845

The intangible fixed assets comprise software purchased, and external costs relating to developed systems. The additions represents extension of the banking software license and 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.

Of the additions to intangible assets, GBP 425,000 relating to software license extension for 10 years, has been paid in January 2023 and is included in other liabilities at 31 December 2022, please see Note 25.

Notes to the accounts
For the year ended 31 December 2022

21. Property and Equipment

	Freehold land and buildings	Right of Use Assets Branch Network	Right of Use Assets Lease Equipment	Fixtures, fittings, and equipment	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost/Revaluation					
At 1 January 2022	**7,879**	**222**	**399**	**2,936**	**11,436**
Additions	-	-	-	98	98
Revaluation	583	-	-	-	583
At 31 December 2022	**8,462**	**222**	**399**	**3,034**	**12,117**
Depreciation					
At 1 January 2022	**629**	**103**	**332**	**2,753**	**3,817**
Charge for the year	152	36	67	61	316
At 31 December 2022	**781**	**139**	**399**	**2,814**	**4,133**
Net book value					
At 31 December 2022	**7,681**	**83**	**-**	**220**	**7,984**
At 31 December 2021	**7,250**	**119**	**67**	**183**	**7,619**

The land and buildings are occupied by the Bank for its own activities. Freehold land and buildings are revalued to fair value as at 31 December 2022.

The Bank conducted a full professional valuation by London's Surveyors & Valuers Ltd, a chartered surveyor external to the Bank, in January 2023 which resulted in an increase in net book value of £584,000, which has been reflected in these financial statements. The Bank had received a desk top valuation update in January 2022 as well from the same chartered surveyor which had resulted in an increase in net book value of £ 348,954 which had been reflected in financial statements in 2021.

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 2025.

Branch Network refers to a single lease contract for one branch location, which has a remaining contract length of two years and three months.

Notes to the accounts
For the year ended 31 December 2022

2021	Freehold land and buildings	Right of Use Assets Branch Network	Right of Use Assets Lease Equipment	Fixtures, fittings, and equipment	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost/Revaluation					
At 1 January 2021	**7,530**	**222**	**399**	**2,921**	**11,072**
Additions	-	-	-	15	15
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
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**	**7,603**

22. Other assets

	2022	2021
	£'000	£'000
Items in the course of collection	229	349
Prepayments	487	395
Interest and business charge accruals	391	274
Net realisable value of property repossessed	-	1,778
Other assets	200	113
	1,307	**2,909**

Items in the course of collection relate to Faster Payments in transit.

Other assets include accrued interest income and business charges

23. Deposits from banks

	2022 £'000	2021 £'000
Deposits from banks are repayable as follows:		
On demand		
- Group	12,282	14,446
- Non-Group Vostro Accounts	765	932
	13,047	15,378

Notes to the accounts
For the year ended 31 December 2022

The interest paid to Group companies during the year was £89,942 (2021: £nil).

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

	2022	2021
	£'000	£'000
In UK:		
On current account	-	-
Outside UK:		
On current account	13,047	15,378
	13,047	15,378

24. Deposits from customers

	2022	2021
	£'000	£'000
Customer deposits are repayable as follows:		
On demand	93,713	95,391
Within three months	38,801	26,256
Between three months and one year	20,499	24,243
Between one year and five years	1,329	1,812
	154,342	147,702

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

	2022 £'000			2021 £'000		
	Fixed rate interest	Floating rate interest	Total	Fixed rate interest	Floating rate interest	Total
Current account	-	72,064	72,064	-	75,560	75,560
Deposit account	-	21,649	21,649	-	19,832	19,832
Fixed deposit	60,629	-	60,629	52,310	-	52,310
	60,629	93,713	154,342	52,310	95,392	147,702

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

	2022 £'000					2021 £'000				
	GBP £'000	USD £'000	EUR £'000	TRY £'000	Total £'000	GBP £'000	USD £'000	EUR £'000	TRY £'000	Total £'000
UK	33,837	10,742	2,352	66	46,997	38,156	2,759	1,600	117	42,632
Turkey	38,487	28,234	6,692	5	73,418	38,351	26,765	5,844	-	70,960
TRNC	24,903	2,995	3,464	-	31,362	25,314	2,578	5,236	-	33,128
Others	447	288	1,829	1	2,565	463	231	286	2	982
Total	97,674	42,259	14,337	72	154,342	102,284	32,333	12,966	119	147,702

TRNC is the Turkish Republic of Northern Cyprus

Notes to the accounts
For the year ended 31 December 2022

25. Lease liabilities and other liabilities

Other Liabilities	**2022**	**2021**
	£'000	**£'000**
Other taxes and social security costs	82	65
Unamortised portion of loan fees	554	378
Software license fee payable	425	-
Items in the course of transmission	14	14
Other liabilities	480	561
Total	**1,555**	**1,018**

Lease Liabilities	**2022**	**2021**
	£'000	**£'000**
Equipment	-	67
Branch Network	84	120
Total	**84**	**187**

	2022	**2021**
	£'000	**£'000**
Within one year	36	103
One to three years	48	84
Total	**84**	**187**

The "one to three years" portion of the lease asset relates to one lease contract which expires in April 2024.

The carrying amounts of lease liabilities and the movement during the year are provided below.

Leased Liabilities	**2022**	**2021**
	£'000	**£'000**
Opening Balance	**187**	**295**
Interest Charge	2	2
Non-cash adjustment to leases	(5)	-
Payment	(100)	(110)
Closing Balance	**84**	**187**

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For the year ended 31 December 2022

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 1.1.2021	**-**	**76**	**216**	**292**
Charge to income	-	-	11	11
Charge to comprehensive income	12	23	-	35
At 31.12.2021	**12**	**99**	**227**	**338**
Charge to income	-	-	68	68
Charge / (credit) to comprehensive income	111	(34)	-	77
At 31.12.2022	**123**	**65**	**295**	**483**

Deferred Tax Assets £'000	Deferred Tax on tax losses
	£'000
At 1.1.2021	376
Charge to income	(27)
At 31.12.2021	**349**
Charge to income	(263)
At 31.12.2022	**86**

As per the Finance Bill 2022, 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 2022. 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 23.5% and 25% respectively (2021: 21.9% and 25%) of the timing difference. The effect of the rate change from 21.9% to 23.5% has been to increase deferred tax asset by £4K.

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

27. Called up share capital

	Called up, allotted and fully paid	
	2022	**2021**
	£'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.

	2022	**2021**
	£'000	**£'000**
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	10,960	4,783
	10,960	4,783

29. Assets and liabilities in foreign currencies

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

	2022	**2021**
	£'000	**£'000**
Assets	59,310	49,290
Liabilities	58,125	48,548

There were open foreign exchange swaps as at 31 December 2022 with net receivable value £181,983 (2021: £nil).

30. Transactions with directors and managers

As at 31 December 2022 GBP 8,416 was outstanding by way of loans to managers of the Bank (or persons connected with them) (2021: GBP 16,719). During the year, GBP 16,719 (2021: GBP 13,077) was paid back and GBP 8,416 drawn by the managers (or persons connected to them) (2021: GBP 4,774). There were no transactions with parties related to directors for GBP Nil (2021: GBP 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:

	2022	2021
	£’000	£’000
Placements with affiliated companies	54	25
Deposits from parent company	533	5,668
Deposits from affiliated companies	11,749	8,778
Sales of loans to affiliated companies	9,205	4,479
Profit made on sale of loans	16	-
Charges from affiliated companies	30	-
Interest received from affiliated companies	1	14
Interest paid to affiliated companies	85	-

33. Credit Risk

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. 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. Please see definitions of defaulted and credit-impaired financial assets on page 34.

	2022				2021
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks at amortised cost	15,588	-	-	15,588	39,990
Loss allowance	(95)	-	-	(95)	(36)
Carrying amount	15,493	-	-	15,493	39,954
Loans and advances to customers at amortised cost	73,369	39	2,442	75,850	78,117
Loss allowance	(32)	-	(56)	(88)	(55)
Carrying amount	73,337	39	2,386	75,762	78,062
Equity investment securities at FVOCI	1,380	-	-	1,380	1132
Loss allowance	-	-	-	-	-
Carrying amount	1,380	-	-	1,380	1,132
Off balance sheet Loan commitments	10,960	-	-	10,960	4,783
Loss allowance	(9)	-	-	(9)	-
Carrying amount	10,951	-	-	10,951	4,783

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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 2022 and 2021.

The analysis of the movement in the staging of exposures in relation to the gross exposures of loans and advance to customers totalling £75,848,000 (2021: £78,117,000) is set out below.

Gross Exposure of Loans and Advances in GBP'000	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	68,157	2,719	7,241	78,117
Movement from Stage 1 into Stage 2	(657)	657	-	-
Movement from Stage 2 into Stage 3	-	(657)	657	-
Movement from Stage 3 into Stage 2	-	4,245	(4,245)	-
Movement from Stage 2 into Stage 1	6,172	(6,172)	-	-
New Loans and Advances	11,256	-	-	11,256
Loans and Advances Redeemed in 2022	(11,117)	(369)	(1,275)	(12,761)
Capital Repayments and other movements	(444)	(17)	(301)	(762)
At 31 December 2022	73,367	406	2,077	75,850

The analysis of the movement in the staging of ECL provision to loans and advance to customers totalling GBP 97,000 (2021: GBP 55,000) is set out below.

ECL of Loans and Advances in GBP'000	Stage 1	Stage 2	Stage 3	Total
At 1.1.2022	1	-	54	55
Movement from Stage 1 into Stage 2	(1)		-	-
		1		
Movement from Stage 2 into Stage 3	-	(1)	1	-
Movement from Stage 3 into Stage 2	-	5	(5)	-
Movement from Stage 2 into Stage 1	6	(6)	-	-
New Loans and Advances	10	-	-	10
Loans and Advances Redeemed in 2022	-	-	(1)	(1)
Other Movements	25	1	7	33
At 31.12.2022	41	-	56	97

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 £186 Million (2021: £178 Million). Credit risk exposure of £76 Million (2021: £78 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:	**2022**	**2021**
	£'000	**£'000**
Cash	2,250	675
Freehold Properties	205,736	190,197
Guarantees	-	630
Total	**207,986**	**191,502**

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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 valuers on inception of a loan. Upon refinancing of the loan and re-mortgaging, property valuations are kept up to date.

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

	2022 Loans £'000	2022 Collateral £'000	2021 Loans £'000	2021 Collateral £'000
Loans & advances to customers	75,762	205,736	78,062	190,197

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

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

LTV Ratio	**2022 £'000**	**2021 £'000**
Less than 50%	46,415	44,758
51-70%	26,264	33,055
71-90%	1,330	304
Total	**74,009**	**78,117**

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	**2022 £'000**	**2021 £'000**
Less than 50%	1,144	2,860
51-70%	930	4,382
Total	**2,074**	**7,242**

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

	2022 £'000	**2021 £'000**
Individuals	61,516	67,019
Real Estate	9,240	6,725
Hotels & Restaurants	615	832
Retail & Wholesale	1,583	1,657
Construction	1,395	1,688
Other Sectors	1,501	196
Total	75,850	78,117
Provision for impairment losses	(97)	(55)
Total	**75,753**	**78,062**

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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.

	2022				
	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	93,294	75,850	15,588	1,380	10,960
At amortised cost					
Performing	93,294	73,776	15,588	1,380	10,960
Watch list	-	2,074	-	-	-
Impaired	-	-	-	-	-
Total Gross amount	**93,294**	**75,850**	**15,588**	**1,380**	**10,960**
Impairment provisions	(30)	(88)	(95)	-	(9)
Net carrying amount	**93,264**	**75,762**	**15,493**	**1,380**	**10,951**

	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	**59,282**	**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**

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.

Currency of denomination	**Net currency position**	**Net currency position**
	2022	**2021**
	£'000	**£'000**
US Dollar	1,076	791
Euro	101	(45)
Turkish Lira	(18)	(4)
Total	1,159	742

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 £116,000 gain or a loss for the Bank (2021: £74,000)

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 64 and 65 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2022, and 31 December 2021. 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.

Maturity analysis of assets and liabilities

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

	Total Undiscounted Contractual Maturities	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**
£'000						
31-Dec-22						
Cash and cash equivalents	93,296	86,515	6,781	-	-	-
Loans and advances to banks	15,646	-	12,741	2,905	-	-
Loans and advances to customers	110,331	4,436	8,348	16,127	52,504	28,916
Investment securities	5,281	-	-	-	-	5,281
Derivative Asset	183	-	183	-	-	-
Overdraft facilities and loan commitments	11,320	-	-	11,320	-	-
Other assets	1,722	-	-	-	1,722	-
Total assets	**237,779**	**90,951**	**28,053**	**30,352**	**54,226**	**34,197**
Deposits from banks	13,047	13,047	-	-	-	-
Deposits from customers	155,627	93,713	38,982	21,181	1,751	-
Other liabilities	3,686	-	1,006	38	792	1,850
Total liabilities	**172,360**	**106,760**	**39,988**	**21,219**	**2,543**	**1,850**

	Total Undiscounted Contractual Maturities	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**
£'000						
31-Dec-21						
Cash and cash equivalents	59,288	50,597	8,691	-	-	-
Loans and advances to banks	40,089	-	306	39,783	-	-
Loans and advances to customers	79,941	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**	**61,298**	**51,143**	**6,465**
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**	**24,429**	**2,338**	**367**

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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-22				
Financial Assets				
Derivative Assets			182	182
Equity Instruments FVOCI	-	-	1,380	1,380
	-	-	1,562	1,562
Financial Liabilities				
Derivative liabilities	-	-	-	-

	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31-Dec-21				
Financial Assets				
Equity Instruments FVOCI	-	-	1,132	1,132
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, 2022 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 £37,000 (2021: £75,000).

There were no transfers of assets between levels during 2021 or 2022 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:

		2022	
	Notional amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	12,527	182	-

The swaps were over the counter plain vanilla foreign currency short term swaps with a non-connected third party.

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

The valuation of these swaps is based on the foreign exchange rates prevalent at the reporting date.

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 2022 and 2021 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:

	2022 £'000	**2021 £'000**
Share capital	12,000	12,000
Retained earnings	8,102	6,879
Fair value reserve	198	293
Revaluation reserve	6,826	6,354
Less intangible assets	(1,104)	(845)
Total regulatory capital	**26,022**	**24,681**

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.

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

	2022	2021
	£'000	£'000
Capital surplus taking into account buffers	**8,810**	**5,687**

Risk weighted assets are:

	2022	2021
	£'000	£'000
Credit Risk	81,562	90,839
Operational Risk	9,675	10,388
FX Risk	1,250	837
Total risk weighted assets	**92,487**	**102,064**

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.

39. Interest rate sensitivity gap analysis 2022

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and cash equivalents	92,822	-	-	-	-	442	93,264
Loans and advances to banks	10,827	-	4,761	-	-	(95)	15,493
Loans and advances to customers	12,842	4,459	11,149	39,845	7,556	(97)	75,754
Investment securities	-	-	-	-	-	1,380	1,380
Derivative Assets	-	-	-	-	-	182	182
Other assets	-	-	-	-	-	10,481	10,481
	116,491	4,459	15,910	39,845	7,556	12,293	196,554
Liabilities							
Deposits by banks	13,047	-	-	-	-	-	13,047
Customer accounts	132,514	9,244	11,255	1,329	-	-	154,342
Other liabilities	1,002	-	36	601	483	-	2,122
Shareholders' funds	-	-	-	-	-	27,043	27,043
	146,563	9,244	11,291	1,930	483	27,043	196,554
Interest rate sensitivity gap	(30,072)	(4,785)	4,619	37,915	7,073	(14,750)	-
Cumulative gap	(30,072)	(34,857)	(30,238)	7,677	14,750	-	-

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 2022.

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 GBP 97,000 (2021: GBP 55,000).

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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	-	-

Interest rate sensitivity analysis

The weighted average interest rates are as follows: 1.12% (2021: 0.31%) for the money market placements with banks; 6.06% (2021: 4.67%) for the loans and advances to customers; 3.07% (2021:1.71%) for debt securities with Banks; 0.26% (2021: 0.00%) for the deposits by banks; and 0.38% (2021: 0.27%) for the customer accounts.

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 2021 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 earthquake that has affected multiple cities in Turkey. 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.