



Turkish Bank (UK) Limited PILLAR 3 DISCLOSURE

As of 31 December 2024 (the “Reference Date”)

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1 Introduction

This report demonstrates Turkish Bank (UK) Limited's (the "Bank") Pillar 3 Disclosure ("P3D"). It includes the Bank's internal assessment of its primary risks and associated own funds requirements; a summary of its risk appetite, risk governance, and strategies for managing risk within the business. The Bank's P3D complies with legal requirements and aligns with its own internal guidelines and risk appetite. The P3D is aligned with the board of directors' (the "Board") latest strategic plan (the "Strategic Plan") and is based on the Bank's financial situation as of 31 December 2024 (the "Reference Date").

2 Disclosure Policy

The following sets out a summary of the policy applied to the P3D, including the basis of disclosure, frequency, media, location and verification.

2.1 Basis of Disclosure

This document sets out the P3D of the Bank as of 31 December 2024 and has been prepared in accordance with the requirements of the BOE Prudential Regulation Authority Rulebook – Disclosure (CRR), that contains rules which were onshore from Part Eight of the Capital Requirements Regulation (575/2013) ("CRR").

The level of disclosure on remuneration matters is subject to the proportionality rules set out in PRA PS16/23 "Remuneration: Enhancing proportionality for small firms". In accordance with the regulations published by the PRA in December 2023, the Bank meets the small CRR firms' criteria and for non-listed institutions and is therefore exempted from remuneration disclosures. The required disclosure on Board Recruitment and Diversity Policies continues to be disclosed and is covered in section 5.6.

No material disclosures have been omitted, nor have any disclosures been omitted from this document for confidentiality purposes. The Bank provides certain disclosures as part of the Bank's Annual Report and Consolidated Financial Statements.

2.2 Frequency, Media and Location

The Pillar 3 Disclosures are prepared annually based upon the financial information prepared for the financial statements to the 31 December of each year and are available on the Bank's website: www.turkishbank.co.uk.

2.3 Verification

The Pillar 3 disclosures were reviewed and approved by the Bank's Board of Directors on xx 2025. These disclosures have not been externally audited; however, some of the information contained within the disclosures also appears in the Bank's Annual Report.

3 Scope of Consolidation

The Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA") (together, the "Regulators"). Its accounting and disclosures are on a solo basis. The Bank does not have any subsidiary undertakings and therefore does not fall within regulatory consolidation group. The Bank is however a member of a financial group as disclosed in section 5.8 of this report.

4 The Regulatory Capital Framework

The Bank's regulatory capital framework is defined by the Capital Requirements Directive (2013/36/EU) (CRD) and CRR (together referred to as CRD IV) as implemented in the United Kingdom by the PRA, under Policy Statement PS7/13 Strengthening capital standards: implementing CRD IV, feedback and final rules in December 2013. The Bank submits quarterly capital adequacy returns to the PRA. The regulatory capital framework is categorised under three pillars.

- Pillar 1 sets out the minimum regulatory capital requirements for credit, market and operational risk. As per CRR article 92, the Bank must at all times satisfy the following own fund requirements:
 - Common Equity Tier 1 capital ratio of 4.5%
 - Tier 1 capital ratio of 6%; and
 - Total Capital Ratio of 8%.
- Pillar 2 Supervisory review process includes requirement for the Bank to undertake an Internal Capital Adequacy Process ("ICAAP"). The ICAAP represents an internal aggregated view of the risks faced by the Bank which are not covered by the Pillar 1 framework.
 - Pillar 2A sets out the additional regulatory capital as determined by the PRA, through the issuance of a firm specific Total Capital Requirement ("TCR"), following review of the ICAAP, as part of the Supervisory Review and Evaluation Process ("SREP"). Supervisory Statement 31/15 requires firms to disclose the amount and quality of its TCR. The Bank's TCR is 13.0% of RWAs, which includes Pillar 1 and Pillar 2A, and at least 56.25% of Pillar 2A must be met with CET1 capital.
 - Pillar 2B is the PRA Buffer where the PRA may impose a firm specific buffer incremental to Pillar 1, Pillar 2A and the CRD IV buffers and replaces the Capital Planning Buffer. This buffer is not disclosed; and
 - Other Capital buffers required to be met from CET 1 capital:
 - Capital Conservation Buffer (CCoB) is a standard buffer and is calculated as 2.5% of RWAs, designed to provide for losses in the event of a severe but plausible stress; and
 - Countercyclical buffer (CCyB) is expressed as a percentage of RWAs for a specific jurisdiction, in accordance with Regulation (EU) 1152/2014, as foreign credit exposure does not exceed 2% of the aggregate of general credit and securitisation exposures may be allocated to bank's UK exposures. The Financial Policy Committee is responsible for setting the UK countercyclical capital buffer rate, which for the UK, is currently set at 2%.
- Pillar 3 complements Pillar 1 and Pillar 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess the scope of application of Basel III, capital, risk exposures and risk assessment processes, and hence the capital adequacy of the firm.

4.1 Business Overview

The Bank serves its customers through its 3 branches in London (Borough High St, Haringay and Palmers Green) and Relationship Office in Mayfair catering needs of overseas HNW/UHNW customers with its 81 staff.

Palmers Green Branch merger under the nearby flagship branch, Haringay, is progressing and due to complete in 2025.

The Bank is one of over 30 banks which is a direct member of the payment schemes (FPS, BACS, Checks Clearing) since 2017, and does not offer these services to 3rd party financial institutions.

The Bank has over 9,995 personal banking customers (7,952 residents, 1,109 non-residents, over 620 business banking customers and 314 borrowing relationships).

The Bank is discussing its future plans for access to the Sterling Monetary Framework with the PRA and the BoE in the context of the Parent guarantee.

4.2 Main Business Units

The Bank is a Community Bank serving mainly two groups of customers:

- Turkish speaking community residing in London
- Overseas Group customers.

The Bank has a plain vanilla business model focused on secured lending and transactional banking services to individuals and small businesses. Main funding source is own funds and retail customer deposits.

TBUK is divided into three main business units:

4.2.1 Retail Banking, TBUK Direct, and Commercial Banking

The Bank serves its customers through 3 branches in London (Borough High St, Harringay and Palmers Green) and a Relationship Office in Mayfair catering to non-resident HNW/UHNW customers.

Palmers Green Branch is merging under the nearby flagship branch, Harringay. The merger is due to complete in 2025.

The Bank is one of over 30 banks which is a direct member of the payment schemes (FPS, BACS, Check Clearing) since 2017, and does not offer these services to 3rd party financial institutions.

4.2.2 Treasury

The Treasury Department at the Bank deals with balancing and managing the daily cash flow and managing the Bank's liquidity. The department handles Bank investments, asset and liability management and cash instruments, and also deals with financial institutions and conducts Treasury operations under regulatory guidelines.

Treasury participates in the Bank's ALCO and contributes to strategic decision-making related to balance sheet structure and risk appetite. It also manages FX exposure and executes FX transactions to hedge operational and customer-related positions.

4.2.3 Relationship Banking

Based out of the Head Office and Mayfair offices, the Bank meets the requirements of High Net-Worth Individuals who are almost exclusively clients of other Group members and originate from either Turkey or TRNC.

4.3 Products and Services

4.3.1 Retail Banking

The Bank offers a range of retail banking products, including:

- Accounts and Deposits: Current accounts, debit cards, and savings products (call, notice, and fixed term).
- Lending:
 - Small personal loans and overdrafts, limited to a maximum of 3% of own funds.
 - Residential mortgages on variable rates, typically of maturity of 5 or 10 years:

- Greater London: LTV up to 70% for existing customers, 65% for new.
- Outside London: LTV capped at 60%.
- Payments: Domestic and international payment services.

4.3.2 Commercial Banking

Commercial banking focuses on UK SMEs, normally those within the UK-Turkish community, and includes:

- Business Accounts for SMEs, mainly in London and the Southeast.
- Secured Lending:
 - Loans (up to 10 years) for commercial property purchase or refurbishment, secured against freehold or long leasehold (over 50 years).
 - Loans and overdrafts (up to 10 years) secured against cash or property.
 - Property investment loans.
- LTV Limits:
 - Greater London: 70% for existing customers, 65% for new.
 - Outside London: LTV up to 50%; lower (40%) for commercial warehouses.
 - Structured Loans: 5-year repayment profiles with bullet payments at year five. No guarantee of extension, but renewals are considered where accounts are well maintained.
- Payments: Domestic and international services.

4.3.3 Treasury

Treasury operations include:

- Money Market and FX: Placements, FX swaps, and customer spot FX in USD, EUR, and TRY.
- Treasury Lending:
 - Loans to Turkish-origin and UK/European banks through the purchase of MTNs.
 - Investment in syndicated loans to Group clients borrowing abroad.
- Investment Management:
 - Bonds, MTNs, promissory notes, and treasury assets (held to maturity) issued by governments, quasi-governments, financial institutions, and corporates in the UK and Turkey.
 - Portfolio capped at the Bank's total capital and reserves (as per Board directive).

Relationship Banking

Focused on non-resident clients, the offering includes:

- Accounts: Current and savings accounts.
- Deposits: Fixed-term deposits (up to 3 years).
- Mortgages: UK property mortgages tailored for high-net-worth non-resident clients.
- Lending: Non-resident personal loans and overdrafts.

5 Risk Management Framework & Board Declaration on Adequacy of Risk Management Arrangements

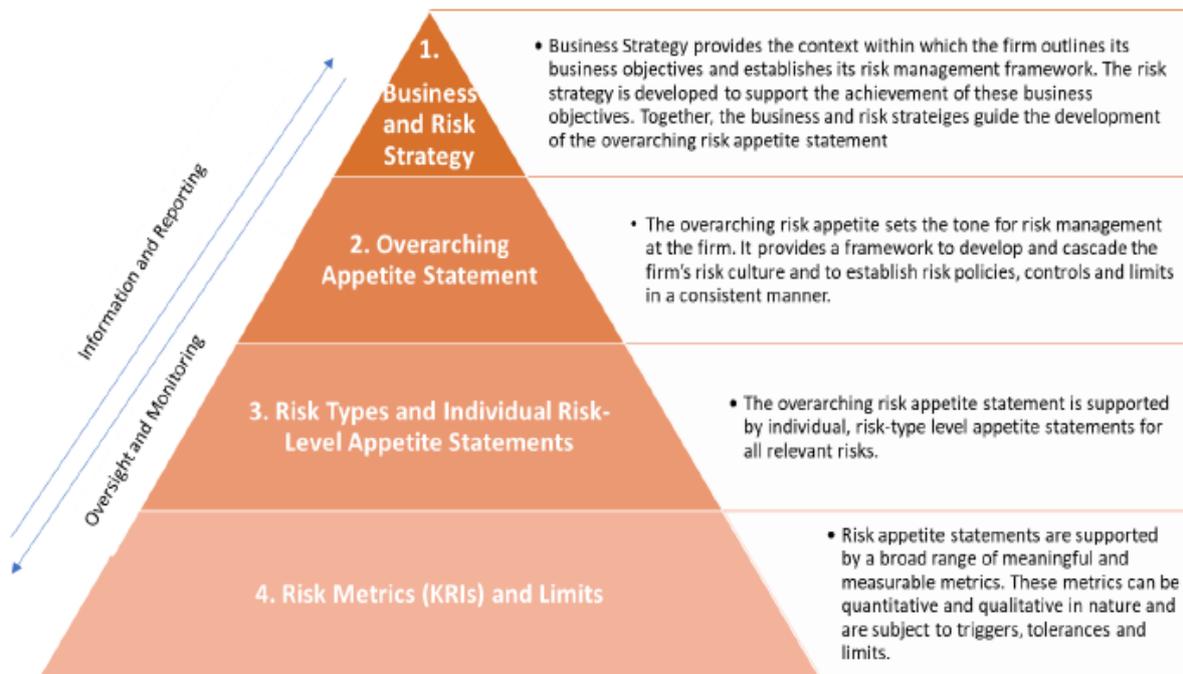
5.1 Strategy & Risk Appetite Statement

The Bank’s strategy is to provide banking services including deposit taking, current accounts and mortgage lending to clients of the Turkish community principally based in London and offshore in Turkey and Cyprus. The Bank operates from two branches in Borough High St and Haringay and from a relationship office in Mayfair.

The Risk Appetite Statement (“RAS”) defines the level of risk that the Bank is prepared to accept in pursuit of its objectives. As part of the overall Enterprise Risk Management Framework (“ERMF”) for risk governance, it guides the firm in its business activities, risk-taking and risk management.

The Board is responsible for establishing and authorising the business strategy and policies of the Bank. In doing so the Board will determine a risk appetite which sets the parameters of risk that it finds acceptable in pursuit of implementing the strategy.

Figure 1: Risk Appetite Pyramid



The following overarching risk appetite statement has been approved by the Board:

The Bank has a low-risk appetite, maintaining sufficient capital and liquidity to operate on a safe and sound basis even under stressed conditions. The Bank is willing to accept certain risks in order to achieve its Board-approved strategic goals, up to the specified risk tolerance; within the Governance Framework, in exchange for expected returns for the benefit of the Bank’s and its target market customer base.”

Core risks are allocated to Risk Owners who are typically in the first line, through the Risk Register. Risk Owners are charged with ensuring that risks assigned are monitored and assessed as appropriately with results reported back to the Executive Risk Committee (“ERC”) and the Board Risk Committee (“BRC”).

Key Risk Indicators (“KRIs”) are qualitative or quantitative indicators that provide insight into changes in the Bank’s risk profile. Adverse month-on-month KRI trends often indicate emerging or cyclical risk issues. These limits are monitored by the ERC and subsequently by BRC and the Board.

KRIs are aligned with the main risks of the Bank, including capital, liquidity, and operational risks. They act as trigger points to identify potential stresses early on, enabling prompt remedial action. The established limits and triggers reflect the corresponding risk types and appetite statements, consistent with the Strategic Plan and objectives.

A breach of the risk appetite levels in the RAF for certain KRIs acts as an Early Warning Indicator (“EWI”) within the Recovery Plan. The Recovery Plan has its own set of triggers that can invoke the Recovery Plan. These levels are set tighter than the regulatory limits to ensure that the Bank does not breach key ratios. Refer to the Recovery Plan for further detail.

5.2 Enterprise Risk Management Framework

The Enterprise Risk Management Framework (“ERMF”) is designed to establish appropriate management of the risks to the Bank’s objectives and provide simple and effective strategies to manage those risks. The ERMF supports the consistent and robust identification and management of risks across the Bank. It will foster a risk-awareness culture and the necessary reporting to provide assurance that key risks are managed within the risk appetite set by the Board.

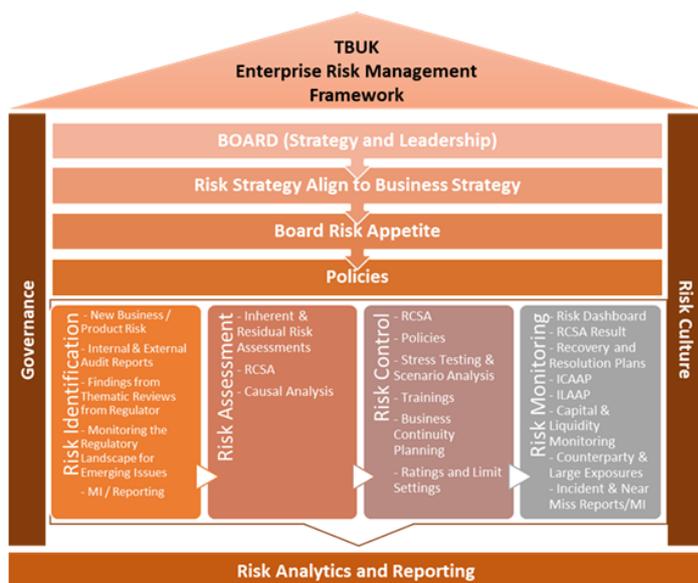
The Banks’s ERMF applies to various stakeholders, including the Board, senior management, dedicated risk function, internal audit teams, compliance function, frontline business units, and external stakeholders such as regulators, auditors, shareholders, and customers.

The Board and Management set the tone for the risk management culture, approve policies, and allocate resources, while risk management functions identify, assess, and manage risks across different risk categories.

Internal Audit provides independent assurance on the effectiveness of risk management processes, while compliance functions ensure adherence to regulations and internal policies, and frontline business units implement risk management controls.

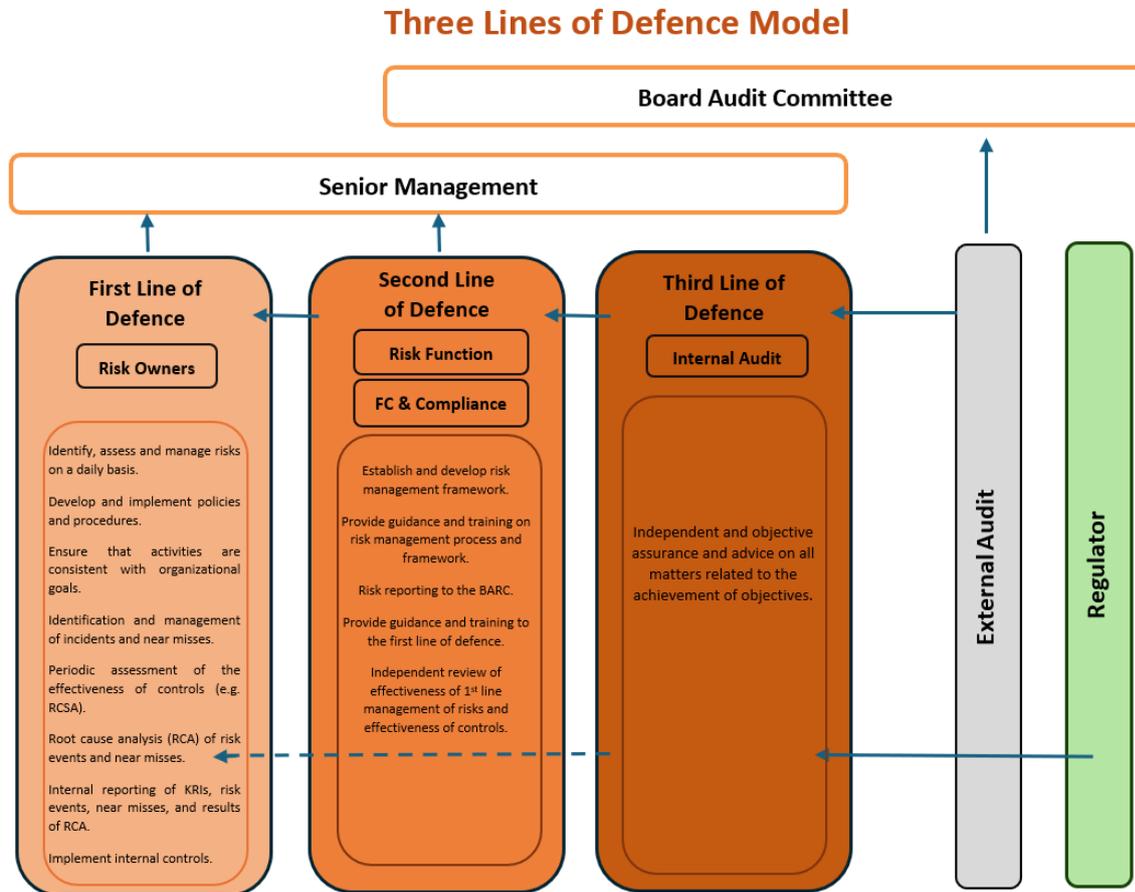
External stakeholders monitor the Bank's risk profile and performance. Together, these stakeholders collaborate to ensure comprehensive risk management practices are implemented within the Bank.

Figure 2: Risk Management Framework (RMF)



The Bank operates three lines of defence (“3LOD”) model for organising its activities and managing the risks. This model is summarised in the figure below:

Figure 3: Three Lines of Defence Model



The model is used to achieve overall risk governance, management and assurance, reinforcing the Bank’s internal control framework.

The 3LOD approach separates the ownership and management of risk from the functions that oversee risk and from the function that provides independent assurance.

The Bank applies the 3LOD model in the following manner:

- The first line of defence has direct accountability for risk decision making and risk management, which implements and manages appropriate controls and escalates matters proactively to the second line promptly when needed. Typically, the first line are the risk owners.
- The second line of defence is responsible for both facilitating the risk management process and providing oversight, independent review and challenge to the effectiveness of risk decisions taken by management to ensure that those decisions are in adherence to risk appetite, internal policies and relevant regulations. This will primarily be undertaken by the Risk function under the leadership of the CRO.
- The third line of defence is the independent assurance provided to the Board Audit Committee (“BAUC”) by Internal Audit on the adequacy and effectiveness of the ERMF including compliance with regulatory requirements, adherence to policies, and effectiveness of controls.

The ownership and reporting of risks and controls lies with the first line of defence. Ownership is typically the ExCo member responsible for that risk and the person reporting typically reports to that ExCo member. Colleagues in the first line are responsible for identifying, assessing, measuring, treating, monitoring and reporting on risks in line with the Bank’s objectives and purpose. The risk owner is responsible to ensure that the risk is managed either within the Bank’s risk appetite.

The second line sets the framework and methodology to be followed. It then guides and coaches the first line in the performance of its responsibilities, facilitating the processes, providing oversight that they are happening appropriately and efficiently, and providing challenge to test the quality and robustness of first line risk assessments, controls, and actions.

The Bank maintains an Internal Audit function that constitutes the third line of defence and that reports to the Board Audit Committee (“BAUC”).

Specific responsibilities of the Risk, Compliance, and Internal Audit functions are summarised below.

5.3 Risk

The CRO is responsible for maintaining the risk framework of the Bank and in particular the KRIs set out in the RAS and the design of the Risk Register. The Risk function will undertake, review and report on the robustness and effectiveness of arrangements.

The Risk Register is a comprehensive and dynamic tool that captures and updates all risks that the Bank faces. All staff are responsible for being aware of and reporting any potential risks, incidents, near misses, breaches to the relevant risk owners, department manager. Risks are monitored by the Risk function and CRO and reviewed by the Head of Compliance within the Compliance Monitoring Plan and the Audit function within the Audit Plan.

5.4 Compliance

The Head of Compliance is responsible for overseeing compliance in the Bank and monitoring the regulatory horizon for relevant guidance and rule changes. Day-to-day responsibilities are delegated through job descriptions to all management and staff. The Compliance function will ensure that all internal policies and relevant regulations are adhered to in the conduct of business.

5.5 Internal Audit

The Bank maintains an internal audit function that constitutes the third line of defence and that reports to the BAuC. It reviews the risk management framework on a regular basis as well as performing detailed reviews of specific areas of risk in line with the internal audit plan approved by the Board.

5.6 Overview of Risk Governance Structure

The Board is responsible for establishing and authorising the business strategies and policies of the Bank. The Board determines a risk appetite which sets the parameters of risk that it finds acceptable in pursuit of implementing the corporate strategy.

Figure 4: Turkish Bank UK Limited Governance Framework

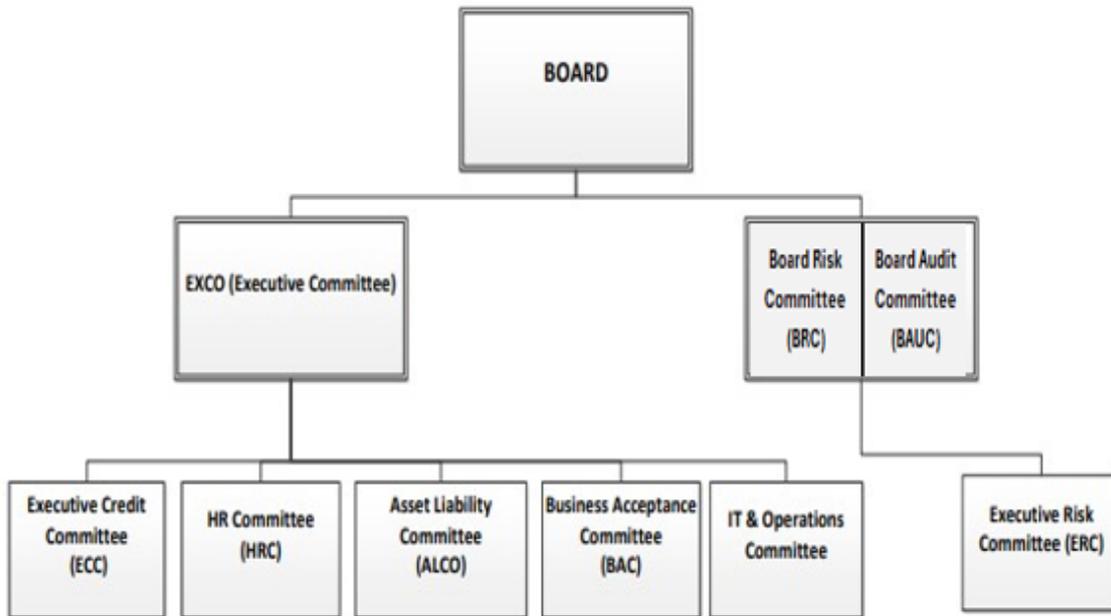


This risk appetite is cascaded by the Board to the underlying delegated governance committees. The Board has a committee dedicated to the identification, review and monitoring of all risk matters: the BRC.

To ensure that a risk culture is embedded within the Bank there is also an Executive Risk Committee (“ERC”), chaired by the CRO, which comprises the Bank’s main risk owners, business unit managers, and the CEO.

The following diagram reflects the Bank’s governance structure.

Figure 5: Turkish Bank UK Limited Committee Structure



Board / Board Audit Committee (“BAUC”) / Board Risk Committee (“BRC”)

The Board has a chairman and four independent non-executive directors and one executive director (normally the CEO). All board members are experienced bankers or subject matter experts in their respective fields. The Board meets seven times a year and is ultimately responsible for the exercise of effective risk governance, including the setting up of a risk appetite statement appropriate to the overall business strategy.

The Board is responsible for adopting policy decisions concerning the operations of the Bank and for the establishment and maintenance of adequate and functioning internal control mechanisms. Exceptions to the ERMF, procedures or parameters established by the Management will be reviewed and evaluated by the Board for appropriate resolution.

While the Board does not have a specific diversity target, it always seeks to improve on the current level of gender diversity

The Executive Committee (“ExCo”)

ExCo comprises the Chief Executive Officer (“CEO”), the Chief Finance Officer (“CFO”), the Chief Commercial Officer (“CCO”), the Chief Operations Officer (“COO”) and the Chief Risk Officer (“CRO”). Other senior staff may attend meetings by invitation as and when deemed necessary to contribute on their specific area of expertise. The ExCo shall meet, as required, which is expected to be at least on a weekly basis, in person. It reports to the Board.

The Executive Risk Committee (“ERC”)

The ERC ensures that the Bank’s risks are adequately and effectively managed. It has the responsibility for establishing a strong risk control environment and systems that fulfil expectations of the Board and are consistent with safe and sound business practices.

The ERC receives a summary of any risk events reported during the month and the Risk Dashboard of KRIs in order to review, update, and escalate issues, when appropriate, including material risks, breaches and near misses, along with proposed actions to reduce risks to within green thresholds (where required).

The ERC receives, reviews, and constructively challenges risk MI as set out below, recommending appropriate action including escalation where appropriate:

- Risk events reported during the month, the root cause(s) for the events, and what mitigating actions are planned to prevent recurrence.
- The main drivers behind Amber or Red breaches of KRIs reported in the month, as well as steps proposed to bring the indicators back within acceptable green thresholds.
- The extent to which the Bank is approaching or breaching the approved level of risk.

Other Committees

In addition, there are other internal functional committees established by management at a functional level which review risk and different aspects of risk management:

- Executive Credit Committee (“ECC”) - credit risk.
- Assets and Liabilities Committee (“ALCO”) - market and liquidity risks.
- Business Acceptance Committee (“BAC”) - client and product risks.
- IT and Operations Committee (“ITOC”) - IT and operational risks.
- HR Committee (“HRC”) - people risk.

Terms of reference for these Committees are approved by the BRC.

Staff with regulatory SMCR responsibilities have these responsibilities described in specific statements of responsibilities, which are in addition to their job description.

5.7 Risk monitoring

The frequency of reporting is proportionate to the Bank’s stability and risk appetite. The KRIs and EWIs are reported monthly and collectively presented to ERC and BRC.

The reporting of KRIs occurs as follows:

- BRC reviews the KRIs in line with its regular frequency, typically seven times per year.
- The ERC reviews KRIs bi-monthly. BRC approves KRIs as appropriate additional indicators for ERC to monitor. Although BRC does not directly monitor these KRIs as part of the Bank’s overall risk appetite, they are crucial for ERC oversight.
- The ECC monitors credit specific KRIs on a monthly basis.
- The BAC monitors Financial Crime-specific ERC KRIs monthly.
- The ALCO monitors liquidity, capital, and treasury-related KRIs monthly.
- The ITOC monitors IT and operational-related KRIs.

Notwithstanding this specific committee-level monitoring, all indicators are ultimately collected and reported by the Risk department on a monthly basis, ensuring a comprehensive and consolidated overview of the Bank’s risk landscape.

The CRO is responsible for the on-going management of the Bank’s risk profile in the context of the risk appetite framework. Where necessary, the CRO will escalate critical breaches to the BRC and the Board at the earliest opportunity. The Bank’s specific escalation process is set out in the RAF.

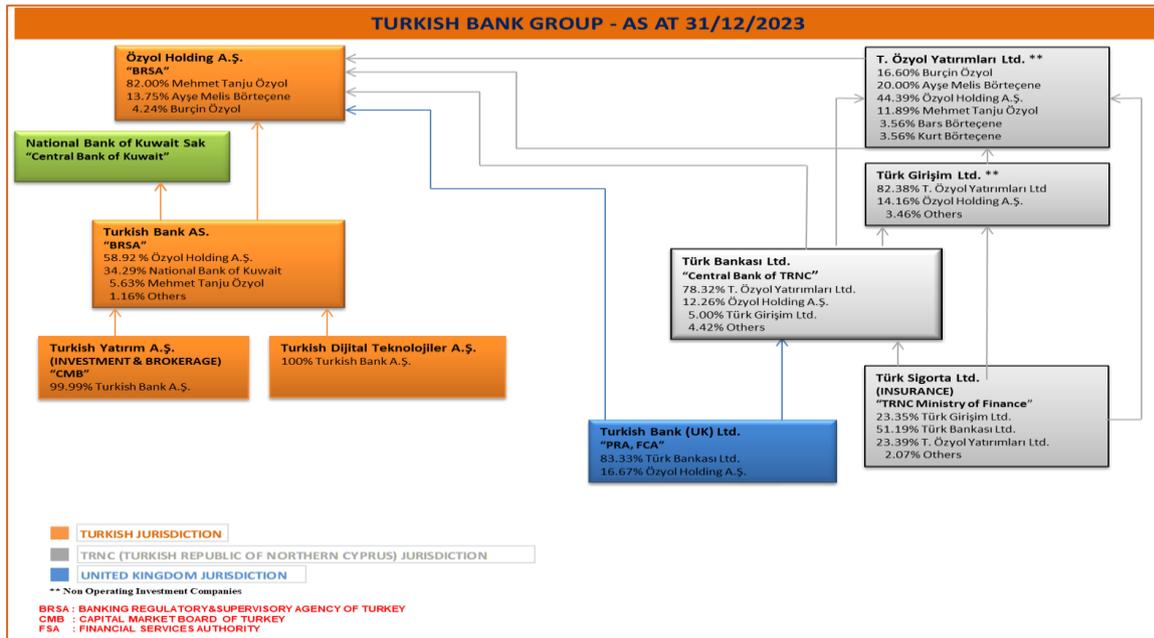
5.8 Group companies and Boards

The ultimate holding company is Özyol Holdings AS, which is registered in the Republic of Turkey (“Turkey”) and is regulated by the country’s Banking Regulatory and Supervisory Agency (“BRSA”).

Özyol Holdings AS was established in 1995 in order to manage various activities and to create a common corporate culture of the ‘Group’. Özyol Holdings AS and its subsidiary undertakings, which include the Bank, forms the Turkish Bank Group (the “Group”).

These are summarised in the diagram below.

Figure 6: Turkish Bank Group Structure



The Group is headquartered in Istanbul. The business model differs slightly for each country in which it operates. Turkish Bank AS (Turkey) concentrates on corporate and commercial banking, wealth management and High Net Worth customers. The Parent (based in TRNC) offers a broad range of consumer banking with a particular focus on HNW customers and select businesses. All Group members share common conservative operating practices, including high liquidity and capital adequacy thresholds.

The Group includes the following significant entities, in addition to the Bank.

Table 1: Group Entities

Bank	Country Registered	Established	Main Activities
Türk Bankası Ltd (Parent)	TRNC	1901	General Banking
Türk Sigorta Ltd	TRNC	1996	Insurance
Allied Turkish Bank Ltd	TRNC	2003	Private Banking
Turkish Bank AS	Turkey	1982	General Banking
Turkish Yatırım AS	Turkey	1998	Investment Services

The Parent has provided a Letter of Comfort to the PRA (originally the Financial Services Authority) dated 4 February 1999, stating its on-going support for the Bank. In addition, in January 2011, it issued a guarantee to the BoE, which will enable access to the Discount Window Facility (“DWF”) should the need arise.

6 Risk Assessment, Monitoring and Policies

6.1 Financial Strength Assessment and Monitoring

The Bank conducts an ICAAP on an annual basis. In addition, the Bank actively monitors its capital position in both normal and stressed conditions against established capital adequacy risk appetite metrics to ensure it stays within appetite.

The Bank operates a suite of liquidity monitoring controls to ensure that it stays within appetite against established risk appetite metrics. The Bank also conducts a series of liquidity stress tests as part of its ILAAP and simulates a liquidity stress event to ensure key stakeholders have working knowledge of the Liquidity Contingency Plan (“LCP”). If liquidity risk appetite metrics were to be breached, there are Recovery and Solvent Exit Plans which set out the type and range of management actions available to the Bank to restore liquidity.

Table: Key Metrics for performance and risk monitoring

Category	Metric	Measure as of 31-Dec-24
Capital	Common Equity Tier 1 Ratio	26.7%
	Leverage Ratio	16.4%
Liquidity	Liquidity Coverage Ratio (LCR)	606%
	High quality liquid assets as a percentage of total assets	16.7%
Profitability & Growth	Cost: Income Ratio	90.2%
	Profit Before Tax	£795k
Credit Risk	Non-performing loans as a percentage of gross lending	1.28%
	Specific impairment / non-performing loans	7.03%
	Total impairment as a percentage of gross total lending	0.14%
	Impaired treasury assets as a percentage of total assets	0.09%
Market Risk	Interest Rate Gap Sensitivity (change in economic value, +/- 200 basis points)	£428k
	Treasury assets as a percentage of total customer deposits	65.54%

7 Capital

7.1 Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP / ILAAP)

The content and process of the Bank’s ICAAP are in line with the relevant regulatory requirements and guidelines as set out inter alia in the Internal Capital Adequacy Assessment Part of the PRA Rulebook and various Statements of Policy and Supervisory Statements issued by the PRA, as well as those provided for elsewhere in banking regulation. Following the UK’s exit from the European Union, Basel rules were implemented via Regulation No. 575/2013 and retained in domestic UK law through the European Union (Withdrawal) Act 2018, subsequently amended via PRA Rules and reflected in the PRA Rulebook: CRR Firms (the resultant regulations are henceforth referred to as “UK CRR”).

The Bank’s ICAAP complies with legal requirements and aligns with its own internal guidelines and risk appetite. The ICAAP has advanced through the pertinent levels of governance and has been amended where necessary. A review was conducted by the Bank’s second line of defence.

The ICAAP is aligned with the board of directors’ (the “Board”) latest strategic plan (the “Strategic Plan”) and is based on the Bank’s financial situation as of 31 December 2024 (the “Reference Date”).

The ILAAP summarises the Bank’s approach to managing its liquidity and funding risks and demonstrates how it satisfies the Overall Liquidity Adequacy Rule (“OLAR”). This ILAAP is based on the budgeted financials for the financial years ended 31 December 2024 to 2028. The Bank has analysed the liquidity and funding risks to which it is exposed and has also outlined the Board’s

risk appetite in respect of liquidity and funding risks, as well as its risk strategy and management framework.

Ultimate responsibility for the ILAAP lies with the Board, which must approve the ILAAP, ensure the ILAAP is consistent with the RAS and integrate the ILAAP into the Bank's management processes and risk culture.

7.2 Capital Resources

Capital at the Bank has remained stable, given that the Bank has not declared dividends in the past few years.

Table 2: Own Funds

Regulatory Capital	Dec-24	Dec-23
Fully paid-up capital	£12.000m	£12.000m
Retained earnings	£10.859m	£8.019m
Current year profits net of dividends paid	£0.795m	£2.840m
Other Reserves	£6.845m	£7.321m
Deductions	(£0.821m)	(£0.984m)
Regulatory Own Funds	£29.678m	£29.196m

7.3 Pillar I Capital Requirements

Table 3: Capital Adequacy – Internal Assessment

Bank's Internal Assessment	Dec-24	Dec-23
Total Risk Exposure Amount (TREA)	£111.235m	£99.516m
Credit & Counterparty Credit Risk	£7.721m	£6.898m
Market Risk	£0.022m	£0.139m
Credit Valuation Adjustment (CVA) Risk	£0.009m	£0.054m
Operational Risk	£1.147m	£0.870m
Pillar 1 Capital Requirement	£8,899m	£7.961m
Credit Concentration Risk	£2.988m	£1.898m
Interest Rate Risk in the Banking Book	£0.321m	£0.198m
Operational Risk	£0.102m	£0.185m
Deductions Under PS15/20	(£0.278m)	(£0.0m)
Pillar 2A Capital Requirement	£3.133m	£2.281m
Total Capital Requirement	£12.032m	£10.242m
Capital Conservation Buffer (CCoB) Rate	2.50%	2.50%
Capital Conservation Buffer (CCoB)	£2.781m	£2.488m
Countercyclical Capital Buffer (CCyB) Rate	0.99%	1.65%
Countercyclical Capital Buffer (CCyB)	£1.101m	£1.642m
Combined Buffer Requirement	£3.882m	£4.130m
Overall Capital Requirement	£15.914m	£14.372m
Pillar 2B as a % of TREA	0.00%	0.00%
Pillar 2B Requirement	-	-
Overall Capital Requirement Plus Pillar 2B	£15.914m	£14.372m
Overall Capital Required %	14.31%	14.44%
Total Capital	£29.678m	£29.196m
Capital Adequacy Surplus/(Deficit)	£13.764m	£14.824m
CET1 Capital Ratio & Total Capital Ratio	26.68%	29.34%

8 Principal Risks and Uncertainties

8.1 Strategic Risk

The Bank defines strategic business risk as threats that may inhibit the delivery of the Bank's business strategy; it can also arise from setting an inappropriate strategy, unclear plans, priorities or accountabilities. The PRA also considers risks arising from a bank's remuneration policy to fall under the umbrella of business risk.

Although there are many external factors which are outside of the Bank's control, or cannot be fully mitigated, the Bank's Board and Management make prudent decisions in respect of strategic initiatives, revenues and costs to ensure business risks associated with the Bank's Strategic Plans are appropriately managed.

The Bank has defined metrics around a range of business risks and other risks, including prudential risks such as capital and liquidity adequacy, in addition to return on assets and net interest margin. KRIs are monitored and reported to the Bank's risk oversight committees, and the Board.

In addition, the Bank's stress testing exercise evaluated a range of adverse events that impact its ability to implement its Strategic Plan and under negative macroeconomic situations. The outputs from the stress testing demonstrate that the Bank can reasonably expect to maintain adequate capital resources (in excess of Pillar 1 plus Pillar 2A requirements) under stress, and prior to application of appropriate management actions, which can further bolster capital resources.

As such, TUBK considers that its strategic business risk is appropriately managed through its careful management of the business, and through its risk and control frameworks and processes; accordingly, the Bank does not propose to hold additional pillar 2 capital for strategic business risk.

8.2 Credit & Counterparty Credit Risk - Pillar 1 Assessment

The Bank defines credit risk as the risk of financial loss derived from its consumer and business lending activities. In addition, credit risk can be exacerbated through a concentration of risk in one country or sector and/or through country risk arising from adverse economic or political action in that country credit concentration risk is assessed separately under Pillar 2A.

The Bank's capital requirements under Pillar 1 for credit risk are determined using the Standardised Approach in accordance with CRR rules.

In addition to credit risk, the Bank is also exposed to counterparty credit risk through its over-the-counter derivatives transactions with other institutions. The Bank uses the Original Exposure Measure ("OEM") to calculate CCR as the Bank meets the thresholds to use this method (the size of the combined derivatives book is less than £88m, and less than 5% of total assets).

The Standardised Approach for credit risk entails applying a set of prescribed risk weights to the Bank's relevant assets depending inter alia on the type of exposure, the creditworthiness of the borrower, and the existence of collateral.

Credit risk is a primary risk faced by the Bank which has a medium-to-low risk appetite for credit risk. This risk is mitigated by the Bank focusing on products and communities where the Bank has expertise. The Bank's loan portfolio is managed in accordance with the Bank's Credit Risk Policy, which applies qualitative and quantitative guidelines with an emphasis on avoiding unnecessary concentrations or aggregations of risk; The Bank also mitigates the credit risk relating to its loan book to individuals and SMEs that are secured by property by adopting a conservative LTV ratio.

The Bank's credit risk exposures arise from a range of core banking activities, including various types of property lending to both resident and non-resident customers, including residential

mortgages, and both residential and commercial Buy to Let (“BTL”) transactions. In addition, the Bank offers overdraft facilities, mostly secured against property, and has engaged in syndicated loans with other Turkish banks.

Above core lending activities, the Bank takes exposures in the course of liquidity management to credit-worthy Turkish and other European banks, MDBs via bond holdings and the Bank of England through the Bank’s Reserves Account. The Bank also clears cash transactions through its NOSTRO accounts at Bank of New York (“BONY”). The Bank holds shares in Visa, Inc. which are held in the non-trading book and are covered under the Standardised Approach to credit risk.

The Bank has made insignificant write-offs of bad debts over the last decade, which has averaged less than 0.2% of total loans and advances.

The table below summarises the Bank’s credit risk exposures by exposure class (including CCR which makes up an insignificant £0.1m owing to limited derivative activity at the Bank) – along with the risk weighted exposure amounts for credit risk under the Standardised Approach – for the Reference Date as well as the forward-looking Strategic Plan period.

Table 4: Credit Risk - Pillar 1

Pillar 1 Credit and Counterparty Credit Risk	Dec-24	Dec-23
Central governments or central banks	£25.996m	£39.871m
Multilateral Development Banks	£6.245m	£4.756m
Institutions	£60.831m	£58.290m
Corporates	£0.629m	£0.569m
Secured by mortgages on property	£78.312m	£78.380m
Exposures in default	£0.881m	£1.021m
Equities	£2.133m	£1.444m
Other Items	£9.897m	£11.835m
Total Exposure Value	£184.923m	£196.165m
Risk Weighted Exposure Amount	£97.265m	£86.227m
Effective Risk Weight (%)	52.60%	43.96%

8.2.1 Credit Risk - Pillar 2A Assessment

For the Pillar 2 assessment of credit risk, in order to evaluate the sufficiency of the Pillar 1 own funds requirements under the Standardised Approach, the Bank also completed an Internal Ratings Based (“IRB”) benchmarking exercise, based on data set out in the PRA’s Statement of Policy on setting Pillar 2 capital. The Bank used Table A2 for this exercise – adopting the upper range risk weights to be prudent – and where necessary applied certain definitions and mappings set out in the PRA’s ‘Mapping for Pillar 2 credit risk data items,’ and its ‘Guidance on terms used in data items FSA071 - FSA082, and PRA111.’

Overdrafts, which form a relatively insignificant proportion of exposures, were allocated to the relevant category aligned with their underlying security (e.g., commercial mortgages), or into the corporate category where unsecured, in line with COREP reporting. Off-balance sheet commitments were excluded; however, these were immaterial.

On the Reference Date, the Bank had a total of £19.5m of performing commercial buy to let mortgages, along with a small (<£0.1 m) balance of overdrafts secured by commercial property.

Following the previous ICAAP, the Bank concluded that its commercial real estate exposures would equate broadly to Category 2 as set out in article 153(5) of UK CRR, and referring to Appendix A of SS11/13, owing to the following factors:

- Low LTV ratios – no exposures with an LTV ratio above 67%, around 90% with an LTV ratio of less than 60%, and more than 50% of the portfolio with an LTV of less than 50%.
- Concentration of loan book being in a high growth area (Central and Greater London).
- The Bank’s exposures being restricted to a customer segment where it has expertise and in-depth knowledge.

Were the Bank to apply a higher benchmark, e.g., 100%, this would not materially change the outcome of the assessment.

Looking to the benchmarking exercise, the Bank's Pillar 1 own funds assessment under the Standardised Approach results in higher risk exposure amounts and own funds requirements compared to the IRB benchmarks for similar exposures. Consequently, **the Bank concluded that there is no requirement to hold additional Pillar 2A capital for credit risk.**

8.2.2 Credit Concentration Risk - Pillar 2A Assessment

For the Bank, credit concentration risk arises due to sectoral, geographic, and single name concentrations that result in imperfect portfolio diversification in comparison with a notional benchmark of an investment grade rated UK bank.

Owing to its limited size and specific areas of focus, in which the Bank has credit expertise, the Bank is willing to accept a certain level of concentration within its credit portfolios. Accordingly, the Bank has a medium risk appetite for concentration risk. While credit risk is assessed under both Pillar 1 and Pillar 2 frameworks, the Bank separately analyses its exposure to credit concentration risk and provides additional capital for this risk.

For the Pillar 2 analysis, the Bank adopted the benchmark Herfindahl-Hirschman Index (“HHI”) approach and follows the PRA’s reporting instructions for the calculation of HHI values for each of single obligor, industry, and geographical region.

The following table shows the results of the HHI calculations for concentration risk, mapped to the PRA’s capital add-ons.

Table 6: Credit Concentration Risk Pillar 2 Analysis

Concentration Risk	HHI value (%)	Capital Add-On (%)	Portfolio RWA	Pillar 2A Requirement
Single Obligor	6.76%	3.05%	£58.063m	£1.772m
Industry Sector	43.25%	1.03%	£66.496m	£0.685m
Geographical Region	47.50%	0.79%	£66.996m	£0.531m
Total				£2.988m

The Bank has taken the approach of assigning the capital add-on using the relative position of the resulting HHI value based on the prescribed ranges set by the PRA. The Bank believes this results in a prudent add-on for concentration risk, accounting for the nature and type of its credit exposures, the fact that an element of this risk is already covered under Pillar 1 requirements for credit risk, and accounting for proportionality based on the Bank’s smaller size and inherently higher concentrations.

Based on the HHI analysis as set out above, the Bank proposes **a pillar 2 add-on for credit concentration risk of £3.0m.**

8.2.3 Credit Valuation Adjustment (CVA) Risk - Pillar 1 Assessment

CVA risk is the risk of mark-to-market losses due to the deterioration in the creditworthiness of a counterparty to a derivatives transaction. Own funds requirements in relation to CVA risk are also set out within UK CRR.

The Bank enters into a very limited number of over-the-counter derivative transactions (foreign exchange swaps) in the ordinary course of business for hedging and risk management purposes.

In accordance with UK CRR, the Bank must calculate an own funds requirement for CVA risk. The Bank applies the more straightforward Standardised Approach when assessing CVA risk, owing to the limited level and low complexity of its covered transactions.

The table below summarises the Bank’s exposure to CVA risk, which is assumed to remain broadly consistent over the course of the Strategic Plan period.

Table 7: CVA Risk Pillar 1 Calculation

Standardised Approach	Dec-24	Dec-23
No. of counterparties	1	2
Total Exposure Value	£0.134m	£0.796m
Risk Weighted Exposure Amount	£0.115m	£0.679m
Pillar 1 Capital Requirement	£0.009m	£0.054m

8.3 Customer and Conduct Risk

The Consumer Duty is a standard introduced by the Financial Conduct Authority (“FCA”) in the UK. It sets higher and clearer standards of consumer protection across financial services and requires firms to put their customers’ needs first. The changes were announced in 2021 and officially came into force on 31 July 2023.

Implementation of changes relating to Consumer Duty in the Bank was progressed under a Steering Committee, reporting to ExCo and the Board. The Steering Committee consisted of C-suite managers jointly led by the CRO (SMF4) and Head of Business (SMF18).

As part of its implementation, a new Consumer Duty Policy was approved and embedded, and pre-existing Conduct, Compliance and Product Frameworks along with other relevant policies and procedures were enhanced. All amendments were reviewed in order to make sure that they are fully aligned to and duly address the requirements of the Consumer Duty.

Extensive training has been provided to all staff to ensure understanding of the Consumer Duty, consumer outcomes and the supporting policies and procedures. The results of training were reviewed to confirm awareness and understanding across the organisation.

The Bank remains fully committed to continuously monitoring, and enhancing where necessary, its processes and controls to ensure its products and services deliver fair and positive outcomes throughout the life cycle and timely, transparent, and effective communication. The Bank does not propose to hold additional pillar 2 capital for business risk consumer duty risk.

8.4 Financial Risk

8.4.1 Market Risk - Pillar 1 Assessment

Market risk refers to the potential adverse impacts due to fluctuations in pricing in financial markets, leading to financial losses. Market losses cover a range of aspects including interest rate, foreign exchange, and commodity price risk.

The Bank does not maintain a trading book, accordingly, its primary exposures to market risk arise from foreign exchange positions. The Bank has a low-risk appetite for market risk.

As set out in UK CRR, where the Bank’s net foreign exchange position exceeds 2% of its own funds (a.k.a. the de minimis level), it must provide own funds in respect of market risk.

The Bank calculates its net position in each currency by summing the net spot position and the net forward position in each currency other than Sterling (the Bank’s reporting currency). As the Bank does not take positions in either foreign exchange options or irrevocable guarantees (or similar instruments), there is no additional market risk arising from such transactions.

When calculating the net risk position, the Bank takes the higher of the summed short and summed long position, as derived above, to be its net position and bases the Pillar 1 capital requirement on this figure, multiplying the higher amount by 8%.

The Bank expects its FX risk position to fall below de minimis levels over the Strategic Plan period through regular risk management/ hedging and accordingly has not included an own funds requirement for market risk in the periods 2025 to 2028. Notwithstanding, should the level of exposure breach the de minimis level, the Bank will allocate own funds for market risk.

The table below shows the Bank’s calculation of own funds requirements for market risk on the Reference Date. Taking a conservative view, while the net risk position did not exceed the de minimis level, the Bank did calculate a capital requirement for foreign exchange position risk.

Table 8: Market Risk Pillar 1 Calculation

	Net Long	Net Short
Euro	£0.032m	-
Yen	<£0.001m	-
Turkish Lira	-	£0.006m
US Dollar	£0.249m	-
Aggregate Net Short or Long	£0.280m	£0.006m
Foreign Exchange Position (Maximum of Net Short or Net Long)	£0.280m	
Foreign Exchange Position as % of Own Funds	1.0%	
Market Risk Capital	£0.022m	

8.4.2 Market Risk - Pillar 2 Assessment

Owing to the limited extent and straightforward nature of its market risk exposures, the Bank considers that there is limited risk that the own funds requirements arising under Pillar 1 CRR rules do not adequately cover the risk positions. Accordingly, **the Bank does not believe any additional pillar 2 capital should be required in respect of market risk.**

8.4.3 Interest rate risk in the banking book (“IRRBB”) - Pillar 2 Assessment

Interest rate risk in the banking book (a.k.a., the non-trading book) (“IRRBB”) relates to the present and future risks to the Bank’s capital and earnings arising from fluctuations in market interest rates.

IRRBB is managed and controlled by Treasury and Financial Control reporting to ALCO and ERC in accordance with the Bank’s Treasury Risk Policy and under the terms of the Bank’s IRRBB Framework. The Bank has limited long term or complex interest rate risk positions, and does not enter into derivative transactions to hedge IRRBB, e.g., through the use of interest rate swaps.

IRRBB is reduced significantly by the fact that the majority of the Bank’s assets and liabilities are of a floating rate nature and hence any mismatches are of a relatively short duration. The overall potential impact of mismatches on the short-term earnings and economic value of the portfolio in the longer term is not considered to be material based on standard shock scenarios, and the risk is considered low. Accordingly, the Bank has a low risk appetite for IRRBB.

In 2023, the Bank introduced measures to embed the newer IRRBB prudential requirements as set out in SS31/15 and in the Internal Capital Adequacy Assessment Part of the PRA Rulebook. The Bank adopted an IRRBB Framework and implemented a new measurement system for IRRBB, allowing the Bank to assess IRRBB under both economic value of equity (“EVE”) and earnings-based (“NII”) measures and applying the prescribed interest rate shock scenarios, including:

- Scenario 1: parallel shock up;
- Scenario 2: parallel shock down;
- Scenario 3: steeper shock (short rates down and long rates up);
- Scenario 4: flatter shock (short rates up and long rates down);
- Scenario 5: short rates shock up; and
- Scenario 6: short rates shock down.

The Bank applies these scenarios to all material currencies (Sterling, US Dollar and Euro) and uses the worst-case EVE ‘loss’ amount within internal reporting. In addition to the above-described model, the Bank reports the impact of a 2% parallel shift in interest rates on a consolidated currency basis each quarter through the PRA’s FSA017 return.

For its assessment of own funds in this ICAAP, the Bank analysed its risk position over the previous four quarters using the latest IRRBB measurements and using an EVE method, which were broadly aligned with those via its FSA017 returns. The results are summarised in the table below:

Table 9: IRRBB Pillar 2 Analysis

IRRBB	Largest EVE loss	Scenario
Dec-24	£0.392	Short Rates Up
Sep-24	£0.175	Short Rates Up
Jun-24	£0.358	Short Rates Up
Mar-24	£0.359	Short Rates Up
Average	£0.321	

The Bank opted to use the 6 scenario-based, newer assessments of IRRBB owing to the more granular methodology, currency-level analysis, and currency-specific shock parameters. Based on the four-quarter average of its IRRBB, the Bank proposed **an add-on to pillar 2 capital for IRRBB of £0.3m.**

8.4.4 Risk of Excessive Leverage - Pillar 2 Assessment

The risk of excessive leverage means that the Bank is vulnerable to leverage or contingent leverage. Excessive leverage could require unintended changes to the Strategic Plan or even distressed selling of assets which might result in unexpected losses.

Following the changes in prudential regulation relating to leverage ratio capital requirements and buffers – set out in the PRA Rulebook and effective from 1 January 2022 – while the Bank is not directly within scope of the newer rules, it should target a minimum normal Leverage Ratio of 3.25%.

The Bank calculates the Leverage Ratio by dividing its capital measure (Tier 1 Capital) by the total exposure measure. The Bank monitors its Leverage Ratio on an ongoing basis within its suite of KRIs.

The table below sets out the Bank’s calculation of the Leverage Ratio, both for the Reference Date and for the forward-looking periods of the Strategic Plan. Presently, the Bank does not adjust the exposure measure for deductions relating to Central Bank exposures.

Table 10: Leverage Ratio

Leverage Ratio (%)	Dec-24	Dec-23
Exposures	£182.362m	£185.039m
Excluded Items	(£0.818m)	(£0.971m)
Exposure Measure	£181.544m	£184.068m
Capital Measure	£29.678m	£29.196m
Leverage Ratio (%)	16.4%	15.9%

Based on the projected levels of leverage over the period to December 2028, and considering the absence of contingent leverage, **the Bank does not propose to hold any additional pillar 2 capital for the risk of excessive leverage.**

8.4.5 Liquidity Risk - Pillar 2 Assessment

Liquidity risk is defined by the Bank as the risk that the Bank fails to maintain sufficient capital or liquidity resources to meet its regulatory obligations or to sustain the aims of the Strategic Plan or meet its financial obligations and liabilities when they fall due or will only be able to meet them at an uneconomic price.

The Bank assesses liquidity (and funding) risk as part of the Internal Liquidity Adequacy Assessment Process (“ILAAP”). The Bank holds significant HQLA at the Bank of England in the form of reserves as well as through holdings of highly rated and liquid supranational bonds; overall, it has a low risk appetite for liquidity risk.

In addition, the Bank monitors its LCR and NSFR ratios monthly to ensure they are within the Bank’s risk appetite and above regulatory requirements. As part of its Pillar 2B stress testing, the Bank considered liquidity risks through the increased cost of funding owing to reputational risks.

For reference, the table below shows the Bank’s LCR and NSFR on the Reference Date as disclosed in the ILAAP.

Table 11: NSFR and LCR Ratios

Liquidity Ratio (%)	Regulatory Limit	2024
LCR (Pillar 1)	100%	606%
NSFR	100%	195%

Based on the levels of liquidity risk in the business, and the robust HQLA held by the Bank and the detailed analysis of liquidity and funding risks via the ILAAP, including the holding of Pillar 2 liquidity for sub-elements of liquidity risk, **the Bank does not consider additional Pillar 2 capital to be required for liquidity risk.**

8.4.6 Financial Risks from Climate Change - Pillar 2 Assessment

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 flood, fire, drought, cyclone) 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 and 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 change to the economy. The UK Government has set a target of achieving net-zero greenhouse gas emissions by 2050 to respond to risks posed by climate change.

Review of the potential physical risks on the Bank's 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.

The Bank had conducted in 2022 a quantitative analysis on the potential impact of physical risks on the mortgage portfolio of the Bank under the loan book with a particular focus on flood risks and other relevant environmental risks. The Bank then 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. All new loans require an evaluation of environment and flood risk from an independent adviser.

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 provision of sufficient building insurance cover to protect the Bank's collateral.

The Bank has limited exposure to financial market risks through climate change due to the absence of a trading portfolio in its balance sheet and the limited counterparty risks through financial derivatives.

The Bank 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 a portfolio average LTV of 46%, which would reach a level of 77% 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 the Bank has room to manage and absorb a fall in property prices through materialization of physical and transitional climate change related risks. Despite this, the Bank intends to review this risk on a regular basis.

The Bank has a low-risk appetite for exposure to climate change risk. The Bank's low risk appetite for climate change risk principally driven by:

- It is the view of the management and the Board that the Bank's exposure to these risks and in particular to transitional risks are limited in scope given the locality of the loan book with concentration in the Central and Greater London area.
- The Bank has very limited corporate exposures in its books, as most loan exposures are composed of mortgage financing to consumers and small businesses. Therefore, physical risks are more relevant to the Bank's property rather than transactional risks.
- The Bank is not exposed to climate related sector risks as it does not have any exposure to climate-sensitive loan book such as energy, forestry, water, sanitation, agriculture, etc.

- Under the Bank's legal charge on property, the borrower is required to provide building insurance to the charged property with an approved insurer to protect assets.
- It is unlawful to let buildings (commercial or residential) in England and Wales that do not achieve a minimum Energy Performance Certificate (EPC) of 'E'. This applies to the Bank's loan renewals as well as to new facilities.
- All LTV ratios at origination are below 70%.

Taking into account these factors, the challenges in incorporating long-term climate scenarios into the time horizon of ICAAP stress testing, and the property price falls already taken into account in the existing ICAAP stresses, the Bank **does not propose to hold additional pillar 2 capital against financial risks from climate change.**

8.5 Group Risk - Pillar 2 Assessment

Group risk generally refers to the risk that the financial position of the Bank may be negatively affected by its relationships or interconnectedness with other entities in the Group, including via reputational contagion.

The Bank is part of the wider Turkish Bank Group. However, the Bank mostly operates independently from the Group with limited shared services. While it shares some business and activities with the Group, the Bank operates as a standalone entity with its own board, governance frameworks and risk management practices, which introduce separation between the Bank and the Group.

Notwithstanding, the Chairman of the Group also performs the role of Chairman of the Bank, and the Bank operates within and is guided by the overall strategic objectives of the Group, which focus on providing quality customer service at a competitive price to clients and to provide a reasonable return on capital to shareholders.

The Bank has a very limited level of credit exposures to the Group through placements with affiliated companies (less than £0.1 m). On the liability side, the Bank has around £0.8 m of deposits from the Parent and a further £4.7 m in deposits from affiliated entities. Furthermore, the Bank continues to incur Group-related expenses and benefits from its connection to the Group as part of the Board's corporate strategy, e.g., through sale/syndication of loans.

As a part of the Group, the Bank is inherently exposed to some level of reputational risk in the event of adverse events or media coverage relating to another Group company, which could spill over to the Bank. The Bank tracks as part of the RAS any reputational events elsewhere in the Group as well as adverse media reports in order to be aware of any pending crisis or potential contagion.

The Bank recognises the existence of group risk and mitigates this risk to the extent possible. **Overall, the Bank does not believe any additional pillar 2 capital should be required in respect of group risk.**

8.6 Business Risk - Pillar 2 Assessment

The Bank defines strategic business risk as threats that may inhibit the delivery of the Bank's business strategy; it can also arise from setting an inappropriate strategy, unclear plans, priorities or accountabilities. The PRA also considers risks arising from a bank's remuneration policy to fall under the umbrella of business risk.

Although there are many external factors which are out with the Bank's control, or cannot be fully mitigated, the Bank's Board and Management make prudent decisions in respect of strategic initiatives, revenues and costs to ensure business risks associated with the Bank's Strategic Plans are appropriately managed.

The Bank has defined metrics around a range of business risks and other risks, including prudential risks such as capital and liquidity adequacy, in addition to return on assets and net interest margin. KRIs are monitored and reported to the Bank's risk oversight committees, and the Board.

In addition, the Bank's stress testing exercise evaluated a range of adverse events that impact its ability to implement its Strategic Plan and under negative macroeconomic situations. The outputs from the stress testing demonstrate that the Bank can reasonably expect to maintain adequate capital resources (in excess of Pillar 1 plus Pillar 2A requirements) under stress, and prior to application of appropriate management actions, which can further bolster capital resources.

As such, TUBK considers that its strategic business risk is appropriately managed through its careful management of the business, and through its risk and control frameworks and processes; accordingly, **the Bank does not propose to hold additional pillar 2 capital for strategic business risk.**

8.7 Business Risk Consumer Duty - Pillar 2 Assessment

The Consumer Duty is a standard introduced by the Financial Conduct Authority ("FCA") in the UK. It sets higher and clearer standards of consumer protection across financial services and requires firms to put their customers' needs first. The changes were announced in 2021 and officially came into force on 31 July 2023.

Implementation of changes relating to Consumer Duty in the Bank was progressed under a Steering Committee, reporting to ExCo and the Board. The Steering Committee consisted of C-suite managers jointly led by the CRO (SMF4) and Head of Business (SMF18).

As part of its implementation, a new Consumer Duty Policy was approved and embedded, and pre-existing Conduct, Compliance and Product Frameworks along with other relevant policies and procedures were enhanced. All amendments were reviewed in order to make sure that they are fully aligned to and duly address the requirements of the Consumer Duty.

Extensive training has been provided to all staff to ensure understanding of the Consumer Duty, consumer outcomes and the supporting policies and procedures. The results of training were reviewed to confirm awareness and understanding across the organisation.

The Bank remains fully committed to continuously monitoring, and enhancing where necessary, its processes and controls to ensure its products and services deliver fair and positive outcomes throughout the life cycle and timely, transparent, and effective communication. **The Bank does not propose to hold additional pillar 2 capital for business risk consumer duty risk.**

8.8 Operational Risk

Operational risk is defined by the Bank as the risk of loss resulting from failed or inadequate internal processes, people and systems or external events. The Bank subdivides operational risk into general operational risk, personnel operational risk, IT and systems operational risk, financial crime, and regulatory and conduct risk. The Bank has a medium-to-low risk appetite for all operational risks.

Operational risk arises from daily activities which can result in direct or indirect losses. These losses can arise in a wide variety of ways from simple human error through to failure to comply with the Bank's internal regulations or legal or regulatory requirements as well as through fraud or other malicious conduct.

While operational risk is covered under prescribed CRR rules for Pillar 1 own funds requirements, as a broad risk category the Bank also undertakes a Pillar 2 assessment of operational risk to identify any aspects of operational risk that are not fully covered by the Pillar 1 requirements.

The Bank has adopted the Basic Indicator Approach (“BIA”) when assessing Pillar 1 operational risk capital requirements. The BIA calculation is based on levels of income using the Relevant Indicator, which specifies the types and categories of income that shall be included in the calculation.

The capital requirement for operational risk is calculated as 15% of the average of the Relevant Indicator for the last 3-years. To produce a risk exposure equivalent amount, the own funds requirement is multiplied by 12.5 times (i.e., divided by 8%).

Until 2024, the Bank had a history of insignificant operational risk losses – a straightforward average of around £10,000 per year between 2017 and 2023, with mean number of events per annum of 33.

In 2024, the Bank experienced an external fraud event, which led to a larger loss of around £0.38 m, albeit the volume of events was consistent with recent averages. In all years, operational risk losses were significantly lower than the own funds provided under Pillar 1 for operational risk.

Table 12: Historical Operational Risk Losses

Year	Total Loss (£)	No. Events
2017	5,580	66
2018	3,420	50
2019	2,170	32
2019	2,170	32
2020	6,184	25
2021	29,347	13
2021	29,347	13
2022	2,303	34
2023	5,374	34
2024	384,238	25
Average (Last 10-years)	47,013	32
Average (excl. 2024)	9,544	33

In order to limit its exposure to operational risk events, the Bank has historically taken a series of actions, including ceasing correspondent banking activities, and, more recently, following a regulatory review, undertaking a financial crime controls project to strengthen controls around combatting financial crime, involving enhancements to policies and procedures, remediation of due diligence files, improving governance and oversight, automated screening, and recruiting experienced staff.

With respect to conduct, the Bank is aware of its duties under the conduct rules including under the newer Consumer Duty requirements and takes these very seriously. All employees undergo awareness training immediately upon joining the Bank, followed by regular updates throughout their employment.

The Bank also sets out detailed expectation on staff conduct within its Staff Handbook, and all staff are required to attest that they have read and understood these rules and will comply. Any complaints of misconduct are taken extremely seriously and are thoroughly investigated by a senior member of staff.

The Bank’s losses from conduct-related events (i.e., those categorised within the event type ‘Clients, Products & Business Practices’ have been very limited historically).

The table below summarises the Bank’s own funds requirements for operational risk for the Reference Date as well as the forward-looking Strategic Plan period.

Table 13: Operational Risk - Pillar 1 Calculation per 31 December 2024

	Year-3	Year-2	Last Year
Operational Risk Own Funds Requirement			
Relevant Indicator	£4.895m	£7.272m	£10.765m
3-year average	£7.644m	Dec-24	
Capital requirement (15%)	£1.147m		
Risk Weighted Exposure Amount	£14.332m		

Table 14: Operational Risk - Pillar 1

Operational Risk Own Funds	Dec-24	Dec-23
Net interest income	£9.663m	£9.839m
Other operating income	£0.759m	£0.926m
Relevant Indicator	£10.422m	£10.765m
3-year average	£9.486m	£7.644m
Capital requirement (15%)	£1.423m	£1.147m
Risk Weighted Exposure Amount	£17.786m	£14.332m

8.8.1 Operational Risk - Pillar 2 Assessment

The Bank believes that the own funds provided under Pillar 1 is likely to be sufficient to cover any anticipated losses. However, to be conservative, the Bank also undertakes a Pillar 2 assessment for operational risk in line with regulatory guidelines and best practices.

Based on the Bank’s size and limited level of complexity, the Bank favours a scenario-based approach to evaluating Pillar 2 capital for operational risk.

Operational risk scenarios

In this ICAAP, the Bank considered a long list of 15 scenarios (refer to **Error! Reference source not found.**) developed by the Risk department and based on the range of Basel operational risk event types. In this process, the Bank sought to cover both conduct and non-conduct events together.

The Bank produced conservative estimates of probability and financial impact for each scenario using expert judgement.

Considering previous feedback on its Pillar 2 scenario assessment process received from the PRA, the Bank sought to calibrate the own funds assessment to a 1-in-1,000-year confidence level. The scope of sub-types of operational risk included within the analysis was also refined, to follow common industry standards.

These scenarios are summarised below. Clients, Products and Business Practices (“CPBP”) scenarios are considered to serve a proxy for conduct risk.

Table 15: Operational Risk Pillar 2 Scenarios

#	Event Type	Name	Probability (1 in X years)		Impact
1	Business Disruption & System Failure	Natural Disaster	1 in 1,000	0.1%	£2.000m
2	Employment Practices & Workplace Safety	Employee Litigation	1 in 10	10%	£0.050m
3	Business Disruption & System Failure	Security Breaches	1 in 3	33%	£0.100m

#	Event Type	Name	Probability (1 in X years)		Impact
4	Execution, Delivery & Process Management	Operational Losses- Payment	1 in 5	20%	£0.100m
5	Execution, Delivery & Process Management	Transaction processing failures – Debit Card	1 in 3	33%	£0.005m
6	External Fraud	Debit Cards	1 in 2	50%	£0.025m
7	Business Disruption & System Failure	System Availability	1 in 5	20%	£0.050m
8	External Fraud	Operational Losses-Cyber	1 in 20	5%	£1.000m
9	Execution, Delivery & Process Management	Exchange Rate Difference on transactions	1 in 5	20%	£0.025m
10	Business Disruption & System Failure	Global Catastrophic Event	1 in 100	1%	£1.000m
11	Execution, Delivery & Process Management	Refunded fees or charges	1 in 5	20%	£0.001m
12	Internal Fraud	Fraudulent Transaction	1 in 50	2%	£0.500m
13	Clients, products, and business practices	Complaints	1 in 5	20%	£0.010m
14	Clients, products, and business practices	Account Mismanagement	1 in 5	20%	£0.050m
15	Clients, products, and business practices	Regulatory Breaches and Failures	1 in 15	7%	£0.250m
			Grand Total		£5.166m

To approximate a 1-in-1,000 loss, the Bank combined a sub-group of the scenarios. The Bank selected scenarios 6, 10, 12 and 14 from the long list (highlighted row), as these encompassed a range of event types including conduct risk and produced a combined probability of around 0.1%.

The simple aggregated losses from these four scenarios totalled £1.575m. However, accounting for non-perfect correlation between loss types and in line with regulatory guidance and best practices, the Bank elected to apply prudent correlation/diversification factors based on expert judgement to the scenario loss assessments.

Loss estimates were aggregated using a correlation-based approach¹ that accounted for inter-risk dependencies via a simple correlation matrix.

Table 16: Operational Risk Pillar 2 Scenario Factors

Operational Risk Pillar 2	External Fraud	Business Disruption & System Failure	Internal Fraud	CPBP
External Fraud	1	0.25	0.5	0.2
Business Disruption & System Failure	0.25	1	0.25	0.2
Internal Fraud	0.5	0.25	1	0.2
Clients, products, and business practices	0.2	0.2	0.2	1

As a result of the scenario assessment, the Bank's Pillar 2 assessment for operational risk resulted in an own funds requirement of £1.250m. Considering the pre-existing Pillar 1 capital requirement of £1.150m, **the Bank proposes a pillar 2 add-on for operational risk of £0.1m.**

¹ $Total\ Capital = \sqrt{\omega^T \Sigma \omega}$

8.9 Other Risks for Which Capital is Not Held - Pillar 2 Assessment

Management considered the following additional risks and believes that, given the lack of relevance or nature of the controls it has in place, it is not necessary to provide additional capital for any of these risks:

- **Securitisation risk (Pillar 2 risk)** – not applicable to the Bank as it does not engage in any securitisation activities.
- **Pension obligation risk (Pillar 2 risk)** – as the Bank has a defined contribution pension scheme, it is not exposed to risks or contingent risks from a defined benefit pension scheme.
- **Residual risk (Pillar 2 risk)** – The Bank holds cash collateral as credit risk mitigation for a very limited number of exposures. As the Bank only uses this form of funded credit protection, it does not consider residual risk to be significant given that this type of credit protection is considered to be fully effective (cash already held by the Bank).

8.10 Summary of Pillar 1 and Pillar 2A Risks and Own Funds Requirements

From the individual risk level analysis within this section, the following table sets out the Pillar 1 and Pillar 2A own funds requirements, based on the Bank’s own assessment of its relevant risks.

Pillar 1 requirements are based on the CRR rules, while those for Pillar 2A reflect the Bank’s own internal assessment of risks for the Reference Date, applying common industry practices and following methodologies set out in the PRA’s Statement of Policy on Pillar 2 Capital.

Table 17: Summary of Pillar 1 and Pillar 2 Capital

£'000s Risk	Pillar 1 Assessment	Pillar 2 Assessment	Pillar 2A Add-On	Total Pillar 1+2A
Credit & Counterparty Credit	£7.721m	£7.721m	-	£7.721m
Credit Concentration	-	£2.988m	£2.988m	£2.988m
CVA	£0.009m	£0.009m	-	£0.009m
Operational	£1.147m	£1.248m	£0.102m	£1.248m
Market	£0.022m	£0.022m	-	£0.022m
IRRBB	-	£0.321m	£0.321m	£0.321m
Risk of excessive leverage	-	-	-	-
Liquidity	-	-	-	-
Financial risks from Climate Change	-	-	-	-
Group	-	-	-	-
Business	-	-	-	-
Business – Consumer Duty	-	-	-	-
Others	-	-	-	-
Deductions: PS15/20	-	(£0.278m)	(£0.278m)	(£278m)
Average	£8.899m	£12.032m	£3.133m	£12.032m

In line with the PRA’s latest SREP assessment, set out in the PRA’s letter to the Bank on 3 March 2025, the Bank applied a deduction of 0.25% of TREA to its Pillar 2A requirements (an equivalent value of £0.28m based on the TREA on the Reference Date). The Bank understands this deduction is applicable to it under PS15/20, and in line with previous communication with the PRA, in order to take account of the additional resilience associated with higher macroprudential buffers in a standard risk environment.

9 Appendix

Appendix 1: Key Metrics

		£	£
		T – Current Year	T-4 - Prior Year
		31 Dec 24	31 Dec 23
		£'000	£'000
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	£28,884	£28,099
2	Tier 1 capital	£28,884	£28,099
3	Total capital	£28,884	£28,099
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	£111,235	£99,516
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	25.97%	28.24%
6	Tier 1 ratio (%)	25.97%	28.24%
7	Total Capital ratio (%)	25.97%	28.24%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirement (%)		
UK 7b	Additional AT1 SREP requirements (%)		
UK 7c	Additional T2 SREP requirements (%)		
UK 7d	Total SREP own funds requirements (%)	1.49%	1.49%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		
9	Institution specific countercyclical buffer (%)	0.99%	1.65%
UK 9a	Systemic risk buffer (%)		
10	Global Systemically Important Institution buffer (%)		
UK 10a	Other Systemically Important Institution buffer		
11	Combined buffer requirement (%)	3.49%	4.15%
UK 11a	Overall capital requirements (%)		
12	CET1 available after meeting the total SREP own funds requirements (%)		
Leverage ratio			
13	Total exposure measure	£181,556	£185,406
14	Leverage ratio	15.9%	15.2%
Additional leverage ratio disclosure requirements			
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
1b	Leverage ratio including claims on central banks (%)	15.9%	15.2%
14c	Average leverage ratio excluding claims on central banks (%)		
14d	Average leverage ratio including claims on central banks (%)		
14e	Countercyclical leverage ratio buffer (%)		
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA)	£30,533	£45,106
UK 16a	Cash outflows – Total weighted value	£20,131	£24,411
UK 16b	Cash inflows - Total weighted value	£15,098	£18,309
16	Total net cash outflows (adjusted value)	£5,033	£6,103
17	Liquidity coverage ratio (%)	606%	739%
Net Stable Funding Ratio			
18	Total available stable funding	£158,883	£147,611
19	Total required stable funding	£81,335	£76,650
20	NSFR ratio	195.34%	192.58%