Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements

31 December 2007

Turkish Bank (UK) Limited

Report and financial statements 2007

Contents

Chairman's statement

I am pleased to be able to report that the bank is now benefiting noticeably from the restructuring which took place following the introduction of a new banking accounting system in late 2005. The focus on the community banking capabilities of the Retail Bank has resulted in encouraging growth in our lending to the small and medium sized business sector. This meets with our mission of helping the Turkish speaking community in the United Kingdom to grow and prosper and I look for continuing progress in this respect in the current year.

Turkey's economic outlook continues to remain positive with inflation at 8.2% being at a level that does not damage economic stability or growth. The overwhelming victory by the AKP Party in the general election has helped to sustain the positive view of the country by the international community. However the domestic and trade deficits, the latter fuelled by soaring energy prices, remain concerns that require to be addressed. One ongoing problem is the status of Northern Cyprus and it is to be hoped that the recent elections in South Cyprus will allow for progress to be made in resolving this issue for the benefit of all parties.

During the year our sister bank Turkish Bank A.S. (TBAS), Istanbul entered into discussions with the National Bank of Kuwait for that prestigious institution to purchase a 40% minority stake in the bank. These discussions came to fruition earlier this year with the receipt of Regulatory approval. I look forward to a long and mutually beneficial relationship between the two banking groups.

There are plans to increase significantly the number of branches in the TBAS network and our parent bank, Turkish Bank Limited, in Northern Cyprus. We shall continue to seek opportunities to expand the network in the UK, in South London initially.

The banking sector in the UK went though something of a traumatic period during the second half of 2007 caused by an event very early identified by us, which had no effect on Turkish Bank. The Northern Rock crisis was further compounded by the sub-prime problems in the United States. One noticeable result of these difficulties is the need for some institutions to offer interest rates on sterling deposits well above the Bank of England Base Rate and not to adjust downwards during the recent falls announced in the Base Rate. This will in turn put further pressure on our sterling interest rate margins, particularly as there is not yet a noticeable reduction in the ready availability of credit the interest margins for which remain low and competitive. While TBUK benefited at the end of the year from the market turbulence and consequent high money market rates we are faced with balancing the need for longer dated deposits with the high rates offered by some competitors. I am pleased to confirm that the Bank, in line with its historical policies, nevertheless remains very liquid.

The UK economy is showing some signs of stress with inflationary pressures causing concern. While it seems at the time of writing that the Chancellor may hit his budget deficit target for the current financial year following higher than expected tax receipts in January, the outlook for the 2008/9 Financial Year is more worrying. Many of the drivers of the economy show signs of cooling, particularly the housing market. Food and energy price inflation are presently approaching three times the Consumer Price Index of 2.2%, which is the Government's preferred measure of inflation, and this will also adversely affect consumer expenditure and confidence. As a consequence the UK economy may well under-perform the growth targets set by the Treasury with the consequent pressure on Government revenues raising the prospect of tax increases or cuts in Government expenditure or both. Indeed the prospects for both 2008 and 2009 do not look encouraging at this time either for the UK or the global economies.

Net profit for the year showed an increase year-on-year of some 17% to £334,000. This resulted from a near 13% increase in net interest income to £2.336mn reflecting higher lending levels, plus a 4% increase in fee income, while expenses increased by 7.3% caused in part by the cost of running for a full year Palmers Green branch which was opened in August 2006. It is pleasing to note that both of the new North London branches opened in the past two years are now running profitably. As was the case for 2006, profitability for 2007 was impacted adversely by heavy investments in IT (£220,000). The rate of loss of business from the "workers remittance" product appears to have bottomed-out in part as the result of the introduction of a TRY remittance product which has proved successful. The Bank has plans to launch two new remittance products during the year which are aimed at recapturing further business from the high street money shops.

It is encouraging to note that the Bank increased its domestic lending assets by 43% to some £23.4mn. While at the same time maintaining the very prudent credit risk assessment procedures. Much of this lending has been directed at the small and medium business market sector in the Turkish speaking community. Good progress has also been made in growing domestic deposits with a 35% increase being recorded to £25mn. The overall number of current accounts

Chairman's statement (continued)

has doubled during the year supporting my belief that the Bank is now reaching out more effectively to its chosen market sectors.

After the years of retrenchment I am encouraged to see that the Bank has moved forward to penetrate its chosen marketplace and venture into new areas where it can offer competitive services. During the coming year this progress will continue with the introduction of an Internet banking service and the long looked for debit/ATM card which will make the Bank even more competitive in the domestic market. Customer service remains one of our main priorities as it is the aspect of our offerings which differentiates us from the competition and the Bank will continue to focus on improving its product delivery as well as further expanding the product range.

The Bank has conducted another revaluation of the premises it owns and as a result a further increase of Tier 2 capital in an amount of £1.069mn has been added to "Own Funds".

The Directors have again decided not to declare a dividend thus adding the net profit of £334,000 to reserves. Capital and Reserves stand at £20.24mn at year-end.

Finally a very warm thank you to the staff who have worked hard during 2007 to take the strategy of the Bank forward with success, thus laying the foundations for the further progress looked for in the current year.

M T Ozyol

Chairman

Turkish Bank (UK) Limited

Report and financial statements 2007

Officers and professional advisers

Directors

M T Ozyol (Chairman)
I H Bortecene
M D Bendon
R W Long
M E Erenman
J Clouting
N Girginok (resigned on 6 April 2007)

Secretaries

N Girginok (resigned on 6 April 2007)
K. Bissell (appointed on 1 May 2007)

Registered office

84-86 Borough High Street
London SE1 1LN

Bankers

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

Activity Report

The principal activities of Turkish Bank (UK) Limited ("TBUK") are twofold namely:

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

TBUK is a wholly owned subsidiary of Turkish Bank Limited and a member of the Turkish Bank Group headquartered in Istanbul. The Chairman of the Group also performs the role of Chairman of TBUK and the Group's Chief Executive sits on the Board of TBUK. TBUK operates within and is guided by the overall strategic objects of the Group. These focus on the aim to provide a quality customer service at a competitive price to our clients and to provide a reasonable return on capital to our shareholder. More information regarding Group activities can be obtained by accessing the Group web site at www.turkishbankgroup.com.

Review of the Year

The refocusing of the Bank, as specified in the Five Year Strategic Plan agreed in 2005, into a more marketing orientated operation is beginning to bring benefits. Good progress has been made in the Retail Bank in providing loans and other banking services to the small and medium sized business sectors in the Turkish speaking community in the United Kingdom in general and the London and South East in particular.

As a result net profit of £334,000 showed a 17% improvement over that of the previous year with total balance sheet footings of £138.5mn (2006 - £122.6mn) and shareholders equity of £20.3mn (2006 - £19.1mn) the latter increase reflecting in part a revaluation of the Bank's freehold premises. Once again no dividend has been declared for the year.

Resident lending in general rose by 43% to £23.4m. This was achieved without compromising any of the Bank's prudent credit risk assessment criteria. Good progress was also made in increasing the level of domestic deposits which increased by 35% to £25m. The Wholesale and Markets Division also showed good growth in its deposit taking activities with a 24% increase to £52.1m.

Further progress is expected in the current year in respect of both lending and deposit taking with cross-selling to an enlarged customer base made possible through the introduction of new to the bank products such as Internet Banking and debit cards.

Principal risks and uncertainties

The bank's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the bank's policies approved by the board of directors, which are based on written principles on the use of financial derivatives to manage these risks. The Bank does not use derivative financial instruments for trading purposes.

Cash flow 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 movement. With regard to interest rate risk the Bank has a consolidated net interest margin sufficient to protect its position in this respect. The Bank also enters into some currency swap contracts to hedge its foreign currency exposures.

Credit risk: The Bank has no significant concentration of credit risk. 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 freehold and long dated leasehold property which is itself restricted to the UK market.

Liquidity risk: In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Bank uses a mixture of medium term and short-term money market as well as fixed and notice customer deposits. The directors believe that the Bank has a strong liquidity position that meets with their Policy guidelines.

The Bank operates a risk management policy and uses financial instruments based on the operations it undertakes and this risk management policy, which includes a description of how financial instruments are used, is disclosed in note 27 to the accounts.

Directors' report (continued)

Results and dividends
The profit for the year after taxation amounted to £334,000 (2006 - £285,000).

The directors do not recommend the payment of a dividend (2006 - £nil).

Future developments
The directors aim to maintain the management policies that have resulted in the Bank’s growth.

Political and charitable contributions

During the year, the Bank made various charitable contributions totalling £250 (2006 - £500).

Directors and their interests

The directors who served during the year were as follows:

M T Ozyol (Chairman)
I H Bortecene
M D Bendon *
R W Long
M E Erenman
J Clouting *
N Girginok (Resigned on 6 April 2007)
* members of audit committee
The interests of the directors at 31 December 2007 in the share capital of the Bank were as follows:

	Ordinary shares of £1 each	
	2007	**2006**
M T Ozyol	1	1

M T Ozyol owns this share as a nominee.

Audit committee

The Bank has an audit committee comprising two independent non-executive directors who are experienced bankers. The committee met on three occasions in 2007.

Disclosure of information to auditors

Each of the directors of the company holding office at the date of approval of this report confirm that:

(1) so far as each of the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and

(2) 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 company's auditor's are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of S.234ZA of the Companies Act 1985.

Directors' report (continued)

Auditors

In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte & Touche LLP are therefore deemed to have been re-appointed as auditors of the company.

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

Secretary

K. Bissell

19 March 2008

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare the directors' report and the accounts for each financial year and have elected to prepare the accounts in accordance with UKGAAP. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the company.

In preparing these accounts, 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the annual report and accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of

Turkish Bank (UK) Limited

We have audited the financial statements of Turkish Bank (UK) Limited for the year ended 31 December 2007 which comprise the Profit and Loss account, the Balance Sheet, the Cash Flow statement, the Statement of total recognised gains and losses and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
19 March 2008

Profit and loss account
For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		711	870
Other interest receivable and similar income		7,388	5,295
		8,099	6,165
Interest payable		(5,763)	(4,096)
Net interest income		2,336	2,069
Fees and commissions receivable		1,301	1,236
Fees and commissions payable		(20)	(20)
Dealing profits		93	70
Other operating income		8	9
Gain on sale of debt securities		-	40
		1,382	1,335
Total operating income		3,718	3,404
Administrative expenses	2	(2,711)	(2,468)
Depreciation and amortisation	10, 11	(428)	(433)
Other operating charges		(8)	(44)
Impairment losses on financial assets	3	(18)	(5)
		(3,165)	(2,950)
Profit on ordinary activities before taxation	4	553	454
Tax on profit on ordinary activities	5	(219)	(169)
Profit on ordinary activities after taxation	17	334	285

The notes on pages 14 to 38 form an integral part of these financial statements.

All activities relate to continuing operations.

Turkish Bank (UK) Limited

Balance sheet
31 December 2007

	Notes	2007 £'000	2006 £'000
Assets			
Cash and balances at central banks		301	390
Loans and advances to banks	6	78,901	63,996
Items in the course of collection		9	256
Loans and advances to customers	7	43,406	39,493
Debt securities-available for sale	9	8,495	11,906
Intangible fixed assets	10	227	410
Tangible fixed assets	11	6,899	5,846
Other assets	12	32	25
Prepayments and accrued income		256	241
Total assets		138,526	122,563
Liabilities			
Deposits by banks	13	40,112	42,032
Items in the course of transmission to other banks		15	51
Customer accounts	14	77,715	60,903
Derivative liabilities	28	-	27
Other liabilities	15	290	255
Accruals and deferred income		156	163
		118,280	103,431
Called up share capital	16	10,000	10,000
Profit and loss account	17	7,053	6,592
Available for sale reserve	17	(418)	6
Revaluation reserve	17	3,603	2,534
		20,238	19,132
Total liabilities		138,526	122,563
Contingent liabilities			
Acceptances and endorsements		-	26
Guarantees and assets pledged as collateral security		175	278
Other contingent liabilities	18	64	365
		239	669
Commitments	19	44,652	40,251

The Board of Directors approved these financial statements on 19 March 2008.

Signed on behalf of the Board of Directors

M T Özyol
Director

M D Bendon
Director

The notes on pages 14 to 38 form an integral part of these financial statements.

Turkish Bank (UK) Limited

Cash flow statement
For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Net cash inflow from operating activities	21	1,385	13,360
Taxation			
UK corporation tax paid		(112)	(90)
Capital expenditure and financial investment			
Net purchase of tangible and intangible fixed assets		(227)	(190)
Purchase of available for sale assets		-	(6,441)
Sale of available for sale assets		2,987	4,153
		2,760	(2,478)
Increase in cash and cash equivalents	22	4,033	10,792

Statement of total recognised gains and losses
For the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Profit for the financial year		334	285
Unrealised gain on revaluation of freehold properties	17	1,069	-
Available-for-sale losses	17	(424)	(165)
Tax effect of available for sale losses	17	127	50
Total recognised gains for the year		772	170
Impact of change in accounting policy	1	-	406
Total gains and losses recognised since last annual report and financial statements		772	576

Notes to the accounts
For the year ended 31 December 2007

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable UK Accounting Standards and Statements of Recommended Practice issued by the British Bankers' Association and in accordance with the special provisions of Part VII Ch. 2 of the Companies Act 1985 applicable to banking groups and banking companies. The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and freehold properties.

The policies have been consistently applied except as noted below.

The Bank is required to present its 2007 accounts in accordance with IFRS convergence standards issued under UK GAAP and has therefore adopted FRS 29 "Financial Instrument: disclosure'' in the current period. The impact of the new standard has been to provide more extensive disclosures regarding the Bank's financial instrument than would have otherwise been required.

The change in accounting policies last year as a result of the adoption of FRS25 ''Financial Instruments: Presentation'' and FRS26 ''Financial Instruments Recognition and Measurement'' have resulted in a gain of £406,000 booked in last year.

(b) Revenue recognition

(i) Interest income

Interest income on financial assets classified as loans and receivables or available for sale is calculated using the effective interest rate method, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(ii) Rendering of services and commissions

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

If it is probable that a specific lending arrangement will be entered into, the commitment fee received and, together with the related direct costs, is deferred and recognised as part of the effective interest rate. 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.

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

(c) Impairment of financial assets

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the profit or loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss account.

1. Accounting policies (continued)

(d) Loans and receivables

Loans and receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account in line with the accounting policy set out in 1 (c) above.

(e) Debt securities

Investments in debt securities are classified as available-for-sale, and are measured at subsequent reporting dates at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Foreign exchange gains and losses, interest recognised under the effective interest rate method and impairment losses are taken to the profit and loss account. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(f) Pension schemes

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

(g) Foreign currency translation

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

(h) Derivatives

Derivative contracts consist of foreign currency swap contracts, which are outstanding at the balance sheet date. Derivatives are measured at fair value, with changes in the fair value recognised are marked to market to the profit and loss account. The Bank's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The Bank uses derivative financial instruments (primarily foreign currency swaps) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The Bank does not use derivative financial instruments for speculative purposes. The Bank has not designated any of the its derivative contracts in hedging relationships for hedge accounting purposes.

(i) Depreciation

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

Freehold buildings	Over 50 years
Short leasehold land and buildings	Over the lease term
Fixtures, fittings and equipment	5% to 20%
Motor vehicles	20%

Notes to the accounts
For the year ended 31 December 2007

1. Accounting policies (continued)

(j) 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 balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included within the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(k) Leasing

Rentals paid under operating leases are charged to profit and loss account on a straight-line basis over the lease term.

(l) Intangible assets – Software licences

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. Provision is made for any impairment.

(m) Property revaluations

The accounting policy for freehold land and buildings is to revalue them annually. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. There have been material movements in the valuation of these freeholds in 2007. The last professional valuation was undertaken by Ringley, a chartered surveyor external to the Bank, in December 2007. Valuations were made on the basis of open market value for existing use.

(n) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest rate method.

(o) Segment Analysis

Due to the nature of the business, the directors believe that it will be seriously prejudicial to the interests of the Bank to disclose Segmental Information.

2. Administrative expenses

	2007 £'000	2006 £'000
Staff costs during the year (including directors)		
Wages and salaries	1,561	1,465
Social security costs	187	137
Pension costs	20	20
	1,768	1,622
Other administrative expenses	943	846
	2,711	2,468

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

	2007 No.	2006 No.
Commercial banking activities	63	59

2. Administrative expenses (continued)

Directors' remuneration during the year consisted of:

	2007 £'000	2006 £'000
Emoluments	184	225

The emoluments of the highest paid director for the year ended 31 December 2007 were £100,000 (2006 - £96,000).

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

3. Impairment losses on financial assets

	2007 £'000	2006 £'000
Impairment charge for the year	(19)	(10)
Recoveries	1	5
Net impairment charge for the year	(18)	(5)

During the year the Bank received £ nil (2006 - £3,130) in respect of loans which were previously written off in prior years which is included in other operating income.

4. Profit on ordinary activities before taxation

Profit is stated after charging/(crediting):

	2007 £'000	2006 £'000
Foreign currency gains	(93)	(70)
Operating lease rentals		
Land and buildings	56	56
Depreciation and amortisation		
Tangible fixed assets	237	240
Intangible fixed assets	191	193
Fees payable to the company's auditors for the audit of the company's annual accounts	51	48
Total audit fees	51	48
Other services pursuant to legislation		
Tax services	14	14
Advisory fees	2	-
Total non-audit fees	16	14

5. Tax on profit on ordinary activities

	2007 £'000	2006 £'000
Current tax		
United Kingdom corporation tax at 30% (2006 - 30%) based on profit for the year	195	168
Double taxation relief	-	(7)
Adjustment in respect of prior years	15	(21)
Foreign tax for current period	-	13
Total current tax	210	153
Deferred tax (Note 15)		
Reversal of timing differences	9	11
Prior period adjustments	-	5
	219	169

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	553	454
Tax at 30% thereon	166	136
Effects of:		
Expenses not deductible for tax purposes	37	42
Capital allowances in excess of depreciation	(14)	(15)
Movement in short term timing differences	5	5
Double taxation relief		(7)
Foreign tax		13
Marginal relief	1	-
Movement in reserve		-
Prior year adjustments	15	(21)
	210	153

6. Loans and advances to banks

	2007 £'000	2006 £'000
Loans and advances to banks are repayable as follows:		
On demand	37,971	33,849
Within three months	36,431	28,608
Between three months and one year	4,499	1,539
	78,901	63,996

Included within loans and advances to banks are amounts of £1.55m in respect of group companies (2006 - £3.13m).

The interest received from group companies during the year is £197,090 (2006 - £45,208).

6. Loans and advances to banks (continued)

Geographical analysis of loans and advances to banks is as follows:

	2007 £'000	2006 £'000
In UK:		
On current account	1,789	1,321
On deposit account in money market lending	68,058	42,479
Outside UK:		
On current account	219	237
On deposit account		
- Money Market Lending	4,336	18,420
- Syndication Loan	4,499	1,539
	78,901	63,996

7. Loans and advances to customers

	2007 £'000	2006 £'000
Loans are repayable as follows:		
On demand	5,957	2,706
Within three months	2,248	9,730
Between three months and one year	2,488	3,178
Between one and five years	10,708	9,577
After five years	22,031	14,316
Provision for impairment losses	(26)	(14)
	43,406	39,493

Non-performing loans and advances to customers of £26,000 were fully provided at 31st December 2007 (2006 - £14,000).

Loan and advances to customer includes £31,000 which has been placed in problem loan category other then those fully provided.

The following information is given in respect of nature and type of loans and advances to customers:

	2007				
	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft			4,268	136	4,404
Fixed term					
- Retail			17,738	179	17,917
- Corporation	3,001	14,987	3,118	5	21,111
	3,001	14,987	25,124	320	43,432
Provision	-	-	-	(26)	(26)
	3,001	14,987	25,124	294	43,406

7. Loans and advances to customers (continued)

	2006				
	Fixed Rate Loan £'000		**Floating Rate Loan £'000**		**Total £'000**
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	2,589	154	2,743
Fixed term					
- Retail	-	-	13,139	153	13,292
- Corporation	2,872	19,551	1,049	-	23,471
	2,872	19,551	16,777	307	39,507
Provision	-	-	-	(14)	(14)
	2,872	19,551	16,776	293	39,493

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

	2007 £'000				2006 £'000			
	GBP	**USD**	**EURO**	**Total**	**GBP**	**USD**	**EURO**	**Total**
UK	23,475	-	-	23,475	16,416	-	-	16,416
Non UK								
- Turkey	1,871	13,897	1,439	17,207	5,795	10,696	3,755	20,246
- Others	810	1,914	-	2,724	678	2,153	-	2,831
Total	26,156	15,811	1,439	43,406	22,889	12,849	3,755	39,493

8. Provisions for impairment losses

	2007 £'000	**2006** £'000
As at 1 January 2007	14	10
Charge against profits	18	10
Less: recoveries	(1)	(5)
Net impairment charge for the year	31	15
Less: loans written off	(5)	(1)
At 31 December 2007	26	14
Loans and advances to customers (note 7)	26	14
	26	14

Accounts overdrawn for more then 60 days are reported monthly to a subcommittee of the Credit Committee. 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.

9. Debt securities – available for sale

	2007 £'000	2006 £'000
Nominal Value	8,715	11,610
Accrued interest	198	290
Available-for-sale revaluation	(418)	6
Market value	8,495	11,906

Investment in debt securities will mature as follows:

	2007 £'000	2006 £'000
Repayable:		
Less than 1 year	1,515	3,287
Between one and five years	3,060	3,445
After five years	3,920	5,174
	8,495	11,906

Segmental analysis of investment in bonds is as follows:

	2007 Fixed rate bonds £'000	2007 Floating rate bonds £'000	2007 Total £'000	2006 Fixed rate bonds £'000	2006 Floating rate bonds £'000	2006 Total £'000
Sovereign bonds	4,156	2,060	6,216	6,636	1,899	8,535
Corporate bonds	2,279	-	2,279	3,219	152	3,371
	6,435	2,060	8,495	9,855	2,051	11,906

The debt securities comprise of government and corporate bonds and are held as available for sale securities. The weighted average coupon rate of debt securities repayable after five years is 6.46% (2006 - 6.53%).

The bank does not have any intention to purchase securities less then Investment Grade with maturity greater than 10 years.

9. Debt securities - available for sale (continued)

Securities held as collateral against the lending to banks as at 31 December 2007 amounted to £1.04 million (2006: £ 1.01 million). The lending period is for one month beginning from 3 December 2007.

The above balance includes bonds of £1.5 million which are due to mature in less than one year period. (2006: 3.3 million).

Analysis by currency of origin is as follows:

	2007				2006			
Origin of debt securities	**GBP**	**USD**	**EURO**	**Total**	**GBP**	**USD**	**EURO**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
UK	1,524	-	-	1,524	1,546	-	-	1,546
Turkey	-	-	3,710	3,710	-	-	3,354	3,354
Brazil	-	499	-	499	2,622	516	-	3,138
Canada	-	-	-	-	512	-	-	512
Kazakhstan	-	1,771	-	1,771	-	2,184	-	2,184
Ukraine	-	991	-	991	-	1,020	-	1,020
Romania	-	-	-	-	-	152	-	152
Turkey	1,524	3,261	3,710	8,495	4,680	3,872	3,354	11,906

10. Intangible fixed assets

	Licences £'000
Cost	
At 1 January 2007	970
Additions	8
At 31 December 2007	978
Amortisation	
At 1 January 2007	560
Charge for the year	191
At 31 December 2007	751
Net book value	
At 31 December 2007	227
At 31 December 2006	410

The intangible fixed assets comprise of software licences purchased and are being amortised over five years.

Notes to the accounts
For the year ended 31 December 2007

11. Tangible fixed assets

	Freehold land and buildings £'000	Land and buildings, short leasehold £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2007	5,739	579	1,681	7,999
Additions		-	222	222
Revaluations	1,069	-	-	1,069
Disposals	-	-	(273)	(273)
At 31 December 2007	6,808	579	1,630	9,017
Depreciation				
At 1 January 2007	640	263	1,250	2,153
Charge for the year	89	41	107	237
Disposals			(272)	(272)
At 31 December 2007	729	304	1,085	2,118
Net book value				
At 31 December 2007	6,079	275	545	6,899
At 31 December 2006	5,099	316	431	5,846

The land and buildings are occupied by the Bank for its own activities.

12. Other assets

	2007 £'000	2006 £'000
Corporate tax	22	-
Other assets	10	25
	32	25

13. Deposits by banks

	2007 £'000	2006 £'000
Deposits by banks are repayable as follows:		
On demand		
- Group	8,703	12,060
- Other	3,540	1,338
Within three months		
- Group	10,048	16,319
- Other	17,821	12,315
	40,112	42,032

The interest paid amount to group companies during the year is £1,096,821 (2006: £1,488,290).

13. Deposits by banks (continued)

Geographical analysis of deposit by banks is follows:

	2007 £'000	2006 £'000
In UK:		
On current account	40	1
On deposit account	13,062	1,012
Outside UK:		
On current account	2,767	2,886
On deposit account	24,243	38,133
	40,112	42,032

14. Customer accounts

	2007 £'000	2006 £'000
Customer deposits are repayable as follows:		
On demand	10,559	8,910
Within three months	54,456	39,505
Between three months and one year	11,929	12,472
Between one year and five years	771	16
	77,715	60,903

The balance includes customers' deposits of £76.9 million (2006: £60.9 million) which is due to mature in less than one year period.

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

	2007 £'000			2006 £'000		
	Fixed rate interest	Floating rate interest	Total	Fixed rate interest	Floating rate interest	Total
Current account	-	4,990	4,990	-	3,081	3,081
Deposit account	-	22,516	22,516	-	13,024	13,024
Fixed deposit	50,209	-	50,209	44,798	-	44,798
	50,209	27,506	77,715	44,798	16,105	60,903

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

	2007 £'000						2006 £'000					
	GBP '000'	USD '000'	EUR '000'	TRY '000'	Others '000'	Totals '000'	GBP '000'	USD '000'	EUR '000'	TRY '000'	Others '000'	Totals '000'
UK	24,005	496	232	410	1	25,144	17,851	405	214	78	100	18,648
Turkey	7,369	10,056	2,861	147	1	20,433	4,425	6,800	1,743	75	1	13,044
Cyprus	22,238	4,561	3,609	734	-	31,142	17,055	4,518	5,179	1,905	-	28,657
Others	247	133	366	249	-	997	145	50	359	-	-	554
Total	53,859	15,246	7,068	1,540	2	77,715	39,476	11,773	7,495	2,058	101	60,903

15. Other liabilities

	2007 £'000	2006 £'000
Amounts owed to group companies	49	57
Corporation tax	-	32
Other taxes and social security costs	39	40
Deferred tax liability	60	55
Other liabilities	142	71
	290	255

Deferred tax

	2007 £'000	2006 £'000
Deferred tax asset as at 1 January	55	39
Current year movement	5	11
Prior year movement	-	5
Closing balance at 31 December	60	55

16. Called up share capital

	Authorised		Called up, allotted and fully paid	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
10,000,000 Ordinary shares of £1 each	10,000	10,000	10,000	10,000

17. Reconciliation of movements in shareholders' funds and movements on reserves

	Called up share capital £'000	Profit and loss account £'000	Revaluation reserve £'000	Available for sale reserve £'000	Total Share-holders Funds £'000
As at 1 January 2006	10,000	6,257	2,534	171	18,962
Profit for the year	-	285	-	-	285
Available-for-sale gains / (losses)	-	-	-	(165)	(165)
Tax effect of the available for sale loss	-	50	-	-	50
As at 31 December 2006	10,000	6,592	2,534	6	19,132
As at 1 January 2007	10,000	6,592	2,534	6	19,132
Revaluations	-	-	1,069	-	1,069
Profit for the year	-	334	-	-	334
Available-for-sale gains / (losses)	-	-	-	(424)	(424)
Tax effect of the available for sale loss	-	127	-	-	127
As at 31 December 2007	10,000	7,053	3,603	(418)	20,238

18. Other contingent liabilities

Other contingent liabilities comprise:

	2007 £'000	2006 £'000
Irrevocable letters of credit	64	365

Included in irrevocable letters of credit are amounts in respect of group companies of £63,659 (2006 - £186,030).

19. 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.

	2007 £'000	2006 £'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	32,346	23,727
Less than one year	12,306	16,524
	44,652	40,251

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

		Land and buildings
	2007 £'000	2006 £'000
Operating leases which expire:		
Within one year	-	-
Between two and five years	-	-
More than five years	56	56

20. Assets and liabilities in foreign currencies

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

	2007 £'000	2006 £'000
Assets	37,477	41,482
Liabilities	37,399	41,439

21. Reconciliation of operating profit to net cash inflow from operating activities

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	553	454
Increase in prepayments and accrued income	(15)	(20)
Reclassification of accrued interest of debt securities	-	(3)
Decrease in accruals and deferred income	(7)	(297)
Depreciation charge and amortisation	428	433
Profit on disposal of fixed assets	(2)	(1)
Loss on disposal of fixed assets	-	10
Profit on sale of available for sale investments	-	(40)
Net cash inflow from trading activities	957	536
Net decrease/ (increase) in collections	247	(252)
Net (increase) /decrease in loans and advances to banks and customers	(14,696)	8,787
Net decrease in deposits by banks and customers	14,892	4,392
Net decrease/ (increase) in other assets	13	(84)
Decrease in derivative liabilities	(27)	(34)
Net (increase) /decrease in other liabilities	(1)	15
Net cash inflow from operating activities	1,385	13,360

22. Analysis of net funds

	1 January 2007 £'000	Cash flows 2007 £'000	31 December 2007 £'000
Cash and balances at central banks	390	(89)	301
Loans and advances to other banks repayable on demand	33,849	4,122	37,971
	34,239	4,033	38,272

23. Analysis of changes in financing during the year

	Share capital £'000
Balance at 1 January 2007	10,000
Cash flow from financing	-
Other movements	-
Balance at 31December 2007	10,000

24. Transactions with directors and managers

As at 31 December 2007, £8,314 was outstanding by way of loans to managers of the company (or persons connected with them) (2006 - £18,960). During the year, £10,646 was paid back by the managers (or persons connected to them) (2006 - £13,947).

25. Ultimate parent company

The ultimate parent and controlling company at 31 December 2007 was Turkish Bank Limited, which is incorporated in Cyprus. The parent company of the largest and smallest group of which the Bank is a member and for which consolidated accounts are prepared is Turkish Bank Limited. Copies of its group accounts can be obtained from 84-86 Borough High Street, London SE1 1LN.

26. Related party transactions

The Bank has taken advantage of an exemption under FRS 8, relating to 90% (or more) subsidiaries, which exempts it from disclosing all related party transactions with group members. Other than those described in note 24, there are no other related party transactions.

27. Risk management framework

Risk taking is central to banking activity. The Bank evaluates business opportunities in terms of a prudent risk-reward relationship.

The risks that the Bank takes on are reasonable, well controlled, within its financial resources and credit competent.

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

The following key principles form part of TBUK's approach to risk management

- The Board, through its subcommittees, the Audit Committee and the Business Development Committee (BDC) oversee risk management, review and approve Bank Policies (of which there are 19) and tolerance limits wherever required. All Policies are approved by the Board and subject to review at least once each calendar year.
- Nine committees at functional level oversee the implementation of risk management and associated policies. The principal committees are:
    - Assets and Liabilities Committee (ALCO), which manages the Market and liquidity risks whose members are the Managing Director, Assistant General Manager Compliance, Assistant General Manager, Wholesale & Markets, the Financial Controller and Treasury Dealer.
    - The Risk Committee is headed by the Managing Director and comprises the two AGM's, the Internal Auditor, the IT Controller and the Financial Controller, who acts as the secretary to the Committee. The Committee allows the Bank to manage Credit, Market and Operational risk on an integrated basis.
    - The Credit Committee is responsible for controlling credit risk and implementing the Credit Policies as authorised by the Board. All decisions require unanimous agreement at each level of lending authority as prescribed by the Board.
    - The HR Committee is responsible for overseeing the HR Policy of which the HR Handbook is an integral part.
    - All management participate in risk assessment by means of the Risk Universe which is reviewed at least annually under the direction of the AGM Compliance.

Credit Risk Management

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

Credit risk makes up the largest part of Bank's risks exposure. TBUK's credit process is guided by a well-established credit policy, rules and guidelines continuing a close-to-the-market approach with an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

27. Risk management framework (continued)

Credit Risk Management (continued)

Credit risk policies are established by the Credit Committee and approved by the Board through its BDC. The Bank has a system of checks and balances in place around the extension of credit that are:

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

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

Salient features of our Risk approval process are delineated below:

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

The Bank uses risk rating systems where appropriate to supplement the credit risk measurement procedure for exposures exceeding a certain threshold. Risk rating of counterparties is an essential requirement of the credit approval process in these instances.

Stress testing on the credit portfolio is performed at least twice each year and more often if required and complies with the guidelines issued by the FSA.

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

The Bank monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of this early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Problem Loan Review Unit to focus on expediting recoveries from problem credits. The unit negotiates with problem borrowers and recommends restructuring and rescheduling of problem credits to the Credit Committee. In cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated.

The Bank's maximum exposure to credit risk at the year end is £ 130,821 (2006: £ 115,651)

Country Risk

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

Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and market prices. TBUK only operates positions housed in its Banking book within strict Board approved guidelines. Currently Market Risk reporting is made to the Supervisor on the ''Standard Method'' base.

The banking book stems from mismatches in the structural assets and liabilities positions. Market risk is managed by ALCO supported by Financial Control under the supervision of BDC. Treasury front office is responsible to ALCO for the market risk it generates while the other responsible area for market risk on the banking book is the Risk Committee.

27. Risk management framework (continued)

Derivatives

Transactions currently permitted include foreign currency, Forward Rate Agreements. At present the Bank is only dealing in Foreign Exchange Currency Swaps on a very limited scale and purely on a back-to-back basis without carrying any open position in its books. Policies in line with IFRS instructions have been formulated and are operative. A total notional amount equivalent to GBP 7.6 million was outstanding as at December 31, 2006. There is no outstanding position of derivates as at 31 December 2007.

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.

Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a very reasonable open position 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 approved by the FSA. 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 guidelines of IFRS and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by Treasury. Going forward the Bank will adopt VAR approaches to measure and monitor foreign exchange risk.

Liquidity Risk Management

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

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

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

Operational Risk

Operational Risk controls were enhanced through 2005 by the introduction of new software, namely Temenos (T24) that allows an overall control of transactions centrally by Compliance Unit. The Board has approved the Operational Risk Policy.

The policy covers the core governing principles for operational risk management and provides guidelines to identify, control, monitor, measure and report operational risk in a consistent manner across the Bank. The online authorizations level based control infrastructure is one of the main tools that prevent the Operational Risk realizations. Besides Internal Control Unit is able to perform "Transaction Based Control" with the new software (T24).

27. Risk management framework (continued)

Operational Risk (continued)

Operational Risk is now calculated according to the ''Main Indicator Approach'' and the Bank's objective is to calculate Operational Risk by the ''Standard Method''.

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

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

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

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

28. Financial instruments

The Bank maintains a proprietary investment portfolio whereby capital funds are invested in fixed and floating interest rate Zone A and Zone B Government and 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.

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 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 gapping, 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.

Derivative financial instruments:

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

			2007
	Notional amount £'000	**Fair value assets £'000**	**Fair value liabilities £'000**
Foreign currency swap contracts	-	-	-

			2006
	Notional amount £'000	**Fair value assets £'000**	**Fair value liabilities £'000**
Foreign currency swap contracts	7,603	7,603	7,630

28. Financial instruments (continued)

Interest rate risk

Exposure to interest rate movements arise where there is an imbalance between rate sensitive assets and liabilities. The table below reflects management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2007. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

Capital risk management

The Bank manages its capital to ensure that it is able to continue as a going concern while ensuring an acceptable return to shareholders through the optimization of the debt and equity balance. The Bank also manages its Capital in accordance with the Capital Requirements Directive and FSA rules relating thereto. As a part of the latter the Bank has instituted an Internal Capital Adequacy Assessment Process (ICAAP) by which the Capital adequacy is managed.

The Bank's Capital Adequacy Ratio at 31 December 2007 as reported to the FSA was 32.81% (2006: 33.36%) compared to their minimum Target Ratio for TBUK of 16%. In numeric terms Bank's total risk weighted assets at the year end stands at £58 million as against the Core 1 and Core 2 capital of £17 million and £3 million respectively.

The ratio is being reported to the FSA at the end of each calendar quarter. The Capital Adequacy ratio of the bank remains above minimum Target Ratio through out the year.

28. Financial instruments (continued)

Categories of financial assets 2007

Assets	Held for trading	Designated at fair value	Loans and Receivables	Available for sale	Financial liabilities at amortised cost	Derivative	Total
Cash and balances at central banks	-	-	301	-	-	-	301
Loans and advances to banks	-	-	78,901	-	-	-	78,901
Items in the course of collection	-	-	9	-	-	-	9
Loans and advances to customers	-	-	43,406	-	-	-	43,406
Debt securities-available for sale	-	-	-	8,495	-	-	8,495
Other assets	-	-	10	-	-	-	10
Total financial assets	**-**	**-**	**122,627**	**8,495**	**-**	**-**	**131,122**
Total non financial assets							7,404
Total assets							**138,526**

Liabilities							
Deposits by banks	-	-	-	-	40,112	-	40,112
Items in the course of transmission to other banks	-	-	-	-	15	-	15
Customer accounts	-	-	-	-	77,715	-	77,715
Derivative liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	230	-	230
Accruals and deferred income	-	-	-	-	156	-	156
Total financial liabilities	**-**	**-**	**-**	**-**	**118,288**	**-**	**118,228**
Total non financial liabilities							20,298
Total liabilities							**138,526**

Notes to the accounts
For the year ended 31 December 2007

28. Financial instruments (continued)

Categories of financial assets 2006

Assets	Held for trading	Designated at fair value	Loans and Receivables	Available for sale	Financial liabilities at amortised cost	Derivative	Total
Cash and balances at central banks	-	-	390	-	-	-	390
Loans and advances to banks	-	-	63,996	-	-	-	63,996
Items in the course of collection	-	-	256	-	-	-	256
Loans and advances to customers	-	-	39,493	-	-	-	39,493
Debt securities-available for sale	-	-	-	11,906	-	-	11,906
Other assets	-	-	-	-	-	-	-
Total financial assets	**-**	**-**	**104,135**	**11,906**	**-**	**-**	**116,041**
Total non financial assets	-	-		-	-	-	6,522
Total assets							**122,563**

Liabilities	Held for trading	Designated at fair value	Loans and Receivables	Available for sale	Financial liabilities at amortised cost	Derivative	Total
Deposits by banks	-	-	-	-	42,032	-	42,032
Items in the course of transmission to other banks	-	-	-	-	51	-	51
Customer accounts	-	-	-	-	60,903	-	60,903
Derivative liabilities	-	-	-	-	-	27	27
Other liabilities	-	-	-	-	200	-	200
Accruals and deferred income	-	-	-	-	163	-	163
Total financial liabilities	**-**	**-**	**-**	**-**	**103,349**	**27**	**103,376**
Total non financial liabilities	-	-	-	-	-	-	19,187
Total liabilities							**122,563**

28. Financial instruments (continued)

Interest rate sensitivity gap analysis 2007

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest £'000	Total £'000
Assets							
Cash and balances at central banks	-	-	-	-	-	301	301
Loans and advances to banks	74,402	2,524	1,975	-	-	-	78,901
Loans and advances to customers	28,238	1,049	1,372	7,751	5,023	(27)	43,406
Debt Securities	1,016	-	500	3,059	3,920	-	8,495
Other assets	-	-	-	-	-	7,423	7,423
	103,656	3,573	3,847	10,810	8,943	7,697	138,526
Liabilities							
Deposits by banks	40,112	-	-	-	-	-	40,112
Customer accounts	65,015	8,559	3,370	771	-	-	77,715
Other liabilities	-	-	-	-	-	461	461
Shareholders' funds	-	-	-	-	-	20,238	20,238
	105,127	8,559	3,370	771	-	20,699	138,526
Interest rate sensitivity gap	(1,471)	(4,986)	477	10,039	8,943	(13,002)	-
Cumulative gap	(1,471)	(6,457)	(5,980)	4,059	13,002	-	-

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 2007.

Other liabilities other then deferred tax liability of £55,000 classified as non interest bearing in the above table has contractual maturities of less than three months.

28. Financial instruments (continued)

Interest rate sensitivity gap analysis 2006

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest £'000	Total £'000
Assets							
Cash and balances at central Bank	-	-	-	-	-	390	390
Loans and advances to banks	62,457	1,029	-	510	-	-	63,996
Loans and advances to customers	26,766	340	2,652	5,516	4,233	(14)	39,493
Debt Securities	2,065	-	3,107	1,520	5,214	-	11,906
Other assets	-	-	-	-	-	6,778	6,778
	91,288	1,369	5,759	7,546	9,447	7,154	122,563
Liabilities							
Deposits by banks	42,032	-	-	-	-	-	42,032
Customer accounts	48,414	8,192	4,281	16	-	-	60,903
Other liabilities	-	-	-	-	-	496	496
Shareholders' funds	-	-	-	-	-	19,132	19,132
	90,446	8,192	4,281	16	-	19,628	122,563
Interest rate sensitivity gap	842	(6,823)	1,478	7,530	9,447	(12,474)	-
Cumulative gap	842	(5,981)	(4,503)	3,027	12,474	-	-

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 2006.

Other liabilities other then deferred tax liability of £60,000 classified as non interest bearing in the above table has contractual maturities of less than three months.

A liability (or negative) gap position exists when liabilities reprice more quickly than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice 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 have been shown net of provisions totalling £26,000 (2006 - £14,000).

The weighted average interest rates are as follows; 5.92% (2006: 5.26%) for the loans and advances to banks, 7.04 % (2006: 6.97%) for the loans and advances to customers, 6.13% (2006: 7.06%) for the debt securities, 5.17 % (2006: 4.55%) for the deposits by banks and 5.59% (2006: 4.83%) for the customer accounts.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rate fluctuation for both derivative and non derivative instruments at the balance sheet date. At reporting date, if interest rate had been 50 basis points higher/lower and all other variables were held constant the bank's net profit would increase/decrease by £184,000 (2006: £117,000). However, management believes that Bank interest rate risk is limited since the majority of customers deposits are reprised within three months as per the terms of their issue.

28. Financial instruments (continued)

Liquidity risk

The Bank is regulated in the United Kingdom by the Financial Services Authority (FSA), 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.

Currency risk

Currency of denomination	**Net currency position 2007 £'000**	**Net currency position 2006 £'000**
US Dollar	22	14
Euro	12	13
Japanese Yen	5	4
Swiss Franc	1	0
Other currencies	38	12
Total	78	43

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

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

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

28. Financial instruments (continued)

Carrying value and fair value

The fair value of debt securities and derivative financial liabilities are market prices.

Fair value of other assets and other liabilities cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and a reliable date regarding market rates for similar instruments.

In the opinion of management, the fair value of remaining financial assets and liabilities are not significantly different from their carrying value since assets and liabilities are either short term in nature or in the case of customer loans and deposits are frequently reset.

Set out is a comparison by category of carrying values and fair values of the Bank's financial assets, liabilities and swaps and forward transactions as at 31 December 2007.

	Carrying value 2007 £000	Fair value 2007 £000	Carrying value 2006 £000	Fair value 2006 £000
Financial assets				
Cash	301	301	390	390
Loans and advances to banks	78,901	78,901	63,996	63,996
Loans and advances to customers	43,406	43,406	39,493	39,493
Debt securities	8,495	8,495	11,906	11,906
Financial liabilities				
Deposits by banks	40,112	40,112	42,032	42,032
Customer accounts	77,715	77,715	60,903	60,903
Derivative liabilities	-	-	27	27