Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements
31 December 2015

Turkish Bank (UK) Limited

Report and financial statements 2015

Contents

Chairman's statement

I stated in my report both in 2013 and 2014 that the UK economy was showing signs of improvement. Events in the UK and uncertainty in the European and World economies led to a cut in growth forecast to 2.0% for 2016. Unemployment, having peaked at 8.5% in 2011 has fallen to 5.4% with forecasts that this will fall to 5.0% by the end of 2016. Inflation has continued beneath the government target of 2%, with CPI inflation of 0.3%, (RPI at 1.3%) mainly due to the steep fall in wholesale energy prices. The Bank of England (BoE) is forecasting for inflation to get back to the 2% target by 2018. There is evidence of growing wage increases as the economy recovers, particularly in the financial sector despite job losses in some areas of banking. .

As stated last year these factors have pushed back the next increase in base rate which last year had been anticipated in 2015, but it remains a guessing game to predict the timing of the next increase. The BoE is now not forecasting an increase to 1.0% until 2018, but these forecasts change every quarter. Regardless of the timing the low interest rates do impact on the profitability of banks in squeezing margins.

The need for caution remains appropriate as there are still worrying signs with UK and World growth slowing and uncertainties in the property market with changes to stamp duty and tax relief on buy to let properties. The UK is suffering additional uncertainty with the possibility of "BREXIT" and the consequent uncertainty of what the UK's trading relationship would be with Europe and the rest of the world if the UK voted to leave.

The negotiations in Cyprus to consider unification of the Island are progressing and there are grounds for cautious optimism that there will be an agreement.

In Turkey the economy came under pressure in 2014, but indications for 2015 show a return to higher growth. The industrial production index for 2015 was 4.6% higher in 2015 with growth in January 2016 at 5.6% on a calendar adjusted annual basis. Turkey remains vulnerable with a large current account deficit to finance, and this has led to a significant depreciation in the value of the Turkish Lira. In addition, the geopolitical risks remain high with conflict on the borders and in the south-east of Turkey and an uneasy relationship with Russia at present. The economy is expected to benefit from the continued weakness of the Lira, the low oil price and the potential for increased trade with the gradual re-integration of neighbouring Iran into international trade.

The base rate is currently 7.5%, but interbank rates are presently over 11% with inflation currently running at around 8.8%, in February 2016.

The increase in deposits into the UK is a continued reflection of the status of the UK as a safe haven. The Group has provided good support to the UK Bank to help on-board customers particularly with regard to AML procedures and KYC responsibilities. Arrangements are set in place to ensure that the Head Office in Istanbul and the parent Bank in Northern Cyprus continue to provide support and intelligence on non-resident customers for the UK Bank.

In the UK the Bank has maintained its position as a community bank within the Turkish-speaking community which it started to penetrate actively some nine years ago with six branches, all of which are situated in London. These continue to provide excellent personal service to the local community based on strong cultural ties, something on which the Bank prides itself, and the Bank has seen a modest but welcome increase in the customer base this year. The Bank has continued to tighten procedures on the opening of accounts to ensure it is selective in its customers and protective of its good reputation. A Business Acceptance Committee has been formed to approve new business customers and also monitor new personal customers. A new branch in Mayfair for Relationship Banking focusing on the Bank's non-resident customers has just been opened.

The Bank intends to continue its growth that it has achieved this year but will continue forward on a cautious basis with an increasing focus on controlling costs to ensure that the benefit of increased income flows through to the bottom line. During the year the Bank has seen a growth in its balance sheet footings from £139mn to over £150mn. Total UK lending has increased to £67mn, an increase of £19mn which was the highest level achieved, but whilst remaining within the Bank's very cautious stance on secured lending at sensible margins of loan to value.

As stated last year, but worth reiterating, I am also proud that, despite the common belief that banks have given insufficient lending support to the business sector, Turkish Bank has continued to support the SME sector throughout the recession, an example of the benefits of being a community bank.

Chairman's report (continued)

The Bank's profit before tax rose from £819k to £1,081k, on the back of increased lending and the expansion of the customer base. The Bank continues to have very low provisions as a result of the cautious lending profile. The Bank continues to generate earnings from a spread of activities, and the original core remittance product continues to hold up well, whilst earnings from current account activity and lending have made strong contributions to profit.

I Hakan Bortecene

Chairman

20 April 2016

Report and financial statements 2015

Officers and professional advisors

Directors

I H Bortecene (Chairman)
D I Stewart (Managing Director)
R W Long (Acting Chairman Risk Committee)
D Blackmore (Chairman Audit Committee: Independent)
P Ryan (resigned 31st December 2015) (Independent)
M Arig
M Y Rahmioglu

Registered office

84-86 Borough High Street
London SE1 1LN

Banker

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

Auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

Turkish Bank (UK) Limited
Company Registration No. 2643004

The Strategic report

For the year ended 31 December 2015

Review of the Year

Profit before tax increased from £819k to £1,081k, an extremely good performance in line with targets set at the start of the year, and especially as the prior year included a gain of £132k (2013: £451k) on sale of debt securities. The UK gilts sold in 2014 and 2013 were done to avoid a capital loss if the prices of gilts fell following the anticipated increase in base rates.

Impairment losses for the year of £64k were offset by recoveries of £37k and the level of total provisions at £260k (2014: £235k) which includes the IBNR of £100k (2014: £65k) (Incurred But Not Recorded) are extremely low against a loan book of £80mn. This reflects the Bank's policy of concentrating on secured lending at cautious margins of collateral. The Bank continues to monitor its loan book closely to identify cases of financial stress with a view to providing assistance wherever possible.

Resident lending to the chosen market sectors in and around London has increased by £7mn (14%) to £55mn (2014: £48mn) which was the highest level achieved. Total UK lending, which includes lending to non-residents for UK residential property, increased overall by £18mn to £67mn helped by the Banks flexible mortgage product for non-resident customers wishing to borrow to purchase UK residential property. Non-resident lending declined from £30mn to £13mn reflecting a lack of opportunity at attractive interest rates and a cautious approach to risk.

Customer deposits have increased by £7mn (2013: increase £9mn) to £117mn (2014: £110mn), but within this resident deposits have decreased by £1mn and non-resident deposits increased by £8mn to £70mn (2014: £62mn), reflecting the UK being regarded as a safe haven.

There was an increase in the level of fees from commitment charges with the increased lending and also an increase in business accounts charges with the expansion of this business.

The Bank continues to try and further improve the quality of its services to all levels of its customer base, and the project group to improve customer service and standardisation across the Bank, which was started in 2014, will be continuing during 2016, with an increased focus on efficiency. The Bank seeks to ensure that we keep pace with changes in the financial services industry by closely monitoring competition on the high street as well as in the wholesale markets. In 2016 the Bank carried out a further successful upgrade of its core banking system, and also introduced an improved AML system and we are grateful to the support from Group IT in this respect.

The Bank seeks to builds a positive and productive dialogue with the regulators and ensures that the Bank picks up on best practises with the objective of providing fair treatment for customers and as a result improved recognition in the community and an expansion in the Bank's customer base. We encourage both compliments and complaints if the quality of our service has fallen below what is expected, as a basis of improving our service in the future. The introduction of the new Senior Managers Regime is intended to improve standards in banking behaviour, something the Bank as a community bank wholeheartedly endorses.

We look to this year to build on the underlying operating profits generated in 2015 despite the ever increasing burden of regulatory costs and to provide our clients with the quality service to which they are entitled, and in line with the Group's history and values.

The Bank has adopted IFRS this year, but there has been no significant impact on the accounts as the Bank had already adopted many of the key accounting principles, such as deferring fee income over the life of the loan, in anticipation of this move.

One significant event is the sale proceeds that the Bank will receive from the reorganisation of the Visa network and the sale of Visa Europe to Visa Inc. The value of these presently carries a large degree of uncertainty due to litigation and regulatory action involving Visa Europe. Whilst the proposal was announced in 2015, and helps to indicate a value to the asset, completion is due in 2016 and is still subject to regulatory approval. The bank has therefore accounted for its best estimate of the value through the Statement of Other Comprehensive Income.

Finally, the Bank was honoured to be involved in the sponsorship of the Museum of Innocence, the book / museum created by Turkey's only Nobel Prize winning author, Orhan Pamuk. This was the first time the exhibition had been created outside Istanbul and Somerset House was an excellent venue as a showcase. This sponsorship was a great success and our thanks to everyone involved.

The Strategic report (continued)

Principal risks and uncertainties

The Bank's activities expose it to a number of financial risks including credit risk, interest rate and currency risk and liquidity and funding risk. The Bank only uses "plain vanilla" currency swaps and does not enter into any exotic contracts. Such swaps are used to hedge the Bank's currency positions and are not used for trading purposes. Risk policies have been disclosed in note 27 of the financial statements, which also provides greater detail of how risk is managed.

Interest rate and currency risk: The Bank's activity exposes it primarily to the financial risk of changes to the interest rate environment and to a lesser extent to foreign currency exchange rate movements. With regard to interest rate risk the Bank has only a very small part of its loan portfolio on fixed interest rates, and the majority is on variable rates, reducing the bank's exposure to interest rate fluctuations. Money market placements are at fixed rate but these are typically for a short period, up to three months to minimise any risks.

Credit risk: The Bank has no significant concentration of credit risk, with lending mainly against UK property and LTV (Loan to Value) which are low compared to the market. 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 and funding risk: In order to maintain liquidity and funding to ensure that sufficient funds are available for on-going operations and future developments, the Bank has set a cautious risk appetite with a significant proportion of the total assets held in medium-term and short-term money market. The directors believe that the Bank has a strong liquidity and funding position that meets with their Policy guidelines.

The Bank operates a risk management policy and, has set quantifiable risk appetite limits 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 26 to the accounts.

2015 was a difficult time for banks, around increased pressure and fines by the supervisors internationally. As a result of this we are seeing larger banks remodelling their business and revising their business models. Agency banking is one of the more challenging areas for smaller banks as the appetite of the larger clearers to provide clearing services to small banks is diminishing. In 2015 we opened a GBP account with our USD clearers, BONY, to diversify our exposure to a single clearer risks. The Bank that currently provides the majority of our clearing services announced in March their desire to discontinue these services due to strategic change in their business model. A lack of suitable solutions to replace these services, in a reasonable time frame, will result in a revision of the products offered by TBUK. At the time of this report the Bank's management is exploring all options available including joining the payment schemes directly. We shall continue to keep relevant parties apprised of developments

Future developments

The directors aim to maintain the policies that have resulted in the Bank's growth. As stated in the review, the Bank is investing to improve the Bank's internet offering and is also reviewing its product portfolio with the intention to expand the range of products for the benefit of our customers. Other future activities are covered in the Chairman's Report.

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

D. I. STEWART.

20 April 2016

Turkish Bank (UK) Limited
Company Registration No. 2643004

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2015.

Activity Report

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

- to provide a superior community banking service to the Turkish-speaking people of 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 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. TBUK operates within and is guided by the overall strategic objectives 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's web site at www.turkishbankgroup.com

Review of the Year

Information regarding the Bank's financial performance and position during the year ended 31 December 2015 is presented in the Strategic Report on page 5.

Principal risks and uncertainties

Information regarding the exposure of credit risk, interest rate and currency risk, liquidity and funding risk are included in the Strategic Report on page 5.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. As set out in Note 29, the bank has been advised of a change in strategy of the bank's principal clearer. The directors have considered the various scenarios that might arise from this change, and are comfortable that the bank can continue to operate as a going concern. In addition the bank has received confirmation from their parent of their intent to support TBUK where required. The bank's preferred strategy is to become a direct member of the payments system as this would enable the bank to continue to offer its existing range of services.

Further details regarding the bank's accounting policies can be found in the statement of accounting policies in these financial statements on page 15.

Key performance indicators

	2015	2014
Profit before tax as % of equity	4.33%	3.50%
Equity as % of total assets	17.03%	18.01%
General expenses as a % of net income	80.52%	83.08%

Results and dividends

The profit for the year after taxation amounted to £802,000 (2014 – profit £599,000).

The directors do not recommend the payment of a dividend (2014 - £nil).

Political and charitable contributions

During the year, the Bank made various charitable contributions totalling £1,150 (2014 - £500).

Directors' report (continued)

Directors and their interests

The directors who served during the year were as follows:

I H Bortecene (Chairman)
David I Stewart
R W Long
D Blackmore*
Phil Ryan** (resigned 31 December 2015)
M Arig
M Y Rahmioglu
* Chairman of the Audit Committee
** Chairman of the Risk Committee - R W Long was appointed interim chair pending a permanent appointment

Directors' indemnities

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

Accounting policy

These financial statements have been prepared on the basis of IFRS accounting standards, as adopted by the European Union. Prior year accounts were produced under the historical cost convention, except for the revaluation of certain financial instruments and freehold properties, and in accordance with the applicable United Kingdom accounting standards and the Statements of Recommended Practice issued by the British Bankers' Association. Opening balances as at 1 January 2014 have been restated on the IFRS basis.

Audit Committee

The Bank has an Audit Committee comprising six non-executive directors including two independent non-executive directors, all of whom are experienced bankers. The Committee met on five occasions in 2015 (2014: five times).

Risk Committee

The Bank has a Risk Committee comprising three non-executive directors (including two independent directors), and the MD whom are all experienced bankers, plus members of the executive management. The Committee met on five occasions in 2015 (2014: five times).

Disclosure of information to the auditor

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

(1) so far as each of the directors are aware, there is no relevant audit information of which the Bank's auditor is 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 Bank's auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

D. I. STEWART

20 April 2016

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

D. I. STEWART.

By order of the Board

20 April 2016

Registered in England. Company No. 2643004

INDEPENDENT AUDITOR'S 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 2015 set out on pages 12 to 49. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and.
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Namrata Basker (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL

20 April 2016

Turkish Bank (UK) Limited

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Interest income	3	5,332	4,706
Interest expense	3	(1,399)	(1,619)
Net interest income	3	3,933	3,087
Fees and commissions receivable	4	1,620	1,516
Fees and commissions payable	4	(143)	(149)
Net fee and commission income	4	1,477	1,367
Net trading income	5	186	241
Other operating income		5	7
Gain on sale of debt securities		0	132
Total operating income		5,601	4,834
Net impairment(loss) / recovery on financial assets	7	(27)	33
Personnel expenses	6	(2,414)	(2,148)
Premises and equipment		(453)	(429)
Administrative expenses		(1,087)	(1,004)
Depreciation and amortisation	15,16	(525)	(461)
Other expenses		(14)	(6)
Total operating expenses		(4,520)	(4,015)
Profit before taxation	8	1,081	819
Income tax expense	9	(313)	(220)
Profit after taxation		768	599
Other comprehensive income			
Items that will not be classified to profit and loss			
Revaluation of property plant and equipment		-	1,464
Items that are or may subsequently be classified to profit or loss			
Available for sale financial assets net change in fair value		727	(56)
Total other comprehensive income		**727**	**1,408**
Total comprehensive income		**1,495**	**2,007**

The 2014 accounts were prepared under UK GAAP. This is the first year of adoption of IFRS standards. If 2014 financial statements had been produced under IFRS then income would have been recognised using the effective interest rate principles.
The notes on pages 15 to 49 form an integral part of these financial statements.
All activities relate to continuing operations.

Turkish Bank (UK) Limited

Statement of Financial Position
For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000 Restated	1st Jan 2014 £'000 Restated
Assets				
Cash and cash equivalents	10	54,922	44,422	46,223
Derivative assets held for risk management		-	42	340
Loans and advances to banks	11	3,372	3,253	3,064
Loans and advances to customers	12	80,774	79,372	71,214
Investment Securities	14	2,303	2,739	3,404
Current taxation Assets	9	166	140	140
Property and equipment	16	7,747	8,100	6,956
Intangible assets	15	720	776	179
Deferred tax assets	20	-	5	-
Other assets	17	1,024	558	521
Total assets		151,028	139,407	132,041
Liabilities				
Derivative liabilities held for risk management		36	-	-
Deposits from banks	18	5,813	3,787	8,014
Deposits from customers	19	117,627	110,600	101,130
Current tax liabilities	9	272	220	228
Deferred tax liabilities	20	207	-	-
Other liabilities	20	1,368	590	466
		125,323	115,197	109,838
Equity				
Called up share capital	21	12,000	12,000	12,000
Retained earnings		7,559	6,791	6,176
Available-for-sale reserve		789	62	134
Revaluation reserve		5,357	5,357	3,893
Total equity		25,705	24,210	22,203
Total liabilities and equity		151,028	139,407	132,041

The 2014 accounts were prepared under UK GAAP. This is the first year of adoption of IFRS standards. If 2014 financial statements had been produced under IFRS then income would have been recognised using the effective interest rate principles, this would have impacted the retained earnings and deferred income included in other liabilities above.

The Board of Directors approved these financial statements and authorised for issue on 20 April 2016.

Signed on behalf of the Board of Directors

I H Bortecene
Director

D. I. Stewart
Director

The notes on pages 15 to 49 form an integral part of these financial statements.

Turkish Bank (UK) Limited

Statement of Cash flows
For the year ended 31 December 2015

	2015	2014
		Restated
	£'000	£'000
Cash flows from operating activities		
Profit after taxation	**768**	**599**
Adjustments for:-		
Depreciation of property plant and equipment	371	427
Amortisation of intangible assets	154	34
Net Interest income	(3,933)	(3,087)
Effective of foreign currency translation	236	161
Income tax expense	313	220
	(2,091)	(1,646)
Changes in:-		
Derivative assets held for risk management	42	298
Loans and advances to customers	(1,402)	(8,158)
Loans to banks	(119)	(189)
Other assets	(466)	(37)
Derivative liabilities held for risk management	36	-
Deposits from banks	2,026	(4,227)
Deposits from customers	7,027	9,470
Other liabilities	778	124
	7,922	**(2,724)**
Interest received	5,332	4,706
Interest paid	(1,399)	(1,619)
Income tax paid	(260)	(217)
Net cash flows from operating activities	**11,595**	**151**
Cash flows from investing activities		
Acquisition of property and equipment	(23)	(107)
Acquisition of intangible assets	(98)	(631)
Acquisition of available for sale securities	(880)	(568)
Proceeds from disposal of available for sale securities	1,997	1,000
Net cash used in investing activities	**996**	**(306)**
Net increase / (decrease) in cash and cash equivalents	10,500	(1,801)
Cash and cash equivalents as at 1 January	44,422	46,223
Cash and cash equivalents as at 31 December	**54,922**	**44,422**

Note – First time adoption of IFRS. The cash flow statement for 2014 has been restated to comply with IFRS as adopted by the EU.

The total assets and liabilities have not changed as a result of IFRS adoption; however some balance sheet classifications and descriptions have been amended. The above cash flow statement reflects these re-classifications. There are no material changes resulting from the adoption of IFRS.

The notes on pages 15 to 49 form an integral part of these financial statements.

Statement of changes in Equity
For the year ended 31 December 2015

	Notes	Share Capital	Available for sale Reserve	Revaluation Reserve	Retained Earnings	Total
Balance as at 1 January 2014		12,000	134	3,893	6,176	22,203
Profit for the year					599	599
Other comprehensive income		-	(72)	1,464	16	1,408
Balance as at 31 December 2014		12,000	62	5,357	6,791	24,210
Balance as at 1 January 2015		12,000	62	5,357	6,791	24,210
Profit for the year					768	768
Other comprehensive income		-	917	-	-	917
Taxation impact		-	(190)	-	-	(190)
Balance as at 31 December 2015		12,000	789	5,357	7,559	25,705

The notes on pages 15 to 49 form an integral part of these financial statements.

1. (a) Reporting Entity

Turkish bank (UK) Limited (the "Bank") is domiciled in the United Kingdom. The company's registered office is 84-86 Borough High Street, London SE1 1LN. The Company is a regulated Bank, primarily in the retail banking sector.

(b) Basis of preparation

The financial statements have been prepared in accordance with IFRS, as adopted by the EU. They were authorised for issue by the Bank's board of directors on 13 April 2016. These are the Group's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

Comparatives have been restated because the prior year financial statements were prepared under the historical cost convention, except for the revaluation of certain financial instruments and freehold properties, and in accordance with the applicable United Kingdom accounting standards and the Statements of Recommended Practice issued by the British Bankers' Association. The effective date for transition to IFRS was 1st January 2014. Further explanation of the transition is set out in note 30.

These accounts have been prepared on a going concern basis. As set out in Note 29, the bank has been advised of a change in strategy of the bank's principal clearer. The directors have considered the various scenarios that might arise from this change, and are comfortable that the bank can continue to operate as a going concern. In addition the bank has received confirmation from their parent of their intent to support TBUK where required. The bank's preferred strategy is to become a direct member of the payments system as this would enable the bank to continue to offer its existing range of services

These financial statements are presented in pounds sterling which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(c) (i) Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that effect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following notes:-

Note 9 recognition of deferred tax assets

Note 7 recognition and measurement of provisions and contingencies; key assumptions about the likelihood and magnitude of an outflow of resources;

(c) (ii) Measurement of fair values

A number of the bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The bank has an established control framework with respect to the measurement of fair values.

Significant valuation issues are reported to the Bank's Audit Committee.

When measuring the fair value of an asset or liability the bank uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:-

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 : inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices)
- Level 3 : inputs for the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The bank recognises transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(d) 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, together with the related direct costs, are deferred to the useful life of the asset 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.

(e) 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. Each impaired asset is assessed on its merits and the work out strategy and estimate of cash flows considered recoverable are independently approved by the Credit Committee. Impairment losses on available for sale securities are recognised through profit and loss.

A collective component of the total allowance is established for:-

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss Incurred But Not Reported).

The collective allowance for groups of homogeneous loans is established using statistical methods or for small portfolios a formula approach based on historical loss experience. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Loss rates are bench marked against actual loss experience.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances, when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective impairment management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the assumptions and parameters used in determining the collective allowance.

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.

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

(f) Loans and receivables

Loans and receivables are measured at initial recognition at fair value based on transaction costs 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 (e) above.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over a relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts thought the expected life of the financial asset, or, where appropriate, a shorter period.

(g) Investment securities

Investments in debt securities are classified as available-for-sale or held-to-maturity. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale investments 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.

Investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

(h) Credit Risk

For the definition of credit risk and information on how credit risk is managed by the Bank see note 27.

(i) 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.

(j) 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.

(k) 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 in 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 derivative contracts in hedging relationships for hedge accounting purposes.

The Bank values it's available for sale and held for trading investment securities at fair market value. The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, or the financial instruments are traded infrequently and have little price transparency or the fair value is less objective, and requires varying degrees of judgment, the Bank uses valuation techniques to arrive at the fair value as set out in 1 (c) above.

The valuation techniques employ observable market data to calculate fair values, including comparisons with similar financial instruments for which market observable prices exist. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

(l) 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%
Assets under finance lease	20%
Motor Vehicle	20%

(m) 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.

(n) Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

(o) Intangible assets – Software licences and software purchased

Software licences are included at cost and amortised in equal annual instalments over a period of five years which is their estimated useful economic life. These software licences amortizations coincide with hardware depreciation over a period of five years. Provision is made for any impairment loss.

(p) Property revaluations

The accounting policy for freehold land and buildings is to revalue them at least biennially. 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. The last professional valuation was undertaken by Ringley, a chartered surveyor external to the Bank, in December 2014 which resulted net surplus of £1,464,000. Valuations were made on the basis of open market value for existing use. The directors have considered the value of the freehold land and building without revaluing them and are satisfied that the aggregate fair value of those assets at the time in question is or was not less than the aggregate amount at which they are or being stated in the company's account.

(q) Financial liabilities

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

(r) Segment analysis

The Bank has produced segmental analysis based on geographical sectors and reportable business sectors.

(s) Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central bank highly liquid financial assets with original maturities of three months or less from the date of acquisition th subject to an insignificant risk of changes in their fair value, and are used by the Group in the management short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position

(t) Standards Issued but not yet adopted

IFRS 9 – Financial instruments

IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018 and is currently expected to be endorsed by the EU in 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments.

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward-looking information, replacing the existing incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through OCI, loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (these were covered by IAS 37). In addition, the IAS 39 Available for Sale assets model is not fully aligned to the model for amortised cost assets.

IFRS 9 requires the recognition of lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition 12 month expected credit losses are recognised, being the expected credit losses from default events that are possible within 12 months after the reporting date.

Expected credit losses are the unbiased probability of default weighted average credit losses determined by evaluating a range of possible outcomes and forecast future economic conditions. Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the effective interest rate.

Under IFRS 9, impairment will be recognised earlier than is the case under IAS 39 because it requires expected losses to be recognised before the loss event arises. Measurement will involve increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk. It is not considered practical to disclose reliable financial impact estimates until the implementation programme is further advanced.

IFRS 15 – Revenue from Contracts with Customers

In 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which will replace IAS 18 Revenue and IAS 11 Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard will establish a more systematic approach for revenue measurement and recognition. During July 2015, the IASB confirmed the deferral of the effective date by one year to 1 January 2018. The standard has not yet been endorsed by the EU. Adoption of the standard is not expected to have a significant impact.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. Under the new requirements, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The effective date is 1 January 2019. The standard has not yet been endorsed by the EU.

2 Segmental Analysis

The Bank's profit and loss and balance sheet is analysed by business sector below:-

	Retail Banking	Treasury	Central	Total
2015	**£'000**	**£'000**	**£'000**	**£'000**
Net Interest Income	3,437	187	309	3,933
Net fee and commission income	1,677	71	(271)	1,477
Net trading income	-	186	-	186
Other income	1	1	3	5
Total segment revenues	**5,115**	**445**	**41**	**5,601**
Impairment losses	(27)	-	-	(27)
Operating expenses	(2,192)	(317)	(1,984)	(4,493)
Segment profit before tax	**2,896**	**128**	**(1,943)**	**1,081**
Segment Assets	56,067	70,919	24,041	151,028
Segment liabilities	96,042	6,442	23,839	125,323
2014				
Net Interest Income	2,562	222	303	3,087
Net fee and commission income	1,449	60	(142)	1,367
Net trading income	-	241	-	241
Other income	7	132	-	139
Total segment revenues	**4,018**	**655**	**161**	**4,834**
Impairment losses	33	-	-	33
Operating expenses	(2,167)	(240)	(1,641)	(4,048)
Segment profit before tax	**1,884**	**415**	**(1,480)**	**819**
Segment Assets	45,150	71,269	22,988	139,407
Segment liabilities	87,926	4,283	22,988	115,197

Sector analysis continued

The Bank's profit and loss account can be analysed by geographic region as follows:-

Geographic Analysis

	UK	Europe excluding UK	Total
2015	**£'000**	**£'000**	**£'000**
Net Interest Income	2,965	968	3,933
Net fee and commission income	1,233	244	1,477
Net trading income	186	-	186
Other income	5	-	5
Total segment revenues	**4,389**	**1,212**	**5,601**
Impairment losses	(27)	-	(27)
Operating expenses	(4,040)	(453)	(4,493)
Segment profit before tax	**322**	**759**	**1,081**
Segment Assets	96,656	54,372	151,028
Segment liabilities	49,201	76,122	125,323
2014			
Net Interest Income	2,327	760	3,087
Net fee and commission income	1,211	156	1,367
Net trading income	241	-	241
Other income	7	132	139
Total segment revenues	**3,786**	**1,048**	**4,834**
Impairment losses	33	-	33
Operating expenses	(3,646)	(402)	(4,048)
Segment profit before tax	**173**	**646**	**819**
Segment Assets	92,851	46,556	139,407
Segment liabilities	49,286	65,911	115,197

Notes to the accounts
For the year ended 31 December 2015

3. Net Interest income

	2015 £'000	2014 £'000
Interest income		
Cash and cash equivalents	286	266
Loans and advances to banks	26	26
Loans and advances to customers	4,789	4,056
Debt Securities	231	358
Total interest income	**5,332**	**4,706**
Interest expense		
Deposits from banks	(7)	(9)
Deposits from customers	(1,392)	(1,610)
Total interest expense	**(1,399)**	**(1,619)**
Net interest income	**3,933**	**3,087**

4. Net Fee and Commission income

Net fee and commission income was all derived from retail banking customer fees for both 2015 and 2014

5. Net trading income

Net trading income was all from foreign exchange trading for both 2015 and 2014

6. Personnel expenses

	2015 £'000	2014 £'000
Personnel expenses during the year (including directors)		
Wages and salaries	1,973	1,669
Social security costs	190	185
Pension costs	79	59
Other staff costs	172	235
	2,414	2,148

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

	2015 No.	2014 No.
Commercial banking activities	81	81

Directors' remuneration during the year consisted of:

	2015 £'000	2014 £'000
Emoluments	233	186

The emoluments of the highest paid director for the year ended 31 December 2015 were £122,000 (2014: £121,000).

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

Notes to the accounts
For the year ended 31 December 2015

7. Impairment losses on loans and advances

	2015 £'000	2014 £'000
Impairment charge for the year	(64)	(59)
Recoveries	37	92
Net impairment charge for the year	(27)	33

During the year the Bank received £104,000 (2014: Nil) in respect of loans which were previously bad & doubtful debts written off in prior years which is included in other operating income.

8. Profit on ordinary activities before taxation

Profit is stated after charging:

	2015 £'000	2014 £'000
Foreign currency gains	(186)	(241)
Operating lease rentals		
Land and buildings	106	87
Depreciation and amortisation		
Tangible fixed assets	371	412
Intangible fixed assets	154	49

	2015 £'000	2014 £'000
Fees payable to the company's auditor		
Audit of the company's annual accounts	82	62
Tax services	6	5
	88	67

9. Income taxes

	2015 £'000	2014 £'000
Current tax		
United Kingdom corporation tax at 20.25% (2014: 21.50%) based on profit for the year	(272)	(253)
Adjustment in respect of prior years	(20)	4
Total current tax	(292)	(249)
Deferred tax		
Current year movement	55	24
Prior year Adjustment	(77)	7
Current tax rate adjustment	-	(2)
	(313)	(220)

The current tax charge for the year can be reconciled to the standard rate of corporation tax at 20.25% (2014 21.50%) as explained overleaf:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	1,081	819
Tax at 20.25% (2014: 21.50%) thereon	(219)	(176)
Expenses not deductible for tax purposes	(4)	(18)
Depreciation in excess of capital allowances	(58)	(59)
Prior period adjustment	(20)	4
Reversal of timing differences	9	-
	(292)	(249)
Deferred tax:		
Current year movement	55	24
Prior period adjustment	(77)	7
Effect of change in tax rate	-	(2)
	(313)	(220)

10. Cash and Cash Equivalents

	2015 £'000	2014 £'000
Cash and cash equivalents are comprised of the following:		
- Cash	646	806
- Deposits at the Bank of England	16,308	16,306
- On demand	14,994	16,261
- Within three months	22,974	11,049
	54,922	44,422

Included within cash and cash equivalents is an amount of £277,000 in respect of group companies (2014: £552,000). The interest received from group companies during the year was £7,000 (2014: £7,000). Geographical analysis of cash and cash equivalents is as follows:

	2015 £'000	2014 £'000
In UK:		
- Cash	646	806
- Deposits with Bank of England	16,308	16,306
- On current account	12,615	3,054
- On deposit account in money market lending	-	7,380
Outside UK:		
- On current account	2,379	5,191
- Money Market Lending	22,974	11,685
	54,922	**44,422**

By Credit Rating		
Cash	647	806
AA-	16,308	16,300
AA- to AA+	14,995	14,189
A- to A+	1,920	1,430
BBB	10,537	6,308
BB	10,238	4,816
Not rated	277	573
Total	**54,922**	**44,422**

Notes to the accounts
For the year ended 31 December 2015

11. **Loans and advances to banks**	**2015 £'000**	**2014 £'000**
Promissory notes from a Turkish bank original maturity less than 1 year	3,372	-
Promissory notes from a Turkish bank original maturity 1 to 5 years	-	3,253

12. Loans and advances to customers

	2015 £'000	**2014 £'000**
Loans are repayable as follows:		
On demand	5,370	5,345
Within three months	7,569	10,072
Between three months and one year	7,640	2,768
Between one and five years	54,792	52,323
Five years or more	5,663	9,100
Provision for impairment losses		
Specific	(159)	(171)
Collective	(101)	(65)
	80,774	79,372

Loans and advances are classified as non-performing if they any repayments are not made within 30 days of the due date. Non-performing loans and advances totalled £1,238,111 at the year-end (2014: £1,002,702).

Loans and advances to customers includes £ 865,803 (2014: £282,593) which has been in the watch list but no provision was made against them. The following information is given in respect of the nature and type of loans and advances to customers:

2015

	Fixed Rate Loan £'000		**Floating Rate Loan £'000**		**Total £'000**
	Secured	**Unsecured**	**Secured**	**Unsecured**	
Overdraft	-	-	4,667	703	5,370
Fixed term					
- Retail	1,646	-	52,896	415	54,957
- Corporation	7,406	-	2,147	11,154	20,707
	9,052	-	59,710	12,272	81,034
Provision for impairment	-	-	(19)	(241)	(260)
	9,052	-	59,691	12,031	80,774

2014

	Fixed Rate Loan £'000		**Floating Rate Loan £'000**		**Total £'000**
	Secured	**Unsecured**	**Secured**	**Unsecured**	
Overdraft	-	-	4,749	319	5,068
Fixed term					
- Retail	-	-	40,531	247	40,778
- Corporation	1,674	21,776	10,299	13	33,762
	1,674	21,776	55,579	579	79,608
Provision for impairment	-	-	(34)	(202)	(236)
	1,674	21,776	55,545	377	79,372

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

	2015 £'000					2014 £'000				
	GBP	**USD**	**EURO**	**TRY**	**Total**	**GBP**	**USD**	**EURO**	**TRY**	**Total**
UK	63,465	3,745	-	-	67,210	48,641	127	31	-	48,799
Non UK										
- Turkey	1,358	3,886	8,046	-	13,290	4,563	6,952	8,924	9,731	30,170
- Others	274	-	-	-	274	403	-	-	-	403
Total	65,097	7,631	8,046	-	80,774	53,607	7,079	8,955	9,731	79,372

13. Provisions for impairment losses

	2015 £'000	2014 £'000
Specific Provision		
As at 1 January	171	249
Charge against profits	29	14
Less: recoveries	(37)	(92)
Net impairment charge for the year	(8)	(78)
Less: loans written off	(3)	-
Closing Balance	160	171
Collective Provision		
As at 1 January	65	21
Charge against profits	35	44
Total Collective provision	100	65
Total provisions as at 31 December	260	236

Accounts overdrawn for more than 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.

In accordance with IAS39 an Incurred but not Reported ("IBNR") provision has been made in order to reflect losses incurred but not yet identified. The provision as at 31 December 2015 was £100,000 (2014: £65,000)

Analysis of impaired assets

During the reporting year the bank made new Specific Provisions of 2015 £29,000 (2014 £14,000).

The Bank is taking action to recover the debts outstanding and believes the debtors remain going concerns with sufficient resources to repay the debt, which are considered to be impaired as they are past their due date.

14. Investment securities

Available-for-sale	2015 £'000	2014 £'000
Nominal value	1,324	2,677
Available-for-sale revaluation	979	62
Fair value	2,303	2,739
Total	2,303	2,739

Investment in debt securities will mature as follows:

	2015 £'000	2014 £'000
Repayable:		
3 to 6 months	705	-
Between one and five years	1,355	2,739
Five years or more	243	-
	2,303	2,739

The bank holds one share in Visa Europe purchased for Euro 10. It revalued this share through other comprehensive income, due to the proposed acquisition of Visa Europe by Visa Inc. Please refer to note 31 for further information.

Segmental analysis of investment securities is as follows:

	2015			2014		
	Share in Visa Europe £'000	Floating rate bonds £'000	Total £'000	Share in Visa Europe £'000	Floating rate bonds £'000	Total £'000
Share in Visa Europe	948	-	948	-	-	-
Corporate bonds	-	1,355	1,355	-	2,739	2,739
	948	1,355	2,303	-	2,739	2,739

The debt securities comprise corporate bonds and are held as available for sale.

The Bank does not have any intention to purchase securities below Investment Grade with maturity more than 10 years. Securities classified as available-for-sale are measured at the closing market price on each reporting date and therefore these are classified as Level 1 and Level 2 for the purpose of fair value hierarchy.

The above balance includes debt securities of £914,000 which are due to mature in less than one year (2014: £1,661,000).

Analysis by currency of origin is as follows:

	2015				2014			
Origin of investment securities	**GBP**	**USD**	**TRY**	**Total**	**GBP**	**USD**	**TRY**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Europe	705	-	-	705	-	-	-	-
Turkey	-	-	1,355	1,355	-	-	2,739	2,739
Total	705	-	1,355	2,060	-	-	2,739	2,739

15. Intangible fixed assets

	Computer Software £'000
Cost	
At 1 January 2015	2,349
Additions	98
At 31 December 2015	2,447
Amortisation	
At 1 January 2015	1,573
Charge for the year	154
At 31 December 2015	1,727
Net book value	
At 31 December 2015	720
At 31 December 2014	776

The intangible fixed assets comprise software purchased. The licence for the core banking system is being amortised over 10 years, other software purchased is amortised over 5 years. The values above represent amortised historic cost and have not been adjusted to fair value.

16. Property and Equipment

	Freehold land and buildings	Lease hold land and building	Lease Equipment	Fixtures, fittings and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost/Revaluation					
At 1 January 2015	8,903	653	92	2,648	12,296
Additions	-	-	-	23	23
Disposals	(5)	-	-	-	(5)
At 31 December 2015	8,898	653	92	2,671	12,314
Depreciation					
At 1 January 2015	1,597	638	44	1,917	4,196
Charge for the year	167	12	10	182	371
Disposals	-	-	-	-	-
At 31 December 2015	1,764	650	54	2,099	4,567
Net book value					
At 31 December 2015	7,134	3	38	572	7,747
At 31 December 2014	7,306	15	48	731	8,100

The land and buildings are occupied by the Bank for its own activities. No revaluation gain was recorded in the current year (2014: £1,464,000). The carrying value of freehold buildings if they were carried at historical cost would be £1,777,000 (net of depreciation). Freehold land and buildings were revalued to fair value as at 31 December 2014. This revaluation was included in the 31 December 2014 financial statements and is reflected in the 31 December 2014 values shown in the above table.

Notes to the accounts
For the year ended 31 December 2015

17. Other assets

	2015 £'000	2014 £'000
Items in the course of collection	171	179
Prepayments	318	326
Other assets	535	53
	1,024	558

18. Deposits by banks

	2015 £'000	2014 £'000
Deposits by banks are repayable as follows:		
On demand		
- Group	4,678	1,977
- Other	1,135	1,810
	5,813	3,787

The interest paid to group companies during the year was £ 4,060 (2014: £5,057). All bank deposits mature the next day.

Geographical analysis of deposit by banks is as follows:

	2015 £'000	2014 £'000
In UK:		
On current account	-	40
Outside UK:		
On current account	5,807	3,202
On deposit account	6	545
	5,813	3,787

19. Deposits from customers

	2015 £'000	2014 £'000
Customer deposits are repayable as follows:		
On demand	60,836	25,934
Within three months	34,260	64,420
Between three months and one year	18,280	17,001
Between one year and five years	4,251	3,245
	117,627	110,600

The balance includes customers' deposits of £113 million (2014: £107 million) which are due to mature in less than one year.

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

	2015 £'000 Fixed rate interest	2015 £'000 Floating rate interest	2015 £'000 Total	2014 £'000 Fixed rate interest	2014 £'000 Floating rate interest	2014 £'000 Total
Current account	-	25,956	25,956	-	24,339	24,339
Deposit account	-	34,880	34,880	-	28,325	28,325
Fixed deposit	56,791	-	56,791	57,936	-	57,936
	56,791	60,836	117,627	57,936	52,664	110,600

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

	2015 GBP £'000	2015 USD £'000	2015 EUR £'000	2015 TRY £'000	2015 Others £'000	2015 Total £'000	2014 GBP £'000	2014 USD £'000	2014 EUR £'000	2014 TRY £'000	2014 Others £'000	2014 Total £'000
UK	43,753	921	963	1,525	1	47,163	43,591	2,153	891	1,645	1	48,281
Turkey	27,565	17,171	4,616	2,133	1	51,486	13,209	17,072	3,956	937	1	35,175
Cyprus	11,785	2,796	2,291	421	-	17,293	16,326	4,487	3,358	773	-	24,944
Others	1,103	251	331	-	-	1,685	1,426	632	142	-	-	2,200
Total	84,206	21,139	8,201	4,079	2	117,627	74,552	24,344	8,347	3,355	2	110,600

20. Other liabilities

	2015 £'000	2014 £'000
Amounts owed to group companies	10	10
Other taxes and social security costs	118	46
Deferred income	286	97
Items in the course of transmission	135	55
Obligations under finance lease and hire purchase	33	43
Other liabilities	786	339
	1,368	590

Deferred tax

	2015 £'000	2014 £'000
Opening balance deferred tax (asset) / liability at 1 January	(5)	24
Current year movement	(55)	(24)
Prior year adjustment	77	(7)
Deferred tax	190	-
Closing balance deferred tax liability/(asset) at 31 December	207	(5)

21. Called up share capital

	Authorised		Called up, allotted and fully paid	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
12,000,000 Ordinary shares of £1 each	12,000	12,000	12,000	12,000

22. 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.

	2015	2014
	£'000	£'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	-	32
Less than one year	1,274	2,529
	1,274	2,561

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

		Land and buildings
	2015	2014
	£'000	£'000
Operating leases which expire:		
Within one year	93	47
Between two and five years	182	40
More than five years	-	-

23. Assets and liabilities in foreign currencies

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

	2015	2014
	£'000	£'000
Assets	42,048	49,490
Liabilities	36,356	49,478

The net position as at 2015 of £5,692,000 was hedged using FX swaps with a nominal value of £5,975,000

24. Transactions with directors and managers

As at 31 December 2015, £ 31,950 was outstanding by way of loans to managers of the company (or persons connected with them) (2014 : £24,414). During the year, £38,462 (2014:- £20,454) was paid back and £28,600 drawn by the managers (or persons connected to them) (2014: £27,000). The transactions with related parties are on standard commercial terms.

25. Ultimate parent company

The ultimate parent and controlling company at 31 December 2015 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

Transactions with senior managers and staff are described in note 24. The only other related party transactions are described below. All the transactions below were at "arm's length" prices:

	31 December 2015	31 December 2014
	£'000	£'000
Placements with group companies	277	552
Deposits from group companies	4,678	1,977
Sale of loans to group companies	15,059	9,681
Interest received from group companies	7	7
Interest paid to group companies	4	5

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 competence.

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 subcommittee, the Risk Committee, (Chaired by a Non-Executive Director) oversees risk management, and sets the framework and risk appetite. The Risk Committee overviews all risks and controls and in particular the Risk Management System operated by the Bank and is also responsible for monitoring emerging risks and keeping the Board advised. It also is the Committee that takes the lead on the RRP, ICAAP and ILAA plus associated risk documents. The risk appetite sets out detailed tolerance limits within which the business operates, and this is supported by Bank Policies. All Policies are approved by the Board and subject to review at least once each calendar year.
- The Audit Committee (Chaired by a Non-Executive Director) reports to the Board and is responsible for ensuring that the controls set out by the Board and Risk Committee and by various policies are carried out in practice and remain effective. The Internal Audit function reports direct to the Audit Committee and the external auditor is invited to all meetings of the Audit Committee, which meets at least quarterly.
- There are then various committees at functional level to oversee the implementation of risk management and associated policies. The principal committees are:

    - Executive Committee (EXCO) – responsible for day to day management of the business under the direction of the Managing Director.
    - Assets and Liabilities Committee (ALCO), which manages the market and liquidity risks, and now reports direct to the Board (through the Risk Committee on certain issues such as the RRP). ALCO is responsible for the RRP and also the CFP and its members have direct responsibility for the ICAAP and ILAA
    - Management Risk Committee – day to day responsibility for risk reporting to the Risk Committee. This involves all management taking a role in the Risk Management System overseen by the Risk and Compliance Officer and deals with all risks issues not covered by the Conduct Risk Committee.
    - The Conduct Risk Committee deals with risk matters of a conduct nature (e.g. AML, TCF, product risk) and this aligns with the principles of the FCA. Credit Committee – dealing specifically with all matters of credit risk.
    - The Business Development Committee is responsible for developing business, marketing and product development.

Credit Risk Management

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

Credit risk makes up the largest part of the Bank's risks exposure. 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. The Credit Committee is responsible for controlling credit risk and implementing the Credit Policies as authorised by the Board. All decisions require unanimous agreement at each level of lending authority as prescribed by the Board.

The Bank has a system of checks and balances in place around the extension of credit that are:

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

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

Salient features of our Risk approval process are delineated below:

- every extension of credit to any counterparty requires unanimous approval by the pre-defined level of authority sanctioned by the board;
- all business 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; and
- 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 quarterly and more often if required and complies with the guidelines issued by the PRA.

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

The Bank monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of this early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The Credit Committee also takes responsibility for monitoring non-performing loans and managing loan recovery

The Bank also monitors, as part of its credit risk assessment, its concentration risk in various sectors.

The Bank's maximum exposure to credit risk at the year-end is £ 125 million (2014: £115 million). Credit risk exposure of £69 million (2014: £57 million) is secured against the first charge on properties and lien on customers' deposits.

Collateral in the form of cash, freehold or bank guarantees are accepted by the Company as credit risk mitigating factors.

Total Collateral held as at 31 December:	**2015**	**2014**
	£'000	**£'000**
Cash	4,551	4,313
Freehold	134,792	107,747
Bank Guarantees	22	84
Total	**139,365**	**112,144**

All collateral is held by the Company in its original form until the debt has been repaid. The Company holds collateral and is permitted to sell in the event of default by the owner. Collateral of freehold properties is valued by independent professional valuers.

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

	2015 Loans £'000	**2015 Collateral £'000**	**2014 Loans £'000**	**2014 Collateral £'000**
Loans & advances to customers	80,774	139,635	79,372	112,144

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

Mortgages

The loan to value ratio of lending secured against property is as follows:-

LTV Ratio	**2015**	**2014**
	£'000	**£'000**
Less than 50%	22,883	16,836
51-70%	37,756	29,779
71-90%	4,140	6,444
91-100%	-	-
Over 100%	-	-
Total	**64,779**	**53,059**

Debt Securities – External Ratings

The bond issuers of the available for sale securities have ratings as follows:-

	2015	**2014**
Corporate Bonds	**£'000**	**£'000**
A+	202	1,049
BBB/BBB+	1,181	1,690
Total	**1,383**	**2,739**

Internal credit rating
The Company assigns internal credit ratings to each of its counterparties. The rating structure has been completely rewritten in 2013 and implemented during 2014, and is kept under regular review to ensure that the ratings are appropriate.

Industry distribution of credit exposures
Analysis of financial assets by industry distribution as at 31 December:

	2015	2014
	£'000	£'000
Real Estate	7,586	10,756
Hotels & Restaurants	419	6,901
Retail & Wholesale	6,867	3,796
Other Manufacturing	1,136	257
Service Providers	431	608
Financial	5,912	21,778
Individuals & Individual trusts	58,639	35,433
Recreational, Cultural, Sport Activities	27	44
Other	17	35
Total	**81,034**	**79,608**
Provision for impairment losses	**(260)**	**(236)**
Total	**80,774**	**79,372**

A restructured account is one where the Bank, for economic or legal reasons relating to the borrower's difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of the terms of advances/securities which could include alteration of repayment period/repayable amount/the amount of instalments/rate of interest (due to reasons other than competition). The restructuring of an asset is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised terms of the restructuring.

			2015		
	Cash Equivalents	Loans and advances to customers	Loans and advances to banks	Investment securities	Lending commitments
		£'000	£'000	£'000	£'000
Maximum exposure to credit risk	**37,968**	**81,134**	**3,372**	**2,303**	**1,274**
At amortised cost					
Low	-	79,898	3,372	2,303	1,274
Watch list	-	866	-	-	-
Impaired	-	370	-	-	-
Total Gross amount	**37,968**	**81,134**	**3,372**	**2,303**	**1,274**
Impairment provisions	-	(260)	-	-	-
Net carrying amount	**37,968**	**80,774**	**3,372**	**1,383**	**1,274**

	2014				
	Cash equivalents	Loans and advances to customers	Loans and advances to banks	Investment securities	Lending commitments
		£'000	£'000	£'000	£'000
Maximum exposure to credit risk	27,310	79,608	3,253	2,739	2,561
At amortised cost					
Low – fair risk		79,154	-	2,739	2,561
Watch list		283	-	-	-
Impaired		171	-	-	-
Loss		-	-	-	-
Total Gross amount		79,608	3,253	2,739	2,561
Allowance for impairment individual and collective		(236)	-	-	-
Net carrying amount	**27,310**	**79,372**	**3,253**	**2,739**	**2,561**

Encumbered Assets

The Bank has no encumbered assets and has not pledged any of its assets as collateral

ICAAP (Internal Capital Adequacy Assessment Process) - Unaudited

The ICAAP is managed by ALCO and presented to the Risk Committee then Board for challenge and approval. The ICAAP process identifies the risks that are involved in the business and the amount of capital that should be held against each of the risks. As an outcome from this process the bank has determined that it should hold additional capital for the following risks:

- Credit Risk (including concentration risk)
- Market Risk
- Operational Risk (including Systems and Controls; Personnel and Reputational)
- Currency and FX Risk
- Interest Rate Risk

These risks are discussed further in this section

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. 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.

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. Valuation and accounting policies in line with IFRS have been formulated and are operative. A total notional amount equivalent to £6.0 million (2014: £11.7 million) was outstanding as at 31 December 2015.

Interest Rate Risk

Interest rate risk is the risk that an investment value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

A substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small portion of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments. The overall potential impact of the mismatches on the earnings in the short-term and economic value of the portfolio in the longer term is not material and is being managed within the tolerance limits approved by the Board.

Exposure to interest rate movements arise where there is an imbalance between rate sensitive assets and liabilities. The tables on pages 47 and 48 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2015, and 31 December 2014. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

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 notified to the PRA. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence the risk generated through foreign exchange activities is not significant and therefore sensitivity analysis has not been presented.

End of the day positions are marked to market according to the guidelines of UK GAAP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by Treasury.

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.

Liquidity risk

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

Currency risk

Currency of denomination	Net currency position 2015 £'000	Net currency position 2014 £'000
US Dollar	(99)	(3)
Euro	(77)	6
Swiss Franc	-	4
Turkish Lira	(144)	5
Total	(319)	12

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.

Maturity analysis of assets and liabilities

The table below shows the remaining contractual maturities for assets and liabilities For both 2015 and 2014 the contractual amounts are a reasonable approximation to the fair values (IFRS 7.29):-

£'000 31 December 2015	Carrying amount	Demand	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years
Cash and cash equivalents	54,922	17,275	37,647	-	-	-
Derivative assets	-	-	-	-	-	-
Loans and advances to banks	3,372	-	-	3,372	-	-
Loans & advances to customers	80,774	5,370	7,569	7,640	54,531	5,664
Investment Securities	2,303	-	-	1,591	469	243
Other assets	9,657	-	256	917	-	8,484
Total assets	**151,028**	**22,645**	**45,472**	**13,520**	**55,000**	**14,391**
Derivative liabilities	36	36	-	-	-	-
Deposits from banks	5,813	5,813	-	-	-	-
Deposits from customers	117,627	60,836	34,260	18,280	4,251	-
Current tax liabilities	272	-	-	272	-	-
Other liabilities	1,575	1,368	-	-	207	-
Equity	25,739	-	-	-	-	25,705
Total Liabilities and equity	**151,028**	**68,053**	**34,260**	**18,552**	**4,458**	**25,705**

£'000 31 December 2014	Carrying amount	Demand	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years
Cash and cash equivalents	44,422	17,073	27,349	-	-	-
Derivative assets	42	42	-	-	-	-
Loans and advances to banks	3,253	-	-	-	3,253	-
Loans & advances to customers	79,372	5,345	10,072	2,768	52,087	9,100
Debt Securities	2,739	-	-	-	2,739	-
Other assets	9,579	-	139	564	-	8,876
Total assets	**139,407**	**22,460**	**37,560**	**3,332**	**58,079**	**17,976**
Deposits from banks	3,787	3,242	545	-	-	-
Deposits from customers	110,600	25,934	64,420	17,001	3,245	-
Current tax liabilities	220	-	-	220	-	-
Other liabilities	590	590	-	-	-	-
Equity	24,210	-	-	-	-	24,210
Total Liabilities and equity	**139,407**	**29,766**	**64,965**	**17,221**	**3,245**	**24,210**

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. It has been further enhanced the introduction over the last two years of a dedicated Risk Management System which records and assesses individual risks to ensure they are properly monitored and controlled.

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

Operational Risk is now calculated according to the ''Basic Indicator Approach''.

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

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

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

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

Operational risk also includes any risks arising from Systems and Controls failures, Reputational Risk and Key Personnel Risk, all of which are managed through the Risk Management System.

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 gaps, foreign exchange exposure, liquidity management and credit provisioning. In addition, the Bank operates within limits set by the directors relating to country exposure, credit exposure and risk asset maturities. These policies and limits are reviewed on a regular basis, and any amendment to these policies and limits require the consent of the Board of Directors.

Levelling disclosure

	Level 1	Level 2	Level 3	Total
	£'000	£000	£'000	£'000
31 December 2015				
Financial Assets				
Debt securities available for sale	-	2,303	-	2,303
Loans and advances to customers	-	-	80,774	80,774
Derivative assets	-	-	-	-
	-	2,303	80,774	83,077
Financial liabilities				
Derivative liabilities	-	36	-	-

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
31 December 2014				
Financial Assets				
Debt securities available for sale	-	2,739	-	2,739
Loans and advances to customers	-	-	79,372	79,372
Derivative assets	-	42	-	42
	-	2,781	79,372	82,153

There were no transfers of assets between levels during 2015 and no significant changes in valuation techniques.

Fair value hierarchy

£'000 31 December 2015	Designated at fair value	Loans	Other financial liabilities	Total
Financial Assets measured at fair value				
Available for sale securities	2,303	-	-	2,303
	2,303	**-**	**-**	**2,303**
Financial assets not measured at fair value (*)				
Loans and advances to banks	-	3,372	-	3,372
Loans and advances to customers	-	80,774	-	80,774
Cash and cash equivalents	-	54,922	-	54,922
	-	**139,068**	**-**	**139,068**
Financial liabilities measured at fair value				
Derivative liabilities	(36)	-	-	(36)
Financial liabilities not measured at fair value (*)				
Deposits from banks	-	-	(5,813)	(5,813)
Deposits from customers	-	-	(117,627)	(117,627)
	-	**-**	**(123,440)**	**(123,440)**

£'000 31 December 2014	Designated at fair value	Loans	Other financial liabilities	Total
Financial Assets measured at fair value				
Available for sale securities	2,739	-	-	2,739
	2,739	**-**	**-**	**2,739**
Financial assets not measured at fair value (*)				
Loans and advances to banks	-	3,253	-	3,253
Loans and advances to customers	-	79,372	-	79,372
Cash and cash equivalents	-	44,422	-	44,422
	-	**127,407**	**-**	**127,407**
Financial liabilities not measured at fair value (*)				
Deposits from banks	-	-	(3,787)	(3,787)
Deposits from customers	-	-	(110,600)	(110,600)
	-	**-**	**(114,387)**	**(114,387)**

(*) The bank has not disclosed the fair values for financial instruments such as loans and advances because the carrying amounts are a reasonable approximation to fair value (IFRS 7.29)

Derivative financial instruments:

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

		2015	
	Notional amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	5,975	-	36

		2014	
	Notional Amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	11,668	42	-

Foreign currency swaps totalling £6.0 million (2014: £11.7 million) at the year-end are due to mature in less than one month. The above swaps are all over the counter short term swaps with non-connected third parties

No collateral was given or received in respect of these swaps. The cash flows associated with these swaps are that on maturity, the bank will exchange currency amounts equivalent to the notional amounts above with the contracted counterparties.

Capital risk management (This section has not been audited)

The bank's lead regulator is the Prudential Regulatory Authority "PRA". The PRA sets and monitors capital requirements for the bank. The bank's regulatory capital requirements are based on Basel III
The Bank policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence. During the years ended 31 December 2014 and 2015 capital has been maintained at a level above minimum PRA requirements. Such levels have been established by reference to an Internal Capital Adequacy Assessment Process (''ICAAP'') assessment. The Bank's capital resources consist of Share Capital revenue and other reserves.
The Bank holds their cash with a number of reputable financial institutions. All cash and cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash.

The Company's regulatory capital position was as follows:

	2015 £'000	**2014 £'000**
Share Capital	12,000	12,000
Retained Earnings	7,559	6,791
Available for sale reserve	789	62
Revaluation reserve	5,357	5,357
Less intangible assets	(720)	(776)
Total regulatory capital	24,985	23,434
Capital surplus taking into account buffers	10,282	5,493

Note the figures above include the current year profit, as it has been audited. The actual capital returns submitted would have excluded current year profit as being unaudited at the time of submission.

Notes to the accounts
For the year ended 31 December 2015

Analysis of financial assets and liabilities by measurement basis 2015

	Loans and Receivables £'000	Available for sale £'000	Financial assets/ liabilities at amortised cost £'000	Derivatives at fair value through profit & loss £'000	Total £'000
Assets					
Cash and cash equivalents	54,922	-	-	-	54,922
Loans & advances to banks	3,372	-	-	-	3,372
Loans and advances to customers	80,774	-	-	-	80,774
Investment securities-available for sale	-	2,303	-	-	2,303
Derivative Assets	-	-	-	-	-
Other assets	1,024	-	-	-	1,024
Total financial assets	**140,092**	**2,303**	-	-	**142,395**
Total non-financial assets					8,633
Total assets					**151,028**
Liabilities					
Deposits by banks	-	-	5,813	-	5,813
Customer accounts	-	-	117,627	-	117,627
Derivative liabilities	-	-	-	36	36
Other liabilities	-	-	1,561	-	1,561
Deferred income	-	-	286	-	286
Total financial liabilities	-	-	**125,281**	**36**	**125,323**
Equity					25,705
Total liabilities and equity					**151,028**

Analysis of financial assets and liabilities by measurement basis 2014

	Loans and Receivables £'000	Available for sale £'000	Financial assets/ liabilities at amortised cost £'000	Derivatives at fair value through profit & loss £'000	Total £'000
Assets					
Cash and cash equivalents	44,422	-	-	-	44,422
Loans and advances to financial institutions	3,253	-	-	-	3,253
Loans and advances to customers	79,372	-	-	-	79,372
Debt securities-available for sale	-	2,739	-	-	2,739
Derivative Assets	-	-	-	42	42
Other assets	563	-	-	-	563
Total financial assets	**127,610**	**2,739**	-	**42**	**130,391**
Total non-financial assets					9,016
Total assets					**139,407**
Liabilities					
Deposits by banks	-	-	3,787	-	3,787
Customer accounts	-	-	110,600	-	110,600
Other liabilities	-	-	220	-	220
Accruals and deferred income	-	-	590	-	590
Total financial liabilities	-	-	**115,197**	-	**115,197**
Equity					24,210
Total liabilities and equity					**139,407**

Interest rate sensitivity gap analysis 2015

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and cash equivalents	54,276	-	-	-	-	646	54,922
Loans and advances to banks	-	-	3,372	-	-	-	3,372
Loans and advances to customers	70,991	2,234	6,646	1,163	-	(260)	80,774
Investment securities	-	1,389	202	469	243	-	2,303
Other assets	-	-	-	-	-	9,657	9,657
	125,267	3,623	10,220	1,632	243	10,043	151,028
Liabilities							
Deposits by banks	5,813	-	-	-	-	-	5,813
Customer accounts	95,096	5,326	12,954	4,251	-	-	117,627
Other liabilities	-	-	-	-	-	1,883	1,883
Shareholders' funds	-	-	-	-	-	25,705	25,705
	100,909	5,326	12,954	4,251	-	27,588	151,028
Interest rate sensitivity gap	24,358	(1,703)	(2,734)	(2,619)	243	(17,545)	-
Cumulative gap	24,358	22,655	19,921	17,302	17,545	-	-

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 2015.

The above table includes anticipated receipts in respect of the visa share transaction explained in Note 29.

The table includes cash receipts of £705,248 in the 3 to 6 month band and £242,646 in the more than 5 year band.

Other assets are classified as non-interest bearing in the above table and have contractual maturities of less than three months.

The bank has outstanding financial guarantee contracts of £1,323,000 (2014:- £785,000) at the year end. The outstanding guarantees of £1,323,000 are due to mature within a year (2014: £81,000).

Interest rate sensitivity gap analysis 2014

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and cash equivalents	43,616	-	-	-	-	806	44,422
Loans and advances to banks	-	-	-	3,253	-	-	3,253
Loans and advances to customers	58,406	304	2,250	17,965	683	(236)	79,372
Debt securities	571	-	1,089	1,118	-	-	2,778
Other assets	-	-	-	-	-	9,582	9,582
	102,593	304	3,339	22,336	683	10,152	139,407
Liabilities							
Deposits by banks	3,787	-	-	-	-	-	3,787
Customer accounts	90,354	8,387	8,614	3,245	-	-	110,600
Other liabilities	-	-	-	-	-	810	810
Shareholders' funds	-	-	-	-	-	24,210	24,210
	94,141	8,387	8,614	3,245	-	25,020	139,407
Interest rate sensitivity gap	8,452	(8,083)	(5,275)	19,091	683	(14,868)	-
Cumulative gap	8,452	369	(4,906)	14,185	14,868	-	-

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 2014.

Other liabilities are classified as non-interest bearing in the above table and have contractual maturities of less than three months.

A liability (negative) gap position exists when liabilities re-price more quickly than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (positive) gap position exists when assets reprise more quickly than liabilities during a given period and tends to benefit interest income in a rising interest rate environment. The Bank's off balance sheet items carry no interest rate risk. Loans and advances to customers are shown net of provisions totalling £260,000 (2014: £236,000).

The weighted average interest rates are as follows: 1.21 % (2014: 0.83%) for the loans and advances to banks; 5.33% (2014: 6.17%) for the loans and advances to customers; 12.99% (2014: 11.69%) for the debt securities; 0.06% (2014: 0.06%) for the deposits by banks; and 1.28% (2014: 1.19%) for the customer accounts.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rate fluctuation for both derivative and non-derivative instruments at the balance sheet date. At reporting date, if interest rate had been 200 basis points higher/lower and all other variables were held constant the bank's net profit would increase/decrease by £39,000 / £41,000 respectively. As at 31 December 2014 the average impact of 200 basis point movement in interest rates was £149,000. 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.

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 below 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 2015.

	Carrying value 2015 £'000	Fair value 2015 £'000	Carrying value 2014 £'000	Fair value 2014 £'000
Financial assets				
Cash and cash equivalents	54,922	54,922	46,223	46,223
Loans and advances to banks	3,372	3,372	3,253	3,253
Loans and advances to customers	80,774	80,774	79,372	79,372
Investment securities	2,303	2,303	2,739	2,739
Derivative assets	-	-	42	42
Financial liabilities				
Deposits by banks	5,813	5,813	3,787	3,787
Customer accounts	117,627	117,627	110,600	110,600

Discounted cash flow techniques using the effective interest rates were used to ascertain that the fair values of the assets in this table approximate to their carrying values.

29. Post Balance Sheet Events

TBUK Bank has been advised by their main clearer of their decision to terminate the relationship. Although the bank has other arrangements in place they do not cover all the services received. A lack of suitable solutions to replace these services, in a reasonable time frame, will result in a revision of the products offered by TBUK. At the time of this report the Bank's management is exploring all options available including joining the payment schemes directly. We shall continue to keep relevant parties apprised of developments

30. Explanation of transition to IFRS

As stated in note 1(a), these are the Banks's first consolidated financial statements prepared in accordance with IFRSs. The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening IFRS statement of financial position at 1 January 2014 (the Group's date of transition). In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP (previous GAAP). The value of assets and liabilities, and the underlying value of the components of the profit and loss account have not been amended because the impact has not been considered material, however the classification of the statement of financial position and the statement of profit and loss, and subsequent notes have been amended to reflect IFRS.

31. Investment in Visa

The bank has been notified that its shareholding in Visa Europe Limited, currently carried in the accounts at its cost of 10 Euros, could be purchased by Visa Inc. during 2016. The proposed purchase values the 10 Euro share at Euro 1,616,636 as a combination of shares and cash. This valuation is indicative only and the deal is the subject of litigation. Due to the uncertainties around this transaction, management has taken the decision to include the cash element of Euro 957,656 equivalent to £705,248 plus 50% of the value of the preference shares in these accounts. The preference shares have an indicative value of Euro 658,950 of which Euro 329,490 equivalent to £242,646 has been included as managements' estimated fair value. This revaluation of investment securities has been accounted through other comprehensive income.