Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements

31 December 2009

Turkish Bank (UK) Limited

Report and financial statements 2009

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Chairman's statement

The Bank operated in a difficult environment where the UK's economy sustained in 2008/9 the greatest and longest decline since the Second World War and only a marginal up-lift was seen in the last quarter of the year. It is quite possible that the first quarter 2010 will revert to negative growth following the reintroduction of the 17.5% VAT level and the depressing effects on commerce of the inclement weather seen over the New Year and into February. Certainly these factors have impacted adversely on the CPI rate which rose to 3.5% in January. It is to be hoped that the Bank of England's view that the CPI will return rapidly to an annualised 2% will prove to be correct. I believe there is the real possibility of a serious inflationary threat to the UK economy manifesting itself in 2011 and beyond which could force up interest rates with the consequent threat to economic recovery. The huge budget deficit itself does not bode well for the future and it is to be hoped that the impending General Election does not deflect the Government from the task of bringing Government spending under control and quickly introducing significant spending cuts and tax increases. Failure to do this may well jeopardise the UK's credit rating bringing even more pressure on Government costs through a higher interest burden.

The global economic downturn in 2009 has had an important impact on the economic climate in Turkey. The negative growth experienced in the UK, EU and the US had an adverse effect on the trade balance and also has influenced the –5.8% contraction in the real GDP in 2009. While Turkey came through the global crisis as one of the strongest countries in the emerging markets, the large current account deficit remains a worry for foreign investors. Largely due to the regulatory experiences gained during the previous financial crises in the country, Turkey's banking sector continued to remain robust and healthy. The government has shown resilience and proved they are in a position to support the financial sector if necessary, which, along with the expectation of an IMF accord and sound economic fundamentals, has in part counteracted the decline in foreign investments due to the economic downturn. During the year, the Central Bank has followed an expansionary monetary policy and interest rates now stand at 6.50%. Early indications are for the rate to remain at these levels for a long period. However, price levels will be monitored. As at end of 2009 the inflation rate is at a historic low of 5.9%. The domestic and trade deficits remain concerns however as, indeed, does the continuing failure of the Government to tackle effectively the cost of Social Security in the country. At the same time the Government continues to sustain the up-beat view of Turkey by the international community and capital flows remain positive. This has resulted in rating up-grades for Turkey by some of the Rating Agencies such as Fitch, and, at time of review, S&P increased Turkey's long term rating to BB with a positive outlook, indicating a possible upgrade in the 12 to 24 months. The status of Northern Cyprus (TRNC) remains an outstanding issue. There remains the hope that a solution will be found although much will depend on the up-coming elections in the country.

The Bank has made good progress during the year in expanding its role as a community bank to the Turkish-speaking people living in the UK. We have grown our branch network by opening our first office South of the River in Lewisham. This brings our branch network to six, all of which are situated in Central or Greater London. However we have plans to reach out to other Turkish speaking communities in the UK by establishing TBUK Direct which will operate both through our internet banking operations and by the launch during the middle of 2010 of a debit card. By offering a personal and culturally acceptable service through these products we hope to expand our customer base across the country.

The historically low UK Base Rate has put considerable pressure on the Bank's net interest earnings. The shift in the UK banking industry from dependence on money markets to retail deposits, a natural reaction to the huge contraction in wholesale funding which took place from the latter part of 2008, has meant that interest rates paid on deposits has not generally mirrored the fall in the Base Rate. Nevertheless borrowers are understandably exerting great pressure to get the benefit of reduced interest rates on their loans and overdrafts.

A significant occurrence for the Bank took place in 2009 in that the Board of Directors decided to pay a £2m. dividend to its parent company, Turkish Bank Limited. At the same time, and with the approval of the Financial Services Authority, Ozyol Holding, the Group holding company, purchased 2 million £1 shares bringing the permanent capital of the Bank to £12m. The total of own funds at the year-end stands at £21.4m. Ozyol Holding has a direct interest in the Bank of 16.16% and a further 12.26% indirect when the holding in the parent bank is taken into account.

I regret to announce that the Bank made a loss of £325,000 for 2009 as a result of impairment in the Bond Portfolio. In line with the Bank's prudent stance on risk assessment the Board has decided to make a provision for 66% on a USD2m BTA Bank, Kazakhstan bond reflecting the market price as at the 2009 year-end. This is the first loss sustained by the Bank since being established in the United Kingdom in 1974. I am, however, delighted to be able to report, that operationally the Bank made a pre-tax trading profit of some £404,000 before impairment loss for the year much in line with budgeted expectations and despite the significant challenges posed by the economic environment. To this can be added an exceptional item of some £150,000 arising from the disposal of other investments from the Bond Portfolio.

In line with the objective of growing the domestic operations of the Bank we have continued into 2010 the expansion of the domestic lending book which, in 2009, increased by some 18% to over £33.5 million despite the tightening of our credit criteria by which lending propositions are judged. Our domestic deposit base is at this time also continuing to grow by a healthy 20% to £24.3m in 2009. We plan to further penetrate the retail deposit market in order to make the Bank self-sustaining in its operations in line with our Strategic Plan.

The mature business seen in the non-resident and wholesale operations also continued to perform satisfactorily although non-resident deposits showed a decline of 13% to £54.1m. Advances to non-residents also declined by 24% to £16.7m. The decline in the non-resident books is in part a manifestation of the Bank's focus on the domestic marketplace as well as reflecting the fact that there are less attractive assets available in the overseas marketplace and in Turkey particularly.

Much of our continuing operational success can be put down to the conservative approach to lending and business development which has long been the hallmark of the members of the Turkish Bank Group. We continue to be very well capitalised and liquid and can meet any creditworthy borrowing requirements of our chosen customer base without any undue difficulty, as is shown by the significant growth in our retail lending. We are not complacent however and continue to adjust our lending criteria to take into account the changing market conditions particularly in the domestic property sectors. We continue to be vigilant in watching the market conditions in the United Kingdom as well as abroad and in Turkey especially.

Finally the fact that the Bank made a loss does not in any way reflect adversely on the staff who have responded admirably to the challenges that 2009 threw at them. My thanks to them and I look forward to working with them in 2010 to further enhance the Bank's reputation among its customers in particular and in the financial services industry in general.

M T Ozyol

Chairman

Turkish Bank (UK) Limited

Report and financial statements 2009

Officers and professional advisers

Directors

M T Ozyol (Chairman)
I H Bortecene
M D Bendon
R W Long
M E Erenman
J Clouting
D.Blackmore

Secretaries

K. Bissell

Registered office

84-86 Borough High Street
London SE1 1LN

Bankers

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

Auditors

Deloitte LLP
Chartered Accountants
London

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009.

Activity Report

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

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

TBUK is a wholly owned subsidiary of Turkish Bank Limited and a member of the Turkish Bank Group headquartered in Istanbul. The Chairman of the Group also performs the role of Chairman of TBUK and the Group's Chief Executive sits on the Board of TBUK. TBUK operates within and is guided by the overall strategic 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

The progress of the Bank into a community banking operation meeting the needs of the Turkish speaking community of the UK continued apace during 2009. The conservative policies recommended by the Board to the management have been observed and hence many of the difficulties experienced by other institutions have been avoided in our chosen sectors within the domestic marketplace.

As a result the Bank produced a trading profit before tax and impairment loss of £404,000 in line with budgeted expectations and despite significant increases in regulatory costs. To this can be added an exception item of some £150,000 arising from the disposal of some investments from the Bond Portfolio. However the Bank made a loss of £325,000 for 2009 as a result of impairment in the Bond Portfolio. In line with the Bank's prudent stance on risk assessment the Board has decided to make a provision for 66% on a USD2m. BTA Bank, Kazakhstan Bond reflecting the market price as at the 2009 year-end. This is the first loss sustained by the Bank since being established in the United Kingdom in 1974. Over the year the balance sheet held steady at some £116m. The Board of Directors decided to pay a £2m. dividend for 2009 to its parent company, Turkish Bank Limited. At the same time, and with the approval of the Financial Services Authority, Ozyol Holding, the Group holding company, purchased 2 million £1 shares bringing the primary capital in the Bank to £12m. Total capital stood at nearly £21m at year-end.

The Bank has expanded the domestic lending book by some 18% to over £33.5 million despite the tightening of our credit criteria by which lending propositions are judged. Our domestic deposit base also grew by a healthy 20% to £24.3.m. The high net worth and wholesale operations also continued to perform satisfactorily although non-resident deposits showed a decline of 13% to £54.1m. Advances to non-residents also declined, this by 24% to £16.7m. This reflects in part the Bank's concentration of effort on its domestic markets which has been further improved by the opening of a branch in Lewisham bringing our network to six branches.

During the year we up-graded our banking system (Temenos Globus T24) and replaced the AS400 platform with Unix without any adverse impact on customer service during the process. The Bank has enhanced a number of products including the Internet Banking offering. We will continue to increase the range of services during the current year most notably by launching a debit card product by July. We will also establish TBUK Direct which will reach out to the wider Turkish speaking community in the UK. We continue to seek to improve our customer service and product delivery and implement the Treating Customers Fairly guidelines.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of going concern basis can be found in the Statements of accounting policies in the financial statements.

Principal risks and uncertainties

The Bank's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity and funding risk. The use of financial derivatives is governed by the Bank's policies approved by the board of directors,

Directors' report (continued)

which are based on written principles on the use of financial derivatives to manage these risks. The Bank does not use derivative financial instruments for trading purposes. Operational risk policies have been disclosed in the note 27 of the financial statements.

Cash flow risk: The Bank's activity exposes it primarily to the financial risk of changes to the interest rate environment and to a lesser extent to foreign currency exchange rate movement. With regard to interest rate risk the Bank has a consolidated net interest margin sufficient to protect its position in this respect. The Bank also enters into some currency swap contracts to hedge its foreign currency exposures.

Credit risk: The Bank has no significant concentration of credit risk. Regular stress testing of the Bank's collateral security is carried out and the Directors are satisfied with the levels of equity where lending is against freehold and long dated leasehold property which is itself restricted to the UK market.

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

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

Results and dividends

The profit/(loss) for the year after taxation amounted to (£262,000) (2008 - £387,000).

Interim dividend of £2 million (2008: £nil) was paid to the shareholders during the year. The directors do not recommend the payment of final dividend (2008 - £nil).

Future developments

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

Political and charitable contributions

During the year, the Bank made various charitable contributions totalling £210 (2008 - £200).

Directors and their interests

The directors who served during the year were as follows:

M T Ozyol (Chairman)
I H Bortecene
M D Bendon * 01/05/09 retired
R W Long
M E Erenman
J Clouting *
D.Blackmore*
* members of audit committee

The interests of the directors at 31 December 2009 in the share capital of the Bank were as follows:

	Ordinary shares of £1 each	
	2009	**2008**
M T Ozyol	1	1

M T Ozyol owns this share as a nominee.

Directors' report (continued)

Directors indemnities

The company has made qualifying the 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.

Audit committee

The Bank has an audit committee comprising two independent non-executive directors who are experienced bankers. The committee met on three occasions in 2009 (2008: four times).

Disclosure of information to auditors

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

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

(2) so far as each of the directors are aware they have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Bank's auditor's are 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.

Auditors

In accordance with Section 485-488 of the Companies Act 2006, the Bank has elected to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte LLP are therefore deemed to have been re-appointed as auditors of the Bank.

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

Secretary

K. Bissell

19 March 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis.

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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TURKISH BANK (UK) LIMITED

We have audited the financial statements of Turkish Bank (UK) Limited for the year ended 31 December 2009 which comprise the profit and loss account, balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, 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 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

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 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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.

Manbhinder Rana (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

19 March 2010

Profit and loss account
For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		467	524
Other interest receivable and similar income		3,776	6,528
		4,243	7,052
Interest payable		(2,047)	(4,650)
Net interest income		2,196	2,402
Fees and commissions receivable		1,231	1,255
Fees and commissions payable		(26)	(22)
Dealing profits		151	153
Other operating income		12	10
Gain on sale of debt securities		150	-
		1,518	1,396
Total operating income		3,714	3,798
Administrative expenses	2	(2,724)	(2,692)
Depreciation and amortisation	10, 11	(393)	(480)
Other operating charges		(8)	(5)
Impairment losses on debt securities	9	(879)	-
Impairment losses on loans and advances	3	(35)	(19)
		(4,039)	(3,196)
(Loss) / profit on ordinary activities before taxation	4	(325)	602
Tax on profit on ordinary activities	5	63	(215)
(Loss)/ profit on ordinary activities after taxation	17	(262)	387

The notes on pages 14 to 39 form an integral part of these financial statements.

All activities relate to continuing operations.

Turkish Bank (UK) Limited
Company Registration No. 2643004
Balance sheet
31 December 2009

	Notes	2009 £'000	2008 £'000
Assets			
Cash and balances at central banks		375	390
Loans and advances to banks	6	33,470	42,223
Items in the course of collection		5	18
Loans and advances to customers	7	58,884	58,474
Debt securities	9	8,773	7,111
Intangible fixed assets	10	137	74
Tangible fixed assets	11	7,621	7,334
Other assets	12	-	522
Prepayments and accrued income		273	248
Total assets		109,538	116,394
Liabilities			
Deposits by banks	13	3,348	13,330
Items in the course of transmission to other banks		18	141
Customer accounts	14	84,982	83,330
Derivative liabilities	28	81	155
Other liabilities	15	386	255
Accruals and deferred income		339	176
		89,154	97,387
Equity			
Called up share capital	16	12,000	10,000
Profit and loss account	17	5,185	8,085
Available for sale reserve	17	(404)	(2,681)
Revaluation reserve	17	3,603	3,603
Total equity		20,384	19,007
Total liabilities and equity		109,538	116,394
Contingent liabilities			
Guarantees and assets pledged as collateral security		93	238
Other contingent liabilities	18	371	42
		464	280
Commitments	19	51,611	52,668

The Board of Directors approved these financial statements and authorised for issue on 19 March 2010.

Signed on behalf of the Board of Directors

M T Özyol
Director

J Clouting
Director

The notes on pages 14 to 39 form an integral part of these financial statements.

Turkish Bank (UK) Limited

Cash flow statement
For the year ended 31 December 2009

	2009 £'000	2008 £'000
Net cash inflows inflow/(outflow) from operating activities	**293**	**(14,802)**
Taxation	89	(80)
Capital expenditure and financial investment (note 21)	(2,255)	750
Financing (note 21)	2,000	-
Returns on investments and servicing of finance (note 21)	(2,000)	-
Increase/(decrease) in cash	1,873	(14,132)

Note to Cash flow statement

Reconciliation of operating profit to net operating cash flows	2009 £'000	2008 £'000
Loss/(profit) on ordinary activities before tax	(325)	602
(Decrease)/increase in prepayments and accrued income	(25)	8
Net (decrease)/increase in investment due to fair value change	1,420	(2,391)
Increase in accruals and deferred income	163	20
Depreciation charge and amortisation	393	480
Impairment loss on debt securities	857	-
Profit on sale of fixed asset investments	(150)	-
Net cash inflows/(outflows) from trading activities	2,333	(1,281)
Net decrease/(increase) in collections	13	(9)
Net decrease in loans and advances to banks and customers	6,485	7,389
Net decrease in deposits by banks and customers	(8,330)	(21,167)
Net decrease in other assets	433	20
Net (increase)/decrease in derivative liabilities	(74)	155
Net (increase)/decrease in other liabilities	(567)	91
Net cash inflows inflow/(outflow) from operating activities	**293**	**(14,802)**

Statement of total recognised gains and losses
For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Profit for the financial year		81	387
Available-for-sale gains / (losses)	17	2,277	(2,263)
Tax effect of available for sale losses	17	(638)	645
Total recognised gains for the year		1,720	(1,231)

Notes to the accounts
For the year ended 31 December 2009

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and freehold properties, and in accordance with the provisions of Statutory Instrument No 410 “Large and Medium sized companies and groups” – schedule 2 part 1, relating to banking groups, applicable United Kingdom accounting standards and the Statements of Recommended Practice issued by the British Bankers’ Association.

The policies have been consistently applied in the current and preceding year.

The Bank’s business activities, together with the factors likely to affect its future development, performance and position together with its cash flows, liquidity position and borrowing facilities are described in the Director’s Report. In addition notes 27 and 28 to the financial statements includes the Bank’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Bank has considerable financial resources and a viable business model. As a consequence, the directors believe that the Bank is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

(b) Revenue recognition

(i) Interest income

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

(ii) Rendering of services and commissions

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

If it is probable that a specific lending arrangement will be entered into, the commitment fee received and, together with the related direct costs, is deferred and recognised as part of the effective interest rate. If the commitment expires without making the loan, the fee is recognised as revenue on expiry. If it is unlikely that a specific lending arrangement will be entered into, the commitment fee is recognised as revenue on a time proportion basis over the commitment period.

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

(c) Impairment of financial assets

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

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

1. Accounting policies (continued)

(d) Loans and receivables

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

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

Income is recognized on an effective interest basis for debt instruments other than those financials assets.

(e) Debt securities

Investments in debt securities are classified as available-for-sale and 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 off 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.

(f) Pension schemes

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

(g) Foreign currency translation

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

(h) Derivatives

Derivative contracts consist of foreign currency swap contracts, which are outstanding at the balance sheet date. Derivatives are measured at fair value, with changes in the fair value recognised 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 its derivative contracts in hedging relationships for hedge accounting purposes.

(i) Depreciation

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

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

Notes to the accounts
For the year ended 31 December 2009

1. Accounting policies (continued)

(j) Current and deferred taxation

Current tax including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

(k) Leasing 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.

(l) Intangible assets – Software licences

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

(m) Property revaluations

The accounting policy for freehold land and buildings is to revalue them annually. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. There have been no material movements in the valuation of these freeholds in 2009. The last professional valuation was undertaken by Ringley, a chartered surveyor external to the Bank, in December 2008. Valuations were made on the basis of open market value for existing use.

(n) Financial liabilities

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

(o) Segment Analysis

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

2. Administrative expenses

	2009 £'000	2008 £'000
Staff costs during the year (including directors)		
Wages and salaries	1,443	1,486
Social security costs	140	151
Pension costs	68	47
	1,651	1,684
Other administrative expenses	1,073	1,008
	2,724	2,692

Notes to the accounts
For the year ended 31 December 2009

2. Administrative expenses (continued)

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

	2009 No.	2008 No.
Commercial banking activities	68	64

Directors' remuneration during the year consisted of:

	2009 £'000	2008 £'000
Emoluments	130	142

The emoluments of the highest paid director for the year ended 31 December 2009 were £91,000 (2008 - £100,000).

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

3. Impairment losses on loans and advances

	2009 £'000	2008 £'000
Impairment charge for the year	(36)	(23)
Recoveries	1	4
Net impairment charge for the year	(35)	(19)

During the year the Bank received £175 (2008 - £ nil) in respect of loans which were previously written off in prior years which is included in other operating income.

4. Profit on ordinary activities before taxation

Profit is stated after charging/(crediting):

	2009 £'000	2008 £'000
Foreign currency gains	(151)	(153)
Operating lease rentals		
Land and buildings	77	63
Depreciation and amortisation		
Tangible fixed assets	336	285
Intangible fixed assets	57	195
Fees payable to the company's auditors		
Audit of the company's annual accounts	58	53
Tax services	12	13
	70	66

5. Tax on profit on ordinary activities

	2009 £'000	2008 £'000
Current tax		
United Kingdom corporation tax at 28% (2008 – 28.5%) based on profit for the year	396	218
Adjustment in respect of prior years	10	(3)
Total current tax	406	215
Deferred tax (Note 15)		
Reversal of timing differences	(343)	-
	63	215

	2009 £'000	2008 £'000
(loss)/profit on ordinary activities before tax	(325)	602
Tax at 28% (2008: 28.5%) thereon	91	172
Effects of:		
Expenses not deductible for tax purposes	(16)	48
Capital allowances in excess of depreciation	(42)	(7)
Movement in short-term timing differences	(5)	5
Utilisation of tax losses	368	-
Prior year adjustments	10	(3)
	406	215

6. Loans and advances to banks

	2009 £'000	2008 £'000
Loans and advances to banks are repayable as follows:		
On demand	21,892	23,750
Within three months	11,578	18,312
Between three months and one year	-	161
	33,470	42,223

Included within loans and advances to banks are amounts of £2.09m in respect of group companies (2008 - £0.28m).

The interest received from group companies during the year is £14,801 (2008 - £108,961).

6. Loans and advances to banks (continued)

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

	2009 £'000	2008 £'000
In UK:		
On current account	3,190	1,851
On deposit account in money market lending	13,450	31,970
Outside UK:		
On current account	826	1,938
On deposit account		
- Money Market Lending	16,004	6,303
- Syndication Loan/Prom Notes	-	161
	33,470	42,223

7. Loans and advances to customers

	2009 £'000	2008 £'000
Loans are repayable as follows:		
On demand	8,226	8,592
Within three months	4,631	5,553
Between three months and one year	6,251	8,974
Between one and five years	11,991	9,484
After five years	27,839	25,907
Provision for impairment losses	(54)	(36)
	58,884	58,474

Non-performing loans and advances to customers of £54,000 were fully provided at 31 December 2009 (2008 - £36,000).

Loans and advances to customer includes £17,429 (2008: £33,767) which has been placed in the problem loan category other than those fully provided. All of these loans have been overdue for less than one year.

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

	2009				
	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	6,448	556	7,004
Fixed term					
- Retail	-	-	21,751	233	21,984
- Corporation	14,074	9,235	6,610	31	29,950
	14,074	9,235	34,809	820	58,938
Provision for impairment	-	-	-	(54)	(54)
	14,074	9,235	34,809	766	58,884

7. Loans and advances to customers (continued)

	2008				
	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	5,166	270	5,436
Fixed term					
- Retail	-	-	20,195	281	20,476
- Corporation	19,981	7,636	4,974	7	32,598
	19,981	7,636	30,335	558	58,510
Provision for impairment	-	-	-	(36)	(36)
	19,981	7,636	30,335	522	58,474

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

	2009 £'000				2008 £'000			
	GBP	USD	EURO	Total	GBP	USD	EURO	Total
UK	33,318	-	310	33,628	28,494	-	-	28,494
Non UK								
- Turkey	5,869	16,831	1,037	23,737	3,302	20,859	4,047	28,208
- Others	593	926	-	1,519	677	1,095	-	1,772
Total	39,780	17,757	1,347	58,884	32,473	21,954	4,047	58,474

8. Provisions for impairment losses

	2009 £'000	2008 £'000
As at 1 January 2009	36	26
Charge against profits	36	23
Less: recoveries	(1)	(4
Net impairment charge for the year	71	45
Less: loans written off	(17)	(9
At 31 December 2009	54	36
Loans and advances to customers (note 7)	54	36
	54	36

Accounts overdrawn for more then 60 days are reported monthly to a subcommittee of the Credit Committee. Provision is made on the advice of Credit Committee if an exposure is deemed to be at risk of non-recovery. All the provisions are approved by the Board of Directors.

9. Debt securities

Available for sale	2009 £'000	2008 £'000
Nominal Value	7,924	9,549
Impairment Loss	(879)	-
Accrued interest	105	243
Available-for-sale revaluation	(404)	(2,681)
Market value	6,746	7,111
Held to maturity		
Nominal Value	2,000	-
Accrued interest	27	-
	2,027	-
Total	8,773	7,111

Investment in debt securities will mature as follows:

	2009 £'000	2008 £'000
Repayable:		
Less than 1 year	1,803	-
Between one and five years	6,970	3,980
After five years	-	3,131
	8,773	7,111

Segmental analysis of investment in debt securities is as follows:

	2009 Fixed rate bonds £'000	2009 Floating rate bonds £'000	2009 Total £'000	2008 Fixed rate bonds £'000	2008 Floating rate bonds £'000	2008 Total £'000
Sovereign bonds	2,872	1,802	4,674	3,186	2,018	5,204
Corporate bonds	4,099	-	4,099	1,907	-	1,907
	6,971	1,802	8,773	5,093	2,018	7,111

The debt securities comprise of government and corporate bonds and are held as available for sale or held-to-maturity securities. The weighted average coupon rate of debt securities repayable after five years is Nil% (2008 - 6.22%).

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 for the purpose of fair value hierarchy.

At the year-end investment in securities issued by BTA Bank was considered impaired and an impairment loss based on the market value of the securities was recorded.

9. Debt securities (continued)

The above balance includes debt securities of £1,803 which are due to mature in less than one year period. (2008: £nil).

During the year, the bank has purchased €2 million fixed rate sovereign and £2 million fixed rate corporate debt securities from the market, disposed of €3 million fixed rate sovereign debt securities generating £150K sale proceeds in profit & loss account.

Analysis by currency of origin is as follows:

	2009				2008			
Origin of debt securities	**GBP**	**USD**	**EURO**	**Total**	**GBP**	**USD**	**EURO**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
UK	533	-	-	533	484	-	-	484
Turkey	-	-	1,803	1,803	-	-	4,567	4,567
Croatian	-	-	1,902	1,902	-	-	-	-
Kazakhstan	-	1,543	-	1,543	-	1,423	-	1,423
Ukraine	-	969	-	969	-	637	-	637
US	2,023	-	-	2,023	-	-	-	-
Total	2,556	2,512	3,705	8,773	484	2,060	4,567	7,111

10. Intangible fixed assets

	Licences £'000
Cost	
At 1 January 2009	1,020
Additions	120
At 31 December 2009	1,140
Amortisation	
At 1 January 2009	946
Charge for the year	57
At 31 December 2009	1,003
Net book value	
At 31 December 2009	137
At 31 December 2008	74

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

11. Tangible fixed assets

	Freehold land and buildings £'000	Land and buildings, short leasehold £'000	Lease Equipment £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost/Revaluation					
At 1 January 2009	7,149	583	28	1,809	9,569
Additions	-	70	39	514	623
Disposals	-	-	-	(76)	(76)
At 31 December 2009	7,149	653	67	2,247	10,116
Depreciation					
At 1 January 2009	840	345	-	1,050	2,235
Charge for the year	115	48	12	161	336
Disposals	-	-	-	(76)	(76)
At 31 December 2009	955	393	12	1,135	2,495
Net book value					
At 31 December 2009	6,194	260	55	1,112	7,621
At 31 December 2008	6,309	238	28	759	7,334

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

12. Other assets

	2009 £'000	2008 £'000
Corporate tax	-	178
Deferred tax	-	298
Other assets	-	46
	-	522

13. Deposits by banks

	2009 £'000	2008 £'000
Deposits by banks are repayable as follows:		
On demand		
- Group	1,622	7,576
- Other	1,726	1,698
Within three months		
- Group	-	4,056
- Other	-	-
	3,348	13,330

The interest paid amount to group companies during the year is £137,195 (2008: £836,599).

13. Deposits by banks (continued)

Geographical analysis of deposit by banks is follows:

	2009 £'000	2008 £'000
In UK:		
On current account	-	36
On deposit account	-	-
Outside UK:		
On current account	3,347	2,845
On deposit account	-	10,449
	3,347	13,330

14. Customer accounts

	2009 £'000	2008 £'000
Customer deposits are repayable as follows:		
On demand	14,742	10,556
Within three months	44,523	49,645
Between three months and one year	23,755	23,129
Between one year and five years	1,962	-
	84,982	83,330

The balance includes customers' deposits of £83 million (2008: £83.3 million) which is due to mature in less than one year period.

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

	2009 £'000			2008 £'000		
	Fixed rate interest	Floating rate interest	Total	Fixed rate interest	Floating rate interest	Total
Current account	-	6,940	6,940	-	5,690	5,690
Deposit account	-	23,414	23,414	-	17,310	17,310
Fixed deposit	54,628	-	54,628	60,330	-	60,330
	54,628	30,354	84,982	60,330	23,000	83,330

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

	2009 £'000						2008 £'000					
	GBP '000'	**USD '000'**	**EUR '000'**	**TRY '000'**	**Others '000'**	**Totals '000'**	**GBP '000'**	**USD '000'**	**EUR '000'**	**TRY '000'**	**Others '000'**	**Totals '000'**
UK	23,348	175	438	417	-	24,378	19,408	393	58	558	-	20,417
Turkey	9,516	16,348	5,080	242	7	31,193	9,397	12,933	5,241	220	1	27,792
Cyprus	19,541	4,147	4,383	329	112	28,512	23,713	3,898	5,700	171	122	33,604
Others	163	249	368	119	-	899	258	284	677	298	-	1,517
Total	52,568	20,919	10,269	1,107	119	84,982	52,776	17,508	11,676	1,247	123	83,330

Notes to the accounts
For the year ended 31 December 2009

15. Other liabilities

	2009 £'000	2008 £'000
Amounts owed to group companies	62	64
Other taxes and social security costs	35	35
Corporate tax	142	-
Deferred tax liability	45	-
Obligation under finance lease and hire purchase	57	57
Other liabilities	45	129
	386	255

Deferred tax (liabilities) / assets

	2009 £'000	2008 £'000
Deferred tax liabilities as at 1 January	298	(60)
Current year movement	(343)	358
Closing balance at 31 December	(45)	298

The closing deferred tax liability of £45k is made up of accelerated capital allowance of £16k and other timing differences of £29k.

Obligation under finance lease and hire purchase

	2009 £'000	2008 £'000
Obligation under finance lease and hire purchase:		
Within one year	12	5
Between one and two years	13	5
Between two and five years	32	17
	57	27

Finance charges of £8k (2008:£nil) was paid during the year in respect of obligation under finance lease.

16. Called up share capital

	Authorised		Called up, allotted and fully paid	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
12,000,000 Ordinary shares of £1 each	12,000	10,000	12,000	10,000

During the year the bank allotted 2 million ordinary shares with a nominal value of £1 each.

Notes to the accounts
For the year ended 31 December 2009

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

	Called up share capital	Profit and loss account	Revaluation reserve	Available for sale reserve	Total Share holders Funds
	£'000	£'000	£'000	£'000	£'000
As at 1 January 2008	10,000	7,053	3,603	(418)	20,238
Profit for the year	-	387	-	-	387
Available-for-sale losses	-	-	-	(2,263)	(2,263)
Tax effect of the available for sale loss	-	645	-	-	645
As at 31 December 2008	10,000	8,085	3,603	(2,681)	19,007
As at 1 January 2009	10,000	8,085	3,603	(2,681)	19,007
Dividend paid		(2,000)	-	-	(2,000)
Increase in share capital	2,000	-	-	-	2,000
Profit for the year	-	(262)	-	-	(262)
Available-for-sale gains	-	-	-	2,277	2,277
Tax effect of the available for sale gain	-	(638)	-	-	(638)
As at 31 December 2009	12,000	5,185	3,603	(404)	20,384

Interim dividend of £2 million was paid to the shareholders on 30 December 2009.

18. Other contingent liabilities

Other contingent liabilities comprise:

	2009 £'000	2008 £'000
Irrevocable letters of credit	371	42

Included in irrevocable letters of credit are amounts in respect of group companies of £371,468 (2008 - £42,330).

19. Commitments

The amounts shown below are intended to provide an indication of the volume of business transacted and not of the underlying credit or other risks.

	2009 £'000	2008 £'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	36,886	37,171
Less than one year	14,725	15,497
	51,611	52,668

Notes to the accounts
For the year ended 31 December 2009

19. Commitments (Continued)

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

	Land and buildings 2009 £'000	2008 £'000
Operating leases which expire:		
Within one year	-	-
Between two and five years	32	32
More than five years	45	31

20. Assets and liabilities in foreign currencies

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

	2009 £'000	2008 £'000
Assets	38,245	39,696
Liabilities	38,217	39,643

21. Notes to the financial statements

Capital expenditure and financial investment	2009 £'000	2008 £'000
Net purchase of tangible and intangible fixed assets	(743)	(762)
Purchase of fixed asset investments	(3,857)	-
Disposal of fixed asset investments	2,345	-
Cash proceed on maturity of available for sale assets	-	1,512
Net cash (outflows)/inflows from trading activities	(2,255)	750

Financing	2009 £'000	2008 £'000
Proceed from the issuance of share capital	2,000	-
	2,000	-

Returns on investments and servicing of finance	2009 £'000	2008 £'000
Dividend paid during the year	(2,000)	-
	(2,000)	-

22. Analysis of the balances of cash as shown in the balance sheet

	1 January 2009 £'000	Cash flows 2009 £'000	31 December 2009 £'000
Cash and balances at central banks	390	(15)	375
Loans and advances to other banks repayable on demand	23,750	(1,858)	21,892
	24,140	(1,873)	22,267

23. Analysis of changes in financing during the year

	Share capital £'000
Balance at 1 January 2009	10,000
Cash flow from financing	2,000
Other movements	-
Balance at 31 December 2009	12,000

24. Transactions with directors and managers

As at 31 December 2009, £11,410 was outstanding by way of loans to managers of the company (or persons connected with them) (2008 - £8,339). During the year, £12,815 was paid back and £13,500 drawdown by the managers (or persons connected to them) (2008 - £10,000).

25. Ultimate parent company

The ultimate parent and controlling company at 31 December 2009 was Turkish Bank Limited, which is incorporated in Cyprus. The parent company of the largest and smallest group of which the Bank is a member and for which consolidated accounts are prepared is Turkish Bank Limited. Copies of its group accounts can be obtained from 84-86 Borough High Street, London SE1 1LN.

26. Related party transactions

The Bank has taken advantage of an exemption under FRS 8, relating to 100% subsidiaries, which exempts it from disclosing all related party transactions with group members. Other than those described in note 24, there are no other related party transactions.

27. Risk management framework

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

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

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

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

- The Board, through its subcommittees, the Audit Committee and the Business Development Committee (BDC) oversee risk management, review and approve Bank Policies (of which there are 21) and tolerance limits wherever required. All Policies are approved by the Board and subject to review at least once each calendar year.
- Nine committees at functional level oversee the implementation of risk management and associated policies. The principal committees are:
  - Assets and Liabilities Committee (ALCO), which manages the Market and liquidity risks whose members are the Managing Director, Assistant General Manager Compliance, Assistant General Manager (''AGM''), Wholesale & Markets, the Financial Controller and Treasury Dealer.
  - The Risk Committee is headed by the Managing Director and comprises the two AGM's, the Internal Auditor, the IT Controller and the Financial Controller, who acts as the secretary to the Committee. The Committee allows the Bank to manage Credit, Market and Operational risk on an integrated basis.

27. Risk management framework (continued)

- The Credit Committee is responsible for controlling credit risk and implementing the Credit Policies as authorised by the Board. All decisions require unanimous agreement at each level of lending authority as prescribed by the Board.
- The HR Committee is responsible for overseeing the HR Policy of which the HR Handbook is an integral part.
- All management participate in risk assessment by means of the Risk Register which is reviewed at least annually under the direction of the AGM Compliance.

Credit Risk Management

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

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

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

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

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

Salient features of our Risk approval process are delineated below:

- every extension of credit to any counterparty requires unanimous approval by the pre-defined level of authority sanctioned by the board;
- all business groups must apply consistent standards in arriving at their credit decisions;
- every material change to a credit facility requires approval at the appropriate, pre-defined level; 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 at least twice each year and more often if required and complies with the guidelines issued by the FSA.

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

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

The Bank's maximum exposure to credit risk at the year end is £101 million (2008: £108 million). Credit risk exposure of £49 million (2008: £50 million) is secured against the first charge on properties and lien on customers' deposits.

27. Risk management framework (continued)

Country Risk

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

Market Risk Management

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

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

Derivatives

Transactions currently permitted include foreign currency, Forward Rate Agreements. At present the Bank is only dealing in Foreign Exchange Currency Swaps on a very limited scale and purely on a back-to-back basis without carrying any open position in its books. Policies in line with UK GAAP instructions have been formulated and are operative. A total notional amount equivalent to £6.3 million (2008: £7.6 million) was outstanding as at 31 December 2009.

Interest Rate Risk

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

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

Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a very reasonable open position in various currencies resulting from the trade related transactions handled by the Bank.

Foreign Exchange risks are controlled and monitored through the limits monitored by ALCO and approved by the FSA. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence the risk generated through foreign exchange activities is not significant 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. Going forward the Bank will adopt VAR approaches to measure and monitor foreign exchange risk.

Liquidity Risk Management

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

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

27. Risk management framework (continued)

Liquidity Risk Management (continued)

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

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

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

Operational Risk

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

The policy covers the core governing principles for operational risk management and provides guidelines to identify, control, monitor, measure and report operational risk in a consistent manner across the Bank. The online authorisations level based control infrastructure is one of the main tools that prevent the Operational Risk realisations. Besides 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'' and the Bank's objective is to calculate Operational Risk by the ''Standard Method'' as per Basel Capital Accord.

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

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

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

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

28. Financial instruments

The Bank maintains a proprietary investment portfolio whereby capital funds are invested in fixed and floating interest rate Zone A and Zone B Government and Corporate Bonds. Additionally, the Bank has financial assets in the form of cash, loans and advances to banks and loans and advances to customers. The Bank also has financial liabilities in the form of deposits by banks and customer accounts.

The Bank does not assume in the normal course of business any significant foreign exchange exposures. The Bank is exposed to movements in interest rates and manages this exposure on a continuous basis within limits set by the Board. Short-term foreign exchange swaps are utilised, where cost-efficient, as a funding mechanism, principally to convert sterling capital funds to US dollars. The Bank does not utilise derivatives to assume any form of credit or market risk. The Bank utilises derivatives for economic hedging purposes.

The directors of the Bank have established policies relating to large exposures, interest rate gapping, foreign exchange exposure, liquidity management and credit provisioning. In addition, the Bank operates within limits set by the directors relating to country exposure, credit exposure and risk asset maturities. These

28. Financial instruments (continued)

policies and limits are reviewed on a regular basis, and any amendment to these policies and limits require the consent of the Board of Directors.

Derivative financial instruments:

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

			2009
	Notional amount £'000	Fair value assets £'000	Fair value Liabilities £'000
Foreign currency swap contracts	6,259	-	81

			2008
	Notional Amount £'000	Fair value Assets £'000	Fair value Liabilities £'000
Foreign currency swap contracts	7,597	-	155

Foreign currency swaps totalling £6.3 million at the year-end are all due to mature in less than one month.

Interest rate risk

Exposure to interest rate movements arise where there is an imbalance between rate sensitive assets and liabilities. The table below reflects management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2009. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

Capital risk management

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 2008 and 2009 capital has been maintained at a level above minimum FSA requirements. Such levels have been established by reference to an Internal Capital Adequacy Assessment Process (''ICAAP'') assessment. The Bank's capital resources consist of Tier 1 Capital and Upper Tier 2 Revaluation Reserve.

The Bank hold their cash with a number of reputable financial institutions. All cash and cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash.

The Bank's capital requirements are set and monitored by the FSA. Regulatory capital consists solely of Tier 1 capital, which includes ordinary share capital and retained earnings

The Company's regulatory capital position was as follows:

	2009 £'000	2008 £'000
Tier 1 Capital		
Share Capital	12,000	10,000
Retained Earnings	5,185	8,085
Upper Tier 2 Capital		
Revaluation Reserve	3,603	3,603
Total regulatory capital	20,788	21,688

The Bank has complied with all capital requirements throughout the period as required by the FSA.

28. Financial instruments (continued)

Categories of financial instruments 2009

Assets	Loans and Receivables	Available for sale	Financial asset/ liabilities at amortised cost	Derivatives	Total
Cash and balances at central banks	375	-	-	-	375
Loans and advances to banks	33,470	-	-	-	33,470
Items in the course of collection	5	-	-	-	5
Loans and advances to customers	58,884	-	-	-	58,884
Debt securities-available for sale	-	6,748	2,027	-	8,773
Other assets	-	-	-	-	-
Total financial assets	**92,734**	**6,748**	**2,027**	-	**101,507**
Total non financial assets					8,031
Total assets					**109,538**

Liabilities					
Deposits by banks	-	-	3,348	-	3,348
Items in the course of transmission to other banks	-	-	18	-	18
Customer accounts	-	-	84,982	-	84,982
Derivative liabilities	-	-	-	81	81
Other liabilities	-	-	386	-	386
Accruals and deferred income	-	-	339	-	339
Total financial liabilities	-	-	**89,073**	**81**	**88,154**
Total non financial liabilities	-	-	-	-	20,384
Total liabilities and equity					**109,538**

28. Financial instruments (continued)

Categories of financial instruments 2008

Assets	Loans and Receivables	Available for sale	Financial assets/ liabilities at amortised cost	Derivative	Total
Cash and balances at central banks	390	-	-	-	390
Loans and advances to banks	42,223	-	-	-	42,223
Items in the course of collection	18	-	-	-	18
Loans and advances to customers	58,474	-	-	-	58,474
Debt securities-available for sale	-	7,111	-	-	7,111
Other assets	46	-	-	-	46
Total financial assets	**101,151**	**7,111**	**-**	**-**	**108,262**
Total non financial assets					8,132
Total assets					**116,394**
Liabilities					
Deposits by banks	-	-	13,330	-	13,330
Items in the course of transmission to other banks	-	-	141	-	141
Customer accounts	-	-	83,330	-	83,330
Derivative liabilities	-	-	-	155	155
Other liabilities	-	-	255	-	255
Accruals and deferred income	-	-	176	-	176
Total financial liabilities	**-**	**-**	**97,232**	**155**	**97,387**
Total non financial liabilities	-	-	-	-	19,007
Total liabilities and equity					**116,394**

28. Financial instruments (continued)

Interest rate sensitivity gap analysis 2009

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest £'000	Total £'000
Assets							
Cash and balances at central banks	-	-	-	-	-	375	375
Loans and advances to banks	33,470	-	-	-	-	-	33,470
Loans and advances to customers	40,286	2,111	3,005	9,886	3,650	(54)	58,884
Debt Securities	1,803	-	-	6,549	-	421	8,773
Other assets	-	-	-	-	-	8,036	8,036
	75,559	2,111	3,005	16,435	3,650	8,778	109,538
Liabilities							
Deposits by banks	3,348	-	-	-	-	-	3,348
Customer accounts	59,264	13,444	10,312	1,962	-	-	84,982
Other liabilities	-	-	-	-	-	824	824
Shareholders' funds	-	-	-	-	-	20,384	20,384
	62,612	13,444	10,312	1,962	-	21,208	109,538
Interest rate sensitivity gap	12,947	(11,333)	(7,307)	14,473	3,650	(12,430)	-
Cumulative gap	12,947	1,614	(5,693)	8,780	12,430	-	-

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 2009.

Other liabilities other then deferred tax liabilities of £45,000 classified as non interest bearing in the above table has contractual maturities of less than three months.

The bank has outstanding financial guarantee contract of £93k at the year end. The outstanding guarantees of £50k are due to mature within a year.

28. Financial instruments (continued)

Interest rate sensitivity gap analysis 2008

	Less than 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	More than 5 years £'000	Non-interest £'000	Total £'000
Assets							
Cash and balances at central Bank	-	-	-	-	-	390	390
Loans and advances to banks	42,062	161	-	-	-	-	42,223
Loans and advances to customers	35,693	1,367	4,674	11,432	5,344	(36)	58,474
Debt Securities	2,018	-	-	1,961	3,132	-	7,111
Other assets	-	-	-	-	-	8,196	8,196
	79,773	1,528	4,674	13,393	8,476	8,550	116,394
Liabilities							
Deposits by banks	13,330	-	-	-	-	-	13,330
Customer accounts	60,202	15,763	7,365	-	-	-	83,330
Other liabilities	-	-	-	-	-	727	727
Shareholders' funds	-	-	-	-	-	19,007	19,007
	73,532	15,763	7,365	-	-	19,734	116,394
Interest rate sensitivity gap	6,241	(14,235)	(2,691)	13,393	8,476	11,184	-
Cumulative gap	6,241	(7,994)	(10,685)	2,708	11,184	-	-

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 2008.

Other assets other then deferred tax assets of £298,000 classified as non interest bearing in the above table has contractual maturities of less than three months.

A liability (or negative) gap position exists when liabilities 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 (or positive) gap position exists when assets reprice more quickly than liabilities during a given period and tends to benefit interest income in a rising interest rate environment. The Bank's off balance sheet items carry no interest rate risk. Loans and advances to customers have been shown net of provisions totalling £54,000 (2008 - £36,000).

The weighted average interest rates are as follows: 1.46% (2008: 2.47%) for the loans and advances to banks; 5.68% (2008: 5.37%) for the loans and advances to customers; 5.21% (2008: 6.70%) for the debt securities; 1.00% (2008: 1.17%) for the deposits by banks; and 2.32% (2008: 3.05%) for the customer accounts.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rate fluctuation for both derivative and non derivative instruments at the balance sheet date. At reporting date, if interest rate had been 50 basis points higher/lower and all other variables were held constant the bank's net profit would increase/decrease by £166,000 (2008: £175,000). However, management believes that Bank interest rate risk is limited since the majority of customers deposits are reprised within three months as per the terms of their issue.

28. Financial instruments (continued)

Liquidity risk

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

Currency risk

Currency of denomination	**Net currency position 2009 £'000**	**Net currency position 2008 £'000**
US Dollar	-	12
Euro	(4)	7
Japanese Yen	1	-
Swiss Franc	1	11
Other currencies	30	23
Total	28	53

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

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

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

28. Financial instruments (continued)

Carrying value and fair value

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

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

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

Set out is a comparison by category of carrying values and fair values of the Bank's financial assets, liabilities and swaps and forward transactions as at 31 December 2009.

	Carrying value 2009 £000	Fair value 2009 £000	Carrying value 2008 £000	Fair value 2008 £000
Financial assets				
Cash	375	375	390	390
Loans and advances to banks	33,470	33,470	42,223	42,223
Loans and advances to customers	58,884	58,884	58,474	58,474
Debt securities	8,773	8,773	7,111	7,111
Financial liabilities				
Deposits by banks	3,348	3,348	13,330	13,330
Customer accounts	84,982	84,982	83,330	83,330
Derivative liabilities	81	81	155	155