Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements
31 December 2014

Turkish Bank (UK) Limited

Report and financial statements 2014

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Chairman's statement

I stated in my report last year that the UK economy was starting to show signs of improvement and the trend has continued even more strongly in 2014 and into 2015. Unemployment, having peaked at 8.5% in 2011 has fallen faster than expected by most economic commentators to 6.2% with projections that this will fall further to around 5.5% by the end of 2015. Inflation has fallen beneath the government target of 2%, with CPI inflation of 0.5%, (RPI at 1.1%) mainly due to the steep fall in wholesale energy prices. Inflation is likely to fall further in the near term and could temporarily turn negative, it is then projected to rise back to levels consistent with the inflation target and there is evidence of growing wage increases as the economy recovers.

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. However the need for caution remains appropriate as there are still worrying signs with UK's main trading partners still suffering from a lack of growth and there is concern about deflationary tendencies in parts of Europe.

In Turkey the economy came under pressure in 2014, and continues to be at the time of writing, partly in line with other emerging markets which have reacted negatively to the announcements in the USA of the gradual withdrawal of quantitative easing. Turkey remains vulnerable on this issue 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 on-going political stresses in the region have further unsettled the markets.

GDP growth in Turkey has slowed to 2.1% in Q2 2014, but is still stronger than much of the Eurozone. The Economist in a recent article estimated that Turkey needed to grow at 3.5% pa to contain unemployment at the current level of 10%. The budget deficit remains at under 3% and government debt to GDP at around 33% is very low by international standards. The current account deficit has increased and is expected to be USD52.8bn in 2014.

Interest rates in the Turkish domestic market have fallen from a high of 10% to around 8.25% but inflation is currently running at around 8.9%, significantly above the 5% target.

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 TRNC continue to provide support and intelligence on 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 eight years ago with six branches, all of which are situated in Central or Greater 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. The Bank intends to continue its growth that it has achieved this year with the renewed signs of optimism in the economy.

During the year the Bank has seen a growth in its balance sheet footings from £132mn to £139mn, with additional deposits from customers of £9mn. Lending has increased by £8mn, but the Bank has retained its very strong liquidity profile, in accordance with its historical experience and its risk appetite.

The Bank's profit before tax rose from £746k to £819k, on the back of increased lending and the expansion of the customer base. It is pleasing to report this year that after two years of increased provisions (which were still very low by the standard of other banks being around 0.1% of the loan book), the Bank has shown a net recovery this year which was part of the factors leading to the improved profitability.

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.

Total resident lending has increased to £48mn, an increase of £6mn 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 Statement (Continued)

Domestic deposits grew to £48mn, an increase of £3mn, a similar increase to the previous year. This closely matches the level of resident lending. Non-resident deposits have risen by £6mn (also a similar increase to 2013) to £62mn, and the Bank has seen strong demand for its short term mortgage product for non-residents.

The Bank continues to be in a strong position in terms of capital, liquidity and strategic positioning to take advantage of any upturn in the economy, but also is able to expand cautiously in its lending book and customer base to assist our target customers in their requirements. As at 31 December 2014 the amount held in very liquid funds amounted to 34% of gross assets and 41% of total liabilities (excludes shareholders' funds) which is consistent with the Bank's historic position.

We continue to look for new and improved ways to serve our customers and strongly believe in the mantra of good customer service, which is the basis of a strong bank integrated within its community. To ensure standards have not slipped and that we continue to provide an excellent service, the customer service and standardisation initiative, which encompasses staff from all levels of the organisation, is continuing during 2015 with renewed emphasis on quality of service. One very positive achievement in 2014 was that the Bank, with the support of the Group IT department, successfully upgraded its core banking system, and also the AML system - A further example of the Bank investing to improve delivery of products and information to its clients. The Bank is also investing in further improvements in technology with new enhancements to the core banking system and the AML software planned in 2015 and beyond including the enhancement of the Banks internet banking service.

Once again I acknowledge with thanks the loyalty and dedication of my colleagues in the Bank and I look forward to continue working with them. I am confident that during 2015 we will, as hitherto, offer to our customers our top quality services and products and, at the same time, protect the interest of all with whom the Bank deals especially our clients, staff and shareholders.

I Hakan Bortecene

Chairman

13 March 2015

Report and financial statements 2014

Officers and professional advisors

Directors

I H Bortecene (Chairman)
D I Stewart
R W Long
D Blackmore
P Ryan
M Arig
M Y Rahmioglu

Secretary

J. Kent

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

The Strategic report

for the year ended 31 December 2014

Review of the Year

The Bank has continued to consolidate its position as a provider of commercial and retail banking services to the Turkish-speaking community in Greater London in particular and the United Kingdom in general. We also continue to provide a quality service to our non-resident customers and especially so to our High Net Worth clients. Our customer base has expanded during the year and the introduction of a specialised product in short term mortgages for non-resident customers has proved very popular

Profit before tax increased from £746k to £819k, 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 £451k (2014: £132k) on sale of debt securities. The UK gilt sold in 2014 was done to avoid a capital loss if the prices of gilts fell following the anticipated increase in base rates.

Impairment losses have reduced over the year from £68k to a net recovery of £33k with a significant recovery of a large provision made in 2012. The Bank has increased its IBNR (Incurred But Not Recorded) to reflect increased provisions over the last 5 years, but the overall level of provisions, at 0.11% of the average loan book is extremely low and 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 £6mn (14%) to £48.7mn (2013: £42.7mn) which was the highest level achieved, and has continued to expand into 2015. Non-resident lending also showed an increase to £33.4mn (2013: £30.6 mn), a 9% increase on the prior year.

Customer deposits have increased by £9.5mn (2013: increase £8.8mn) to £110.6mn (2013: £101.1mn), but within this resident deposits have increased to £48.3mn (2013: £45.0mn) which largely matches resident lending. Non-resident deposits increased to £62.3mn (2013: £56.1mn), 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's remittance products also saw an increase over the year after a few years of decline. The Bank has also refined its accounting methodology to defer recognition of arrangement fees where the loan period is longer than one year. This is in anticipation of the transition to IFRS next year.

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 2015. 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. The Bank is working with other Group members to improve its internet banking product capabilities. Progress on this is expected at the end of 2015. During the year the Bank carried out a successful upgrade of its core banking system, and also introduced an improved AML system which is in the process of being refined to assist with automated monitoring of accounts to protect the Bank and its customers.

2014 also saw the recruitment of management staff within branches from outside the Bank, and the introduction of new ideas and new ways in which we can better serve our customers will, we hope, help to drive the Bank forward for the mutual benefit of customers, staff and shareholders.

The Bank seeks to builds a positive and production dialogue with the regulators and ensure 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.

We look to this year to build on the underlying operating profits generated in 2014 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.

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 use of financial derivatives is governed by the Bank's policies approved by the board of directors, which are based on written principles on the use of financial derivatives to manage these risks. The

The Strategic report (continued)

Bank does not use derivative financial instruments for trading purposes. Risk policies have been disclosed in note 26 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 a hedged 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 on-going 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 26 to the accounts.

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.

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

J. Kent

Secretary

13 March 2015

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

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 2014 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.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements on page 15.

Results and dividends

The profit for the year after taxation amounted to £599,000 (2013 – profit £518,000).

The directors do not recommend the payment of a dividend (2013 - £nil).

Political and charitable contributions

During the year, the Bank made various charitable contributions totalling £500 (2013 - £440).

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*
M Arig
M Y Rahmioglu

* Chairmen of the Audit Committee and the Risk Committee respectively

Directors' report (continued)

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.

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 2014 (2013: 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 2014 (2013: 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

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

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

J. Kent

Secretary

13 March 2015

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report and 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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.

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 2014 set out on pages 11 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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 & 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.

Samer Hijazi (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL

13 March 2015

Profit and loss account
For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		358	256
Other interest receivable and similar income		4,348	4,362
		4,706	4,618
Interest payable		(1,619)	(1,918)
Net interest income		3,087	2,700
Fees and commissions receivable		1,516	1,551
Fees and commissions payable		(149)	(125)
Dealing profits		241	183
Other operating income		7	6
Gain on sale of debt securities		132	451
		1,747	2,066
Total operating income		4,834	4,766
Administrative expenses	2	(3,582)	(3,432)
Depreciation and amortisation	10, 11	(461)	(514)
Other operating charges		(5)	(6)
Impairment losses on loans and advances to customers	3	33	(68)
Total operating expenses		(4,015)	(4,020)
Profit on ordinary activities before taxation	4	819	746
Tax on profit on ordinary activities	5	(220)	(228)
Profit on ordinary activities after taxation	17	599	518

The notes on pages 15 to 42 form an integral part of these financial statements.

All activities relate to continuing operations.

Turkish Bank (UK) Limited
Balance sheet
31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Cash and balances at central banks		17,112	13,517
Loans and advances to banks	6	30,563	35,770
Items in the course of collection		179	84
Loans and advances to customers	7	79,372	71,214
Debt securities	9	2,778	3,404
Intangible fixed assets	10	701	119
Tangible fixed assets	11	8,175	7,016
Derivative assets	27	42	340
Other assets	12	73	168
Prepayments and accrued income		412	409
Total assets		139,407	132,041
Liabilities			
Deposits by banks	13	3,787	8,014
Items in the course of transmission to other banks		55	31
Customer accounts	14	110,600	101,130
Other liabilities	15	481	473
Accruals and deferred income		274	190
		115,197	109,838
Equity			
Called up share capital	16	12,000	12,000
Profit and loss account	17	6,791	6,176
Available-for-sale reserve	17	62	134
Revaluation reserve	17	5,357	3,893
Total equity		24,210	22,203
Total liabilities and equity		139,407	132,041
Contingent liabilities			
Guarantees and assets pledged as collateral security		785	55
		785	55
Commitments	18	2,561	1,526

The Board of Directors approved these financial statements and authorised for issue on 13 March 2015.

Signed on behalf of the Board of Directors

I H Bortecene	D. I. Stewart
Director	Director

The notes on pages 15 to 42 form an integral part of these financial statements.

Cash flow statement
For the year ended 31 December 2014

	2014 £'000	2013 £'000
Net cash inflow from operating activities	**2,166**	**8,654**
Taxation	(255)	(263)
Capital expenditure and financial investment (note 20)	20	3,463
Increase in cash (note 21)	1,931	11,854

<u>Note to cash flow statement</u>

Reconciliation of operating profit to net operating cash flows	2014 £'000	2013 £'000
Profit on ordinary activities before tax	819	746
(Increase)/decrease in prepayments and accrued income	(3)	8
Net (decrease)/increase in investment due to fair value change	(72)	64
Increase/(decrease) in accruals and deferred income	84	(242)
Depreciation charge and amortisation	461	514
Gain on sale of investment securities	(132)	(451)
Net cash inflows from trading activities	1,157	639
Net increase in collections	(70)	-
Net increase in loans and advances to banks and customers	(4,615)	(5,460)
Net increase in deposits by banks and customers	5,243	13,683
Net increase in other assets and liabilities	153	117
Net increase/(decrease) in derivative assets	298	(325)
Net cash inflow from operating activities	**2,166**	**8,654**

The notes on pages 15 to 42 form an integral part of these financial statements.

Statement of total recognised gains and losses
For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Profit for the financial year		599	518
Available-for-sale gain	17	(72)	64
Tax effect of available for sale gains/(losses)	17	16	(15)
Surplus on property revaluation	17	1,464	-
Total recognised gains for the year		2,007	567

The notes on pages 15 to 42 form an integral part of these financial statements.

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 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 Directors' Report. In addition notes 26 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 have 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, 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.

(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 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.

(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 derivative contracts in hedging relationships for hedge accounting purposes.

The Bank values its 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.

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.

1. Accounting policies (continued)

(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%

(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. These software licences amortizations are coincide with hardware depreciation over a period of five years. 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. 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.

(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 certain Segmental Information. Segment information has been disclosed in the financial statements where management believe that disclosing information is not prejudicial to the interests of the Bank.

2. Administrative expenses

	2014 £'000	2013 £'000
Staff costs during the year (including directors)		
Wages and salaries	1,904	1,851
Social security costs	185	169
Pension costs	59	53
	2,148	2,073
Other administrative expenses	1,434	1,359
	3,582	3,432

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

	2014 No.	2013 No.
Commercial banking activities	81	80

Directors' remuneration during the year consisted of:

	2014 £'000	2013 £'000
Emoluments	186	183

The emoluments of the highest paid director for the year ended 31 December 2014 were £121,000 (2013 - £120,000).

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

	2014 £'000	2013 £'000
Impairment charge for the year	(59)	(71)
Recoveries	92	3
Net impairment charge for the year	33	(68)

During the year the Bank received Nil (2013 - Nil) in respect of loans which were previously bad & doubtful debt written off in prior years which is included in other operating income.

4. Profit on ordinary activities before taxation

Profit is stated after charging:

	2014 £'000	2013 £'000
Foreign currency gains	(241)	(183)
Operating lease rentals		
Land and buildings	87	87
Depreciation and amortisation		
Tangible fixed assets	412	446
Intangible fixed assets	49	68

4. Profit on ordinary activities before taxation (continued)

	2014 £'000	2013 £'000
Fees payable to the company's auditor		
Audit of the company's annual accounts	62	57
Tax services	5	5
	67	62

5. Tax on profit on ordinary activities

	2014 £'000	**2013 £'000**
Current tax		
United Kingdom corporation tax at 21.50% (2013 – 23.25%) based on profit for the year	(253)	(244)
Adjustment in respect of prior years	4	-
Total current tax	(249)	(244)
Deferred tax (Note 15)		
Reversal of timing differences	24	13
Prior year Adjustment	7	-
Current tax rate adjustment	(2)	3
	(220)	(228)

The current tax charge for the year is considerably lower than the standard rate of corporation tax at 21.50% as explained below:

	2014 £'000	**2013 £'000**
Profit on ordinary activities before tax	819	746
Tax at 21.50% (2013: 23.25%) thereon	(176)	(173)
Effects of:		
Expenses not deductible for tax purposes	(18)	(5)
Depreciation in excess of capital allowances	(59)	(63)
Movement in short-term timing differences	(0)	(3)
Prior period adjustment	4	-
	(249)	(244)

6. Loans and advances to banks

	2014 £'000	**2013 £'000**
Loans and advances to banks are repayable as follows:		
On demand	16,261	17,925
Within three months	11,049	12,680
Between three months and one year	-	2,101
Between one year and five year	3,253	3,064
	30,563	35,770

Included within loans and advances to banks is an amount of £552,000 in respect of group companies (2013 - £101,000). The interest received from group companies during the year was £7,000 (2013 - £12,000).

6. Loans and advances to banks (continued)

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

	2014 £'000	2013 £'000
In UK:		
On current account	3,054	4,003
On deposit account in money market lending	7,380	8,580
Outside UK:		
On current account	5,191	7,011
On deposit account		
- Money Market Lending	11,685	13,112
- Promissory Notes	3,253	3,064
	30,563	35,770

7. Loans and advances to customers

	2014 £'000	2013 £'000
Loans are repayable as follows:		
On demand	5,345	4,734
Within three months	10,072	11,066
Between three months and one year	2,768	2,022
Between one and five years	52,323	39,150
Five years or more	9,100	14,512
Provision for impairment losses		
Specific	(171)	(249)
Collective	(65)	(21)
	79,372	71,214

Non-performing loans and advances totalled £598,452 at the year-end (2013 - £917,000).

Loans and advances to customers includes £282,593 (2013: £189,898) which has been in the watch list but no provision was made against them. 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:

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

7. Loans and advances to customers (continued)

2013

	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	4,312	400	4,712
Fixed term					
- Retail	-	-	33,124	186	33,310
- Corporation	1,823	24,045	7,581	13	33,462
	1,823	24,045	45,017	599	71,484
Provision for impairment	-	-	(119)	(151)	(270)
	1,823	24,045	44,898	448	71,214

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

	2014 £'000					2013 £'000				
	GBP	USD	EURO	TRY	Total	GBP	USD	EURO	TRY	Total
UK	48,641	127	31	-	48,799	42,882	4	1	-	42,887
Non UK										
- Turkey	4,563	6,952	8,924	9,731	30,170	1,464	5,627	9,693	10,643	27,427
- Others	403	-	-	-	403	900	-	-	-	900
Total	53,607	7,079	8,955	9,731	79,372	45,304	5,631	9,694	10,645	71,214

8. Provisions for impairment losses

	2014 £'000	2013 £'000
Specific Provision		
As at 1 January	249	211
Charge against profits	14	47
Less: recoveries	(92)	(3)
Net impairment charge for the year	(78)	44
Less: loans written off	-	(6)
Closing Balance	171	249
Collective Provision		
As at 1 January	21	-
Charge against profits	44	21
At 31 December	236	270

8. Provisions for impairment losses (continued)

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 FRS26 an Incurred but not Reported ("IBNR") Provision of £43,800 has been made for 2014 to reflect losses incurred but not yet identified.

Analysis of impaired assets

During the reporting year the bank made new Specific Provisions of £14,000. There were 5 instances of specific provisions made, 1 of them related to company which is financial difficulty and the other provisions were due to personal borrowers with financial difficulties.

The Company 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.

9. Debt securities

Available-for-sale	**2014 £'000**	**2013 £'000**
Nominal value	2,677	3,219
Accrued interest	39	50
Available-for-sale revaluation	62	135
Fair value	2,778	3,404
Total	2,778	3,404

Investment in debt securities will mature as follows:

	2014 £'000	**2013 £'000**
Repayable:		
Between one and five years	2,778	2,248
Five years or more	-	1,156
	2,778	3,404

Segmental analysis of investment in debt securities is as follows:

	2014			**2013**		
	Fixed rate bonds £'000	**Floating rate bonds £'000**	**Total £'000**	**Fixed rate bonds £'000**	**Floating rate bonds £'000**	**Total £'000**
Sovereign bonds	-	-	-	1,156	-	1,156
Corporate bonds	-	2,778	2,778	-	2,248	2,248
	-	2,778	2,778	1,156	2,248	3,404

9. Debt securities (continued)

The debt securities comprise 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 (2013 – 4.75%).

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 £1,661,000 which are due to mature in less than one year (2013: Nil).

Analysis by currency of origin is as follows:

	2014				2013			
Origin of debt securities	**GBP**	**USD**	**TRY**	**Total**	**GBP**	**USD**	**TRY**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
UK	-	-	-	-	1,156	-	-	1,156
Turkey	-	-	2,778	2,778	-	-	2,248	2,248
Kazakhstan	-	-	-	-	-	-	-	-
US	-	-	-	-	-	-	-	-
Total	-	-	2,778	2,778	1,156	-	2,248	3,404

10. Intangible fixed assets

	Licences £'000
Cost	
At 1 January 2014	1,341
Additions	631
At 31 December 2014	1,972
Amortisation	
At 1 January 2014	1,222
Charge for the year	49
At 31 December 2014	1,271
Net book value	
At 31 December 2014	701
At 31 December 2013	119

The intangible fixed assets comprise software licences purchased and are being amortised over five years. Temenos licence are being amortised over 10 years.

11. Tangible fixed assets

	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 2014	7,439	653	67	2,973	11,132
Additions	1,464	-	53	54	1,571
Disposals	-	-	(28)	-	(28)
At 31 December 2014	8,903	653	92	3,027	12,675
Depreciation					
At 1 January 2014	1,458	601	64	1,993	4,116
Charge for the year	139	36	6	231	412
Disposals	-	-	(28)	-	(28)
At 31 December 2014	1,597	637	42	2,224	4,500
Net book value					
At 31 December 2014	7,306	16	50	803	8,175
At 31 December 2013	5,981	52	3	980	7,016

The land and buildings are occupied by the Bank for its own activities. £1,464,000 revaluation gain was recorded in the current year. The carrying value of freehold building if they were carried at historical cost would be £2,478,000 (net of depreciation).

12. Other assets

	2014	2013
	£'000	£'000
Deferred Tax	5	-
Corporation Tax	16	144
Other assets	52	24
	73	168

13. Deposits by banks

	2014	2013
	£'000	£'000
Deposits by banks are repayable as follows:		
On demand		
- Group	1,977	6,233
- Other	1,810	1,781
Within a year		
- Group	-	-
	3,787	8,014

The interest paid amount to group companies during the year is £5,057 (2013: £2,567). All bank deposits which are mature in next day.

13. Deposits by banks (continued)

Geographical analysis of deposit by banks is as follows:

	2014 £'000	2013 £'000
In UK:		
On current account	40	21
Outside UK:		
On current account	3,202	3,682
On deposit account	545	4,311
	3,787	8,014

14. Customer accounts

	2014 £'000	2013 £'000
Customer deposits are repayable as follows:		
On demand	25,934	16,654
Within three months	64,420	59,265
Between three months and one year	17,001	20,389
Between one year and five years	3,245	4,822
	110,600	101,130

The balance includes customers' deposits of £107 million (2013: £96 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:

	2014 £'000			2013 £'000		
	Fixed rate interest	Floating rate interest	Total	Fixed rate interest	Floating rate interest	Total
Current account	-	24,339	24,339	-	14,924	14,924
Deposit account	-	28,325	28,325	-	22,137	22,137
Fixed deposit	57,936	-	57,936	64,069	-	64,069
	57,936	52,664	110,600	64,069	37,061	101,130

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

	2014 £'000						2013 £'000					
	GBP £'000	USD £'000	EUR £'000	TRY £'000	Others £'000	Total £'000	GBP £'000	USD £'000	EUR £'000	TRY £'000	Others £'000	Total £'000
UK	43,591	2,153	891	1,645	1	48,281	41,319	1,118	857	1,701	-	44,995
Turkey	13,209	17,072	3,956	937	1	35,175	10,039	13,498	3,920	837	-	28,294
Cyprus	16,326	4,487	3,358	773	-	24,944	15,842	4,111	4,865	776	17	25,611
Others	1,426	632	142	-	-	2,200	1,125	876	225	4	-	2,230
Total	74,552	24,344	8,347	3,355	2	110,600	68,325	19,603	9,867	3,318	17	101,130

15. Other liabilities

	2014 £'000	2013 £'000
Amounts owed to group companies	10	34
Other taxes and social security costs	46	40
Corporate tax	48	74
Deferred tax liability	-	24
Obligations under finance lease and hire purchase	43	1
Other liabilities	334	300
	481	473

Deferred tax

	2014 £'000	2013 £'000
Opening balance deferred tax liability at 1 January	24	40
Current year movement	(24)	(13)
Prior year adjustment	(7)	-
Current year rate change	2	(3)
Closing balance deferred tax (asset)/liability at 31 December	(5)	24

The closing deferred tax asset of £5,000 is made up of accelerated capital allowances of £9,000 and other timing differences of (£4,000).

Obligations under finance lease and hire purchase

	2014 £'000	2013 £'000
Obligations under finance lease and hire purchase:		
Within one year	-	1
Between one and two years	-	
	-	1

Finance charges of £Nil (2013: £1,448) were paid during the year in respect of obligations under finance lease.

16. Called up share capital

	Authorised		Called up, allotted and fully paid	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
12,000,000 Ordinary shares of £1 each	12,000	12,000	12,000	12,000

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 2013	12,000	5,673	3,893	70	21,636
Profit for the year	-	518	-	-	518
Available-for-sale gains	-	-	-	64	64
Tax effect of the available for sale gain	-	(15)	-	-	(15)
As at 31 December 2013	12,000	6,176	3,893	134	22,203
As at 1 January 2014	12,000	6,176	3,893	134	22,203
Profit for the year	-	599	-	-	599
Available-for-sale gains	-	-	-	(72)	(72)
Tax effect of the available for sale gain	-	16	-	-	16
Revaluation of freehold properties			1,464		1,464
As at 31 December 2014	12,000	6,791	5,357	62	24,210

18. 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.

	2014	2013
	£'000	£'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	32	-
Less than one year	2,529	1,526
	2,561	1,526

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

		Land and buildings
	2014	2013
	£'000	£'000
Operating leases which expire:		
Within one year	47	-
Between two and five years	40	47
More than five years	-	40

19. Assets and liabilities in foreign currencies

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

	2014	2013
	£'000	£'000
Assets	49,490	53,471
Liabilities	49,478	53,414

20. Cash flow statement

Capital expenditure and financial investment	2014 £'000	2013 £'000
Net purchase of tangible and intangible fixed assets	(738)	(77)
Proceeds from disposal or maturity of investments	758	3,540
Net cash inflows from investing activities	20	3,463

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

	1 January 2014 £'000	Cash flows 2014 £'000	31 December 2014 £'000
Cash and balances at central banks	13,517	3,595	17,112
Loans and advances to other banks repayable on demand	17,925	(1,664)	16,261
	31,442	1,931	33,373

22. Analysis of changes in financing during the year

	Share capital £'000
Balance at 1 January 2014	12,000
Cash flow from financing	-
Other movements	-
Balance at 31 December 2014	12,000

23. Transactions with directors and managers

As at 31 December 2014, £24,414 was outstanding by way of loans to managers of the company (or persons connected with them) (2013 - £17,868). During the year, £20,454 (2013 - £8,226) was paid back and £27,000 drawn by the managers (or persons connected to them) (2013 - £9,600). The transactions with related parties are on standard commercial terms.

24. Ultimate parent company

The ultimate parent and controlling company at 31 December 2014 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.

25. 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 25, there are no other related party transactions.

26. 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.

26. Risk management framework (continued)

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 £113 million (2013: £110 million). Credit risk exposure of £57 million (2013: £48 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:	**2014**	**2013**
	£'000	**£'000**
Cash	4,313	2,529
Freehold	107,747	87,191
Bank Guarantees	84	205
Total	**112,144**	**89,925**

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.

26. Risk management framework (continued)

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.

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:	**2014**	**2013**
	£'000	**£'000**
Real Estate	10,756	7,531
Hotels & Restaurants	6,901	7,778
Retail & Wholesale	3,796	2,537
Other Manufacturing	257	303
Service Providers	608	848
Financial	21,778	23,923
Individuals & Individual trusts	35,433	28,481
Recreational, Cultural, Sport Activities	44	58
Other	35	25
Total	**79,608**	**71,484**
Provision for impairment losses	**(236)**	**(270)**
Total	**79,372**	**71,214**

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.

ICAAP (Internal Capital Adequacy Assessment Process)

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

26. Risk management framework (continued)

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 UK GAAP have been formulated and are operative. A total notional amount equivalent to £11.7 million (2013: £14.7 million) was outstanding as at 31 December 2014.

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 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.

26. Risk management framework (continued)

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.

Maturity analysis of financial liabilities

The table below represents a maturity analysis for financial liabilities that shows the remaining contractual maturities:

	Carrying amount	Gross nominal (outflow)	On Demand	Less than 1 year	1-5 years
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
31 December 2014					
Derivative financial liabilities	-	-	-	-	-
Non-derivative financial liabilities	115,197	(115,197)	30,531	81,421	3,245
	115,197	**(115,197)**	**30,531**	**81,421**	**3,245**
31 December 2013					
Derivative financial liabilities	-	-	-	-	-
Non-derivative financial liabilities	109,838	(109,838)	25,362	79,654	4,822
	109,838	**(109,838)**	**25,362**	**79,654**	**4,822**

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 the Operational

26. Risk management framework (continued)

Risk realisations. 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.

27. 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

Fair value hierarchy

The table overleaf analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived prices)

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
	£'000	**£000**	**£'000**	**£'000**
31 December 2014				
Financial Assets				
Available for sale:	-	2,778	-	2,778
Derivative assets	-	42	-	42
	-	2,820	-	2,820

	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
31 December 2013				
Financial Assets				
Available for sale:	1,156	2,248	-	3,404
Derivative assets	-	340	-	340
	1,156	2,588	-	3,744

There were no transfers of assets between levels during 2014 and no significant changes in valuation techniques.

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.

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

		2013	
	Notional Amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	14,733	340	-

Foreign currency swaps totalling £11.7 million (2013: £14.7 million) at the year-end are 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 on page 39 and 40 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2014. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

27. Financial instruments (continued)

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 2013 and 2014 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 Tier 1 Capital and Upper Tier 2 Revaluation Reserve.

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

The Bank’s capital requirements are set and monitored by the PRA. 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:

	2014 **£’000**	**2013** **£’000**
Tier 1 Capital		
Share Capital	12,000	12,000
Retained Earnings	6,791	6,176
Upper Tier 2 Capital		
Retained Earnings	-	-
Revaluation Reserve	5,357	3,893
Total regulatory capital	24,148	22,069

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

27. Financial instruments (continued)

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 balances at central banks	17,112	-	-	-	17,112
Loans and advances to financial institutions	30,563	-	-	-	30,563
Items in the course of collection	179	-	-	-	179
Loans and advances to customers	79,372	-	-	-	79,372
Debt securities-available for sale	-	2,778	-	-	2,778
Derivative Assets	-	-	-	42	42
Other assets	73	-	-	-	73
Total financial assets	**127,299**	**2,778**	**-**	**42**	**130,119**
Total non-financial assets					9,288
Total assets					**139,407**
Liabilities					
Deposits by banks	-	-	3787	-	3,787
Items in the course of transmission to other banks	-	-	55	-	55
Customer accounts	-	-	110,600	-	110,600
Other liabilities	-	-	481	-	481
Accruals and deferred income	-	-	274	-	274
Total financial liabilities	**-**	**-**	**115,197**	**-**	**115,197**
Equity					24,210
Total liabilities and equity					**139,407**

27. Financial instruments (continued)

Analysis of financial assets and liabilities by measurement basis 2013

	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 balances at central banks	13,517	-	-	-	13,517
Loans and advances to financial institutions	35,770	-	-	-	35,770
Items in the course of collection	84	-	-	-	84
Loans and advances to customers	71,214	-	-	-	71,214
Debt securities-available for sale	-	3,404	-	-	3,404
Derivative Assets	-	-	-	340	340
Other assets	168	-	-	-	168
Total financial assets	**120,753**	**3,404**	**-**	**340**	**124,497**
Total non-financial assets					7,544
Total assets					**132,041**
Liabilities					
Deposits by banks	-	-	8,014	-	8,014
Items in the course of transmission to other banks	-	-	31	-	31
Customer accounts	-	-	101,130	-	101,130
Other liabilities	-	-	473	-	473
Accruals and deferred income	-	-	190	-	190
Total financial liabilities	**-**	**-**	**109,838**	**-**	**109,838**
Equity					22,203
Total liabilities and equity					**132,041**

27. Financial instruments (continued)

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 balances at central banks	16,306	-	-	-	-	806	17,112
Loans and advances to banks	27,310	-	-	3,253	-	-	30,563
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 assets other than deferred tax assets of £5,000 (2013 – Nil) classified as non-interest bearing in the above table have contractual maturities of less than three months.

The bank has outstanding financial guarantee contracts of £785,000 (2013 - £55,000) at the year end. The outstanding guarantees of £81,000 are due to mature within a year (2013 - £55,000).

27. Financial instruments (continued)

Interest rate sensitivity gap analysis 2013

	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 balances at central bank	13,000	-	-	-	-	517	13,517
Loans and advances to banks	30,607	2,099	-	3,064	-	-	35,770
Loans and advances to customers	53,526	899	751	15,047	1,261	(270)	71,214
Debt securities	-	-	-	2,248	1,156	-	3,404
Other assets	-	-	-	-	-	8,136	8,136
	97,133	2,998	751	20,359	2,417	8,383	132,041
Liabilities							
Deposits by banks	8,014	-	-	-	-	-	8,014
Customer accounts	75,920	12,797	7,591	4,822	-	-	101,130
Other liabilities	-	-	-	-	-	694	694
Shareholders' funds	-	-	-	-	-	22,203	22,203
	83,934	12,797	7,591	4,822	-	22,897	132,041
Interest rate sensitivity gap	13,199	(9,799)	(6,840)	15,537	2,417	(14,514)	-
Cumulative gap	13,199	3,400	(3,440)	12,097	14,514	-	-

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 2013.

Other liabilities other than deferred tax liabilities of £24,000 (2012 - £40,000) classified as non-interest bearing in the above table have 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 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 have been shown net of provisions totalling £236,000 (2013 - £270,000).

The weighted average interest rates are as follows: 0.83% (2013: 1.03%) for the loans and advances to banks; 6.17% (2013: 6.17%) for the loans and advances to customers; 11.69% (2013: 10.03%) for the debt securities; 0.06% (2013: 0.08%) for the deposits by banks; and 1.29% (2013: 1.67%) 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 100 basis points higher/lower and all other variables were held constant the bank's net profit would increase/decrease by £149,000 (2013: £115,000). 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.

27. Financial instruments (continued)

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 2014 £'000**	**Net currency position 2013 £'000**
US Dollar	(3)	2
Euro	6	2
Swiss Franc	4	34
Other currencies	5	19
Total	12	57

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.

27. 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 2014.

	Carrying value 2014 £'000	Fair value 2014 £'000	Carrying value 2013 £'000	Fair value 2013 £'000
Financial assets				
Cash	17,112	17,112	13,517	13,517
Loans and advances to banks	30,563	30,563	35,770	35,770
Loans and advances to customers	79,372	79,372	71,214	71,214
Debt securities	2,778	2,778	3,404	3,404
Derivative assets	42	42	340	340
Financial liabilities				
Deposits by banks	3,787	3,787	8,014	8,014
Customer accounts	110,600	110,600	101,130	101,130

28. Post Balance Sheet Events

There have been no material events after the balance sheet date which would require disclosure or adjustments to the 31 December 2014 financial statements.