

TURKISH BANK (UK) LIMITED

Report and Financial Statements

31 December 2003

**Deloitte & Touche LLP
London**

REPORT AND FINANCIAL STATEMENTS 2003

CONTENTS

	Page
Chairman's Statement	1
Officers and professional advisers	2
Directors' report	3
Statement of directors' responsibilities	5
Independent auditors' report	6
Profit and loss account	7
Balance sheet	8
Cash flow statement	9
Notes to the accounts	10

REPORT AND FINANCIAL STATEMENTS 2003

CHAIRMAN'S STATEMENT

2003 has been a year of opportunity and challenge both for TBUK and for our group.

We remain committed to community banking in London and it continues to prove rewarding.

I am very pleased to inform you that, according to an article published in the banker magazine in January 2004, the Turkish Bank Group came second in the list of fastest growing banks in Southern Europe. This is a landmark in the long history of our bank. Clearly Cyprus is developing as a bridge for financial services between the EU and the Middle East and we are playing our part in this trend.

The huge parliamentary majority of the Justice and Development Party (AKP) and the absence of alternatives have enabled it to remain in power, resulting in political stability in Turkey. There are some risks of this stability changing because of the AKP's inexperience in government and the existence of factions within the party. On the economic front, the widening current-account deficit is exposing the lira to further devaluation and if there is an unexpected correction then this could prove disruptive to the markets.

We are watching the moves to reach a settlement of the "Cyprus problem" closely. Turkey's hopes of starting formal accession talks with the European Union are now firmly dependant on a settlement being reached before Cyprus, along with nine other countries, joins the EU on 1st May 2004.

Turning to the general outlook for the UK economy, economic growth is likely to accelerate in 2004 and 2005. It is however, expected to grow below the trend rate of about 2.7% for the fourth and fifth years in succession.

The second half of 2003 saw modest recovery in corporate profits and some signs of revival in the manufacturing sector. If these improvements continue into 2004, as is expected by many analysts, then business investment should pick up from recent lows.

I turn now to the results for the 2003 financial year.

The profit for the year before tax increased to £1,270,000 compared to £1,102,000 for 2002. Having seen a small interest rate rise late in the year, some benefit accrued to our net interest income which rose from £2,100,000 to £2,115,000 this year. Our overall result includes profits from our investment portfolio as we benefited from the upsurge of interest in the developing economies where our bond exposures mainly lie. Having said this, our expenses also rose as we incurred some restructuring and infrastructure costs. Overall the result is satisfactory.

The directors have decided not to declare a dividend for the 2003 financial year, thus adding the net profit of £898,000 to reserves.

On the business front, we continue to build the foundations to support the bank's strategy. One of the major steps we have taken is that after a detailed analysis of our operational strengths and weaknesses, the Board decided to replace our existing in-house computer system with the Globus/T24 banking system used by many banks throughout the world. This is a major investment for our Group and we expect it should bring operational benefits, improved risk management capability and the ability to introduce new products and services to our customers.

Mr. Osman Menguturk has decided to leave the Bank to seek a change in direction and accordingly has also resigned from his position as Managing Director and as a member of the Board. I wish him well with his future plans. I am pleased to announce that Mr. Bob Long, who has been acting as a non-executive director, will succeed Mr. Menguturk as Managing Director

Once again, I would like to praise the Bank's employees who have used their skill and dedication to serve the needs of our customers and correspondents and I am pleased to have this opportunity to thank them formally for their commitment and endeavour.

February 2004

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M T Ozyol (Chairman)
I H Bortecene
M D Bendon
M J O Pritchard
R W Long
M E Erenman

SECRETARY

M J O Pritchard

REGISTERED OFFICE

84-86 Borough High Street
London SE1 1LN

BANKERS

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £898,000 (2002 - £772,000).

The directors do not recommend the payment of a dividend (2002 - £nil).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The bank's principal activities during the year were retail and commercial banking.

The bank's profits are from retail and commercial banking and all operations are carried out in the UK.

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 £150 (2002 - £170).

EMPLOYEE INVOLVEMENT

Regular meetings are held between Head Office management and branch managers to allow a free flow of information and ideas.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

M T Ozyol (Chairman)
I H Bortecene
O Menguturk (resigned 26 December 2003)
M D Bendon
M J O Pritchard
R W Long
M E Erenman

The interests of the directors at 31 December 2003 in the share capital of the bank were as follows:

	Ordinary shares of £1 each	
	2003	2002
M T Ozyol	<u>1</u>	<u>1</u>

DIRECTORS' REPORT (continued)

AUDITORS

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 17 October 2003. Accordingly, a resolution for the reappointment of Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

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

Director and Secretary

M J O Pritchard

27 February 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the income and expenditure of the company for that period. In preparing those 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 accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Signed on behalf of the Board of Directors on 27 February 2004.

R W Long
Director

M D Bendon
Director

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

We have audited the financial statements of Turkish Bank UK Ltd for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

February 2004

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		1,039	915
Other interest receivable and similar income		3,336	4,374
		<u>4,375</u>	<u>5,289</u>
Interest payable		(2,260)	(3,189)
NET INTEREST INCOME		<u>2,115</u>	<u>2,100</u>
Fees and commissions receivable		1,401	1,291
Fees and commissions payable		(70)	(65)
Dealing profits		46	70
Other operating income		33	5
Gain on sale of debt securities		602	14
		<u>2,012</u>	<u>1,315</u>
TOTAL OPERATING INCOME		<u>4,127</u>	<u>3,415</u>
Administrative expenses	2	(2,629)	(2,169)
Depreciation and amortisation	10	(178)	(167)
Other operating charges		(12)	(4)
Provisions	3	(38)	27
		<u>(2,857)</u>	<u>(2,313)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>1,270</u>	<u>1,102</u>
Tax on profit on ordinary activities	5	(372)	(330)
PROFIT AFTER TAXATION		<u>898</u>	<u>772</u>
Proposed dividend		-	-
PROFIT RETAINED FOR THE FINANCIAL YEAR		<u><u>898</u></u>	<u><u>772</u></u>

There were no other recognised gains or losses in the current or previous year other than the profit for the year.

All activities relate to continuing operations.

BALANCE SHEET
31 December 2003

	Note	2003 £'000	2002 £'000
ASSETS			
Cash and balances at central banks		406	706
Loans and advances to banks	6	65,898	63,057
Items in the course of collection		198	9
Loans and advances to customers	7	22,182	22,021
Debt securities	9	12,583	13,558
Intangible fixed assets	10	772	-
Tangible fixed assets	10B	2,769	2,838
Other assets including taxation	11	120	125
Prepayments and accrued income		778	813
TOTAL ASSETS		<u>105,706</u>	<u>103,127</u>
LIABILITIES			
Deposits by banks	12	41,073	45,262
Items in the course of transmission to other banks		20	13
Customer accounts	13	47,869	42,734
Other liabilities	14	1,048	444
Accruals and deferred income		501	377
		<u>90,511</u>	<u>88,830</u>
Called up share capital	15	10,000	10,000
Profit and loss account	16	5,195	4,297
		<u>15,195</u>	<u>14,297</u>
TOTAL LIABILITIES		<u>105,706</u>	<u>103,127</u>
MEMORANDUM ITEMS			
CONTINGENT LIABILITIES			
Acceptances and endorsements		-	10
Guarantees and assets pledged as collateral security		899	955
Other contingent liabilities	17	323	272
		<u>1,222</u>	<u>1,237</u>
COMMITMENTS	18	<u>24,164</u>	<u>23,854</u>

The Board of Directors approved these financial statements on 27 February 2004.

Signed on behalf of the Board of Directors

R W Long
Director

M D Bendon
Director

CASH FLOW STATEMENT
For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Net cash (outflow)/inflow from operating activities	20	(669)	10,220
Taxation			
UK corporation tax paid		(416)	(424)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(881)	(71)
Disposal of tangible fixed assets		-	10
Purchase of fixed asset investments	(16,583)	(13,477)	
Sale of fixed asset investments	18,160	6,390	
		<u>1,577</u>	<u>(7,087)</u>
		(389)	2,648
Equity dividends paid		<u>-</u>	<u>-</u>
		(389)	2,648
Financing	22	<u>-</u>	<u>-</u>
(Decrease)/ Increase in cash	21	<u><u>(389)</u></u>	<u><u>2,648</u></u>

**NOTES TO THE ACCOUNTS
For the year ended 31 December 2003**

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention. They are drawn up in accordance with the special provisions of Part VII Ch. 2 of the Companies Act 1985 applicable to banking companies in accordance with UK accounting standards and the Statement of Recommended Practice issued by the British Bankers' Association.

Fees and commissions

Front-end fees and commissions received from the continuing servicing of advances are recognised on the basis of work done and those receivable in lieu of interest, or in respect of bearing risk, are recognised over the period of the advance or risk exposure. Other fees are recognised when receivable.

Loans and advances

Loans and advances, including assets acquired in substitution for loans or advances, are valued at cost, less any provisions and amounts written off.

Specific provisions are made to reduce all impaired loans and advances to their expected realisable value. Interest accruals of all impaired loans are suspended. General provisions are made on the basis of past experience, current economic conditions and other relevant factors, to provide for losses, which from experience are known to exist but are not specifically identifiable. Loans and advances are written off to the extent that there is no realistic prospect of recovery of the amount involved.

Debt Securities

Debt securities are intended for use on a continuing basis in the business and are classified as fixed asset (investment) securities and are shown at the maturity value plus any unamortised premium or less any unamortised discount arising on their purchase. Premiums and discounts are amortised on a systematic basis to maturity and taken to the profit and loss account.

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.

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.

Foreign exchange contracts

Spot exchange contracts, which are outstanding at the balance sheet date, are marked to market. All differences arising are taken to the profit and loss account.

Depreciation

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Deferred taxation

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.

Leasing

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

2. ADMINISTRATIVE EXPENSES

	2003	2002
	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	1,521	1,394
Social security costs	127	118
	<u>1,648</u>	<u>1,512</u>
Other administrative expenses	981	657
	<u>2,629</u>	<u>2,169</u>

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

	2003	2002
	No.	No.
Commercial banking activities	<u>52</u>	<u>48</u>

Directors' remuneration during the year consisted of:

	2003	2002
	£'000	£'000
Emoluments	<u>262</u>	<u>258</u>

The emoluments of the highest paid director for the year ended 31 December 2003 were £113,000 (2002-£113,000).

3. PROVISIONS

	2003	2002
	£'000	£'000
Bad and doubtful debts	<u>(38)</u>	<u>(27)</u>

During the year the bank received £7,000 in respect of loans which were previously written off in prior years.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after charging/(crediting):

	2003	2002
	£'000	£'000
Foreign currency gains	(46)	(70)
Auditors' remuneration		
Audit services	42	40
Non-audit services	15	14
Operating lease rentals		
Land and buildings	23	16
	<u> </u>	<u> </u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003	2002
	£'000	£'000
Current tax		
United Kingdom corporation tax at 30% (2002- 30%) based on profit for the year	353	343
Adjustment in respect of prior years	3	(6)
	<u> </u>	<u> </u>
Total current tax	356	337
Deferred tax		
Reversal of timing differences	16	(7)
	<u> </u>	<u> </u>
	372	330
	<u> </u>	<u> </u>
	2003	2002
	£'000	£'000
Profit on ordinary activities before tax	<u>1,270</u>	<u>1,102</u>
Tax at 30% thereon	381	331
Effects of:		
Expenses not deductible for tax purposes	3	16
Capital allowances in excess of depreciation	(31)	7
Double taxation relief	-	(11)
Prior year adjustments	3	(6)
	<u> </u>	<u> </u>
	<u>356</u>	<u>337</u>

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

6. LOANS AND ADVANCES TO BANKS

	2003	2002
	£'000	£'000
Repayable:		
On demand	18,417	18,507
Within three months	47,174	44,550
Between three months and one year	307	-
	<u>65,898</u>	<u>63,057</u>

Included within loans and advances to banks there are amounts of £nil in respect of group companies (2002 - £nil).

7. LOANS AND ADVANCES TO CUSTOMERS

	2003	2002
	£'000	£'000
Repayable:		
On demand	2,645	2,557
Within three months	-	2,518
Between three months and one year	1,601	4,421
Between one and five years	13,226	6,663
After five years	5,165	6,279
Provisions (see note 8)	(455)	(417)
	<u>22,182</u>	<u>22,021</u>

8. PROVISIONS FOR LOANS AND ADVANCES

	Specific	General	Total
	£'000	£'000	£'000
Balance as at 1 January 2003	23	394	417
Recoveries in respect of advances previously provided for	(7)	-	(7)
New provisions made in the year	45	-	45
	<u>61</u>	<u>394</u>	<u>455</u>
Balance as at 31 December 2003	<u>61</u>	<u>394</u>	<u>455</u>

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

9. DEBT SECURITIES

	2003	2002
	£'000	£'000
Nominal value	12,415	13,322
Net discount and premiums	168	236
	<u>12,583</u>	<u>13,558</u>
Carrying value	<u>12,583</u>	<u>13,558</u>
Market value	<u>13,030</u>	<u>13,905</u>

	Cost	Discount	Net Book
	£'000	and	Value
		premiums	£'000
		£'000	
Balance as at 1 January 2003	13,322	236	13,558
Exchange adjustments	(70)	9	(61)
Acquisitions	16,439	144	16,583
Disposals and maturities	(17,276)	(168)	(17,444)
Amortisation of premiums and discounts	-	(53)	(53)
	<u>12,415</u>	<u>168</u>	<u>12,583</u>
Balance 31 December 2003	<u>12,415</u>	<u>168</u>	<u>12,583</u>

	2003	2002
	£'000	£'000
Repayable:		
Less than 1 year	558	4,054
Between one and five years	10,226	6,417
After five years	1,799	3,087
	<u>12,583</u>	<u>13,558</u>

The debt securities comprise government and corporate bonds and are held to maturity for investment purposes and as a result have not been revalued. The coupon rate of debt securities repayable after five years is 10%.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

10. INTANGIBLE FIXED ASSETS

	Licenses
	£'000
Cost	
At 1 January 2003	-
Additions	772
	<hr/>
At 31 December 2003	772
	<hr/>
Depreciation	
At 1 January 2003	-
Charge for the year	-
	<hr/>
At 31 December 2003	-
	<hr/>
Net book value	
At 31 December 2003	772
	<hr/> <hr/>
At 31 December 2002	-
	<hr/> <hr/>

The additions have not been depreciated on the basis that the software license was purchased during the final month of the bank's financial year and was not operational at the year-end.

10B TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Land and buildings, short leasehold £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 January 2003	2,861	331	1,068	4,260
Additions	-	-	109	109
Disposals	-	-	(6)	(6)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	2,861	331	1,171	4,363
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 January 2003	452	149	821	1,422
Charge for the year	41	17	120	178
Disposals	-	-	(6)	(6)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	493	166	935	1,594
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2003	2,368	165	236	2,769
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2002	2,409	182	247	2,838
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

11. OTHER ASSETS

	2003	2002
	£'000	£'000
Deferred tax asset	71	87
Other	49	38
	<u>120</u>	<u>125</u>

Deferred tax

	2003	2002
	£'000	£'000
Opening balance at 1 January 2003	(87)	(80)
Debit/(credit) to profit and loss account	16	(7)
	<u>(71)</u>	<u>(87)</u>

12. DEPOSITS BY BANKS

	2003	2002
	£'000	£'000
Repayable:		
On demand		
- Group	3,577	2,578
- Other	2,051	2,373
Within three months		
- Group	34,000	39,223
- Other	1,445	1,088
Between three months and one year	-	-
	<u>41,073</u>	<u>45,262</u>

13. CUSTOMER ACCOUNTS

	2003	2002
	£'000	£'000
Repayable:		
On demand	10,404	8,507
Within three months	30,930	27,784
Between three months and one year	6,235	6,443
Between one year and five years	300	-
	<u>47,869</u>	<u>42,734</u>

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

14. OTHER LIABILITIES

	2003	2002
	£'000	£'000
Amounts owed to group companies	673	10
Corporation tax	96	156
Other taxes and social security costs	105	81
Other liabilities	174	197
	<u>1,048</u>	<u>444</u>
	<u>1,048</u>	<u>444</u>

15. CALLED UP SHARE CAPITAL

	Authorised		Called up, allotted and fully paid	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
10,000,000 Ordinary shares of £1 each	10,000	10,000	10,000	10,000
	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up Share capital	Profit and loss account	Total Shareholders' funds
	£'000	£'000	£'000
As at 1 January 2003	10,000	4,297	14,297
Profit for the year ended 31 December 2003	-	898	898
	<u>10,000</u>	<u>5,195</u>	<u>15,195</u>
As at 31 December 2003	<u>10,000</u>	<u>5,195</u>	<u>15,195</u>

17. OTHER CONTINGENT LIABILITIES

Other contingent liabilities comprise:

	2003	2002
	£'000	£'000
Irrevocable letters of credit	323	259
Bank liability for deferred payment	-	13
	<u>323</u>	<u>272</u>
	<u>323</u>	<u>272</u>

Included in irrevocable letters of credit are amounts in respect of group companies of £74,790 (2002 – £13,213).

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

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.

	2003	2002
	£'000	£'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	19,585	10,702
Less than one year	4,579	13,152
	<u>24,164</u>	<u>23,854</u>

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

	2003	Land and buildings
	£'000	2002
		£'000
Operating leases which expire:		
Within one year	-	16
Between two and five years	-	-
More than five years	25	-
	<u>25</u>	<u>-</u>

19. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

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

	2003	2002
	£'000	£'000
Assets	20,256	26,581
Liabilities	<u>20,239</u>	<u>26,580</u>

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

20. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003	2002
	£'000	£'000
Profit on ordinary activities before tax	1,270	1,102
Decrease in prepayments and accrued income	35	384
Increase/(decrease) in accruals and deferred income	124	(44)
Depreciation charge	178	167
Profit on disposal of fixed assets	-	(4)
Profit on sale of fixed asset investments	(602)	(14)
	1,005	1,591
Net cash inflow from trading activities	1,005	1,591
Net (increase)/decrease in collections	(189)	1,672
Net (increase)/decrease in loans and advances to banks and customers	(3,092)	4,887
Net decrease in deposits by banks and customers	947	395
Net (increase)/decrease in other assets	(11)	1,681
Net decrease/(increase) in other liabilities	671	(6)
	(669)	10,220

21. ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	1 January	Cash flows	31
	2003		December
	£'000	£'000	2003
			£'000
Cash and balances at central banks	706	(300)	406
Loans and advances to other banks repayable on demand	18,507	(89)	18,418
	19,213	(389)	18,824

22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital
	£'000
Balance at 1 January 2003	10,000
Cash flow from financing	-
Other movements	-
	10,000

23. TRANSACTIONS WITH DIRECTORS AND MANAGERS

As at 31 December 2003, £5,000 was outstanding by way of loans to managers (or persons connected with them) of the company (2002 - £3,000). During the year, £1,000 was paid back by the managers (or persons connected to them) (2002 - £2,000).

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

24. ULTIMATE PARENT COMPANY

The ultimate parent and controlling company at 31 December 2003 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 90% (or more) subsidiaries, which exempts it from disclosing all related party transactions with group members. Other than those noted above, there are no other related party transactions.

26. FINANCIAL INSTRUMENTS

The bank maintains a proprietary investment portfolio whereby capital funds are invested in fixed interest rate Zone A Government 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 hedging purposes.

The directors of the bank have established policies relating to large exposures, interest rate gapping, foreign exchange exposure, liquidity management and credit provisioning. In addition, the bank operates within limits set by the directors relating to country exposure, credit exposure and risk asset maturities. These policies and limits are reviewed on a regular basis, and any amendment to these policies and limits require the consent of the Board of Directors.

Interest rate risk 2003

Exposure to interest rate movements arise where there is an imbalance between rate and non-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 2003. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

26. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate sensitivity gap analysis

	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	-	-	-	-	-	406	406
Loans and advances to banks	65,591	-	307	-	-	-	65,898
Loans and advances to customers	9,936	-	437	12,203	-	(394)	22,182
Debt Securities	558	-	-	10,226	1,799	-	12,583
Other assets	-	-	-	-	-	4,637	4,637
	<u>76,085</u>	<u>-</u>	<u>744</u>	<u>22,429</u>	<u>1,799</u>	<u>4,649</u>	<u>105,706</u>
Liabilities							
Deposits by banks	41,073	-	-	-	-	-	41,073
Customer accounts	41,334	3,542	2,693	300	-	-	47,869
Other liabilities	-	-	-	-	-	1,569	1,569
Shareholders' funds	-	-	-	-	-	15,195	15,195
	<u>82,407</u>	<u>3,542</u>	<u>2,693</u>	<u>300</u>	<u>-</u>	<u>16,764</u>	<u>105,706</u>
Interest rate sensitivity gap	(6,322)	(3,542)	(1,949)	22,129	1,799	(12,115)	-
Cumulative gap	(6,322)	(9,864)	(11,813)	10,316	12,115	-	-

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 2003.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

26. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk 2002

Exposure to interest rate movements arise where there is an imbalance between rate and non-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 2002. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

	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	-	-	-	-	-	706	706
Loans and advances to banks	63,057	-	-	-	-	-	63,057
Loans and advances to customers	16,243	1	4,386	1,785	-	(394)	22,021
Debt Securities	818	-	3,237	6,417	3,086	-	13,558
Other assets	-	-	-	-	-	3,785	3,785
	<u>80,118</u>	<u>1</u>	<u>7,623</u>	<u>8,202</u>	<u>3,086</u>	<u>4,097</u>	<u>103,127</u>
Liabilities							
Deposits by banks	45,262	-	-	-	-	-	45,262
Customer accounts	36,291	3,090	3,353	-	-	-	42,734
Other liabilities	-	-	-	-	-	834	834
Shareholders' funds	-	-	-	-	-	14,297	14,297
	<u>81,553</u>	<u>3,090</u>	<u>3,353</u>	<u>-</u>	<u>-</u>	<u>15,131</u>	<u>103,127</u>
Interest rate sensitivity gap	(1,435)	(3,089)	4,270	8,202	3,086	(11,034)	
Cumulative gap	(1,435)	(4,524)	(254)	7,948	11,034	-	

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 2002.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

26. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate sensitivity gap analysis (continued)

A liability (or negative) gap position exists when liabilities reprice more quickly than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly than liabilities during a given period and tends to benefit interest income in a rising interest rate environment. The bank's off balance sheet items carry no interest repricing risk. Loans and advances to customers have been shown net of provisions totalling £455,000 (2002 - £417,000).

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 2003 £'000	Net currency position 2002 £'000
US Dollar	(18)	44
Euro	(4)	(25)
Japanese Yen	-	9
Swiss Franc	1	4
Other currencies	3	2
	<hr/>	<hr/>
Total	(18)	34
	<hr/> <hr/>	<hr/> <hr/>

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 2003. 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 hedging purposes.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2003

26. FINANCIAL INSTRUMENTS (CONTINUED)

Carrying value, fair value

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 2003.

	Carrying value 2003 £000	Fair value 2003 £000	Carrying value 2002 £000	Fair value 2002 £000
Financial Assets				
Cash	406	406	706	706
Loans and advances to banks	65,898	65,898	63,057	63,057
Loans and advances to customers	22,182	22,182	22,021	22,021
Debt securities	12,583	12,415	13,558	13,322
Financial Liabilities				
Deposits by banks	41,073	41,073	45,262	45,262
Customer accounts	47,869	47,869	42,734	42,734