Company Registration No. 2643004

TURKISH BANK (UK) LIMITED

Report and Financial Statements

31 December 2004

REPORT AND FINANCIAL STATEMENTS 2004

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REPORT AND FINANCIAL STATEMENTS 2004

CHAIRMAN'S STATEMENT

2004 has been a challenging year for TBUK as we continue to lay the foundations of our strategy of focussing on the retail banking market in the UK.

One of the notable recent events is the launch of the new Turkish Lira or YTL on 1 January 2005. This was done by removing six zeros from the "old" Turkish Lira. I am pleased to tell you that Group was successful in achieving a smooth cutover to the new currency.

The huge parliamentary majority of the Justice and Development Party (AKP) government, as well as progress on political and economic reform and the absence of alternatives should give Turkey political stability for the foreseeable future. The Turkish parliament should approve the agreement struck with the EU to start accession negotiations in October 2005, but there is a small risk of a rejection.

It is a pity that in the April 24th referendum, the UN draft settlement plan for Cyprus was overwhelmingly rejected by the Greek Cypriots (76% against), although approved by the Turkish Cypriots (65% in favour). There is concern that the lack of resolution of this issue might lead to continuing difficulties during the EU accession negotiations.

It appears to be the case that the UK economy, being a net exporter of oil and so able to offset the adverse impact of higher oil prices against extra revenues, is well placed to cope with higher oil prices. Higher petrol taxation should also limit the inflation impact on consumers.

The UK is unlikely to escape unscathed from the widely predicted general slowdown of the world economy but it is expected that it will avoid recession at this point especially as there is plenty of scope for the MPC to cut interest rates.

Regarding the results for the 2004 financial year, the profit for the year before tax was £897,000 compared to £1,270,000 for 2003. Having seen five increases in GBP base interest rate during the year, and our net interest income rising from £2,115,000 to £2,162,000 this year, we would have expected a higher benefit to accrue to our bottom line income figure. The main factor that prevented this is the fact that last year's result included profits from our investments which had a negligible contribution this year.

Having said this, our expenses also rose as we incurred some restructuring and infrastructure costs. Taking everything into account, the result can be considered to be satisfactory.

The directors have decided not to declare a dividend for the 2004 financial year, thus adding the net profit of £614,000 to reserves.

On the business front, we continue to build the foundations to support the bank's strategy.

Last year I informed you that the Board had taken the decision to replace our existing in-house computer system with the Globus/T24 banking system used by many banks throughout the world. We are now working steadily towards a smooth changeover from the legacy system to Globus and I anticipate that this should be achieved within this year. This is a large undertaking for us and we are taking a cautious approach thus minimising the risks inherent in such a project. I am confident that, in the years to come, we will reap the benefits of this major investment.

I am pleased to welcome Mr. John Clouting to the Board as a non-executive director. He joins Mr Mike Bendon on the Bank's Audit Committee. Mr. Clouting joined us in March 2004 having retired from Jordon International Bank Ltd where he was General Manager. He was also previously General Manager of Turkish Bank (UK) Ltd between 1998 and 2000. Mr Clouting brings with him a wealth of experience in international banking and we look forward gaining the benefit of this experience in the future.

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.

3 March 2005

REPORT AND FINANCIAL STATEMENTS 2004

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
J. Clouting

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 2004.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £614,000 (2003 - £898,000).

The directors do not recommend the payment of a dividend (2003 - £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 £170 (2003 - £150).

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	
M D Bendon*	
M J O Pritchard	
R W Long	
M E Erenman	
J.Clouting*	appointed 5 March 2004

*members of the audit committee

The interests of the directors at 31 December 2004 in the share capital of the bank were as follows:

	Ordinary shares of £1 each	
	2004	**2003**
M T Ozyol	1	1

AUDIT COMMITTEE

The Bank has an audit committee comprising two independent non-executive directors who are experienced bankers. The committee met on 10 occasions in 2004.

DIRECTORS' REPORT (continued)

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the company and a resolution to reappoint them 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

3 March 2005

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 3 March 2005.

M T Ozyol	M D Bendon
Director	Director

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

We have audited the financial statements of Turkish Bank (UK) Limited for the year ended 31 December 2004 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 audit 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 2004 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
3 March 2005

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		924	1,039
Other interest receivable and similar income		3,567	3,336
		4,491	4,375
Interest payable		(2,329)	(2,260)
NET INTEREST INCOME		2,162	2,115
Fees and commissions receivable		1,459	1,401
Fees and commissions payable		(72)	(70)
Dealing profits		32	46
Other operating income		5	33
Gain on sale of debt securities		51	602
		1,475	2,012
TOTAL OPERATING INCOME		3,637	4,127
Administrative expenses	2	(2,429)	(2,629)
Depreciation and amortisation	10, 10B	(354)	(178)
Other operating charges		(2)	(12)
Provisions	3	45	(38)
		(2,740)	(2,857)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	897	1,270
Tax on profit on ordinary activities	5	(283)	(372)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		614	898
Proposed dividend		-	-
PROFIT RETAINED FOR THE FINANCIAL YEAR	16	614	898

There were no other recognised gains or losses in the current or previous year other than the profit for the year. As such, no statement of total recognised gains and losses is presented.

All activities relate to continuing operations.

BALANCE SHEET
31 December 2004

	Note	2004 £'000	2003 £'000
ASSETS			
Cash and balances at central banks		696	406
Loans and advances to banks	6	62,294	65,898
Items in the course of collection		30	198
Loans and advances to customers	7	25,315	22,182
Debt securities	9	13,394	12,583
Intangible fixed assets	10	642	772
Tangible fixed assets	10B	3,169	2,769
Other assets including taxation	11	195	120
Prepayments and accrued income		665	778
TOTAL ASSETS		106,400	105,706
LIABILITIES			
Deposits by banks	12	39,426	41,073
Items in the course of transmission to other banks		16	20
Customer accounts	13	50,180	47,869
Other liabilities	14	330	1,048
Accruals and deferred income		639	501
		90,591	90,511
Called up share capital	15	10,000	10,000
Profit and loss account	16	5,809	5,195
		15,809	15,195
TOTAL LIABILITIES		106,400	105,706
MEMORANDUM ITEMS			
CONTINGENT LIABILITIES			
Acceptances and endorsements		-	-
Guarantees and assets pledged as collateral security		1,333	899
Other contingent liabilities	17	46	323
		1,379	1,222
COMMITMENTS	18	27,036	24,164

The Board of Directors approved these financial statements on 3 March 2005.

Signed on behalf of the Board of Directors

M T Ozyol
Director

M D Bendon
Director

CASH FLOW STATEMENT
For the year ended 31 December 2004

	Note		2004 £'000		2003 £'000
Net cash inflow/(outflow) from operating activities	20		5,455		(669)
Taxation					
UK corporation tax paid			(317)		(416)
Capital expenditure and financial investment					
Purchase of tangible and intangible fixed assets			(624)		(881)
Disposal of tangible fixed assets			-		-
Purchase of fixed asset investments		(6,370)		(16,583)	
Sale of fixed asset investments		5,609		18,160	
			(761)		1,577
			3,753		(389)
Equity dividends paid			-		-
			3,753		(389)
Financing	22		-		-
Increase /(Decrease) in cash	21		3,753		(389)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

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, 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 2004

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.

Intangible Assets – Software Licences and implementation costs

Software licences and implementation costs are included at cost and depreciated in equal annual instalments over a period of 5 years which is their estimated useful economic life. Provision is made for any impairment.

2. ADMINISTRATIVE EXPENSES

	2004 £'000	2003 £'000
Staff costs during the year (including directors)		
Wages and salaries	1,500	1,498
Social security costs	137	127
Pension Costs	22	23
	1,659	1,648
Other administrative expenses	770	981
	2,429	2,629

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

	2004 No.	2003 No.
Commercial banking activities	57	52

Directors' remuneration during the year consisted of:

	2004 £'000	2003 £'000
Emoluments	239	262

The emoluments of the highest paid director for the year ended 31 December 2004 were £89,000 (2003-£113,000).

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

3. PROVISIONS

	2004 £'000	2003 £'000
Bad and doubtful debts credit/(debit)	45	(38)

During the year the bank received £43,000 in respect of loans which were previously written off in prior years.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after charging/(crediting):

	2004 £'000	2003 £'000
Foreign currency gains	(32)	(46)
Auditors' remuneration		
Audit services	43	42
Non-audit services	11	15
Operating lease rentals		
Land and buildings	25	23

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £'000	2003 £'000
Current tax		
United Kingdom corporation tax at 30% (2003- 30%) based on profit for the year	286	353
Adjustment in respect of prior years	41	3
Total current tax	327	356
Deferred tax (Note 11)		
Reversal of timing differences	3	16
Prior period adjustments	(47)	
	283	372

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	897	1,270
Tax at 30% thereon	268	381
Effects of:		
Expenses not deductible for tax purposes	15	3
Capital allowances in excess of depreciation	3	(31)
Double taxation relief	-	-
Prior year adjustments	41	3
	327	356

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

6. LOANS AND ADVANCES TO BANKS

	2004 £'000	2003 £'000
Repayable:		
On demand	21,881	18,417
Within three months	40,289	47,174
Between three months and one year	124	307
	62,294	65,898

Included within loans and advances to banks there are amounts of £nil in respect of group companies (2003 - £nil).

7. LOANS AND ADVANCES TO CUSTOMERS

	2004 £'000	2003 £'000
Repayable:		
On demand	3,669	2,645
Within three months	1	-
Between three months and one year	5,645	1,601
Between one and five years	8,884	13,226
After five years	7,526	5,165
Provisions (see note 8)	(410)	(455)
	25,315	22,182

8. PROVISIONS FOR LOANS AND ADVANCES

	Specific £'000	General £'000	Total £'000
Balance as at 1 January 2004	61	394	455
Advances written off	(6)	-	(6)
Recoveries in respect of advances previously provided for	(43)	-	(43)
New provisions made in the year	4		4
Balance as at 31 December 2004	16	394	410

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

9. DEBT SECURITIES

	2004 £'000	2003 £'000
Nominal value	13,318	12,415
Net discount and premiums	76	168
Carrying value	13,394	12,583
Market value	13,732	13,030

	Cost £'000	Discount and premiums £'000	Net Book Value £'000
Balance as at 1 January 2004	12,415	168	12,583
Exchange adjustments	(435)	(13)	(448)
Acquisitions	6,065	305	6,370
Disposals and maturities	(4,727)	(289)	(5,016)
Amortisation of premiums and discounts	-	(95)	(95)
Balance 31 December 2004	13,318	76	13,394

	2004 £'000	2003 £'000
Repayable:		
Less than 1 year	6,430	558
Between one and five years	6,964	10,226
After five years	-	1,799
	13,394	12,583

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 2004

10. INTANGIBLE FIXED ASSETS

	Licenses
	£'000
Cost	
At 1 January 2004	772
Additions	30
At 31 December 2004	802
Depreciation	
At 1 January 2004	-
Charge for the year	160
At 31 December 2004	160
Net book value	
At 31 December 2004	642
At 31 December 2003	772

This asset is being amortised over 5 years.

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 2004	2,861	331	1,171	4,363
Additions	325	-	269	594
Disposals	-	-	(11)	(11)
At 31 December 2004	3,186	331	1,429	4,946
Depreciation				
At 1 January 2004	493	166	935	1,594
Charge for the year	41	17	136	194
Disposals	-	-	(11)	(11)
At 31 December 2004	534	183	1,060	1,777
Net book value				
At 31 December 2004	2,652	148	369	3,169
At 31 December 2003	2,368	165	236	2,769

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

11. OTHER ASSETS

	2004 £'000	2003 £'000
Deferred tax asset	115	71
Other	80	49
	195	120

Deferred tax

	2004 £'000	2003 £'000
Opening balance at 1 January 2004	(71)	(87)
(Credit)/Debit to profit and loss account	(44)	16
Closing balance at 31 December 2004	(115)	(71)

12. DEPOSITS BY BANKS

	2004 £'000	2003 £'000
Repayable:		
On demand		
- Group	2,644	3,577
- Other	3,061	2,051
Within three months		
- Group	33,000	34,000
- Other	721	1,445
Between three months and one year	-	-
	39,426	41,073

13. CUSTOMER ACCOUNTS

	2004 £'000	2003 £'000
Repayable:		
On demand	8,384	10,404
Within three months	35,373	30,930
Between three months and one year	6,155	6,235
Between one year and five years	268	300
	50,180	47,869

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

14. OTHER LIABILITIES

	2004 £'000	2003 £'000
Amounts owed to group companies	45	673
Corporation tax	129	96
Other taxes and social security costs	88	105
Other liabilities	68	174
	330	1,048

15. CALLED UP SHARE CAPITAL

	Authorised		Called up, allotted and fully paid	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
10,000,000 Ordinary shares of £1 each	10,000	10,000	10,000	10,000

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

	Called up Share capital £'000	Profit and loss account £'000	Total Share-holders' funds £'000
As at 1 January 2004	10,000	5,195	15,195
Profit for the year ended 31 December 2004	-	614	614
As at 31 December 2004	10,000	5,809	15,809

17. OTHER CONTINGENT LIABILITIES

Other contingent liabilities comprise:

	2004 £'000	2003 £'000
Irrevocable letters of credit	46	323
Bank liability for deferred payment	-	-
	46	323

Included in irrevocable letters of credit are amounts in respect of group companies of £14,812 (2003:£74,790)

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

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.

	2004 £'000	2003 £'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	16,771	19,585
Less than one year	10,265	4,579
	27,036	24,164

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

	Land and buildings	
	2004 £'000	2003 £'000
Operating leases which expire:		
Within one year	-	-
Between two and five years	-	-
More than five years	28	25

19. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

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

	2004 £'000	2003 £'000
Assets	20,975	20,256
Liabilities	20,919	20,239

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

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

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	897	1,270
Decrease in prepayments and accrued income	113	35
Increase/(decrease) in accruals and deferred income	139	124
Depreciation charge and amortisation	354	178
Profit on sale of fixed asset investments	(51)	(602)
Net cash inflow from trading activities	1,452	1,005
Net decrease/(increase) in collections	168	(189)
Net decrease/(increase) in loans and advances to banks and customers	3,934	(3,092)
Net decrease in deposits by banks and customers	664	947
Net (increase) in other assets	(7)	(11)
Net decrease/(increase) in other liabilities	(756)	671
Net cash inflow/(outflow) from operating activities	5,455	(669)

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

	1 January 2004 £'000	Cash flows £'000	31 December 2004 £'000
Cash and balances at central banks	406	290	696
Loans and advances to other banks repayable on demand	18,418	3,463	21,881
	18,824	3,753	22,577

22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital £'000
Balance at 1 January 2004	10,000
Cash flow from financing	-
Other movements	-
Balance at 31 December 2004	10,000

23. TRANSACTIONS WITH DIRECTORS AND MANAGERS

As at 31 December 2004, £11,000 was outstanding by way of loans to managers (or persons connected with them) of the company (2003 - £5,000). During the year, £1,000 was paid back by the managers (or persons connected to them) (2003 - £4,000).

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

24. ULTIMATE PARENT COMPANY

The ultimate parent and controlling company at 31 December 2004 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 2004

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 2004. 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 2004

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	-	-	-	-	-	696	696
Loans and advances to banks	62,170	124	-	-	-	-	62,294
Loans and advances to customers	11,613	-	5,628	8,466	-	(394)	25,315
Debt Securities	2,388	3,042	1,000	6,964	-	-	13,394
Other assets	-	-	-	-	-	4,701	4,701
	76,171	3,166	6,628	15,430	-	5,003	106,400
Liabilities							
Deposits by banks	39,426	-	-	-	-	-	39,426
Customer accounts	43,756	4,085	2,071	268	-	-	50,180
Other liabilities	-	-	-	-	-	985	985
Shareholders' funds	-	-	-	-	-	15,809	15,809
	83,182	4,085	2,071	268	-	16,794	106,400
Interest rate sensitivity gap	(7,011)	(919)	4,557	15,162	-	(11,789)	-
Cumulative gap	(7,011)	(7,930)	(3,372)	11,789	11,789	-	-

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 2004.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2004

26. FINANCIAL INSTRUMENTS (CONTINUED)

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.

	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
	76,085	-	744	22,429	1,799	4,649	105,706
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
	82,407	3,542	2,693	300	-	16,764	105,706
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 2004

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 £410,000 (2003 - £455,000).

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 2004 £'000	Net currency position 2003 £'000
US Dollar	10	(18)
Euro	12	(4)
Japanese Yen	4	-
Swiss Franc	1	1
Other currencies	6	3
Total	33	(18)

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 2004. 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 2004

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 2004.

	Carrying value 2004 £000	Fair value 2004 £000	Carrying value 2003 £000	Fair value 2003 £000
Financial Assets				
Cash	696	696	406	406
Loans and advances to banks	62,294	62,294	65,898	65,898
Loans and advances to customers	25,315	25,315	22,182	22,182
Debt securities	13,394	13,318	12,583	12,415
Financial Liabilities				
Deposits by banks	39,426	39,426	41,073	41,073
Customer accounts	50,180	50,180	47,869	47,869
Swap and Forward Transactions				
Swap Transactions	-	-	-	-
Foreign Exchange Spot Transactions	3,011	3,011	-	-