

Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements

31 December 2005

Turkish Bank (UK) Limited

Report and financial statements 2005

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Turkish Bank (UK) Limited

Report and financial statements 2005

Chairman's statement

2005 proved to be another challenging year for TBUK as the bank introduced its new accounting system and enhanced its retail branch network in line with the strategic plan agreed at the end of 2003. In so doing we have laid the necessary foundations to expand both our product range and the penetration of our chosen market sectors.

One of the notable events during the year was the acceptance by the European Union of Turkey as a potential member albeit the period of succession talks required to achieve this are realistically assessed as being 10 to 15 years. This acceptance has further strengthened the image of Turkey in the international economic community and has led to a reduction in interest margins for government and private borrowers alike. It is to be hoped that the succession talks will also bring closer the resolution of the Cyprus question.

Turkey's economic outlook remains positive although there are increasing concerns relating to the current account and budget deficits. However domestic debt servicing is scheduled to further decline in 2006 in part due to the active privatisation programme now underway.

The UK economy appears to be facing a period of retrenchment with 2005 GNP being much lower than Treasury projections for the year. The high levels of consumer debt and the significant slowdown over the past year in the housing market has led to lower consumer confidence and depressed retail sales. This in turn has led to lower tax returns and an increasing budget deficit on which both the European Commission and the OECD have passed adverse comment. A further aggravation is an increasing trade deficit made worse by the fact that the UK is now a net importer of oil. Whilst economic growth is projected to pick-up during the year, there is little sign of this happening as industrial production continues to decline and the largely non-productive Public Sector continues to grow. Inflationary pressures brought on in part by higher energy prices have cast some doubt in the markets over the timing and extent of any future interest rate reductions.

Regarding the results of 2005, much of the decline in profitability is explained by exceptional expenses of £310,000 for the year mainly relating to the implementation of Globus/T24 banking system, an issue discussed in last year's letter, and the refurbishing and opening of a new branch in Edmonton, North London.

The directors have decided not to declare a dividend for the 2005 financial year, thus adding the net profit of £213,000 to Reserves. In addition the Directors took the decision during the year to revalue the freehold premises owned by the Bank. This has led to an increase of £2.5m in Tier Two capital making an overall Capital and Reserves to a total of some £18.9m.

Having successfully accomplished during 2005 the changeover from the existing in-house legacy computer system to the Globus/T24 system, the Bank is now well poised to expand its penetration into its chosen market sectors. In order to achieve this, the Board and Management have agreed a number of initiatives, which will come to fruition during the coming year. The objective of these is to give customers greater access to their accounts, provide better personal credit offerings and improve the range of savings options and remittance products. The branch network will be further expanded and, in addition, the introduction of internet banking is scheduled for later in the year.

During the year Mr Michael Pritchard left the Bank after five years of loyal service as General Manager and Company Secretary. He leaves with my best wishes and sincere thanks. Mr. Nafiz Girginok, who comes with a wealth of banking experience gained both internationally as well as in Turkey and the UK, replaces him and is welcomed to the Board as Director, General Manager and Company Secretary.

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 not least in implementing the changeover to Globus/T24 without impairing customer service.

3 March 2006

Turkish Bank (UK) Limited

Report and financial statements 2005

Officers and professional advisers

Directors

M T Ozyol (Chairman)
I H Bortecene
M D Bendon
M J O Pritchard (resigned 30 August 2005)
R W Long
M E Erenman
J Clouting
N Girginok (appointed 2 August 2005)

Secretaries

M J O Pritchard (resigned 30 August 2005)
N. Girginok (appointed 2 August 2005)

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

Turkish Bank (UK) Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Results and dividends

The profit for the year, after taxation, amounted to £ 213,000 (2004 - £614,000).

The directors do not recommend the payment of a dividend (2004 - £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 £ 200 (2004 - £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
M D Bendon *
M J O Pritchard (resigned 30 August 2005)
R W Long
M E Erenman
J Clouting *
N Girginok (appointed 2 August 2005)

* members of audit committee

The interests of the directors at 31 December 2005 in the share capital of the bank were as follows:

	Ordinary shares of £1 each	
	2005	2004
M T Ozyol	1	1
	<u> </u>	<u> </u>

Audit committee

The Bank has an audit committee comprising two independent non-executive directors who are experienced bankers. The committee met on five occasions in 2005.

Turkish Bank (UK) Limited

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

N Girinok

3 March 2006

Turkish Bank (UK) Limited

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 2006.

M T Özyol
Director

M D Bendon
Director

Independent auditors' report to the members of Turkish Bank (UK) Limited

We have audited the individual company financial statements (the "financial statements") of Turkish Bank (UK) Limited for the year ended 31 December 2005, 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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the directors' remuneration report described as having been audited. 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

March 2006

Turkish Bank (UK) Limited

Profit and loss account For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		857	924
Other interest receivable and similar income		4,127	3,567
		<u>4,984</u>	<u>4,491</u>
Interest payable		(2,950)	(2,329)
Net interest income		<u>2,034</u>	<u>2,162</u>
Fees and commissions receivable		1,343	1,459
Fees and commissions payable		(42)	(72)
Dealing profits		57	32
Other operating income		4	5
Gain on sale of debt securities		79	51
		<u>1,441</u>	<u>1,475</u>
Total operating income		<u>3,475</u>	<u>3,637</u>
Administrative expenses	2	(2,784)	(2,429)
Depreciation and amortisation	10, 10B	(355)	(354)
Other operating charges		(24)	(2)
Provisions	3	(15)	45
		<u>(3,178)</u>	<u>(2,740)</u>
Profit on ordinary activities before taxation		<u>297</u>	<u>897</u>
Tax on profit on ordinary activities	5	(84)	(283)
Profit on ordinary activities after taxation		<u>213</u>	<u>614</u>
Proposed dividend		-	-
Profit retained for the financial year	16	<u>213</u>	<u>614</u>

All activities relate to continuing operations.

Turkish Bank (UK) Limited

Statement of total recognised gains and losses For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Profit for the financial year		213	614
Unrealised gain on revaluation of freehold properties	10B	2,534	-
		<hr/>	<hr/>
Total recognised gains for the year		<u>2,747</u>	<u>614</u>

Turkish Bank (UK) Limited

Balance sheet 31 December 2005

	Note	2005 £'000	2004 £'000
Assets			
Cash and balances at central banks		591	696
Loans and advances to banks	6	64,947	62,294
Items in the course of collection		4	30
Loans and advances to customers	7	35,683	25,315
Debt securities	9	9,282	13,394
Intangible fixed assets	10	594	642
Tangible fixed assets	10B	5,905	3,169
Other assets including taxation	11	244	195
Prepayments and accrued income		622	665
Total assets		<u>117,872</u>	<u>106,400</u>
Liabilities			
Deposits by banks	12	43,003	39,426
Items in the course of transmission to other banks		50	16
Customer accounts	13	55,038	50,180
Other liabilities	14	263	330
Accruals and deferred income		962	639
		<u>99,316</u>	<u>90,591</u>
Called up share capital	15	10,000	10,000
Profit and loss account	16	6,022	5,809
Revaluation Reserve	16	2,534	-
		<u>18,556</u>	<u>15,809</u>
Total liabilities		<u>117,872</u>	<u>106,400</u>
Memorandum items			
Contingent liabilities			
Acceptances and endorsements		30	-
Guarantees and assets pledged as collateral security		1,260	1,333
Other contingent liabilities	17	59	46
		<u>1,349</u>	<u>1,379</u>
Commitments	18	<u>33,703</u>	<u>27,036</u>

The Board of Directors approved these financial statements on 3 March 2006.
Signed on behalf of the Board of Directors

M T Özyol
Director

M D Bendon
Director

Turkish Bank (UK) Limited

Cash flow statement For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Net cash (outflow)/inflow from operating activities	20	(2,660)	5,455
Taxation			
UK corporation tax paid		(202)	(317)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		(438)	(624)
Disposal of tangible fixed assets		-	-
Purchase of fixed asset investments		(7,154)	(6,370)
Sale of fixed asset investments		11,346	5,609
		<u>4,192</u>	<u>(761)</u>
		892	3,753
Equity dividends paid		<u>-</u>	<u>-</u>
		892	3,753
Financing		<u>-</u>	<u>-</u>
Increase in cash	21	<u><u>892</u></u>	<u><u>3,753</u></u>

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

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%

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

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 five years which is their estimated useful economic life. Provision is made for any impairment.

Property Revaluations

Land and buildings held at freehold were revalued during the year. Valuations were performed by Ringley, a chartered surveyor external to the Bank, in December 2005. Valuations were made on the basis of use of the buildings as fully equipped operational entities, assuming sale and leaseback with the Bank as principal tenant. As a result of these valuations the Head Office branch building was revalued at £3,800,000, and the Harringay branch building at £1,050,000.

2. Administrative expenses

	2005	2004
	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	1,617	1,500
Social security costs	155	137
Pension Costs	23	22
	<hr/>	<hr/>
	1,795	1,659
Other administrative expenses	989	770
	<hr/>	<hr/>
	2,784	2,429
	<hr/>	<hr/>

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

	2005	2004
	No.	No.
Commercial banking activities	58	57
	<hr/>	<hr/>

Directors' remuneration during the year consisted of:

	2005	2004
	£'000	£'000
Emoluments	251	239
	<hr/>	<hr/>

The emoluments of the highest paid director for the year ended 31 December 2005 were £75,000 (2004 - £89,000).

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

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

3. Provisions

	2005	2004
	£'000	£'000
Bad and doubtful debts (debit)/credit	(15)	45

During the year the bank received £9,999 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):

	2005	2004
	£'000	£'000
Foreign currency gains	(57)	(32)
Auditors' remuneration		
Audit services	50	43
Non-audit services	22	11
Operating lease rentals		
Land and buildings	39	25
Depreciation and amortisation		
Tangible fixed assets	165	194
Intangible fixed assets	190	160

5. Tax on profit on ordinary activities

	2005	2004
	£'000	£'000
Current tax		
United Kingdom corporation tax at 30% (2004- 30%) based on profit for the year	105	286
Adjustment in respect of prior years	(1)	41
Total current tax	104	327
Deferred tax (Note 11)		
Reversal of timing differences	4	3
Prior period adjustments	(24)	(47)
	84	283

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

5. Tax on profit on ordinary activities (continued)

	2005	2004
	£'000	£'000
Profit on ordinary activities before tax	297	895
Tax at 30% thereon	89	268
Effects of:		
Expenses not deductible for tax purposes	20	15
Capital allowances in excess of depreciation	(9)	3
Movement in short term timing differences	5	
Double taxation relief		-
Prior year adjustments	(1)	41
	<u>104</u>	<u>327</u>

6. Loans and advances to banks

	2005	2004
	£'000	£'000
Repayable:		
On demand	22,879	21,881
Within three months	39,461	40,289
Between three months and one year	2,607	124
	<u>64,947</u>	<u>62,294</u>

Included within loans and advances to banks there are amounts of £1.75m in respect of group companies (2004 - £nil).

7. Loans and advances to customers

	2005	2004
	£'000	£'000
Repayable:		
On demand	2,775	3,669
Within three months	3,041	1
Between three months and one year	10,886	5,645
Between one and five years	7,266	8,884
After five years	12,134	7,526
Provisions (see note 8)	(419)	(410)
	<u>35,683</u>	<u>25,315</u>

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

8. Provisions for loans and advances

	Specific £'000	General £'000	Total £'000
Balance as at 1 January 2005	16	394	410
Advances written off	(5)	-	(5)
Recoveries in respect of advances previously provided for	(10)	-	(10)
New provisions made in the year	9	15	24
Balance as at 31 December 2005	<u>10</u>	<u>409</u>	<u>419</u>

9. Debt securities

	2005 £'000	2004 £'000
Nominal value	9,308	13,318
Net discount and premiums	(26)	76
Carrying value	<u>9,282</u>	<u>13,394</u>
Market value	<u>9,453</u>	<u>13,732</u>

	Cost £'000	Discount and premiums £'000	Net Book Value £'000
Balance as at 1 January 2005	13,318	76	13,394
Exchange adjustments	615	(1)	614
Acquisitions	7,177	(22)	7,155
Disposals and maturities	(11,802)	(51)	(11,853)
Amortisation of premiums and discounts	-	(28)	(28)
Balance 31 December 2005	<u>9,308</u>	<u>(26)</u>	<u>9,282</u>

	2005 £'000	2004 £'000
Repayable:		
Less than 1 year	2,155	6,430
Between one and five years	4,900	6,964
After five years	2,227	-
	<u>9,282</u>	<u>13,394</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 weighted average coupon rate of debt securities repayable after five years is 6.8%.

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

10. Intangible fixed assets

	Licenses
	£'000
Cost	
At 1 January 2005	802
Additions	142
	<hr/>
At 31 December 2005	944
	<hr/>
Depreciation	
At 1 January 2005	160
Charge for the year	190
	<hr/>
At 31 December 2005	350
	<hr/>
Net book value	
At 31 December 2005	594
	<hr/> <hr/>
At 31 December 2004	642
	<hr/> <hr/>

This asset is being amortised over five 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 2005	3,186	331	1,429	4,946
Additions	19	230	118	367
Revaluations	2,534	-	-	2,534
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	5,739	561	1,547	7,847
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 January 2005	534	183	1,060	1,777
Charge for the year	16	40	109	165
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	550	223	1,169	1,942
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2005	5,189	338	378	5,905
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2004	2,652	148	369	3,169
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

11. Other assets

	2005	2004
	£'000	£'000
Deferred tax asset	135	115
Other	109	80
	<u>244</u>	<u>195</u>

Deferred tax

	2005	2004
	£'000	£'000
Opening balance at 1 January 2005	(115)	(71)
Credit to profit and loss account	(20)	(44)
	<u>(135)</u>	<u>(115)</u>

12. Deposits by banks

	2005	2004
	£'000	£'000
Repayable:		
On demand		
- Group	6,521	2,644
- Other	2,393	3,061
Within three months		
- Group	26,000	33,000
- Other	8,089	721
Between three months and one year	-	-
	<u>43,003</u>	<u>39,426</u>

13. Customer accounts

	2005	2004
	£'000	£'000
Repayable:		
On demand	15,284	8,384
Within three months	30,237	35,373
Between three months and one year	9,226	6,155
Between one year and five years	291	268
	<u>55,038</u>	<u>50,180</u>

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

14. Other liabilities

	2005 £'000	2004 £'000
Amounts owed to group companies	45	45
Corporation tax	78	129
Other taxes and social security costs	40	88
Other liabilities	100	68
	<u>263</u>	<u>330</u>

15. Called up share capital

	Authorised		Called up, allotted and fully paid	
	2005 £'000	2004 £'000	2005 £'000	2004 £'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	Revaluation Reserve £'000	Total Shareholders' funds £'000
As at 1 January 2005	10,000	5,809	-	15,809
Profit for the year ended 31 December 2005	-	213	-	213
Revaluations	-	-	2,534	2,534
As at 31 December 2005	<u>10,000</u>	<u>6,022</u>	<u>2,534</u>	<u>18,556</u>

17. Other contingent liabilities

Other contingent liabilities comprise:

	2005 £'000	2004 £'000
Irrevocable letters of credit	59	46
Bank liability for deferred payment	-	-
	<u>59</u>	<u>46</u>

Included in irrevocable letters of credit are amounts in respect of group companies of £15,697 (2004 - £14,812)

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

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.

	2005	2004
	£'000	£'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	24,692	16,771
Less than one year	9,011	10,265
	<u>33,703</u>	<u>27,036</u>

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

	2005	2004
	£'000	£'000
		Land and buildings
Operating leases which expire:		
Within one year	-	-
Between two and five years	-	-
More than five years	56	28
	<u>56</u>	<u>28</u>

19. Assets and liabilities in foreign currencies

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

	2005	2004
	£'000	£'000
Assets	34,000	20,975
Liabilities	33,887	20,919
	<u>34,000</u>	<u>20,975</u>
	<u>33,887</u>	<u>20,919</u>

20. Reconciliation of operating profit to net cash inflow from operating activities

	2005	2004
	£'000	£'000
Profit on ordinary activities before tax	297	897
Decrease in prepayments and accrued income	42	113
Increase in accruals and deferred income	323	139
Depreciation charge and amortisation	355	354
Profit on sale of fixed asset investments	(79)	(51)
	<u>938</u>	<u>1,452</u>
Net cash inflow from trading activities	938	1,452
Net (increase)/ decrease in collections	25	168
Net (increase)/ decrease in loans and advances to banks and customers	(12,023)	3,934
Net decrease in deposits by banks and customers	8,435	664
Net increase in other assets	(53)	(7)
Net decrease/(increase) in other liabilities	18	(756)
	<u>(2,660)</u>	<u>5,455</u>
Net cash (outflow)/inflow from operating activities	(2,660)	5,455

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Notes to the accounts For the year ended 31 December 2005

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

	1 January 2005 £'000	Cash flows £'000	31 December 2005 £'000
Cash and balances at central banks	696	(105)	591
Loans and advances to other banks repayable on demand	21,881	998	22,879
	<u>22,577</u>	<u>892</u>	<u>23,470</u>

22. Analysis of changes in financing during the year

	Share capital £'000
Balance at 1 January 2005	10,000
Cash flow from financing	-
Other movements	-
Balance at 31 December 2005	<u>10,000</u>

23. Transactions with directors and managers

As at 31 December 2005, £7,406 was outstanding by way of loans to managers (or persons connected with them) of the company (2004 - £11,000). During the year, £12,847 was paid back by the managers (or persons connected to them) (2004 - £1,000).

24. Ultimate parent company

The ultimate parent and controlling company at 31 December 2005 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 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 hedging purposes.

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Notes to the accounts For the year ended 31 December 2005

26. Financial instruments (continued)

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 2005

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 2005. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

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	-	-	-	-	-	591	591
Loans and advances to banks	62,339	2,608	-	-	-	-	64,947
Loans and advances to customers	18,975	3,675	5,184	5,950	2,318	(419)	35,683
Debt Securities	-	1,133	1,000	4,911	2,238	-	9,282
Other assets	-	-	-	-	-	7,369	7,369
	<u>81,314</u>	<u>7,416</u>	<u>6,184</u>	<u>10,861</u>	<u>4,556</u>	<u>7,541</u>	<u>117,872</u>
Liabilities							
Deposits by banks	40,003	3,000	-	-	-	-	43,003
Customer accounts	45,521	6,966	2,260	291	-	-	55,038
Other liabilities	-	-	-	-	-	1,275	1,275
Shareholders' funds	-	-	-	-	-	18,556	18,556
	<u>85,524</u>	<u>9,666</u>	<u>2,260</u>	<u>291</u>	<u>-</u>	<u>19,831</u>	<u>117,872</u>
Interest rate sensitivity gap	(4,210)	(2,550)	3,924	10,570	4,556	(12,290)	-
Cumulative gap	(4,210)	(6,760)	(2,836)	7,734	12,290	-	-

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 2005.

Turkish Bank (UK) Limited

Notes to the accounts For the year ended 31 December 2005

26. Financial instruments (continued)

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.

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.

	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
	<u>76,171</u>	<u>3,166</u>	<u>6,628</u>	<u>15,430</u>	<u>-</u>	<u>5,003</u>	<u>106,400</u>
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
	<u>83,182</u>	<u>4,085</u>	<u>2,071</u>	<u>268</u>	<u>-</u>	<u>16,794</u>	<u>106,400</u>
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	-	-

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Notes to the accounts

For the year ended 31 December 2005

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 £419,000 (2004 - £410,000).

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 2005 £'000	Net currency position 2004 £'000
US Dollar	76	10
Euro	25	12
Japanese Yen	3	4
Swiss Franc	2	1
Other currencies	9	6
	<hr/>	<hr/>
Total	115	33
	<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 2005. 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.

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Notes to the accounts For the year ended 31 December 2005

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 2005.

	Carrying value 2005 £000	Fair value 2005 £000	Carrying value 2004 £000	Fair value 2004 £000
Financial Assets				
Cash	591	591	696	696
Loans and advances to banks	64,947	64,947	62,294	62,294
Loans and advances to customers	35,683	35,683	25,315	25,315
Debt securities	9,282	9,308	13,394	13,318
Financial Liabilities				
Deposits by banks	43,003	43,003	39,426	39,426
Customer accounts	55,038	55,038	50,180	50,180
Swap and Forward Transactions				
Swap Transactions	45,759	45,759	-	-
Foreign Exchange Spot Transactions	53	53	3,011	3,011