Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements

31 December 2006

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Report and financial statements 2006

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Chairman's statement

The past year has been an exciting and challenging one for the Bank and its staff. Following the successful introduction of the new accounting system towards the end of 2005, 2006 has seen further refinements to the system. There has also been another expansion to the branch network with the opening of Palmers Green branch. This continues the strategic objective of providing a superior banking service to the Turkish speaking community in London particularly and the United Kingdom in general.

Turkey's economic outlook continues to remain positive with inflation remaining at a level that does not yet threaten economic stability although the recent increase to 9.93% annualised for January 2007 is unwelcome. This and the continuing trade deficits remain concerns that will require to be addressed aggressively in the coming months. On the other hand the 2006 budget performance surpassed all expectations and outperformed the budgets of the last 20 years. The period following the elections to be held in May 2007 would appear to provide an opportunity for the then Government to take any required action. The new Government will also have to address the difficulties surrounding the EU negotiations and the status of North Cyprus. Nevertheless Turkey remains in good favour at the moment with the international community.

An indication of this good standing is the sustained interest in the country's financial services industry where a number of foreign banks have purchased interests, many of them controlling interests, in Turkish banking institutions. The Regulator appears now to be adopting a more pro-active role in restricting this process but it is fair to say that the majority of the larger banking companies, other than those owned by the Government, have some foreign ownership. We believe that the Turkish Banking Group will benefit from this development and, with this in mind, both our sister bank, Turkish Bank A.S., and our parent bank, Turkish Bank Limited, have expanded their branch networks during the year.

The UK economy is showing some signs of stress with a higher than expected budget deficit while inflationary pressures are putting pressure on the present round of wage negotiations. Whilst the housing market has yet to see the often predicted downturn, further interest rate rises, which are anticipated during the first half of 2007, may well cause this to happen with the adverse knock-on effect of depressing consumer spending. Inflation and the associated pressures on wages as well as high exchange rates may also hinder the current rise in industrial production. In consequence the Bank will continue to adopt a cautious approach to lending and will review regularly its quality of assets which remain good at present.

Profit after taxation for the year was £285,000 (2005: £228,000) which was somewhat lower than expectations at the start of the year. Like the profit for 2005, the 2006 profitability was impacted by heavy investments i.e. IT costs (£220,000) and the opening of a new branch in North London making four in total in that region. The Bank is looking for further opportunities to expand its network.

Net interest income at £2.1m was marginally higher than in 2005 but remittance income was down compared to 2006 contributing to a fall in net non-interest income. The Bank is seeking to counter the fierce competition in the remittance market by the introduction of new products such as the Turkish Lira transfer and increasing the marketing of its Havalecash product. This has met with some early signs of success.

There are also some encouraging signs from other sections of the Bank not least the increase in resident assets being seen in North London following a sustained period of marketing. This has been achieved whilst keeping within the Bank's very prudent lending guidelines. This has also contributed to a marked increase in commission which was seen towards the year end and is expected to continue. Resident liabilities have also seen a marked increase following the opening of Palmers Green branch and the introduction of a 60-day Notice Account with a very competitive interest rate. The overall number of accounts opened during the year increased our relationship count by some 25% and supports my belief that the Bank is now reaching out more effectively to its chosen market sectors.

After the last two years of retrenchment I am encouraged to believe that the Bank will now move forward to further penetrate its chosen marketplace and venture into new areas in which to offer its services. Customer service remains one of our main priorities and the Bank will focus this year on improving its product delivery as well as expanding the product range.

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Chairman’s statement (continued)

The Directors have again decided not to declare a dividend thus adding the profit after tax of £285,000 (2005: £228,000) to reserves. Capital and Reserves stood at £19.1m (2005:18.9m) at the year-end.

Finally a warm thank you to the staff who has worked hard during 2006 to lay the foundations for the further progress looked for in 2007

M T Ozyol

Chairman

Turkish Bank (UK) Limited

Report and financial statements 2006

Officers and professional advisers

Directors

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

Secretaries

N. Girginok

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 2006.

Activity Report

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

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

TBUK is a wholly owned subsidiary of Turkish Bank Limited and a member of the Turkish Bank Group headquartered in Istanbul. The Chairman of the Group also performs the role of Chairman of TBUK and the Group's Chief Executive sits on the Board of TBUK. TBUK operates within and is guided by the overall strategic objects of the Group. These focus on the aim providing a quality customer service at a competitive price to our clients and to provide a reasonable return on capital to our shareholder. More information regarding Group activities can be obtained by accessing the Group web site at www.turkishbankgroup.com.

Review of the Year

Following the significant investment made by TBUK over the past two years in both a new accounting system and the opening of two new branches, the directors are now looking for a significant improvement in profitability for the current year. This will not preclude further expansion in the branch network if a suitable opportunity and location is identified. At the year end, total assets are £130.2m (2005:126.2m) and shareholder equity stood at £19.1m (2005:18.9m)**.** In line with the company policy of recent years no dividend has been declared.

Following a more focused approach to marketing, there was, in the final quarter of 2006, a significant increase in client relationships both business and private. The directors anticipate a further expansion of business in the Bank's chosen market sectors during 2007.

Principal risks and uncertainties

The bank's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the bank's policies approved by the board of directors, which are based on written principles on the use of financial derivatives to manage these risks. The Bank does not use derivative financial instruments for trading purposes.

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

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

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

Results and dividends

The profit for the year after taxation amounted to £285,000 (2005 - £228,000).

The directors do not recommend the payment of a dividend (2005 - £nil).

Future developments

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

Political and charitable contributions

During the year, the Bank made various charitable contributions totalling £ 500 (2005 - £200).

Directors' report (continued)

Principal risks and uncertainties

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

Directors and their interests

The directors who served during the year were as follows:

M T Ozyol (Chairman)
I H Bortecene
M D Bendon *
R W Long
M E Erenman
J Clouting *
N Girginok
* members of audit committee
The interests of the directors at 31 December 2006 in the share capital of the Bank were as follows:

	Ordinary shares of £1 each	
	2006	**2005**
M T Ozyol	1	1

M T Ozyol owns this share as a nominee.

Audit committee

The Bank has an audit committee comprising two independent non-executive directors who are experienced bankers. The committee met on three occasions in 2006.

Disclosure of information to auditors

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

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

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

This confirmation is given and shall be interpreted in accordance with the provisions of S.234ZA of the Companies Act 1985.

Auditors

In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte & Touche LLP are therefore deemed to have been re-appointed as auditors of the company

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

Director and Secretary

N Girginok

9 March 2006

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare the directors' report and the accounts for each financial year and have elected to prepare the accounts in accordance with UKGAAP. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the company.

In preparing these accounts, 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, subject to any material departures disclosed and explained in the accounts; 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 annual report and accounts 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.

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 2006 which comprise the Profit and loss account, the Balance sheet, the Cash flow statement, the Statement of total recognised gains and losses and the related notes 1 to 28. 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 law and United Kingdom Accounting Standards (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 legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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. It also includes an assessment of the significant estimates and judgments 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 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
9 March 2007

Profit and loss account
For the year ended 31 December 2006

	Note	2006 £'000	Restated 2005 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		870	857
Other interest receivable and similar income		5,295	4,127
		6,165	4,984
Interest payable		(4,096)	(2,950)
Net interest income		2,069	2,034
Fees and commissions receivable		1,236	1,343
Fees and commissions payable		(20)	(42)
Dealing profits		70	57
Other operating income		9	4
Gain on sale of debt securities		40	79
		1,335	1,441
Total operating income		3,404	3,475
Administrative expenses	2	(2,468)	(2,784)
Depreciation and amortisation	10, 11	(433)	(355)
Other operating charges		(44)	(24)
Impairment losses on financial assets	3	(5)	-
		(2,950)	(3,163)
Profit on ordinary activities before taxation	4	454	312
Tax on profit on ordinary activities	5	(169)	(84)
Profit on ordinary activities after taxation	17	285	228

The notes on pages 12 to 30 form an integral part of these financial statements.

All activities relate to continuing operations.

The comparative figures have been restated due to the changes in the accounting policy as described in Note 28.

Turkish Bank (UK) Limited

Balance sheet
31 December 2006

	Note	2006 £'000	Restated 2005 £'000
Assets			
Cash and balances at central banks		390	591
Loans and advances to banks	6	63,996	65,000
Items in the course of collection		256	4
Loans and advances to customers	7	39,493	36,283
Debt securities-available for sale	9	11,906	9,610
Derivative assets	27	7,603	7,859
Intangible fixed assets	10	410	598
Tangible fixed assets	11	5,846	5,901
Other assets	12	25	109
Prepayments and accrued income		241	221
Total assets		130,166	126,176
Liabilities			
Deposits by banks	13	42,032	43,111
Items in the course of transmission to other banks		51	50
Customer accounts	14	60,903	55,432
Derivative liabilities	27	7,630	7,920
Other liabilities	15	255	241
Accruals and deferred income		163	460
		111,034	107,214
Called up share capital	16	10,000	10,000
Profit and loss account	17	6,592	6,257
Available for sale reserve	17	6	171
Revaluation reserve	17	2,534	2,534
		19,132	18,962
Total liabilities		130,166	126,176
Contingent liabilities			
Acceptances and endorsements		26	30
Guarantees and assets pledged as collateral security		278	1,260
Other contingent liabilities	18	365	59
		669	1,349
Commitments	19	40,251	33,703

The Board of Directors approved these financial statements on 9th March 2007.

Signed on behalf of the Board of Directors

M T Özyol
Director

M D Bendon
Director

The notes on pages 12 to 30 form an integral part of these financial statements.
The comparative figures have been restated due to the changes in the accounting policy as described in Note 28.

Cash flow statement
For the year ended 31 December 2006

	Note	2006 £'000	Restated 2005 £'000
Net cash inflow / (outflow) from operating activities	21	13,360	(2,641)
Taxation			
UK corporation tax paid		(90)	(202)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		(190)	(438)
Purchase of available for sale assets		(6,441)	(7,154)
Sale of available for sale assets		4,153	11,346
		(2,478)	3,754
Increase in cash and cash equivalents	22	10,792	911

The comparative figures have been restated due to the changes in the accounting policy as described in Note 28.

Statement of total recognised gains and losses
For the year ended 31 December 2006

	Note	2006 £'000	Restated 2005 £'000
Profit for the financial year		285	228
Unrealised gain on revaluation of freehold properties	17	-	2,534
Available for sale (losses) / gains	17	(165)	171
Tax effect of available for sale losses	17	50	-
Total recognised gains for the year		170	2,933
Impact of change in accounting policy	28	406	-
Total gains and losses recognised since last annual report and financial statements		576	2,933

The comparative figures have been restated due to the changes in the accounting policy as described in Note 28.

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable UK Accounting Standards and Statements of Recommended Practice issued by the British Bankers' Association and in accordance with the special provisions of Part VII Ch. 2 of the Companies Act 1985 applicable to banking groups and banking companies. The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and freehold properties.

The policies have been consistently applied except as noted below.

The Bank is required to present its 2006 accounts in accordance with IFRS convergence standards issued under UK GAAP and has therefore adopted FRS 23 "The Effect of Changes in Foreign Exchange Rates" FRS25 "Financial Instruments: Presentation" and FRS26 "Financial Instruments Recognition and Measurement" in the current period.

The adoption of the standards has impacted on the accounting policies for the following:

- Impairment losses
- Income recognition
- Valuation of available for sale assets
- Derivatives.

Details of the impact of these changes in accounting policy are provided in note 28.

(b) Revenue recognition

(i) Interest income

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

(ii) Rendering of services and commissions

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

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

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

(c) Impairment of financial assets

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

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

1. Accounting policies (continued)

(d) Loans and receivables

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

(e) Debt securities

Investments in debt securities are classified as available-for-sale, and are measured at subsequent reporting dates at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Foreign exchange gains and losses, interest recognised under the effective interest rate method and impairment losses are taken to the profit and loss account. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(f) Pension schemes

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

(g) Foreign currency translation

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

(h) Derivatives

Derivative contracts consist of foreign currency swap contracts, which are outstanding at the balance sheet date. Derivatives are measured at fair value, with changes in the fair value recognised are marked to market to the profit and loss account. The Bank’s activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The Bank uses derivative financial instruments (primarily foreign currency swaps) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The Bank does not use derivative financial instruments for speculative purposes. The Bank as not designated any of the its derivative contracts in hedging relationships for hedge accounting purposes.

(i) Depreciation

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

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

1. Accounting policies (continued)

(j) Current and deferred taxation

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

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

(k) Leasing

Rentals paid under operating leases are charged to profit and loss account on a straight-line basis over the lease term.

(l) Intangible assets – Software licences

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

(m) Property revaluations

The accounting policy for freehold land and buildings is to revalue them annually. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. There have been no material movements in the valuation of these freeholds in 2006. The last professional valuation was undertaken by Ringley, a chartered surveyor external to the Bank, in December 2005. Valuations were made on the basis of open market value for existing use.

(n) Financial liabilities

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

2. Administrative expenses

	2006 £'000	**2005 £'000**
Staff costs during the year (including directors)		
Wages and salaries	1,465	1,617
Social security costs	137	155
Pension costs	20	23
	1,622	1,795
Other administrative expenses	846	989
	2,468	2,784

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

	2006 No.	**2005 No.**
Commercial banking activities	59	58

Directors' remuneration during the year consisted of:

	2006 £'000	**2005 £'000**
Emoluments	225	251

2. Administrative expenses (continued)

The emoluments of the highest paid director for the year ended 31 December 2006 were £96,000 (2005 - £75,000).

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

3. Impairment losses on financial assets

	2006 £'000	Restated 2005 £'000
Impairment charge for the year	(10)	-
Recoveries	5	-
Net impairment charge for the year	(5)	-

During the year the Bank received £3,130 (2005 - £9,999) in respect of loans which were previously written off in prior years which is included in other operating income.

4. Profit on ordinary activities before taxation

Profit is stated after charging/(crediting):

	2006 £'000	2005 £'000
Foreign currency gains	(70)	(57)
Auditors' remuneration		
Operating lease rentals		
Land and buildings	56	39
Depreciation and amortisation		
Tangible fixed assets	240	165
Intangible fixed assets	193	190
Fees payable to the company's auditors for the audit of the company's annual accounts	48	50
Total audit fees	48	50
Other services pursuant to legislation		
Tax services	14	22
Total non-audit fees	14	22

5. Tax on profit on ordinary activities

	2006 £'000	2005 £'000
Current tax		
United Kingdom corporation tax at 30% (2005 - 30%) based on profit for the year	168	105
Double taxation relief	(7)	-
Adjustment in respect of prior years	(21)	(1)
Foreign tax for current period	13	-
Total current tax	153	104
Deferred tax (Note 12)		
Reversal of timing differences	11	4
Prior period adjustments	5	(24)
	169	84

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	454	297
Tax at 30% thereon	136	89
Effects of:		
Expenses not deductible for tax purposes	42	20
Capital allowances in excess of depreciation	(15)	(9)
Movement in short term timing differences	5	5
Double taxation relief	(7)	-
Foreign tax	13	
Prior year adjustments	(21)	(1)
	153	104

6. Loans and advances to banks

	2006 £'000	2005 £'000
Repayable:		
On demand	33,890	22,897
Within three months	28,574	39,494
Between three months and one year	1,532	2,609
	63,996	65,000

Included within loans and advances to banks there are amounts of £3.13m in respect of group companies (2005 - £1.75m).

The interest received from group companies during the year is £45,208 (2005 - £32,128)

Notes to the accounts
For the year ended 31 December 2006

7. Loans and advances to customers

	2006 £'000	2005 £'000
Repayable:		
On demand	2,740	2,791
Within three months	9,581	3,057
Between three months and one year	3,205	10,943
Between one and five years	9,612	7,304
After five years	14,369	12,198
Provision for impairment losses	(14)	(10)
	39,493	36,283

Non performing loans and advances to customers of £14,000 were fully provided at 31st December 2006 (2005 - £10,000).

8. Provisions for impairment losses

	Specific £'000	General £'000	Total £'000
As at 1 January 2006	10	409	419
Impact of implementation of FRS 26	-	(409)	(409)
As at 1 January (restated)	10	-	10
Charge against profits	10	-	10
Less: recoveries	(5)	-	(5)
Net impairment charge for the year	5	-	5
Less: loans written off	(1)	-	(1)
At 31 December 2006	14	-	14
Loans and advances	14	-	14
- to customers (note 7)	-	-	-
	14	-	14

9. Debt securities

	2006 £'000	2005 £'000
Nominal value	11,571	9,308
Net discount and premiums	39	(26)
Net value	11,610	9,282
Accrued interest	290	157
Available for sale revaluation	6	171
Market value	11,906	9,610

9. Debt securities (continued)

	Cost £'000	Discount and premiums £'000	Fair Value £'000
Balance as at 1 January 2006	9,308	(26)	9,282
Exchange adjustments	(457)	2	(455)
Acquisitions	6,415	26	6,441
Disposals and maturities	(3,695)	33	(3,662)
Amortisation of premiums and discounts	-	4	4
Balance 31 December 2006	11,571	39	11,610

	2006 £'000	2005 £'000
Repayable:		
Less than 1 year	3,287	2,166
Between one and five years	3,445	5,157
After five years	5,174	2,287
	11,906	9,610

	Fair Value 2006 £'000	Fair Value 2005 £'000
Issued by public bodies	8,018	5,492
Issued by other issuers		
-other debt securities	3,888	4,118
	11,906	9,610

The debt securities comprise of government and corporate bonds and are held as available for sale securities. The weighted average coupon rate of debt securities repayable after five years is 6.53% (2005 - 6.80%).

10. Intangible fixed assets

	Licenses £'000
Cost	
At 1 January 2006	965
Additions	5
At 31 December 2006	970
Amortisation	
At 1 January 2006	367
Charge for the year	193
At 31 December 2006	560
Net book value	
At 31 December 2006	410
At 31 December 2005	598

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

Notes to the accounts
For the year ended 31 December 2006

11. 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 2006	5,739	561	1,526	7,826
Additions	-	18	179	197
Disposals	-	-	(24)	(24)
At 31 December 2006	5,739	579	1,681	7,999
Depreciation				
At 1 January 2006	550	223	1,152	1,925
Charge for the year	90	40	110	240
Disposals	-	-	(12)	(12)
At 31 December 2006	640	263	1,250	2,153
Net book value				
At 31 December 2006	5,099	316	431	5,846
At 31 December 2005	5,189	338	374	5,901

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

12. Other assets

	2006 £'000	Restated 2005 £'000
Deferred tax asset	-	-
Other assets	25	109
	25	109

Deferred tax

	2006 £'000
Deferred tax asset as at 1 January	135
Deferred tax liability as at 1 January (restated)	(39)
Current year movement	(11)
Prior year movement	(5)
Closing balance at 31 December	(55)
Effect of FRS 26 restatement	(174)

Notes to the accounts
For the year ended 31 December 2006

13. Deposits by banks

	2006 £'000	2005 £'000
Repayable:		
On demand		
- Group	12,077	6,538
- Other	1,341	2,399
Within three months		
- Group	13,094	26,065
- Other	15,520	8,109
	42,032	43,111

The interest paid amount to group companies during the year is £1,488,290 (2005 - £828,654)

14. Customer accounts

	2006 £'000	2005 £'000
Repayable:		
On demand	17,448	15,393
Within three months	31,062	30,454
Between three months and one year	12,377	9,292
Between one year and five years	16	293
	60,903	55,432

15. Other liabilities

	2006 £'000	2005 £'000
Amounts owed to group companies	57	45
Corporation tax	32	78
Other taxes and social security costs	40	40
Deferred tax liability	55	39
Other liabilities	71	39
	255	241

16. Called up share capital

	Authorised		Called up, allotted and fully paid	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
10,000,000 Ordinary shares of £1 each	10,000	10,000	10,000	10,000

Notes to the accounts
For the year ended 31 December 2006

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

	Called up share capital £'000	Profit and loss account £'000	revaluation reserve £'000	Available for sale reserve £'000	Restated Total Share-holders Funds £'000
As at 1 January 2005 as previously reported	10,000	5,809	-	-	15,809
Prior year adjustment	-	220	-	171	391
Profit for the year	-	228	-	-	228
Revaluations	-	-	2,534	-	2,534
As at 1 January 2006 as restated	10,000	6,257	2,534	171	18,962
Profit for the year	-	285	-	-	285
Available for sale gains / losses	-	-	-	(165)	(165)
Tax effect of the available for sale loss	-	50	-	-	50
As at 31 December 2006	10,000	6,592	2,534	6	19,132

18. Other contingent liabilities

Other contingent liabilities comprise:

	2006 £'000	2005 £'000
Irrevocable letters of credit	365	59

Included in irrevocable letters of credit are amounts in respect of group companies of £186,030 (2005 - £15,697).

19. Commitments

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

	2006 £'000	2005 £'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	23,727	21,919
Less than one year	16,524	11,784
	40,251	33,703

Notes to the accounts
For the year ended 31 December 2006

19. Commitments (continued)

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

	Land and buildings 2006 £'000	2005 £'000
Operating leases which expire:		
Within one year	-	-
Between two and five years	-	-
More than five years	56	56

20. Assets and liabilities in foreign currencies

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

	2006 £'000	2005 £'000
Assets	41,482	34,000
Liabilities	41,439	33,887

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

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	454	312
(Increase) / decrease in prepayments and accrued income	(20)	444
Reclassification of accrued interest of debt securities	(3)	(157)
Decrease in accruals and deferred income	(297)	(179)
Depreciation charge and amortisation	433	355
Profit on disposal of fixed assets	(1)	-
Loss on disposal of fixed assets	12	-
Profit on sale of available for sale investments	(40)	(79)
Net cash inflow from trading activities	536	696
Net (increase)/ decrease in collections	(252)	25
Net decrease / (increase) in loans and advances to banks and customers	8,787	(12,264)
Net decrease in deposits by banks and customers	4,392	8,937
Net decrease in other assets	(84)	(53)
(Decrease) / increase in derivative liabilities	(34)	61
Net decrease/(increase) in other liabilities	14	(43)
Net cash inflow / (outflow) from operating activities	13,360	(2,641)

Notes to the accounts
For the year ended 31 December 2006

22. Analysis of net funds

	1 January 2006 £'000	Cash flows £'000	31 December 2006 £'000
Cash and balances at central banks	591	(201)	390
Loans and advances to other banks repayable on demand	22,897	10,993	33,890
	23,488	10,792	34,280

23. Analysis of changes in financing during the year

	Share capital £'000
Balance at 1 January 2006	10,000
Cash flow from financing	-
Other movements	-
Balance at 31December 2006	10,000

24. Transactions with directors and managers

As at 31 December 2006, £18,960 was outstanding by way of loans to managers of the company (or persons connected with them) (2005 - £7,406). During the year, £13,947 was paid back by the managers (or persons connected to them) (2005 - £12,847).

25. Ultimate parent company

The ultimate parent and controlling company at 31 December 2006 was Turkish Bank Limited, which is incorporated in Cyprus. The parent company of the largest and smallest group of which the Bank is a member and for which consolidated accounts are prepared is Turkish Bank Limited. Copies of its group accounts can be obtained from 84-86 Borough High Street, London SE1 1LN.

26. Related party transactions

The Bank has taken advantage of an exemption under FRS 8, relating to 90% (or more) subsidiaries, which exempts it from disclosing all related party transactions with group members. Other than those described in note 24, there are no other related party transactions.

27. Financial instruments

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

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

27. 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.

Derivative financial instruments:

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

			2006
	Notional amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	7,604	7,603	7,630

			2005
	Notional amount £'000	**Fair value assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	7,847	7,859	7,920

Interest rate risk

Exposure to interest rate movements arise where there is an imbalance between rate sensitive assets and liabilities. The table below reflects management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2006. 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 2006

27. Financial instruments (continued)

Interest rate sensitivity gap analysis 2006

	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	-	-	-	-	-	390	390
Loans and advances to banks	62,457	1,029	-	510	-	-	63,996
Loans and advances to customers	26,766	340	2,652	5,516	4,233	(14)	39,493
Debt Securities	2,065	-	3,107	1,520	5,214	-	11,906
Other assets	-	-	-	-	-	14,381	14,381
	91,288	1,369	5,759	7,546	9,447	14,757	130,166
Liabilities							
Deposits by banks	42,032	-	-	-	-	-	42,032
Customer accounts	48,414	8,192	4,281	16	-	-	60,903
Other liabilities	-	-	-	-	-	8,099	8,099
Shareholders' funds	-	-	-	-	-	19,132	19,132
	90,446	8,192	4,281	16	-	27,231	130,166
Interest rate sensitivity gap	842	(6,823)	1,478	7,530	9,447	(12,474)	-
Cumulative gap	842	(5,981)	(4,503)	3,027	12,474	-	-

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 2006.

Notes to the accounts
For the year ended 31 December 2006

27. Financial instruments (continued)

Interest rate sensitivity gap analysis 2005

	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	62,392	2,608	-	-	-	-	65,000
Loans and advances to customers	19,166	3,675	5,184	5,950	2,318	(10)	36,283
Debt Securities	-	1,461	1,000	4,911	2,238	-	9,610
Other assets	-	-	-	-	-	14,692	14,692
	81,558	7,744	6,184	10,861	4,556	15,273	126,176
Liabilities							
Deposits by banks	40,111	3,000	-	-	-	-	43,111
Customer accounts	45,915	6,966	2,260	291	-	-	55,432
Other liabilities	-	-	-	-	-	8,671	8,671
Shareholders' funds	-	-	-	-	-	18,962	18,962
	86,026	9,966	2,260	291	-	27,633	126,176
Interest rate sensitivity gap	(4,468)	(2,222)	3,924	10,570	4,556	(12,360)	-
Cumulative gap	(4,468)	(6,690)	(2,766)	7,804	12,303	-	-

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.

27. 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 rate risk. Loans and advances to customers have been shown net of provisions totalling £14,000 (2005 - £10,000).

The weighted average interest rates are as follows; 5.26% for the loans and advances to banks (2005 - 4.21%), 6.97% for the loans and advances to customers (2005 - 6.66%), 7.06% for the debt securities (2005: 6.38%), 4.55% for the deposits by banks (2005 - 4.14%) and 4.83% for the customer accounts (2005 - 3.87%).

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 2006 £'000**	**Net currency position 2005 £'000**
US Dollar	14	76
Euro	13	25
Japanese Yen	4	3
Swiss Franc	0	2
Other currencies	12	7
Total	43	113

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

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

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

Notes to the accounts
For the year ended 31 December 2006

27. Financial instruments (continued)

Carrying value and 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 2006.

	Carrying value 2006 £000	Fair value 2006 £000	Carrying value 2005 £000	Fair value 2005 £000
Financial Assets				
Cash	390	390	591	591
Loans and advances to banks	63,996	63,996	65,000	65,000
Loans and advances to customers	39,493	39,493	36,283	36,283
Debt securities	11,906	11,906	9,610	9,610
Derivative assets	7,603	7,603	7,859	7,859
Financial Liabilities				
Deposits by banks	42,032	42,032	43,111	43,111
Customer accounts	60,903	60,903	55,432	55,432
Derivative liabilities	7,630	7,630	7,920	7,920

28. Change in accounting policy

For the current period, the Bank has adopted Financial Reporting Standards 25 and 26 which are effective for accounting periods beginning on or after 1 January 2006.

The impact of the adoption of FRS 26 on the closing balance sheet for 2005 is described below:

	Notes	Statutory 31 December 2005 £'000	Reclas-sification impact of FRS26 £000	Other impacts of FRS26 £'000	Restated 31 December 2005 £'000
Assets					
Loans and advances to banks	(i)	64,947	53	-	65,000
Loans and advances to customers	(i) (ii)	35,683	191	409	36,283
Debt securities – AFS	(i) (iii)	9,282	157	171	9,610
Derivative assets	(iv)	-	-	7,859	7,859
Prepayments and accrued income	(i)	622	(401)	-	221
Other assets	(v)	244	-	(135)	109
Liabilities					
Deposits by banks	(i)	43,003	108	-	43,111
Customer accounts	(i) (vi)	55,038	394	-	55,432
Derivative liabilities	(iv)	-	61	7,859	7,920
Other liabilities	(iv)	263	(61)	39	241
Accruals and deferred income	(i)	962	(502)	-	460
Impact on net assets		11,512	-	406	11,918
Profit and loss	(vi)	213		15	228
Available for sale reserve	(iii)	-	-	171	171
Profit and loss account reserve	(ii)	6,022	-	235	6,257

(i) This reflects the reclassification of accrued interest receivable and payable to be recorded together with the underlying asset or liability.

(ii) FRS 26 does not allow loan loss provisions to be recognised without objective evidence of impairment. £409,000 previously held as a general provision has been released to retained earnings brought forward. The remaining (£174,000) is the tax effect of the general provision loss release.

(iii) Debt securities previously held at amortised cost are available for sale and measured at fair value. Fair value movements are recorded and classified in an available for sale reserve.

(iv) All derivatives are measured at fair value and shown separately on the face of the balance sheet.

(v) This reflects the release of the deferred tax asset on the general provision and a deferred tax liability for the available for sale reserve.

(vi) This reflects the release of the general provision which was recognised in 2005.