Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements

31 December 2010

Turkish Bank (UK) Limited

Report and financial statements 2010

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Chairman's statement

In 2010 Turkish Bank continued to operate effectively and smoothly in a difficult environment where the UK's economy continues to show signs of stress despite a better than expected improvement in overall growth in 2010, a fact somewhat marred by the poor performance in the last quarter due in part to adverse weather conditions.

Having in mind the strong cost control culture of our bank, I have a concern over inflationary pressures in the UK where at the time of writing the Consumer Price Index (CPI) is twice as high as the targeted rate of 2% and is uncomfortably close to the more broadly based Retail Price Index (RPI). It seems almost inevitable that the Base Rate will have to meet market expectations and rise by as much as one percent to 1.5% over 2011 although our business plan for the year is based on a more conservative assumption of Base Rate standing at 1% by year-end. To our comfort for its part the new Coalition Government is taking the necessary action to address the huge budget deficit which it inherited from the previous administration. The actions taken by the Government are only now beginning to manifest themselves and it is to be hoped that the Coalition's view that private enterprise will take up the slack from the shrinking Public Sector is well founded.

The Turkish economy remains fairly robust with the Central Bank and the Government taking action to cool the rapid recovery in growth seen in the last two years by the introduction of a programme of "quantative tightening" which commenced in November 2010. This programme replaced the policy of providing liquidity support to the markets which commenced in September 2008 and drew to a close in April 2010. Inflation continues to be maintained in single figures and this target continues to be the prime reason for regulatory action. While the short-term inflow of capital continues to be strong, foreign investment levels are weak and the domestic deficit continues to grow. Of increasing concern is the current account deficit which also continues to grow even with the stripping out of energy costs. A number of macroeconomic tools are being used to meet these challenges and these include increases in reserve requirements from the banks and strict regulation of the banks' liquidity ratios. As with the UK it is hoped that the actions being taken in the Turkish economy are successful.

The Bank has made steady progress during the year in expanding its role as a community bank to the Turkish-speaking people living in the UK. Our six branch network, all of which are situated in Central or Greater London, continues to provide the personal service on which the Bank prides itself. During the year the Bank improved the internet banking offering and is seeking to expand the customer base through a "remote" banking service provided to Turkish communities in the UK by TBUK Direct. Of critical importance to this initiative is the launch of the long awaited debit card product and, despite a number of technical problems which the Bank is close to resolving, I expect the card to be launched in the first quarter of 2011.

The continuing low UK Base Rate put considerable pressure on the Bank's net interest earnings, as the bank never compromises on high liquidity policy at all times. I believe we have been through worse situations however.

During the year the Bank returned to profitability making a pre-tax profit of £543,000 (2009 – loss £325,000) which exceeded the budgeted expectations by some 20%. However part of this profit, some £233,000, resulted from the windfall benefit following the rescheduling of the BTA Bank Bonds the writing down of which led to the loss sustained in 2009.

The year showed a welcome stabilisation in the income generated by the remittance products and the increased earnings from various forms of account charges and foreign exchange earnings reflect on the success of the Bank's penetration into the domestic business sector.

In line with the objective of growing the domestic operations of the Bank we have continued in 2010 to expand lending to the chosen sectors of the domestic market-place. This lending registered an increase of some 24% to £41.7 million (2009 - £33.5 million) despite the continued tight credit criteria by which lending propositions are judged. During the year it has become noticeable that the Turkish speaking community in the UK is beginning to be affected by the depressed economic conditions in the country. The previous resilience in the community against the "credit crunch" is now being tested and early signs are that this will continue during the present year. For this reason, and following a thorough review of the portfolio, the Bank has made provisions against bad and doubtful debts in its domestic lending to the tune of £93,000 (2009 – (£35,000), a sum higher than previously sustained by the Bank in this sector.

Domestic deposits continued to grow during 2010 and reached £36.2 million (2009 – £24.3 million), a 49% increase on the previous year. The long term target of the Bank is to equate domestic lending levels for those of retail deposits but, until this can be brought to fruition, the non-resident deposits, which remain steady at the equivalent of some £56.5 million (2009 – £54.1 million), will continue to assist in funding domestic lending.

Chairman's statement (Continued)

As mentioned above the mature business seen in the non-resident and wholesale operations remains steady and continues to perform satisfactorily. Non-resident deposits showed a modest 2% increase to £56.5 million (2009 – £54.1 million), while advances to non-residents declined by 14% to £14.7million (2009 – £16.7 million), again reflecting the Bank's focus on the domestic marketplace as well as attesting to the lack of attractive overseas assets in general and in Turkey particularly.

We continue to be well capitalised and liquid and aim to stay so. As an addition to our armoury in this respect the Bank has opened a reserves account relationship with the Bank of England.

Once again I acknowledge with thanks the loyalty and dedication of my colleagues in the Bank and I look forward to working with them to continue to expand the Bank prudently for the benefit of its customers as well as its employees.

Tanju Ozyol

Chairman

11 March 2011

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Report and financial statements 2010

Officers and professional advisers

Directors

M T Ozyol (Chairman)
I H Bortecene
R W Long
M E Erenman
D.Blackmore

Secretaries

K. Bissell

Registered office

84-86 Borough High Street
London SE1 1LN

Bankers

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

Auditors

Deloitte LLP
Chartered Accountants
London

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010.

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 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 objectives of the Group. These focus on the aim to provide a quality customer service at a competitive price to our clients and to provide a reasonable return on capital to our shareholder. More information regarding Group activities can be obtained by accessing the Group's web site at www.turkishbankgroup.com

Review of the Year

The Bank continues to make progress in its strategic plan of developing its chosen market sectors of serving the Turkish speaking communities in the United Kingdom while maintaining its non-resident deposit portfolios and, in particular, those of the high-net worth individuals of mainly Turkish and North Cypriot residency.

Despite a difficult year arising in part through ever increasing regulatory costs, both direct and indirect, and a marked increase in competition for retail deposits with the consequent pressure on interest margins, the Bank returned to profitability during the year. It has recorded a pre-tax profit of £543,000 (2009 – loss £325,000) of which £233,000 is attributable to the write-back from the BTA Bank Bonds, as a result of the successful rescheduling of that bank's debt during 2010, following the significant loss sustained from the bonds in 2009.

Lending to the resident sector, primarily the SME business's of the Turkish speaking community in and around London, showed a further encouraging increase to £41.7m (2009 - £33.5 m) although it should be noted that the higher than normal level of provisions for resident lending, standing at some £93,000 (2009 – (£35,000) for the year show the first signs that our business customer base is beginning to feel the strains put upon it by the economic downturn seen over the past three years. The Bank is keeping a close watch on this development and will endeavour to work through with our customers any financial problems they are encountering or may encounter.

2010 saw a marked increase in our resident deposits which increased by some 49% over the year to £36.2m (2009 – £24.3m), as the Bank followed its strategy of working to match resident lending levels with that of resident deposits. Accordingly the Bank launched or enhanced its savings products portfolio during the year and attracted or retained some £12m in deposits from the wider UK public through TBUK Direct, the internet and telephone branch of the Bank. It should be noted here that, although the interest rates offered on these products is attractive, they are generally in the second tier of those offered by the UK banking industry in general.

Non-resident deposits showed a modest 2% increase to £56.5 million (2009 – £54.1 million) while advances to non-residents showed a further decline on the previous year of 14% to £13.7m (2009 – £16.7 million), reflecting the Bank's continuing focus on the domestic marketplace as well as attesting to the lack of attractive, to the Bank at least, overseas assets in general and in Turkey particularly.

In the area of fee income the Bank saw an encouraging level of growth in the level of fees from business accounts both from its lending and account relationship activities. Equally encouraging is the only marginal 1% decline in remittance income following a number of years where the decline has been in excess of 10%. In the first part of 2011 the Bank is now seeing a growth in this area and attributes this both to an improvement in its product delivery and an enhancement in its product range particularly with the Turkish Lira denominated remittances. Also of significance is a perceived increase in regulatory control on the smaller money-shops who deal in the remittance products.

During the year the Bank has worked hard on two important developments. Firstly the internet banking product has been improved and it is planned to further improve this service during the current year not least by making the service available during the early evening by changing the timing of the end-of-day process.

Of even greater significance possibly is the major undertaking of launching the Bank's debit card product. A huge amount of work has taken place over the past twelve months aimed at ensuring that the card, when launched, will provide a first class service to customers while at the same time endeavouring to ensure that the level of fraud to which they are exposed is kept at the absolute minimum level that technology can devise. It is hoped that the first

Directors' report (continued)

cards will be in issue in the first quarter of 2011. Meanwhile the Bank continues its intensive testing programme on the global acceptability of the cards.

The Bank continues to work towards further improving the quality of its services to all levels of its clientele. During the coming months the Bank will check regularly on how well the Bank is achieving this and will welcome any comments from clients or would be clients to help us ensure the Bank deliver what our customers require.

Going Concern
After making enquiries, the directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of going concern basis can be found in the Statements of accounting policies in the financial statements on page 14.

Principal risks and uncertainties
The Bank's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity and funding risk. The use of financial derivatives is governed by the Bank's policies approved by the board of directors, which are based on written principles on the use of financial derivatives to manage these risks. The Bank does not use derivative financial instruments for trading purposes. Risk policies have been disclosed in note 27 of the financial statements.

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 and funding risk: In order to maintain liquidity and funding 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 and funding position that meets with their Policy guidelines.

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

Results and dividends
The profit for the year after taxation amounted to £350,000 (2009 – loss £262,000).

Interim dividend of £nil (2009: £2 million) was paid to the shareholders during the year. The directors do not recommend the payment of final dividend (2009 - £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 £1,100 (2009 - £210).

Directors and their interests

The directors who served during the year were as follows:

M T Ozyol (Chairman)
I H Bortecene
R W Long
M E Erenman
J Clouting * 26/07/10 retired
D.Blackmore*
* members of audit committee
Phil Ryan was appointed as a director on 4 January 2011.

Directors' report (continued)

The interests of the directors at 31 December 2010 in the share capital of the Bank were as follows:

	Ordinary shares of £1 each	
	2010	**2009**
M T Ozyol	1	1

M T Ozyol owns this share as a nominee.

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Audit committee

The Bank has an audit committee comprising two independent non-executive directors who are experienced bankers. The committee met on four occasions in 2010 (2009: four times).

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 Bank'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 Bank's auditor's are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

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

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

Secretary

K. Bissell

11 March 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2010 which comprise the profit and loss account, balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Manbhinder Rana (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
11 March 2011

Profit and loss account
For the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Interest receivable:			
Interest receivable and similar income arising from debt securities		641	467
Other interest receivable and similar income		3,711	3,776
		4,352	4,243
Interest payable		(2,217)	(2,047)
Net interest income		2,135	2,196
Fees and commissions receivable		1,339	1,231
Fees and commissions payable		(38)	(26)
Dealing profits		159	151
Other operating income		9	12
Gain on sale of debt securities		-	150
		1,469	1,518
Total operating income		3,604	3,714
Administrative expenses	2	(2,784)	(2,724)
Depreciation and amortisation	10, 11	(415)	(393)
Other operating charges		(2)	(8)
Impairment gains/ (losses) on debt securities		233	(879)
Impairment losses on loans and advances	3	(93)	(35)
		(3,061)	(4,039)
Profit / (Loss) on ordinary activities before taxation	4	543	(325)
Tax on profit on ordinary activities	5	(193)	63
Profit / (Loss) on ordinary activities after taxation	17	350	(262)

The notes on pages 14 to 38 form an integral part of these financial statements.

All activities relate to continuing operations.

Turkish Bank (UK) Limited
Company Registration No. 2643004
Balance sheet
31 December 2010

	Notes	2010 £'000	2009 £'000
Assets			
Cash and balances at central banks		5,787	375
Loans and advances to banks	6	38,928	33,470
Items in the course of collection		2	5
Loans and advances to customers	7	53,363	58,884
Debt securities	9	12,729	8,773
Intangible fixed assets	10	131	137
Tangible fixed assets	11	7,527	7,621
Other assets	12	10	-
Prepayments and accrued income		296	273
Total assets		118,773	109,538
Liabilities			
Deposits by banks	13	3,590	3,348
Items in the course of transmission to other banks		62	18
Customer accounts	14	93,268	84,982
Derivative liabilities	28	37	81
Other liabilities	15	507	386
Accruals and deferred income		253	339
		97,717	89,154
Equity			
Called up share capital	16	12,000	12,000
Profit and loss account	17	5,410	5,185
Available for sale reserve	17	43	(404)
Revaluation reserve	17	3,603	3,603
Total equity		21,056	20,384
Total liabilities and equity		118,773	109,538
Contingent liabilities			
Guarantees and assets pledged as collateral security		119	93
Other contingent liabilities	18	-	371
		119	464
Commitments	19	51,498	51,611

The Board of Directors approved these financial statements and authorised for issue on 11 March 2011.

Signed on behalf of the Board of Directors

M T Özyol
Director

D. Blackmore
Director

The notes on pages 14 to 38 form an integral part of these financial statements.

Turkish Bank (UK) Limited

Cash flow statement
For the year ended 31 December 2010

	2010 £'000	2009 £'000
Net cash inflows inflow from operating activities	**8,470**	**293**
Taxation	(193)	89
Capital expenditure and financial investment (note 21)	(4,504)	(2,255)
Financing (note 21)	-	2,000
Returns on investments and servicing of finance (note 21)	-	(2,000)
Increase in cash (note 22)	3,773	1,873

Note to cash flow statement

Reconciliation of operating profit to net operating cash flows

	2010 £'000	2009 £'000
Profit) / (loss) on ordinary activities before tax	543	(325)
Decrease in prepayments and accrued income	(23)	(25)
Net increase in investment due to fair value change	322	1,420
(Decrease) / increase in accruals and deferred income	(86)	163
Depreciation charge and amortisation	415	393
Impairment loss on debt securities	233	857
Profit on sale of fixed asset investments	-	(150)
Net cash inflows from trading activities	1,404	2,333
Net decrease in collections	47	13
Net decrease in loans and advances to banks and customers	63	6,485
Net increase / (decrease) in deposits by banks and customers	6,889	(8,330)
Net (increase) / decrease in other assets	(10)	433
Net increase in derivative liabilities	(44)	(74)
Net decrease / (increase) in other liabilities	121	(567)
Net cash inflows from operating activities	**8,470**	**293**

Statement of total recognised gains and losses
For the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Profit for the financial year		350	81
Available-for-sale gains	17	447	2,277
Tax effect of available for sale losses	17	(125)	(638)
Total recognised gains for the year		672	1,720

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and freehold properties, and in accordance with the applicable United Kingdom accounting standards and the Statements of Recommended Practice issued by the British Bankers' Association.

The policies have been consistently applied in the current and preceding year.

The Bank's business activities, together with the factors likely to affect its future development, performance and position together with its cash flows, liquidity position and borrowing facilities are described in the Director's Report. In addition notes 27 and 28 to the financial statements includes the Bank's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Bank has considerable financial resources and a viable business model. As a consequence, the directors believe that the Bank is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

(b) Revenue recognition

(i) Interest income

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

(ii) Rendering of services and commissions

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

If it is probable that a specific lending arrangement will be entered into, the commitment fee received 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.

Notes to the accounts
For the year ended 31 December 2010

1. Accounting policies (continued)

(d) Loans and receivables

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over a relevant period. The effective interest rate is the rate that exactly discount estimated future cash receipts thought the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financials assets.

(e) Debt securities

Investments in debt securities are classified as available-for-sale and held-to-maturity. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

(f) Pension schemes

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

(g) Foreign currency translation

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

(h) Derivatives

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

The Bank uses derivative financial instruments (primarily foreign currency swaps) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The Bank does not use derivative financial instruments for speculative purposes. The Bank has not designated any of the 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%
Assets under finance lease	20%
Motor Vehicle	20%

Notes to the accounts
For the year ended 31 December 2010

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 and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding.

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

(l) Intangible assets – Software licences

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

(m) Property revaluations

The accounting policy for freehold land and buildings is to revalue them annually. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. There have been no material movements in the valuation of these freeholds in 2010. The last professional valuation was undertaken by Ringley, a chartered surveyor external to the Bank, in December 2009. 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.

(o) Segment analysis

Due to the nature of the business, the directors believe that it will be seriously prejudicial to the interests of the Bank to disclose Segmental Information.

2. Administrative expenses

	2010 £'000	2009 £'000
Staff costs during the year (including directors)		
Wages and salaries	1,548	1,443
Social security costs	144	140
Pension costs	54	68
	1,746	1,651
Other administrative expenses	1,038	1,073
	2,784	2,724

Notes to the accounts
For the year ended 31 December 2010

2. Administrative expenses (continued)

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

	2010 No.	2009 No.
Commercial banking activities	70	68

Directors' remuneration during the year consisted of:

	2010 £'000	2009 £'000
Emoluments	134	130

The emoluments of the highest paid director for the year ended 31 December 2010 were £91,000 (2009 - £91,000).

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

3. Impairment losses on loans and advances

	2010 £'000	2009 £'000
Impairment charge for the year	(93)	(36)
Recoveries	-	1
Net impairment charge for the year	(93)	(35)

During the year the Bank received £119 (2009 - £175) 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):

	2010 £'000	2009 £'000
Foreign currency gains	(159)	(151)
Operating lease rentals		
Land and buildings	79	77
Depreciation and amortisation		
Tangible fixed assets	376	336
Intangible fixed assets	39	57
Fees payable to the company's auditors		
Audit of the company's annual accounts	59	58
Tax services	12	12
	71	70

5. Tax on profit on ordinary activities

	2010 £'000	2009 £'000
Current tax		
United Kingdom corporation tax at 28% (2009 – 28%) based on profit for the year	(200)	396
Adjustment in respect of prior years	35	10
Total current tax	(165)	406
Deferred tax (Note 15)		
Reversal of timing differences	27	(343)
Prior year adjustment	(57)	-
Reversal of timing differences	2	-
	(193)	63

	2010 £'000	2009 £'000
Profit / (loss) on ordinary activities before tax	543	(325)
Tax at 28% (2009: 28%) thereon	(152)	172
Effects of:		
Expenses not deductible for tax purposes	(16)	48
Depreciation in excess of capital allowances	(37)	(7)
Movement in short-term timing differences	5	5
Prior year adjustments	35	(3)
	(165)	215

6. Loans and advances to banks

	2010 £'000	2009 £'000
Loans and advances to banks are repayable as follows:		
On demand	20,254	21,892
Within three months	15,449	11,578
Between three months and one year	3,225	-
	38,928	33,470

Included within loans and advances to banks are amounts of £0.140m in respect of group companies (2009 - £2.09m).

The interest received from group companies during the year is £6,132 (2009 - £14,801).

Notes to the accounts
For the year ended 31 December 2010

6. Loans and advances to banks (continued)

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

	2010 £'000	2009 £'000
In UK:		
On current account	3,904	3,190
On deposit account in money market lending	15,400	13,450
Outside UK:		
On current account	949	826
On deposit account		
- Money Market Lending	12,002	16,004
- Syndication Loan/Prom Notes	6,673	-
	38,928	33,470

7. Loans and advances to customers

	2010 £'000	2009 £'000
Loans are repayable as follows:		
On demand	7,955	8,226
Within three months	3,531	4,631
Between three months and one year	6,216	6,251
Between one and five years	7,147	11,991
After five years	28,646	27,839
Provision for impairment losses	(132)	(54)
	53,363	58,884

Non-performing loans and advances to customers of £132,000 were fully provided at 31 December 2010 (2009 - £54,000).

Loans and advances to customer includes £16,335 (2009: £17,429) which has been placed in the problem loan category other than those fully provided. All of these loans have been overdue for less than one year.

The following information is given in respect of the nature and type of loans and advances to customers:

	2010				
	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	7,670	298	7,968
Fixed term					
- Retail	-	-	26,602	262	26,864
- Corporation	3,123	7,767	7,749	24	18,663
Provision for impairment	-	-	-	(132)	(132)
	3,123	7,767	42,021	452	53,363

7. Loans and advances to customers (continued)

	2009				
	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	6,448	556	7,004
Fixed term					
- Retail	-	-	21,751	233	21,984
- Corporation	14,074	9,235	6,610	31	29,950
	14,074	9,235	34,809	820	58,938
Provision for impairment	-	-	-	(54)	(54)
	14,074	9,235	34,809	766	58,884

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

	2010 £'000				2009 £'000			
	GBP	USD	EURO	Total	GBP	USD	EURO	Total
UK	41,616	-	215	41,831	33,318	-	310	33,628
Non UK								
- Turkey	2,163	6,305	1,855	10,323	5,869	16,831	1,037	23,737
- Others	520	691	-	1,211	593	926	-	1,519
Total	44,299	6,996	2,070	53,365	39,780	17,757	1,347	58,884

8. Provisions for impairment losses

	2010 £'000	2009 £'000
As at 1 January 2010	54	36
Charge against profits	93	36
Less: recoveries	-	(1)
Net impairment charge for the year	147	71
Less: loans written off	(15)	(17)
At 31 December 2010	132	54

Accounts overdrawn for more then 60 days are reported monthly to a subcommittee of the Credit Committee. Provision is made on the advice of Credit Committee if an exposure is deemed to be at risk of non-recovery. All the provisions are approved by the Board of Directors.

9. Debt securities

Available for sale	2010 £'000	2009 £'000
Nominal value	7,418	7,924
Impairment loss	-	(879)
Accrued interest	123	105
Available-for-sale revaluation	43	(404)
Market value	7,584	6,746
Held to maturity		
Nominal value	5,062	2,(
Accrued interest	83	27
	5,145	2,027
Total	12,729	8,773

Investment in debt securities will mature as follows:

	2010 £'000	2009 £'000
Repayable:		
Less than 1 year	522	1,803
Between one and five years	9,522	6,970
After five years	2,685	-
	12,729	8,773

Segmental analysis of investment in debt securities is as follows:

	2010			2009		
	Fixed rate bonds £'000	Floating rate bonds £'000	Total £'000	Fixed rate bonds £'000	Floating rate bonds £'000	Total £'000
Sovereign bonds	5,282	-	5,282	2,872	1,802	4,674
Corporate bonds	7,447	-	7,447	4,099	-	4,099
	12,729	-	12,729	6,971	1,802	8,773

The debt securities comprise government and corporate bonds and are held as available for sale or held-to-maturity securities. The weighted average coupon rate of debt securities repayable after five years is 6.07% (2009 - Nil%).

The Bank does not have any intention to purchase securities below Investment Grade with maturity more than 10 years.

Securities classified as available for sale are measured at the closing market price on each reporting date and therefore these are classified as Level 1 for the purpose of fair value hierarchy.

9. Debt securities (continued)

The above balance includes debt securities of £521 which are due to mature in less than one year (2009: £1,803).

During the year, the bank has purchased £2 million fixed rate sovereign and $4.4 million fixed rate corporate debt securities from the market.

Analysis by currency of origin is as follows:

	2010				2009			
Origin of debt securities	**GBP**	**USD**	**EURO**	**Total**	**GBP**	**USD**	**EURO**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
UK	2,656	-	-	2,656	533	-	-	533
Turkey	-	1,082	-	1,082	-	-	1,803	1,803
Croatian	-		1,834	1,834	-	-	1,902	1,902
Kazakhstan	-	3,139	-	3,139	-	1,543	-	1,543
Ukraine	-	1,314	-	1,314	-	969	-	969
US	2,023		-	2,023	2,023	-	-	2,023
Russia	-	682	-	682	-	-	-	-
Total	4,679	6,217	1,834	12,730	2,556	2,512	3,705	8,773

10. Intangible fixed assets

	Licences £'000
Cost	
At 1 January 2010	1,140
Additions	33
At 31 December 2010	1,173
Amortisation	
At 1 January 2010	1,003
Charge for the year	39
At 31 December 2010	1,042
Net book value	
At 31 December 2010	131
At 31 December 2009	137

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

Notes to the accounts
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11. Tangible fixed assets

	Freehold land and buildings £'000	Land and buildings, short leasehold £'000	Lease Equipment £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost/Revaluation					
At 1 January 2010	7,149	653	67	2,247	10,116
Additions	-	-	-	282	282
Disposals	-	-	-	(47)	(47)
At 31 December 2010	7,149	653	67	2,482	10,351
Depreciation					
At 1 January 2010	955	393	12	1,135	2,495
Charge for the year	115	52	13	196	376
Disposals	-	-	-	(47)	(47)
At 31 December 2010	1,070	445	25	1,284	2,824
Net book value					
At 31 December 2010	6,079	208	42	1,198	7,527
At 31 December 2009	6,194	260	55	1,112	7,621

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

12. Other assets

	2010 £'000	2009 £'000
Other assets	10	-
	10	-

13. Deposits by banks

	2010 £'000	2009 £'000
Deposits by banks are repayable as follows:		
On demand		
- Group	1,167	1,622
- Other	1,423	1,726
Within a year		
- Group	1,000	-
	3,590	3,348

The interest paid amount to group companies during the year is £25,773 (2009: £137,195).

13. Deposits by banks (continued)

Geographical analysis of deposit by banks is follows:

	2010 £'000	2009 £'000
In UK:		
On current account	63	-
Outside UK:		
On current account	2,527	3,347
On deposit account	1,000	-
	3,590	3,347

14. Customer accounts

	2010 £'000	2009 £'000
Customer deposits are repayable as follows:		
On demand	15,687	14,742
Within three months	57,117	44,523
Between three months and one year	19,205	23,755
Between one year and five years	1,259	1,962
	93,268	84,982

The balance includes customers' deposits of £92 million (2009: £83 million) which is due to mature in less than one year period.

The following information is given in respect of the nature and type of customer deposits:

	2010 £'000			2009 £'000		
	Fixed rate interest	Floating rate interest	Total	Fixed rate interest	Floating rate interest	Total
Current account	-	10,669	10,669	-	6,940	6,940
Deposit account	-	23,555	23,555	-	23,414	23,414
Fixed deposit	59,044	-	59,044	54,628	-	54,628
	59,044	34,224	93,268	54,628	30,354	84,982

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

	2010 £'000						2009 £'000					
	GBP '000'	USD '000'	EUR '000'	TRY '000'	Others '000'	Totals '000'	GBP '000'	USD '000'	EUR '000'	TRY '000'	Others '000'	Totals '000'
UK	35,258	233	395	510	-	36,396	23,348	175	438	417	-	24,378
Turkey	10,643	7,098	4,335	273	1	22,350	9,516	16,348	5,080	242	7	31,193
Cyprus	22,099	4,393	5,984	962	184	33,622	19,541	4,147	4,383	329	112	28,512
Others	164	177	448	111	-	900	163	249	368	119	-	899
Total	68,164	11,901	11,162	1,856	185	93,268	52,568	20,919	10,269	1,107	119	84,982

15. Other liabilities

	2010 £'000	2009 £'000
Amounts owed to group companies	58	62
Other taxes and social security costs	35	35
Corporate tax	212	142
Deferred tax liability	73	45
Obligation under finance lease and hire purchase	45	57
Other liabilities	84	45
	507	386

Deferred tax (liabilities) / assets

	2010 £'000	2009 £'000
Deferred tax liabilities as at 1 January	45	(298)
Current year movement	(27)	343
Current year rate change	(2)	-
Prior year movement	57	-
Closing balance at 31 December	73	45

The closing deferred tax liability of £73,000 is made up of accelerated capital allowance of £50,000 and other timing differences of £23,000.

Obligation under finance lease and hire purchase

	2010 £'000	2009 £'000
Obligation under finance lease and hire purchase:		
Within one year	13	12
Between one and two years	15	13
Between two and five years	17	32
	45	57

Finance charges of £6,957 (2009:£8,348) was paid during the year in respect of obligation under finance lease.

16. Called up share capital

	Authorised		Called up, allotted and fully paid	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
12,000,000 Ordinary shares of £1 each	12,000	12,000	12,000	12,000

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

	Called up share capital	Profit and loss account	Revaluation reserve	Available for sale reserve	Total Share holders Funds
	£'000	£'000	£'000	£'000	£'000
As at 1 January 2009	10,000	8,085	3,603	(2,681)	19,007
Dividend paid	-	(2,000)	-	-	(2,000)
Increase in share capital	2,000	-	-	-	2,000
Loss for the year	-	(262)	-	-	(262)
Available-for-sale gains	-	-	-	2,277	2,277
Tax effect of the available for sale gain	-	(638)	-	-	(638)
As at 31 December 2009	12,000	5,185	3,603	(404)	20,384
As at 1 January 2010	12,000	5,185	3,603	(404)	20,384
Profit for the year	-	350	-	-	350
Available-for-sale gains	-	-	-	447	447
Tax effect of the available for sale gain	-	(125)	-	-	(125)
As at 31 December 2010	12,000	5,410	3,603	43	21,056

18. Other contingent liabilities

Other contingent liabilities comprise:

	2010 £'000	2009 £'000
Irrevocable letters of credit	-	371

Included in irrevocable letters of credit are amounts in respect of group companies of £Nil (2009 - £371,468).

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.

	2010 £'000	2009 £'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	34,604	36,886
Less than one year	16,894	14,725
	51,498	51,611

19. Commitments (continued)

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

	Land and buildings 2010 £'000	2009 £'000
Operating leases which expire:		
Within one year	-	-
Between two and five years	32	32
More than five years	47	45

20. Assets and liabilities in foreign currencies

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

	2010 £'000	2009 £'000
Assets	36,786	38,245
Liabilities	36,770	38,217

21. Cash flow statement

Capital expenditure and financial investment	**2010 £'000**	**2009 £'000**
Net purchase of tangible and intangible fixed assets	(315)	(743)
Purchase of fixed asset investments	(5,928)	(3,857)
Disposal of fixed asset investments		2,345
Cash proceed on maturity of available for sale assets	1,739	-
Net cash inflows /(outflows) from trading activities	4,504	(2,255)

Financing	**2010 £'000**	**2009 £'000**
Proceed from the issuance of share capital	-	2,000
	-	2,000

Returns on investments and servicing of finance	**2010 £'000**	**2009 £'000**
Dividend paid during the year	-	(2,000)
	-	(2,000)

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

	1 January 2010 £'000	Cash flows 2010 £'000	31 December 2010 £'000
Cash and balances at central banks	375	5,412	5,787
Loans and advances to other banks repayable on demand	21,892	(1,639)	20,253
	22,267	3,773	26,040

23. Analysis of changes in financing during the year

	Share capital £'000
Balance at 1 January 2010	12,000
Cash flow from financing	-
Other movements	-
Balance at 31 December 2010	12,000

24. Transactions with directors and managers

As at 31 December 2010, £14,080 was outstanding by way of loans to managers of the company (or persons connected with them) (2009 - £11,410). During the year, £14,380 was paid back and £17,050 drawdown by the managers (or persons connected to them) (2009 - £13,500).

25. Ultimate parent company

The ultimate parent and controlling company at 31 December 2010 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 100% 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. Risk management framework

Risk taking is central to banking activity. The Bank evaluates business opportunities in terms of a prudent risk-reward relationship.

The risks that the Bank takes on are reasonable, well controlled, within its financial resources and credit competent.

The diversity of our business requires us to identify, measure and manage risks effectively. At Turkish Bank (UK) Ltd. (TBUK), the risk is managed through an organisational structure including risk management and the monitoring of processes that are closely aligned with the activities of the Group and in line with the guidelines given by the Regulators.

The following key principles form part of TBUK's approach to risk management:

- The Board, through its subcommittees, the Audit Committee and the Business Development Committee (BDC) oversee risk management, review and approve Bank Policies (of which there are 21) and tolerance limits wherever required. All Policies are approved by the Board and subject to review at least once each calendar year.
- Nine committees at functional level oversee the implementation of risk management and associated policies. The principal committees are:
  - Assets and Liabilities Committee (ALCO), which manages the Market and liquidity risks whose members are the Managing Director, Assistant General Manager Compliance, Assistant General Manager (''AGM''), Wholesale & Markets, the Financial Controller and Treasury Dealer.
  - The Risk Committee is headed by the Non-Executive Director and comprises the two AGM's, the Internal Auditor, the IT Controller and the Financial Controller, who acts as the secretary to the Committee. The Committee allows the Bank to manage Credit, Market and Operational risk on an integrated basis.

27. Risk management framework (continued)

- The Credit Committee is responsible for controlling credit risk and implementing the Credit Policies as authorised by the Board. All decisions require unanimous agreement at each level of lending authority as prescribed by the Board.
- The HR Committee is responsible for overseeing the HR Policy of which the HR Handbook is an integral part.
- All management participate in risk assessment by means of the Risk Register which is reviewed at least annually under the direction of the AGM Compliance.

Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms.

Credit risk makes up the largest part of Bank's risks exposure. TBUK's credit process is guided by a well-established credit policy, rules and guidelines continuing a close-to-the-market approach with an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

Credit risk policies are established by the Credit Committee and approved by the Board through its BDC. The Bank has a system of checks and balances in place around the extension of credit that are:

- an independent credit management function;
- multiple credit approvers; and
- an independent audit and risk review function.

The Credit Risk Policy reflects TBUK's tolerance for risk i.e. credit risk appetite and the level of expected return. This, as a minimum, reflects TBUK's strategy to grant credit based on various products, economic sectors, client segments etc, target markets giving due consideration to risks specific to each target market.

Salient features of our Risk approval process are delineated below:

- every extension of credit to any counterparty requires unanimous approval by the pre-defined level of authority sanctioned by the board;
- all business groups must apply consistent standards in arriving at their credit decisions;
- every material change to a credit facility requires approval at the appropriate, pre-defined level; and
- credit approval authority is assigned to individuals according to their qualifications and experience.

The Bank uses risk rating systems where appropriate to supplement the credit risk measurement procedure for exposures exceeding a certain threshold. Risk rating of counterparties is an essential requirement of the credit approval process in these instances.

Stress testing on the credit portfolio is performed at least twice each year and more often if required and complies with the guidelines issued by the FSA.

The disbursement, administration and monitoring of credit facilities are managed by the Central Credit Unit (CCU). CCU is also responsible for collateral/documents management.

The Bank monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of this early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Problem Loan Review Unit to focus on expediting recoveries from problem credits. The unit negotiates with problem borrowers and recommends restructuring and rescheduling of problem credits to the Credit Committee. In cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated.

The Bank's maximum exposure to credit risk at the year end is £105 million (2009: £101 million). Credit risk exposure of £48 million (2009: £37 million) is secured against the first charge on properties and lien on customers' deposits.

27. Risk management framework (continued)

Country Risk

The Bank has established limits for Cross Border Transfer Risk (CBTR) based on the ratings assigned by internationally recognised rating agencies. CBTR arises from exposure to counterparties in countries other than the country where exposure is located. We define transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of Governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and market prices. TBUK only operates positions housed in its Banking book within strict Board approved guidelines. Currently Market Risk reporting is made to the Supervisor on the ‘‘Standard Method’’ base.

The banking book stems from mismatches in the structural assets and liabilities positions. Market risk is managed by ALCO supported by Financial Control under the supervision of BDC. Treasury front office is responsible to ALCO for the market risk it generates while the other responsible area for market risk on the banking book is the Risk Committee.

Derivatives

Transactions currently permitted include foreign currency, Forward Rate Agreements. At present the Bank is only dealing in Foreign Exchange Currency Swaps on a very limited scale and purely on a back-to-back basis without carrying any open position in its books. Policies in line with UK GAAP instructions have been formulated and are operative. A total notional amount equivalent to £10.6 million (2009: £6.3 million) was outstanding as at 31 December 2010.

Interest Rate Risk

Interest rate risk is the risk that an investment value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

A substantial part of the Bank’s assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small portion of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments. The overall potential impact of the mismatches on the earnings in the short-term and economic value of the portfolio in the longer term is not material and is being managed within the tolerance limits approved by the Board.

Foreign Exchange Risk

The Bank’s assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a very reasonable open position in various currencies resulting from the trade related transactions handled by the Bank.

Foreign Exchange risks are controlled and monitored through the limits monitored by ALCO and approved by the FSA. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence the risk generated through foreign exchange activities is not significant and therefore sensitivity analysis has not been presented.

End of the day positions are marked to market according to the guidelines of UK GAAP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by Treasury. Going forward the Bank will adopt VAR approaches to measure and monitor foreign exchange risk.

Liquidity Risk Management

Liquidity Risk is the risk that the Group will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding.

The ALCO has the responsibility for the formulation of overall strategy and oversight of the asset/liability management function.

27. Risk management framework (continued)

Liquidity Risk Management (continued)

Liquidity Risk is the risk that the Group will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding.

The ALCO has the responsibility for the formulation of overall strategy and oversight of the asset/liability management function.

The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and Board. The policy stipulates maintenance of various ratios, funding preferences and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioural study on its core deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to project realistically the reliance on such funding sources. As a result of close monitoring and strict policies towards reliance on core deposits, the Bank has been able to avoid concentration / reliance on volatile deposits in its books.

Operational Risk

Operational Risk controls were enhanced through 2005 by the introduction of new software, namely Temenos (T24) that allows an overall control of transactions centrally by Compliance Unit. The Board has approved the Operational Risk Policy.

The policy covers the core governing principles for operational risk management and provides guidelines to identify, control, monitor, measure and report operational risk in a consistent manner across the Bank. The online authorisations level based control infrastructure is one of the main tools that prevent the Operational Risk realisations. Besides Internal Control Unit is able to perform "Transaction Based Control" with the new software (T24).

Operational Risk is now calculated according to the ''Basic Indicator Approach'' and the Bank's objective is to calculate Operational Risk by the ''Standard Method'' as per Basel Capital Accord.

Risk monitoring process is preformed at both transaction and portfolio levels.

Monitoring at transaction levels is a function of the managers of business units where transactions are actually carried out, which is described as Local Monitoring. In cases where the managers originate business themselves exercising their discretionary authorities, monitoring is performed by their immediate line mangers.

Monitoring at portfolio levels is carried out by Head Office committees or by the Managing Director depending on the nature of risks involved and described as Central Monitoring. Information required for monitoring at a portfolio level is provided by the relative Head Office department manager using information gleaned from appropriate Management reports.

Monitoring of financial risks also covers related operational, statutory and regulatory risks.

28. Financial instruments

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

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

The directors of the Bank have established policies relating to large exposures, interest rate 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

28. Financial instruments (continued)

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.

			2010
	Notional amount £'000	**Fair value assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	10,640	-	37

			2009
	Notional Amount £'000	**Fair value Assets £'000**	**Fair value Liabilities £'000**
Foreign currency swap contracts	6,259	-	81

Foreign currency swaps totalling £7,421 million at the year-end are due to mature in less than one month. £3,219k foreign currency swaps are due to mature within four months.

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 2010. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

Capital risk management

The Bank policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence. During the years ended 31 December 2009 and 2010 capital has been maintained at a level above minimum FSA requirements. Such levels have been established by reference to an Internal Capital Adequacy Assessment Process (''ICAAP'') assessment. The Bank's capital resources consist of Tier 1 Capital and Upper Tier 2 Revaluation Reserve.

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

The Bank's capital requirements are set and monitored by the FSA. Regulatory capital consists solely of Tier 1 capital, which includes ordinary share capital and retained earnings

The Company's regulatory capital position was as follows:

	2010 £'000	**2009 £'000**
Tier 1 Capital		
Share Capital	12,000	12,000
Retained Earnings	5,410	5,185
Upper Tier 2 Capital		
Revaluation Reserve	3,603	3,603
Total regulatory capital	21,013	20,788

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

28. Financial instruments (continued)

Categories of financial instruments 2010

Assets	**Loans and Receivables**	**Available for sale**	**Financial asset/ liabilities at amortised cost**	**Derivatives**	**Total**
Cash and balances at central banks	5,787	-	-	-	5,787
Loans and advances to banks	38,928	-	-	-	38,928
Items in the course of collection	2	-	-	-	2
Loans and advances to customers	53,363	-	-	-	53,363
Debt securities-available for sale	-	7,490	5,239	-	12,729
Other assets	10	-	-	-	10
Total financial assets	**98,090**	**7,490**	**5,239**	-	**110,819**
Total non financial assets					7,954
Total assets					**118,773**
Liabilities					
Deposits by banks	-	-	3,590	-	3,590
Items in the course of transmission to other banks	-	-	62	-	62
Customer accounts	-	-	93,268	-	93,268
Derivative liabilities	-	-	-	37	37
Other liabilities	-	-	187	-	187
Accruals and deferred income	-	-	253	-	253
Total financial liabilities	-	-	**97,360**	**37**	**97,397**
Total non financial liabilities					21,376
Total liabilities and equity					**118,773**

28. Financial instruments (continued)

Categories of financial instruments 2009

Assets	**Loans and Receivables**	**Available for sale**	**Financial assets/ liabilities at amortised cost**	**Derivative**	**Total**
Cash and balances at central banks	375	-	-	-	375
Loans and advances to banks	33,470	-	-	-	33,470
Items in the course of collection	5	-	-	-	5
Loans and advances to customers	58,884	-	-	-	58,884
Debt securities-available for sale	-	6,748	2,025	-	8,773
Other assets	-	-	-	-	-
Total financial assets	**92,734**	**6,748**	**2,025**	**-**	**101,507**
Total non financial assets					8,031
Total assets					**109,538**
Liabilities					
Deposits by banks	-	-	3,348	-	3,348
Items in the course of transmission to other banks	-	-	18	-	18
Customer accounts	-	-	84,982	-	84,982
Derivative liabilities	-	-	-	81	81
Other liabilities	-	-	386	-	386
Accruals and deferred income	-	-	339	-	339
Total financial liabilities	**-**	**-**	**89,073**	**81**	**88,154**
Total non financial liabilities					20,384
Total liabilities and equity					**109,538**

28. Financial instruments (continued)

Interest rate sensitivity gap analysis 2010

	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	-	-	-	-	-	5,787	5,787
Loans and advances to banks	35,703	3,225	-	-	-	-	38,928
Loans and advances to customers	42,329	982	5,123	4,830	231	(132)	53,363
Debt Securities	-	-	521	9,523	2,685	-	12,729
Other assets	-	-	-	-	-	7,966	7,966
	78,032	4,207	5,644	14,353	2,916	13,581	118,733
Liabilities							
Deposits by banks	2,590	-	1,000	-	-	-	3,590
Customer accounts	72,804	11,297	7,908	1,259	-	-	93,268
Other liabilities	-	-	-	-	-	859	859
Shareholders' funds	-	-	-	-	-	21,056	21,056
	75,394	11,297	8,908	1,259	-	21,915	118,773
Interest rate sensitivity gap	2,638	(7,090)	(3,264)	13,094	2,916	(8,294)	-
Cumulative gap	2,638	(4,452)	(7,716)	5,378	8,294	-	-

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 2010.

Other liabilities other then deferred tax liabilities of £73,000 (2009 – 45,000) classified as non interest bearing in the above table has contractual maturities of less than three months.

The bank has outstanding financial guarantee contract of £119k at the year end. The outstanding guarantees of £32k are due to mature within a year.

28. Financial instruments (continued)

Interest rate sensitivity gap analysis 2009

	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 Bank	-	-	-	-	-	375	375
Loans and advances to banks	33,470	-	-	-	-	-	33,470
Loans and advances to customers	40,286	2,111	3,005	9,886	3,650	(54)	58,884
Debt Securities	1,803	-	-	6,549	-	421	8,773
Other assets	-	-	-	-	-	8,036	8,036
	75,559	2,111	3,005	16,435	3,650	8,778	109,538
Liabilities							
Deposits by banks	3,348	-	-	-	-	-	3,348
Customer accounts	59,264	13,444	10,312	1,962	-	-	84,982
Other liabilities	-	-	-	-	-	824	824
Shareholders' funds	-	-	-	-	-	20,384	20,384
	62,612	13,444	10,312	1,962	-	21,208	109,538
Interest rate sensitivity gap	12,947	(11,333)	(7,307)	14,473	3,650	(12,430)	-
Cumulative gap	12,947	1,614	(5,693)	8,780	12,430	-	-

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 2009.

Other assets other then deferred tax assets of £298,000 classified as non interest bearing in the above table has contractual maturities of less than three months.

A liability (or negative) gap position exists when liabilities re-price more quickly than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets 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 £132,000 (2009 - £54,000).

The weighted average interest rates are as follows: 1.51% (2009: 1.46%) for the loans and advances to banks; 5.29% (2009: 5.68%) for the loans and advances to customers; 6.35% (2009: 5.21%) for the debt securities; 0.74% (2009: 1.00%) for the deposits by banks; and 2.18% (2009: 2.32%) for the customer accounts.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rate fluctuation for both derivative and non derivative instruments at the balance sheet date. At reporting date, if interest rate had been 50 basis points higher/lower and all other variables were held constant the bank's net profit would increase/decrease by £194,000 (2009: £166,000). However, management believes that Bank interest rate risk is limited since the majority of customers deposits are reprised within three months as per the terms of their issue.

28. Financial instruments (continued)

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 2010 £'000**	**Net currency position 2009 £'000**
US Dollar	-	-
Euro	(3)	(4)
Japanese Yen	-	1
Swiss Franc	34	1
Other currencies	(14)	30
Total	17	28

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.

28. Financial instruments (continued)

Carrying value and fair value

The fair value of debt securities and derivative financial liabilities are market prices.

Fair value of other assets and other liabilities cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and a reliable date regarding market rates for similar instruments.

In the opinion of management, the fair value of remaining financial assets and liabilities are not significantly different from their carrying value since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently reset.

Set out is a comparison by category of carrying values and fair values of the Bank's financial assets, liabilities and swaps and forward transactions as at 31 December 2010.

	Carrying value 2010 £000	Fair value 2010 £000	Carrying value 2009 £000	Fair value 2009 £000
Financial assets				
Cash	5,787	5,787	375	375
Loans and advances to banks	38,928	38,928	33,470	33,470
Loans and advances to customers	53,363	53,363	58,884	58,884
Debt securities	12,729	12,729	8,773	8,773
Financial liabilities				
Deposits by banks	3,590	3,590	3,348	3,348
Customer accounts	93,268	93,268	84,982	84,982
Derivative liabilities	37	37	81	81