Company Registration No. 2643004

# Turkish Bank (UK) Limited

## Report and Financial Statements

## 31 December 2016

# Report and financial statements 2016

## Contents

# Turkish Bank (UK) Limited

## Report and financial statements 2016

## Chairman's statement

2016 will certainly be a year that we will not forget. We had so much happening in all 3 jurisdictions of our operations I had to change the format of my statement this year.

With the rise in the importance of politics we will have less coverage of macroeconomics and more coverage of macro politics.

Brexit that marked 2016 looks likely to continue to play significant importance in the foreseeable future. On the other hand Brexit impacts reflected positively on our balance sheet. The reduction in the value s of sterling against US dollars and Euro is increasing our profitability in sterling as a significant portion of our Balance sheet is non sterling due to overseas customers.

We are seeing also a positive effect of this on the property market where buyers are finding property prices more attractive in US dollars.

British Turkish business relations are continuing to enjoy a healthy growth. Economists' expectations are Turkey, a custom union member of EU and a significant trade partner of UK will play an important role after the Brexit as well.

Turkey had so much going on in 2016 that even a summary would double the usual size of my report. 2016 will be sadly remembered for several terrorism related lost lives in the country.

The effect of terrorism starting with tourism had a severe impact on Turkish Economy however I cannot think of a better word than "resilience" that explains both Turkish Economy and Turkish Banking.

It is a fact that after losing the investment grade status life will not be easy for the Turkish economies but young and dynamic business world might continue to surprise us.

Cyprus talks as was stated in my last year's report dominated the year. We had all the reasons to expect an agreement but hélas a 43 year conflict is not an easy one to solve. Apparently the talks will be continuing in 2017 and so will our hopes.

2016 surely marked Trump's election that seems to promise significant changes to the world leading country's politics and economy.

The most exciting news from the Group in 2016 is that Turkish Bank, Turkey finally moved to the new headquarter and is now enjoying regrouping of all units under one roof. Our old historical building will be kept to continue serving as our main branch with more units to be added such as Private banking.

Although 2016 was a year of significant investment in systems and controls, our growth and profitability was satisfactory, thanks to also significant and unexpected one off income we received from the mega marriage of Visa Europe and Visa International. You will notice that after this merger we decided as well to evaluate our shares in Visa, in line with market practice. The effect of this extra £325K will be seen on an increase in own funds without an effect on P/L that enjoyed last year the extra cash of some £975K received.

As to London we also had the opportunity and the honour of sponsoring Turkish Nobel prize winner Orhan Pamuk' s Museum of Innocence in Somerset House, during last year. The positive feedback we received from different circles is encouraging us for further efforts in this direction.

Back to our banking world, the world of payments in London is going through a major change; the concept of "clearing bank" is being replaced by direct access of all banks to payments systems through high technology. We as Turkish Bank we spend 2016 by implementing this biggest ever project. We will surely be one of the size-wise bravest banks to run such a big project. After joining BACS and FPS systems, we are expecting during 2018 to join the new Cheque Credit and Clearing System as well

We were equally busy opening our 7th branch in prestigious Mayfair, just next to the historical Claridges Hotel. This bold decision proved to be right as we are now in the process of reorganising overcrowded customers of this branch that serves mainly high net worth Turks from abroad.

**Chairman's report (continued)**

The increasing risks around Turkey mainly deriving from Syria kept us on duty the whole year and significant resource was allocated to several projects to mitigate financial crime risks. We will continue to invest in human resources and technology during 2017 to better our KYC and transaction monitoring.

Among the other important projects, our new website will be launched by latest early Q2 of this year as well as a completely new internet banking platform will be available to our clients shortly after.

Our customers will be enjoying their rebranded Debit Cards with "Contactless" functionality that I hope will make their life easier.

Our strategy to serve Turkish speaking community remain the same, however you will notice, the Bank is enjoying with the help of several business partners, a major reorganisation of systems and controls in order to better its standards. I can promise that you will be seen an almost new Bank by 2018 thanks to the vigorous efforts of our Board, Management and as well as the support from Group.

Thanks to the hard work of my colleagues while implementing those infrastructure projects to mitigate all emerging risks in the markets, they worked very hard at the same time to continue offer to our customers our top quality services and products and, at the same time, protect the interest of all with whom the Bank deals especially our clients, staff and shareholders.

I Hakan Bortecene

Chairman

24 March 2017

# Report and financial statements 2016

## Officers and professional advisors

### Directors

I H Bortecene (Chairman)
D I Stewart (Managing Director)
R W Long
D Blackmore (Chairman Audit Committee: Independent)
S Betteridge (appointed 10 May 2016, Chairman Risk Committee: Independent)
M Arig
M Y Rahmioglu

### Registered office

84-86 Borough High Street
London SE1 1LN

### Banker

HSBC Bank plc
27-32 Poultry
London EC2P 2BX

### Auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

# Turkish Bank (UK) Limited
# Company Registration No. 2643004

## The Strategic report

### For the year ended 31 December 2016

**Review of the Year**

Profit before tax decreased from £1,081k to £744k, the key reason being an increase in professional fees due to projects expanded on below.

One significant event is the proceeds that the Bank received from the reorganisation of the Visa network and the sale of Visa Europe to Visa Inc. The Bank has realised £975k through the profit and loss account of which Euro 1,040k was received during the year. In addition the bank has received preference shares valued at £325k which have been treated as Available for Sale.

The bank decided to increase its liquidity during 2016, whilst it invested in developing its payment systems, this resulted in a lower yield on its assets, reducing net interest income from £3.93m to £3.69m. Fee income also reduced mainly as a result of a reduction in remittance transfers.

The bank decided to apply to become a direct member of the Faster Payments, BACs and cheque clearing schemes; costs to date of £600k have been expensed. All of these projects are due to go live during 2017 and should result in an improved service for our customers. These costs, together with other external professional fees, have resulted in an increase in general overheads, which will continue in 2017as the bank invests for its future.

Impairment losses for the year of £4k were offset by recoveries of £12k and the level of total provisions at £198k (2015: £260k) which includes the IBNR of £100k (2015: £100k) (Incurred But Not Recorded) are extremely low against a loan book of £73mn. This reflects the Bank's policy of concentrating on secured lending at cautious margins of collateral. The Bank continues to monitor its loan book closely to identify cases of financial stress with a view to providing assistance wherever possible.

Resident lending to the chosen market sectors in and around London decreased by £25mn (37%) to £42mn (2015: £67mn). Non-resident lending increased from £14mn to £31mn reflecting attractive interest rates and property opportunities in the UK. Total lending decreased overall by £8mn to £73mn.

Customer deposits have increased by £36mn (2015: increase £7mn) to £153mn (2015: £118mn), within this resident deposits have increased by £5mn and non-resident deposits increased by £30mn to £101mn (2015: £71mn), reflecting the UK being regarded as a safe haven.

There was an increase in the level of fees received from commitment charges and also an increase in business accounts charges with the expansion of this business, which will be reflected in future years over the life of the loans.

The Bank continues to try and further improve the quality of its services to all levels of its customer base, and the project group to improve customer service and standardisation across the Bank, which was started in 2014, will be continuing during 2017, with an increased focus on efficiency. The Bank seeks to ensure that we keep pace with changes in the financial services industry by closely monitoring competition on the high street as well as in the wholesale markets.

The Bank seeks to builds a positive and productive dialogue with the regulators and ensures that the Bank picks up on best practises with the objective of providing fair treatment for customers and as a result improved recognition in the community and an expansion in the Bank's customer base. We encourage both compliments and complaints if the quality of our service has fallen below what is expected, as a basis of improving our service in the future. The introduction of the new Senior Managers Regime is intended to improve standards in banking behaviour, something the Bank as a community bank wholeheartedly endorses.

We look to this year to build on the underlying operating profits generated in 2016 despite the ever increasing burden of regulatory costs and to provide our clients with the quality service to which they are entitled, and in line with the Group's history and values.

## The Strategic report (continued)

**Principal risks and uncertainties**

The Bank's activities expose it to a number of financial risks including credit risk, interest rate and currency risk and liquidity and funding risk. The Bank only uses "plain vanilla" currency swaps and does not enter into any exotic contracts. Such swaps are used to hedge the Bank's currency positions and are not used for trading purposes. Risk policies have been disclosed in note 27 of the financial statements, which also provides greater detail of how risk is managed.

Interest rate and currency 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 movements. With regard to interest rate risk the Bank has only a very small part of its loan portfolio on fixed interest rates, and the majority is on variable rates, reducing the bank's exposure to interest rate fluctuations. Money market placements are at fixed rate but these are typically for a short period, up to three months to minimise any risks.

Credit risk: The Bank has no significant concentration of credit risk, with lending mainly against UK property and LTV (Loan to Value) which are low compared to the market. 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 on-going operations and future developments, the Bank has set a cautious risk appetite with a significant proportion of the total assets held in medium-term and short-term money market. 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, has set quantifiable risk appetite limits 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 26 to the accounts.

The Bank that currently provides the majority of our clearing services announced in March 2015 their desire to discontinue these services due to strategic change in their business model. The bank has embarked on projects to become a direct member of the appropriate schemes. It is planned that the bank will become a member of the BACS system in May this year and of the Faster Payments system in August this year. The bank also intends to become a member of the electronic cheque clearing system due to commence in the last quarter of this year.

**Future developments**

The directors aim to maintain the policies that have resulted in the Bank's growth. As stated in the review, the Bank is investing to improve the Bank's internet offering and is also reviewing its product portfolio with the intention to expand the range of products for the benefit of our customers. Other future activities are covered in the Chairman's Report.

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

D.I. STEWART
DIRECTOR

24 March 2017

# Turkish Bank (UK) Limited
# Company Registration No. 2643004

## Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2016.

**Activity Report**

The principal activities of Turkish Bank (UK) Limited ("TBUK or the Bank") are twofold namely:

- to provide a superior community banking service to the Turkish-speaking people 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. 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**

Information regarding the Bank's financial performance and position during the year ended 31 December 2016 is presented in the Strategic Report on page 5.

**Principal risks and uncertainties**

Information regarding the exposure of credit risk, interest rate and currency risk, liquidity and funding risk are included in the Strategic Report on page 5.

**Going Concern**

After making enquiries, the Directors have a reasonable expectation that the Company has 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. The bank has been advised of a change in strategy of the bank's principal clearer. The directors have considered the various scenarios that might arise from this change, and decided that the bank would apply to become a direct member of the payments systems. These applications were accepted and the projects are in an advanced stage expected to go live in 2017 Hence the directors are satisfied that the bank remains a going concern.

Further details regarding the bank's accounting policies can be found in the statement of accounting policies in these financial statements on page 16.

**Key performance indicators**

| | **2016** | **2015** |
|---|---|---|
| Profit before tax as % of equity | 2.89% | 4.21% |
| Equity as % of total assets | 13.96% | 17.03% |
| General expenses as a % of net income | 87.82% | 80.52% |

Profit before tax as a percentage of equity reduced mainly due to the increased costs resulting from the investment in payment systems. Equity as a percentage of total assets reduced following the growth of the balance sheet as the bank attracted more deposits. General expenses as a % of net income reduced due to the expenditure on payment systems and a reduction in fee income.

**Results and dividends**

The profit for the year after taxation amounted to £528,000 (2015 – profit £768,000).

The directors do not recommend the payment of a dividend (2015 - £nil).

**Political and charitable contributions**

The bank does not make political contributions, but does support registered charities that operate in the same community. During the year, the Bank made various charitable contributions totalling £650 (2015 £1,150).

# Directors' report (continued)

**Directors and their interests**

The directors who served during the year were as follows:

I H Bortecene (Chairman)
David I Stewart
R W Long
D Blackmore*
Steven Betteridge** (appointed 10 May 2016)
M Arig
M Y Rahmioglu
* Chairman of the Audit Committee
** Chairman of the Risk Committee

**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.

**Accounting policy**

These financial statements have been prepared on the basis of IFRS accounting standards, as adopted by the European Union. Prior year accounts were produced 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.

**Audit Committee**

The Bank has an Audit Committee comprising six non-executive directors including two independent non-executive directors, all of whom are experienced bankers. The Committee met on five occasions in 2016 (2015: five times).

**Risk Committee**

The Bank has a Risk Committee comprising three non-executive directors (including two independent directors), and the MD whom are all experienced bankers, plus members of the executive management. The Committee met on five occasions in 2016 (2015: five times).

**Disclosure of information to the auditor**

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

(1) so far as each of the directors are aware, there is no relevant audit information of which the Bank's auditor is 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 is 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.

**Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

D. I. STEWART
DIRECTOR
24 March 2017

84-86 Borough High Street
London SE1 1LN
United Kingdom

## Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

D. I. STEWART
DIRECTOR

24 March 2017
Registered in England. Company No. 2643004

## INDEPENDENT AUDITOR'S 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 2016 set out on pages 12 to 49. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 set out on page 9, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

### 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and.
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

## 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;

**Namrata Basker (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square, London E14 5GL

24 March 2017

## Turkish Bank (UK) Limited

## Statement of Profit or Loss and Other Comprehensive Income
## For the year ended 31 December 2016

| | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| Interest income | 3 | 5,298 | 5,332 |
| Interest expense | 3 | (1,613) | (1,399) |
| **Net interest income** | 3 | 3,685 | 3,933 |
| Fees and commissions receivable | 4 | 1,396 | 1,620 |
| Fees and commissions payable | 4 | (161) | (143) |
| **Net fee and commission income** | 4 | 1,235 | 1,477 |
| Net trading income | 5 | 202 | 186 |
| Other operating income | | 13 | 5 |
| Gain on conversion of debt securities | | 975 | 0 |
| **Total operating income** | | 6,110 | 5,601 |
| Net impairment recovery on financial assets | 7 | 8 | (27) |
| Personnel expenses | 6 | (2,578) | (2,414) |
| Premises and equipment | | (521) | (453) |
| Administrative expenses | | (1,772) | (1,087) |
| Depreciation and amortisation | 15,16 | (491) | (525) |
| Other expenses | | (12) | (14) |
| **Total operating expenses** | | (5,366) | (4,520) |
| **Profit before taxation** | 8 | 744 | 1,081 |
| Income tax expense | 9 | (216) | (313) |
| **Profit after taxation** | | 528 | 768 |
| **Other comprehensive income** | | | |
| **Items that are or may subsequently be classified to profit or loss** | | | |
| Available for sale financial assets net change in fair value | | (464) | 727 |
| **Total other comprehensive income** | | **(464)** | **727** |
| **Total comprehensive income** | | **64** | **1,495** |

The notes on pages 16 to 49 form an integral part of these financial statements.
All activities relate to continuing operations.

# Turkish Bank (UK) Limited

## Statement of Financial Position
## For the year ended 31 December 2016

| | Notes | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 10 | 100,136 | 54,922 |
| Loans and advances to banks | 11 | 1,704 | 3,372 |
| Loans and advances to customers | 12 | 72,784 | 80,774 |
| Investment Securities | 14 | 999 | 2,303 |
| Current taxation Assets | 9 | 128 | 166 |
| Property and equipment | 16 | 7,536 | 7,747 |
| Intangible assets | 15 | 601 | 720 |
| Other assets | 17 | 714 | 1,024 |
| **Total assets** | | 184,602 | 151,028 |
| **Liabilities** | | | |
| Derivative liabilities held for risk management | | - | 36 |
| Deposits from banks | 18 | 3,804 | 5,813 |
| Deposits from customers | 19 | 153,121 | 117,627 |
| Current tax liabilities | 9 | 193 | 272 |
| Deferred tax liabilities | 20 | 41 | 207 |
| Other liabilities | 20 | 1,674 | 1,368 |
| | | 158,833 | 125,323 |
| **Equity** | | | |
| Called up share capital | 21 | 12,000 | 12,000 |
| Retained earnings | | 8,087 | 7,559 |
| Available-for-sale reserve | | 325 | 789 |
| Revaluation reserve | | 5,357 | 5,357 |
| **Total equity** | | 25,769 | 25,705 |
| **Total liabilities and equity** | | 184,602 | 151,028 |

The Board of Directors approved these financial statements and authorised for issue on 24 March 2017.

Signed on behalf of the Board of Directors

I H Bortecene
Director

D. I. Stewart
Director

Registered number 2643004
The notes on pages 16 to 49 form an integral part of these financial statements.

# Turkish Bank (UK) Limited

## Statement of Cash flows
## For the year ended 31 December 2016

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| **Cash flows from operating activities** | | |
| **Profit after taxation** | **528** | **768** |
| Adjustments for:- | | |
| Depreciation of property plant and equipment | 349 | 371 |
| Amortisation of intangible assets | 142 | 154 |
| Net Interest income | (3,685) | (3,933) |
| Gain on conversion of debt securities | (975) | - |
| Effective of foreign currency translation | 0 | 236 |
| Income tax expense | 216 | 313 |
| | (3,425) | (2,091) |
| Changes in:- | | |
| Derivative assets held for risk management | 0 | 42 |
| Loans and advances to customers | 7,990 | (1,402) |
| Loans to banks | 1,668 | (119) |
| Other assets | 310 | (466) |
| Derivative liabilities held for risk management | (36) | 36 |
| Deposits from banks | (2,009) | 2,026 |
| Deposits from customers | 35,494 | 7,027 |
| Other liabilities | 306 | 778 |
| | **43,723** | **7,922** |
| Interest received | 5,298 | 5,332 |
| Interest paid | (1,613) | (1,399) |
| Income tax paid | (264) | (260) |
| **Net cash flows from operating activities** | **47,144** | **11,595** |
| **Cash flows from investing activities** | | |
| Acquisition of property and equipment | (138) | (23) |
| Acquisition of intangible assets | (23) | (98) |
| Acquisition of available for sale securities | (219) | (880) |
| Proceeds from disposal of available for sale securities | 1,875 | 1,997 |
| **Net cash used in investing activities** | **1,495** | **996** |
| **Net increase / (decrease) in cash and cash equivalents** | 45,214 | 10,500 |
| Cash and cash equivalents as at 1 January | 54,922 | 44,422 |
| **Cash and cash equivalents as at 31 December** | **100,136** | **54,922** |

The notes on pages 16 to 49 form an integral part of these financial statements.

# Statement of changes in Equity
# For the year ended 31 December 2016

| | Notes | Share Capital | Available for sale Reserve | Revaluation Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | | 12,000 | 62 | 5,357 | 6,791 | 24,210 |
| Profit for the year | | - | - | - | 768 | 768 |
| Other comprehensive income | | - | 727 | - | - | 727 |
| **Balance as at 31 December 2015** | | **12,000** | **789** | **5,357** | **7,559** | **25,705** |
| **Balance as at 1 January 2016** | | 12,000 | 789 | 5,357 | 7,559 | 25,705 |
| Profit for the year | | | | | 528 | 528 |
| Other comprehensive income | | - | (464) | - | - | (464) |
| **Balance as at 31 December 2016** | | **12,000** | **325** | **5,357** | **8,087** | **25,769** |

The notes on pages 16 to 49 form an integral part of these financial statements.

# Notes to the accounts
# For the year ended 31 December 2016

**1. (a) Reporting Entity**

Turkish bank (UK) Limited (the "Bank") is domiciled in the United Kingdom. The company's registered office is 84-86 Borough High Street, London SE1 1LN. The Company is a regulated Bank, primarily in the retail banking sector.

**(b) Basis of preparation**

The financial statements have been prepared in accordance with IFRS, as adopted by the EU. They were authorised for issue by the Bank's board of directors during March 2017

These accounts have been prepared on a going concern basis. The bank was advised in 2015 of a change in strategy of the bank's principal clearer. As a result the bank has embarked on a project to become direct members of the faster payments and BACS systems. The directors have considered the various scenarios that might arise from this change, and are comfortable that the bank can continue to operate as a going concern. In addition the bank has received confirmation from their parent of their intent to support TBUK where required. The bank expects to continue to offer its existing range of services

These financial statements are presented in pounds sterling which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

**(c) (i) Use of judgements and estimates**

In preparing these financial statements, management has made judgements, estimates and assumptions that effect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 is included in the following notes:-

Note 9 recognition of deferred tax assets

Note 7 recognition and measurement of provisions and contingencies; key assumptions about the likelihood and magnitude of an outflow of resources;

**(c) (ii) Measurement of fair values**

A number of the bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The bank has an established control framework with respect to the measurement of fair values.

Significant valuation issues are reported to the Bank's Audit Committee.

When measuring the fair value of an asset or liability the bank uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:-

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 : inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices)
- Level 3 : inputs for the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The bank recognises transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

**(d) Revenue recognition**

**(i) Interest income**

Interest income on financial assets classified as loans and receivables or available for sale is calculated using the standard accruals method which is the same as the effective interest rate method for performing loans. If the bank were to make provisions on loans it would apply the effective interest method to the every such loan individually; i.e. 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 a specific lending arrangement is entered into, 30% of the arrangement and commitment fee received is taken upfront to offset costs incurred at that time; the remainder of the fee is deferred to the useful life of the asset. 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.

**(e) 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. Each impaired asset is assessed on its merits and the work out strategy and estimate of cash flows considered recoverable are independently approved by the Credit Committee. Impairment losses on available for sale securities are recognised through profit and loss.

A collective component of the total allowance is established for:-

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss Incurred But Not Reported).

The collective allowance for groups of homogeneous loans is established using statistical methods or for small portfolios a formula approach based on historical loss experience. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Loss rates are bench marked against actual loss experience.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances, when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective impairment management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the assumptions and parameters used in determining the collective allowance.

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.

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

**(f) Loans and receivables**

Loans and receivables are measured at initial recognition at fair value based on transaction costs 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 (e) 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 discounts estimated future cash receipts thought the expected life of the financial asset, or, where appropriate, a shorter period.

**(g) Investment securities**

Investments in debt securities are classified as available-for-sale or 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 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.

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.

**(h) Credit Risk**

For the definition of credit risk and information on how credit risk is managed by the Bank see note 27.

**(i) 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.

**(j) 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.

**(k) 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 derivative contracts in hedging relationships for hedge accounting purposes.

The Bank values it's available for sale and held for trading investment securities at fair market value. The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, or the financial instruments are traded infrequently and have little price transparency or the fair value is less objective, and requires varying degrees of judgment, the Bank uses valuation techniques to arrive at the fair value as set out in 1 (c) above.

The valuation techniques employ observable market data to calculate fair values, including comparisons with similar financial instruments for which market observable prices exist. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

**(l) 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% |

**(m) 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.

**(n) 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.

**(o) Intangible assets – Software licences and software purchased**

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. These software licences amortizations coincide with hardware depreciation over a period of five years. Provision is made for any impairment loss.

**(p) Property revaluations**

The accounting policy for freehold land and buildings is to revalue them at least biennially. 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. The last professional valuation was undertaken by Ringley, a chartered surveyor external to the Bank, in December 2014 which resulted net surplus of £1,464,000. Valuations were made on the basis of open market value for existing use. The directors have considered the value of the freehold land and building without revaluing them and are satisfied that the aggregate fair value of those assets at the time in question is or was not less than the aggregate amount at which they are or being stated in the company's account.

**(q) Financial liabilities**

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

**(r) Segment analysis**

The Bank has produced segmental analysis based on geographical sectors and reportable business sectors.

**(s) Cash and cash equivalents**

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position

### (t) Standards Issued but not yet adopted

IFRS 9 – Financial instruments

IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018 and was endorsed by the EU in 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments.

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognise expected credit losses based on unbiased forward-looking information, replacing the existing incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through OCI, loan commitments and financial guarantee contracts. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (these were covered by IAS 37). In addition, the IAS 39 Available for Sale assets model is not fully aligned to the model for amortised cost assets.

IFRS 9 requires the recognition of lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition 12 month expected credit losses are recognised, being the expected credit losses from default events that are possible within 12 months after the reporting date.

Expected credit losses are the unbiased probability of default weighted average credit losses determined by evaluating a range of possible outcomes and forecast future economic conditions. Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the effective interest rate.

Under IFRS 9, impairment will be recognised earlier than is the case under IAS 39 because it requires expected losses to be recognised before the loss event arises. Measurement will involve increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk. It is not considered practical to disclose reliable financial impact estimates until the implementation programme is further advanced.

IFRS 15 – Revenue from Contracts with Customers

In 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which will replace IAS 18 Revenue and IAS 11 Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard will establish a more systematic approach for revenue measurement and recognition. During July 2015, the IASB confirmed the deferral of the effective date by one year to 1 January 2018. The standard has not yet been endorsed by the EU. Adoption of the standard is not expected to have a significant impact.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. Under the new requirements, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The effective date is 1 January 2019. The standard has not yet been endorsed by the EU.

# Notes to the accounts
# For the year ended 31 December 2016

## 2 Segmental Analysis

The Bank's profit and loss and balance sheet is analysed by business sector below:-

| | Retail Banking | Treasury | Central | Total |
|---|---|---|---|---|
| **2016** | **£'000** | **£'000** | **£'000** | **£'000** |
| Net Interest Income | 3,363 | (19) | 341 | 3,685 |
| Net fee and commission income | 1,226 | 95 | (86) | 1,235 |
| Gain on investment Securities | - | - | 975 | 975 |
| Net trading income | - | 202 | - | 202 |
| Other income | 23 | (18) | 8 | 13 |
| **Total segment revenues** | **4,612** | **260** | **1,238** | **6,110** |
| Impairment recoveries | 8 | - | - | 8 |
| Operating expenses | (2,286) | (222) | (2,866) | (5,374) |
| **Segment profit before tax** | **2,334** | **38** | **(1,628)** | **744** |
| Segment Assets | 72,296 | 104,397 | 7,909 | 184,602 |
| Segment liabilities | 129,809 | 5,079 | 23,945 | 158,833 |
| **2015** | | | | |
| Net Interest Income | 3,437 | 187 | 309 | 3,933 |
| Net fee and commission income | 1,677 | 71 | (271) | 1,477 |
| Net trading income | - | 186 | - | 186 |
| Other income | 1 | 1 | 3 | 5 |
| **Total segment revenues** | **5,115** | **445** | **41** | **5,601** |
| Impairment losses | (27) | - | - | (27) |
| Operating expenses | (2,192) | (317) | (1,984) | (4,493) |
| **Segment profit before tax** | **2,896** | **128** | **(1,943)** | **1,081** |
| Segment Assets | 56,068 | 70,919 | 24,041 | 151,028 |
| Segment liabilities | 95,042 | 6,442 | 23,839 | 125,323 |

# Notes to the accounts
# For the year ended 31 December 2016

**Sector analysis continued**

The Bank's profit and loss account can be analysed by geographic region as follows:-

**Geographic Analysis**

| | UK | Europe excluding UK | Total |
|---|---|---|---|
| **2016** | **£'000** | **£'000** | **£'000** |
| Net Interest Income | 2,603 | 1,082 | 3,685 |
| Net fee and commission income | 870 | 365 | 1,235 |
| Net trading income | 202 | - | 202 |
| Gain on investment securities | 975 | | 975 |
| Other income | 13 | - | 13 |
| **Total segment revenues** | **4,663** | **1,447** | **6,110** |
| Impairment recoveries | 8 | - | 8 |
| Operating expenses | (5,046) | (328) | (5,374) |
| **Segment profit before tax** | **(375)** | **1,119** | **744** |
| Segment Assets | 108,467 | 76,135 | 184,602 |
| Segment liabilities | 62,183 | 96,650 | 158,833 |
| **2015** | | | |
| Net Interest Income | 2,965 | 968 | 3,933 |
| Net fee and commission income | 1,233 | 244 | 1,477 |
| Net trading income | 186 | - | 186 |
| Other income | 5 | - | 5 |
| **Total segment revenues** | **4,389** | **1,212** | **5,601** |
| Impairment losses | (27) | - | (27) |
| Operating expenses | (4,040) | (453) | (4,493) |
| **Segment profit before tax** | **322** | **759** | **1,081** |
| Segment Assets | 96,656 | 54,372 | 151,028 |
| Segment liabilities | 49,201 | 76,122 | 125,323 |

# Notes to the accounts
# For the year ended 31 December 2016

## 3. Net Interest income

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| **Interest income** | | |
| Cash and cash equivalents | 809 | 286 |
| Loans and advances to banks | 18 | 26 |
| Loans and advances to customers | 4,372 | 4,789 |
| Debt Securities | 99 | 231 |
| **Total interest income** | **5,298** | **5,332** |
| **Interest expense** | | |
| Deposits from banks | (4) | (7) |
| Deposits from customers | (1,609) | (1,392) |
| **Total interest expense** | **(1,613)** | **(1,399)** |
| **Net interest income** | **3,685** | **3,933** |

## 4. Net Fee and Commission income

Net fee and commission income was all derived from retail banking customer fees for both 2016 and 2015

## 5. Net trading income

Net trading income was all from foreign exchange trading for both 2016 and 2015

## 6. Personnel expenses

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| **Personnel expenses during the year (including directors)** | | |
| Wages and salaries | 2,113 | 1,973 |
| Social security costs | 193 | 190 |
| Pension costs | 72 | 79 |
| Other staff costs | 200 | 172 |
| | 2,578 | 2,414 |

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

| | 2016 | 2015 |
|---|---|---|
| | No. | No. |
| Commercial banking activities | 82 | 81 |

Directors' remuneration during the year consisted of:

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Emoluments | 223 | 233 |

The emoluments of the highest paid director for the year ended 31 December 2016 were £122,000 (2015: £122,000).

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

# Notes to the accounts
# For the year ended 31 December 2016

## 7. Impairment losses on loans and advances

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Impairment charge for the year | (4) | (64) |
| Recoveries | 12 | 37 |
| Net impairment recovery / (charge) for the year | 8 | (27) |

## 8. Profit on ordinary activities before taxation

Profit is stated after charging:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Foreign currency gains | (202) | (186) |
| Operating lease rentals | | |
| Land and buildings | 183 | 106 |
| Depreciation and amortisation | | |
| Tangible fixed assets | 349 | 371 |
| Intangible fixed assets | 142 | 154 |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Fees payable to the company's auditor | | |
| Audit of the company's annual accounts | 82 | 82 |
| Tax services | 10 | 6 |
| | 92 | 88 |

## 9. Income taxes

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Tax paid in respect of current year** | 128 | 166 |
| **Current tax** | | |
| United Kingdom corporation tax at 20% (2015: 20.25%) based on profit for the year | (149) | (272) |
| Adjustment in respect of prior years | (44) | - |
| Total current tax | (193) | (272) |
| **Deferred tax** | | |
| Current year movement | (24) | 35 |
| Prior year Adjustment | 1 | (76) |
| | (216) | (313) |

Deferred tax has been calculated at 17% as this is the enacted rate for the period when the timing difference is expected to reverse.

The current tax charge for the year can be reconciled to the standard rate of corporation tax at 20% (2015 20.25%) as explained overleaf:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | 744 | 1,081 |
| Tax at 20% (2015: 20.25%) thereon | (149) | (219) |
| Expenses not deductible for tax purposes | (3) | (4) |
| Depreciation in excess of capital allowances | (33) | (58) |
| Prior period adjustment | (12) | - |
| Reversal of timing differences | 4 | 9 |
| Total current tax | (193) | (272) |
| Deferred tax: | | |
| Current year movement | (24) | 35 |
| Prior period adjustment | 1 | (76) |
| | (216) | (313) |

## 10. Cash and Cash Equivalents

| Cash and cash equivalents are comprised of the following: | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash | 786 | 646 |
| Deposits at the Bank of England | 28,508 | 16,308 |
| On demand | 24,293 | 14,994 |
| Within three months | 46,549 | 22,974 |
| | 100,136 | 54,922 |

Included within cash and cash equivalents is an amount of £1,644,000 in respect of group companies (2015: £277,000). The interest received from group companies during the year was £14,000 (2015: £7,000). Geographical analysis of cash and cash equivalents is as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| | 786 | 646 |
| - Deposits with Bank of England | 28,508 | 16,308 |
| - On current account | 6,869 | 12,615 |
| - On deposit account in money market lending | 13,885 | - |
| Outside UK: | | |
| - On current account | 17,424 | 2,379 |
| - Money Market Lending | 32,664 | 22,974 |
| | **100,136** | **54,922** |

| By Credit Rating | | |
|---|---|---|
| Cash | 786 | 647 |
| AA | 28,508 | 16,308 |
| AA- to AA+ | 39,026 | 14,995 |
| A- to A+ | 8,635 | 1,920 |
| BBB | 20,285 | 10,537 |
| BB | 1,250 | 10,238 |
| Not rated | 1,646 | 277 |
| **Total** | **100,136** | **54,922** |

## 11. Loans and advances to banks

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loan to a Turkish bank original maturity less than 1 year | 1,704 | - |
| Promissory notes from a Turkish bank original maturity less than 1 year | - | 3,372 |

## 12. Loans and advances to customers

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loans are repayable as follows: | | |
| On demand | 2,853 | 5,370 |
| Within three months | 5,258 | 7,569 |
| Between three months and one year | 7,182 | 7,640 |
| Between one and five years | 47,715 | 54,792 |
| Five years or more | 9,974 | 5,663 |
| Provision for impairment losses | | |
| Specific | (98) | (159) |
| Collective | (100) | (101) |
| | 72,784 | 80,774 |

Loans and advances are classified as non-performing if they any repayments are not made within 30 days of the due date. Non-performing loans and advances totalled £1,437,170 at the year-end (2015: £1,238,111).

Loans and advances to customers includes £ 1,354,039 (2015: £865,803) which has been in the watch list but no provision was made against them. The following information is given in respect of the nature and type of loans and advances to customers:

**2016**

| | Fixed Rate Loan £'000 | | Floating Rate Loan £'000 | | Total £'000 |
|---|---|---|---|---|---|
| | Secured | Unsecured | Secured | Unsecured | |
| Overdraft | - | - | 2,289 | 534 | 2,823 |
| Fixed term | | | | | |
| - Retail | 1,621 | - | 56,698 | 510 | 58,829 |
| - Corporation | - | 2,130 | 9,200 | - | 11,330 |
| | 1,621 | 2,130 | 68,187 | 1,044 | 72,982 |
| Provision for impairment | - | - | (19) | (179) | (198) |
| | 1,621 | 2,130 | 68,168 | 865 | 72,784 |

**2015**

| | Fixed Rate Loan £'000 | | Floating Rate Loan £'000 | | Total £'000 |
|---|---|---|---|---|---|
| | Secured | Unsecured | Secured | Unsecured | |
| Overdraft | - | - | 4,667 | 703 | 5,370 |
| Fixed term | | | | | |
| - Retail | 1,646 | - | 52,896 | 415 | 54,957 |
| - Corporation | 7,406 | - | 2,147 | 11,154 | 20,707 |
| | 9,052 | - | 59,710 | 12,272 | 81,034 |
| Provision for impairment | - | - | (19) | (241) | (260) |
| | 9,052 | - | 59,691 | 12,031 | 80,774 |

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

| | 2016 £'000 | | | | 2015 £'000 | | | |
|---|---|---|---|---|---|---|---|---|
| | GBP | USD | EURO | Total | GBP | USD | EURO | Total |
| UK | 41,800 | 505 | - | 42,305 | 63,465 | 3,745 | - | 67,210 |
| Non UK | | | | | | | | |
| - Turkey | 23,993 | 2,285 | 2,130 | 28,408 | 1,358 | 3,886 | 8,046 | 13,290 |
| - Others | 2,071 | - | - | 2,071 | 274 | - | - | 274 |
| Total | 67,864 | 2,790 | 2,130 | 72,784 | 65,097 | 7,631 | 8,046 | 80,774 |

## 13. Provisions for impairment losses

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Specific Provision** | | |
| As at 1 January | 160 | 171 |
| Charge against profits | 4 | 29 |
| Less: recoveries | (12) | (37) |
| Net impairment credit for the year | (8) | (8) |
| Less: loans written off | (54) | (3) |
| Closing Balance | 98 | 160 |
| **Collective Provision** | | |
| As at 1 January | 100 | 65 |
| Charge against profits | 0 | 35 |
| Total Collective provision | 100 | 100 |
| Total provisions as at 31 December | 198 | 260 |

Accounts that are in excess of agreed limits are discussed by at the monthly care lending meetings and escalated to the Credit Committee if appropriate. 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.

In accordance with IAS39 an Incurred but not Reported ("IBNR") provision has been made in order to reflect losses incurred but not yet identified. The provision as at 31 December 2016 was £100,000 (2015: £100,000)

**Analysis of impaired assets**

During the reporting year the bank made new Specific Provisions of £5,000 (2015 29,000).

The Bank is taking action to recover the debts outstanding and believes the debtors remain going concerns with sufficient resources to repay the debt, which are considered to be impaired as they are past their due date.

## 14. Investment securities

| Available-for-sale | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Nominal value | 674 | 1,324 |
| Available-for-sale revaluation | 325 | 979 |
| Fair value | 999 | 2,303 |
| Total | 999 | 2,303 |

Investment in debt securities will mature as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Repayable: | | |
| 3 to 12 months | 674 | 705 |
| Between one and five years | - | 1,355 |
| Five years or more | 325 | 243 |
| | 999 | 2,303 |

The bank holds 734 shares in Visa Inc. It revalued these shares through other comprehensive income.

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Share in Visa Inc. £'000 | Floating rate bonds £'000 | Total £'000 | Share in Visa Europe £'000 | Floating rate bonds £'000 | Total £'000 |
| Share in Visa Inc. / Visa Europe | 325 | - | 325 | 948 | - | 948 |
| Corporate bonds | - | 674 | 674 | - | 1,355 | 1,355 |
| | 325 | 674 | 999 | 948 | 1,355 | 2,303 |

The debt securities comprise corporate bonds and are held as available for sale.

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 and Level 2 for the purpose of fair value hierarchy.

The above balance includes debt securities of £674,000 which are due to mature in less than one year (2015: £914,000).

Analysis by currency of origin is as follows:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| Origin of investment securities | GBP £'000 | EUR £'000 | TRY £'000 | Total £'000 | GBP £'000 | EUR £'000 | TRY £'000 | Total £'000 |
| Europe | - | - | - | - | 948 | - | - | 948 |
| Turkey | - | - | 674 | 674 | - | - | 1,355 | 1,355 |
| USA | - | 325 | - | 325 | - | - | - | - |
| Total | - | 325 | 674 | 999 | 948 | - | 1,355 | 2,303 |

## 15. Intangible fixed assets

| | Computer Software £'000 |
|---|---|
| **Cost** | |
| At 1 January 2016 | 2,447 |
| Additions | 23 |
| At 31 December 2016 | 2,470 |
| **Amortisation** | |
| At 1 January 2016 | 1,727 |
| Charge for the year | 142 |
| At 31 December 2016 | 1,869 |
| **Net book value** | |
| At 31 December 2016 | 601 |
| At 31 December 2015 | 720 |

The intangible fixed assets comprise software purchased. The licence for the core banking system is being amortised over 10 years, other software purchased is amortised over 5 years. The values above represent amortised historic cost and have not been adjusted to fair value.

## 16. Property and Equipment

| | Freehold land and buildings | Lease hold land and building | Lease Equipment | Fixtures, fittings and equipment | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost/Revaluation** | | | | | |
| At 1 January 2016 | 8,898 | 653 | 92 | 2,671 | 12,314 |
| Additions | - | - | 2 | 136 | 138 |
| Disposals | - | - | - | (59) | (59) |
| At 31 December 2016 | 8,898 | 653 | 94 | 2,748 | 12,393 |
| **Depreciation** | | | | | |
| At 1 January 2016 | 1,764 | 650 | 54 | 2,099 | 4,567 |
| Charge for the year | 173 | 3 | 12 | 161 | 349 |
| Disposals | - | - | - | (59) | (59) |
| At 31 December 2016 | 1,937 | 653 | 66 | 2,201 | 4,857 |
| **Net book value** | | | | | |
| At 31 December 2016 | 6,961 | - | 28 | 547 | 7,536 |
| At 31 December 2015 | 7,134 | 3 | 38 | 572 | 7,747 |

The land and buildings are occupied by the Bank for its own activities. No revaluation gain was recorded in the current year (2015: £NIL). The carrying value of freehold buildings if they were carried at historical cost would be £1,604,000 (net of depreciation). Freehold land and buildings were revalued to fair value as at 31 December 2014. The bank has not revalued these assets since but the board considers that the fair value is in excess of the carrying value. It is intended to next revalue these assets as at 31 December 2017.

# Notes to the accounts
# For the year ended 31 December 2016

## 17. Other assets

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Items in the course of collection | 7 | 171 |
| Prepayments | 343 | 318 |
| Other assets | 364 | 535 |
| | 714 | 1,024 |

## 18. Deposits by banks

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Deposits by banks are repayable as follows: | | |
| On demand | | |
| - Group | 2,847 | 4,678 |
| - Other | 957 | 1,135 |
| | 3,804 | 5,813 |

The interest paid to group companies during the year was £ 2,304 (2015: £4,060). All bank deposits mature the next day.

Geographical analysis of deposit by banks is as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| In UK: | | |
| On current account | 15 | - |
| Outside UK: | | |
| On current account | 3,789 | 5,807 |
| On deposit account | - | 6 |
| | 3,804 | 5,813 |

## 19. Deposits from customers

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Customer deposits are repayable as follows: | | |
| On demand | 89,400 | 60,836 |
| Within three months | 30,349 | 34,260 |
| Between three months and one year | 25,451 | 18,280 |
| Between one year and five years | 7,921 | 4,251 |
| | 153,121 | 117,627 |

The balance includes customers' deposits of £145 million (2015: £113 million) which are due to mature in less than one year.

# Notes to the accounts
# For the year ended 31 December 2016

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

| | 2016 £'000 | | | 2015 £'000 | | |
|---|---|---|---|---|---|---|
| | Fixed rate interest | Floating rate interest | Total | Fixed rate interest | Floating rate interest | Total |
| Current account | - | 33,826 | 33,826 | - | 25,956 | 25,956 |
| Deposit account | - | 55,574 | 55,574 | - | 34,880 | 34,880 |
| Fixed deposit | 63,721 | - | 63,721 | 56,791 | - | 56,791 |
| | 63,721 | 89,400 | 153,121 | 56,791 | 60,836 | 117,627 |

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

| | 2016 £'000 | | | | | | 2015 £'000 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **GBP £'000** | **USD £'000** | **EUR £'000** | **TRY £'000** | **Others £'000** | **Total £'000** | **GBP £'000** | **USD £'000** | **EUR £'000** | **TRY £'000** | **Others £'000** | **Total £'000** |
| UK | 48,237 | 2,037 | 1,077 | 564 | - | 51,915 | 43,753 | 921 | 963 | 1,525 | 1 | 47,163 |
| Turkey | 33,403 | 27,218 | 5,010 | 2,620 | - | 68,251 | 27,565 | 17,171 | 4,616 | 2,133 | 1 | 51,486 |
| Cyprus | 20,776 | 3,647 | 3,780 | 77 | 1 | 28,281 | 11,785 | 2,796 | 2,291 | 421 | - | 17,293 |
| Others | 3,141 | 653 | 880 | 0 | - | 4,674 | 1,103 | 251 | 331 | - | - | 1,685 |
| Total | 105,557 | 33,555 | 10,747 | 3,261 | 1 | 153,121 | 84,206 | 21,139 | 8,201 | 4,079 | 2 | 117,627 |

## 20. Other liabilities

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts owed to group companies | 13 | 10 |
| Other taxes and social security costs | 56 | 118 |
| Deferred income | 455 | 286 |
| Items in the course of transmission | 103 | 135 |
| Obligations under finance lease and hire purchase | 24 | 33 |
| Other liabilities | 1,023 | 786 |
| | 1,674 | 1,368 |

**Deferred tax**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Opening balance deferred tax (asset) / liability at 1 January | 207 | (5) |
| Current year movement | 24 | (55) |
| Prior year adjustment | - | 77 |
| Deferred tax adjustment re Visa shares | (190) | 190 |
| Closing balance deferred tax liability at 31 December | 41 | 207 |

Deferred Tax has been calculated at 17% of the timing difference

### 21. Called up share capital

| | Authorised | | Called up, allotted and fully paid | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| 12,000,000 Ordinary shares of £1 each | 12,000 | 12,000 | 12,000 | 12,000 |

### 22. 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.

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Formal standby facilities, credit lines and other commitments to lend: | | |
| One year and over | - | - |
| Less than one year | 1,523 | 1,274 |
| | 1,523 | 1,274 |

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

| | | Land and buildings |
|---|---|---|
| | 2016 | 2015 |
| | £'000 | £'000 |
| Operating leases which expire: | | |
| Within one year | 196 | 93 |
| Between two and five years | 112 | 182 |
| More than five years | - | - |

### 23. Assets and liabilities in foreign currencies

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

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Assets | 50,593 | 42,048 |
| Liabilities | 50,427 | 36,356 |

There were no open foreign exchange trades as at 31 December 2016. The net position of £5,692,000 as at 31 December 2015 was hedged using FX swaps with a nominal value of £5,975,000

### 24. Transactions with directors and managers

As at 31 December 2016 £ 24,170 was outstanding by way of loans to managers of the company (or persons connected with them) (2015: £31,950). During the year, £21,106 (2015:- £38,462) was paid back and £13,327 drawn by the managers (or persons connected to them) (2015: £28,600). The transactions with related parties are on standard commercial terms.

### 25. Ultimate parent company

The ultimate parent and controlling company at 31 December 2016 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**

Transactions with senior managers and staff are described in note 24. The only other related party transactions are described below. All the transactions below were at "arm's length" prices:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| | £'000 | £'000 |
| Placements with group companies | 1,644 | 277 |
| Deposits from group companies | 2,847 | 4,678 |
| Sale of loans to group companies | 9,948 | 15,059 |
| Interest received from group companies | 14 | 7 |
| Interest paid to group companies | 2 | 4 |

**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 competence.

The diversity of our business requires us to identify measure and manage risks effectively. At 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 subcommittee, the Risk Committee, (Chaired by a Non-Executive Director) oversees risk management, and sets the framework and risk appetite. The Risk Committee overviews all risks and controls and in particular the Risk Management System operated by the Bank and is also responsible for monitoring emerging risks and keeping the Board advised. It also is the Committee that takes the lead on the Recovery and Resolution Plan (RRP), Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) plus associated risk documents. The risk appetite sets out detailed tolerance limits within which the business operates, and this is supported by Bank Policies. All Policies are approved by the Board and subject to review at least once each calendar year.
- The Audit Committee (Chaired by a Non-Executive Director) reports to the Board and is responsible for ensuring that the controls set out by the Board and Risk Committee and by various policies are carried out in practice and remain effective. The Internal Audit function reports direct to the Audit Committee and the external auditor is invited to all meetings of the Audit Committee, which meets at least quarterly.
- There are then various committees at functional level to oversee the implementation of risk management and associated policies. The principal committees are:
  - Executive Committee (EXCO) – responsible for day to day management of the business under the direction of the Managing Director.
  - Assets and Liabilities Committee (ALCO), which manages the market and liquidity risks, and now reports direct to the Board (through the Risk Committee on certain issues such as the RRP). ALCO is responsible for the RRP and also the contingency Funding Plan (CFP) and its members have direct responsibility for the ICAAP and ILAAP.
  - Management Risk Committee – day to day responsibility for risk reporting to the Risk Committee. This involves all management taking a role in the Risk Management System overseen by the Risk and Compliance Officer and deals with all risks issues not covered by the Conduct Risk Committee.
  - The Conduct Risk Committee deals with risk matters of a conduct nature (e.g. Anti Money Laundering, Treating Customers Fairly, product risk) and this aligns with the principles of the Financial Conduct Authority.
  - Credit Committee – dealing specifically with all matters of credit risk.
  - The Business Development Committee is responsible for developing business, marketing and product development.

### Credit Risk Management

Credit risk, with its closely associated concentration 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 the 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. 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 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, and the impact of concentration risk.

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 to supplement the credit risk measurement procedure. This process previously only applied to exposures exceeding a certain threshold, but during 2016 was expanded to cover all exposures. Risk rating of counterparties is considered an essential requirement of the credit approval process.

Stress testing on the credit portfolio is performed quarterly and more often if required.

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 Credit Committee also takes responsibility for monitoring non-performing loans and managing loan recovery

The Bank also monitors, as part of its credit risk assessment, its concentration risk in various sectors.

The Bank's maximum exposure to credit risk at the year-end is £ 158 million (2015: £125 million). Credit risk exposure of £70 million (2015: £69 million) is secured against the first charge on properties and lien on customers' deposits.

Collateral in the form of cash, freehold or bank guarantees are accepted by the Company as credit risk mitigating factors.

| Total Collateral held as at 31 December: | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Cash | 2,287 | 4,551 |
| Freehold | 152,008 | 134,792 |
| Guarantees | 20 | 22 |
| **Total** | **154,315** | **139,365** |

All collateral is held by the Company in its original form until the debt has been repaid. The Company holds collateral and is permitted to sell in the event of default by the owner. Collateral of freehold properties is valued by independent professional valuers on inception.

All the above collateral is held against the loans and advances to customers as follows:-

| | 2016 | 2016 | 2015 | 2015 |
|---|---|---|---|---|
| | Loans | Collateral | Loans | Collateral |
| | £'000 | £'000 | £'000 | £'000 |
| Loans & advances to customers | 72,784 | 154,317 | 80,774 | 139,365 |

The collateral value in the above table excludes the value of such collateral which the Bank may accept to manage its risks more effectively such as second charge on assets, other liens and corporate guarantees and related support undertakings from the borrower group entities.

Mortgages: The loan to value ratio of lending secured against property is as follows:-

| LTV Ratio | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Less than 50% | 22,044 | 22,883 |
| 51-70% | 48,442 | 37,756 |
| 71-90% | 1,495 | 4,140 |
| Over 90% | - | - |
| **Total** | **71,981** | **64,779** |

Note the above table shows the maximum facility amount and is greater than the actual exposure on mortgages.

**Debt Securities – External Ratings**

The issuers of the available for sale securities have ratings as follows:-

| | 2016 | 2015 |
|---|---|---|
| Corporate Bonds | £'000 | £'000 |
| A+ | 325 | 1,122 |
| BBB/BBB+ | 450 | 1,181 |
| Unrated | 224 | - |
| **Total** | **999** | **2,303** |

**Internal credit rating**

The Company assigns internal credit ratings to each of its counterparties. The rating structure was been completely rewritten in 2013 and implemented during 2014, and is kept under regular review to ensure that the ratings are appropriate.

**Industry distribution of credit exposures**

**Analysis of financial assets by industry distribution as at 31 December:**

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Real Estate | 11,495 | 7,586 |
| Hotels & Restaurants | 1,371 | 419 |
| Retail & Wholesale | 5,923 | 6,867 |
| Other Manufacturing | 81 | 1,136 |
| Service Providers | 99 | 431 |
| Financial | 2,595 | 5,912 |
| Individuals & Individual trusts | 51,412 | 58,639 |
| Recreational, Cultural, Sport Activities | 6 | 27 |
| Other | - | 17 |
| **Total** | **72,982** | **81,034** |
| **Provision for impairment losses** | **(198)** | **(260)** |
| **Total** | **72,784** | **80,774** |

A restructured account is one where the Bank, for economic or legal reasons relating to the borrower's difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of the terms of advances/securities which could include alteration of repayment period/repayable amount/the amount of instalments/rate of interest (due to reasons other than competition). The restructuring of an asset is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised terms of the restructuring. The bank's policy on forbearance is to consider each loan on a case by case basis. All such cases are discussed and approved by the Credit Committee.

**2016**

| | Cash Equivalents | Loans and advances to customers | Loans and advances to banks | Investment securities | Lending commitments |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Maximum exposure to credit risk | **70,843** | **72,784** | **1,704** | **999** | **1,523** |
| **At amortised cost** | | | | | |
| Low | 70,843 | 71,503 | 1,704 | 999 | 1,523 |
| Watch list | - | 1,354 | - | - | - |
| Impaired | - | 125 | - | - | - |
| **Total Gross amount** | **70,843** | **72,982** | **1,704** | **999** | **1,523** |
| Impairment provisions | - | (198) | - | - | - |
| Net carrying amount | **70,843** | **72,784** | **1,704** | **999** | **1,523** |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Cash equivalents | Loans and advances to customers | Loans and advances to banks | Investment securities | Lending commitments |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Maximum exposure to credit risk | **37,968** | **81,134** | **3,372** | **2,303** | **1,274** |
| **At amortised cost** | | | | | |
| Low | 37,968 | 79,898 | 3,372 | 2,303 | 1,274 |
| Watch list | - | 866 | - | - | - |
| Impaired | - | 270 | - | - | - |
| **Total Gross amount** | **37,968** | **81,034** | **3,372** | **2,303** | **1,274** |
| Impairment provisions | - | (260) | - | - | - |
| Net carrying amount | **37,968** | **80,774** | **3,372** | **2,303** | **1,274** |

**Encumbered Assets**

The Bank has no encumbered assets and has not pledged any of its assets as collateral.

**ICAAP (Internal Capital Adequacy Assessment Process) - Unaudited**

The ICAAP is managed by ALCO and presented to the Risk Committee then Board for challenge and approval. The ICAAP process identifies the risks that are involved in the business and the amount of capital that should be held against each of the risks. As an outcome from this process the bank has determined that it should hold additional capital for the following risks:

- Credit Risk (including concentration risk)
- Market Risk
- Operational Risk (including Systems and Controls; Personnel and Reputational)
- Currency and FX Risk
- Interest Rate Risk

The bank also has liquidity risk but does not hold capital against this.

These risks are discussed further in this section

**Credit 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**

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. Derivative 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. Valuation and accounting policies in line with IFRS have been formulated and are operative. There were no notional amounts at the year-end (2015: £6.0 million was outstanding as at 31 December 2015).

### Currency and 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 notified to the PRA. 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 IFRS and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by Treasury.

| **Currency of denomination** | **Net currency position 2016 £'000** | **Net currency position 2015 £'000** |
|---|---|---|
| US Dollar | (33) | (99) |
| Euro | 212 | (77) |
| Turkish Lira | (21) | (143) |
| Total | 158 | (319) |

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.

### 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.

Exposure to interest rate movements arise where there is an imbalance between rate sensitive assets and liabilities. The tables on pages 47 and 48 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2016, and 31 December 2015. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

**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.

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.

**Liquidity risk**

The Bank is regulated in the United Kingdom by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), 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.

**The following sections are audited:**
**Maturity analysis of assets and liabilities**
The table below shows the remaining contractual maturities for assets and liabilities For both 2016 and 2015 the contractual amounts are a reasonable approximation to the fair values (IFRS 7.29):-

| £'000<br>31 December 2016 | Carrying amount | Demand | Less than 3 months | 3 months to 1 year | 1-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 100,136 | 74,336 | 25,800 | | | |
| Loans and advances to banks | 1,704 | - | - | 1,704 | - | - |
| Loans & advances to customers | 72,784 | 2,655 | 5,258 | 7,182 | 47,715 | 9,974 |
| Investment Securities | 999 | - | - | 674 | - | 325 |
| Other assets | 8,979 | - | 351 | 384 | 17 | 8,227 |
| **Total assets** | **184,602** | **76,991** | **31,409** | **9,944** | **47,732** | **18,526** |
| Derivative liabilities | - | - | - | - | - | - |
| Deposits from banks | 3,804 | 3,804 | - | - | - | - |
| Deposits from customers | 153,121 | 50,675 | 69,073 | 25,452 | 7,921 | - |
| Current tax liabilities | 193 | - | - | 193 | - | - |
| Other liabilities | 1,715 | - | 1,206 | 194 | 315 | - |
| Equity | 25,769 | | | | | 25,769 |
| **Total Liabilities and equity** | **184,602** | **54,479** | **70,279** | **25,839** | **8,236** | **25,769** |

| £'000<br>31 December 2015 | Carrying amount | Demand | Less than 3 months | 3 months to 1 year | 1-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 54,922 | 17,275 | 37,647 | - | - | - |
| Loans and advances to banks | 3,372 | - | - | 3,372 | - | - |
| Loans & advances to customers | 80,774 | 5,370 | 7,569 | 7,640 | 54,531 | 5,664 |
| Debt Securities | 2,303 | - | - | 1,591 | 469 | 243 |
| Other assets | 9,657 | - | 256 | 917 | - | 8,484 |
| **Total assets** | **151,028** | **22,645** | **45,472** | **13,520** | **55,000** | **14,391** |
| Derivative liabilities | 36 | 36 | - | - | - | - |
| Deposits from banks | 5,813 | 5,813 | - | - | - | - |
| Deposits from customers | 117,627 | 60,836 | 34,260 | 18,280 | 4,251 | - |
| Current tax liabilities | 272 | - | - | 272 | - | - |
| Other liabilities | 1,575 | 1,368 | - | - | 207 | - |
| Equity | 25,705 | - | - | - | - | 25,705 |
| **Total Liabilities and equity** | **151,028** | **68,053** | **34,260** | **18,552** | **4,458** | **25,705** |

### Operational Risk

Operational Risk controls are incorporated in the Temenos (T24) that allows an overall control of transactions centrally by Compliance Unit. The Board has approved the Operational Risk Policy. It has been further enhanced the introduction over the last two years of a dedicated Risk Management System (Globus) which records and assesses individual risks to ensure they are properly monitored and controlled.

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 Operational Risk losses. In addition, Internal Control Unit is able to perform "Transaction Based Control" with the new software (T24). Operational losses and near misses are monitored and assessed. The Board of Director's risk appetite is to keep Operational risk at the minimal level possible within the bank's business model. The bank's assessment and control of all Operational risks, which include diverse areas such as cyber-attacks, fraud, human error is the responsibility of the Risk Management committee which reports to the Board of Directors.

Operational Risk is now calculated according to the ''Basic Indicator Approach''.

Risk monitoring process is performed 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 managers.

Monitoring at portfolio levels is carried out by Head Office committees, under the overview of the Risk and Compliance Manager, 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.

Operational risk also includes any risks arising from Systems and Controls failures, Reputational Risk and Key Personnel Risk, all of which are managed through the Risk Management System.

## 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 gaps, 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.

**Levelling disclosure**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £'000 | £000 | £'000 | £'000 |
| **31 December 2016** | | | | |
| **Financial Assets** | | | | |
| Debt securities available for sale | - | 999 | - | 999 |
| Loans and advances to customers | - | - | 72,784 | 72,784 |
| | - | 999 | 72,784 | 73,783 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **31 December 2015** | | | | |
| **Financial Assets** | | | | |
| Debt securities available for sale | - | 2,303 | - | 2,303 |
| Loans and advances to customers | - | - | 80,774 | 80,774 |
| Derivative assets | - | - | - | - |
| | - | 2,303 | 80,774 | 83,077 |
| **Financial liabilities** | | | | |
| Derivative liabilities | - | 36 | - | 36 |

There were no transfers of assets between levels during 2016 or 2015 and no significant changes in valuation techniques.

**Fair value hierarchy**

| £'000<br>31 December 2016 | Designated at fair value | Loans | Other financial liabilities | Total |
|---|---|---|---|---|
| **Financial Assets measured at fair value** | | | | |
| Available for sale securities | 999 | - | - | 999 |
| | **999** | **-** | **-** | **999** |
| **Financial assets not measured at fair value (*)** | | | | |
| Loans and advances to banks | - | 1,704 | - | 1,704 |
| Loans and advances to customers | - | 72,784 | - | 72,784 |
| Cash and cash equivalents | - | 100,136 | - | 100,136 |
| | **-** | **174,624** | **-** | **174,624** |

| | | | | |
|---|---|---|---|---|
| **Financial liabilities measured at fair value** | | | | |
| Derivative liabilities | - | - | - | - |
| **Financial liabilities not measured at fair value (*)** | | | | |
| Deposits from banks | - | - | (3,804) | (3,804) |
| Deposits from customers | - | - | (153,121) | (153,121) |
| | - | - | **(156,925)** | **(156,925)** |

| £'000<br>31 December 2015 | Designated at fair value | Loans | Other financial liabilities | Total |
|---|---|---|---|---|
| **Financial Assets measured at fair value** | | | | |
| Available for sale securities | 2,303 | - | - | 2,303 |
| | **2,303** | **-** | **-** | **2,303** |
| **Financial assets not measured at fair value (*)** | | | | |
| Loans and advances to banks | - | 3,372 | - | 3,372 |
| Loans and advances to customers | - | 80,774 | - | 80,774 |
| Cash and cash equivalents | - | 54,922 | - | 54,922 |
| | - | **139,068** | - | **139,068** |
| **Financial liabilities measured at fair value** | | | | |
| Derivative liabilities | (36) | - | - | (36) |
| **Financial liabilities not measured at fair value (*)** | | | | |
| Deposits from banks | - | - | (5,813) | (5,813) |
| Deposits from customers | - | - | (117,627) | (117,627) |
| | - | - | **(123,440)** | **(123,440)** |

(*) The bank has not separately disclosed the fair values for financial instruments such as loans and advances because the carrying amounts are a reasonable approximation to fair value (IFRS 7.29)

**Derivative financial instruments:**

At the balance sheet date the bank hand no derivative assets and liabilities. In 2015 the bank had assets and liabilities from foreign currency swap contracts. The total notional amount of outstanding forward foreign exchange contracts that the Bank has committed is as below:

| | 2016<br>Notional amount £'000 | Fair value Assets £'000 | Fair value Liabilities £'000 |
|---|---|---|---|
| Foreign currency swap contracts | - | - | - |

| | 2015<br>Notional Amount £'000 | Fair value Assets £'000 | Fair value Liabilities £'000 |
|---|---|---|---|
| Foreign currency swap contracts | 5,975 | - | 36 |

There were no foreign currency swaps as at 31 December 2016 (2015: £6.0 million at the year-end were due to mature in less than one month). The swaps were all over the counter short term swaps with non-connected third parties

No collateral was given or received in respect of these swaps. The cash flows associated with these swaps are that on maturity, the bank will exchange currency amounts equivalent to the notional amounts above with the contracted counterparties.

**Capital risk management (This section has not been audited)**

The bank's lead regulator is the Prudential Regulatory Authority "PRA". The PRA sets and monitors capital requirements for the bank. The bank's regulatory capital requirements are based on Basel III
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 2014 and 2015 capital has been maintained at a level above minimum PRA requirements. Such levels have been established by reference to an Internal Capital Adequacy Assessment Process (''ICAAP'') assessment. The Bank's capital resources consist of Share Capital revenue and other reserves.
The Bank holds 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 Company's regulatory capital position was as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Share Capital | 12,000 | 12,000 |
| Retained Earnings | 8,087 | 7,559 |
| Available for sale reserve | 325 | 789 |
| Revaluation reserve | 5,357 | 5,357 |
| Less intangible assets | (601) | (720) |
| Total regulatory capital | 25,168 | 24,985 |
| | | |
| Capital surplus taking into account buffers | 10,334 | 10,282 |

Note the figures above include the current year profit, as it has been audited. The actual capital returns submitted would have excluded current year profit as being unaudited at the time of submission.

Risk weighted assets are:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Credit Risk | 67,836 | 61,035 |
| Operational Risk | 10,375 | 9,400 |
| FX Risk | 19 | 900 |
| | ---------- | ---------- |
| **Total Risk weighted assets** | **78,230** | **71,335** |
| | ====== | ====== |

The bank's main risk is credit risk arising from its loans to customers and placements in the money market. The bank's main mitigation of credit risk is to secure the lending against real estate. The bank does not have any counterparty risk. The bank does not use any risk models for regulatory risk, it adopts the standardised approach to determine risk weighted assets.

**Analysis of financial assets and liabilities by measurement basis 2016**

| | Loans and Receivables £'000 | Available for sale £'000 | Financial assets/ liabilities at amortised cost £'000 | Derivatives at fair value through profit & loss £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 100,136 | - | - | - | 100,136 |
| Loans & advances to banks | 1,704 | - | - | - | 1,704 |
| Loans and advances to customers | 72,784 | - | - | - | 72,784 |
| Investment securities-available for sale | - | 999 | - | - | 999 |
| Other assets | - | - | - | - | - |
| **Total financial assets** | **174,624** | **999** | - | - | **175,623** |
| Total non-financial assets | | | | | 8,979 |
| **Total assets** | | | | | **184,602** |
| **Liabilities** | | | | | |
| Deposits by banks | - | - | 3,804 | - | 3,804 |
| Customer accounts | - | - | 153,121 | - | 153,121 |
| Derivative liabilities | - | - | - | - | - |
| Other liabilities | - | - | 1,454 | - | 1,454 |
| Deferred income | - | - | 454 | - | 454 |
| **Total financial liabilities** | - | - | **158,833** | | **158,833** |
| Equity | | | | | 25,769 |
| **Total liabilities and equity** | | | | | **184,602** |

# Notes to the accounts
# For the year ended 31 December 2016

### Analysis of financial assets and liabilities by measurement basis 2015

| | Loans and Receivables £'000 | Available for sale £'000 | Financial assets/ liabilities at amortised cost £'000 | Derivatives at fair value through profit & loss £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 54,922 | - | - | - | 54,922 |
| Loans & advances to banks | 3,372 | - | - | - | 3,372 |
| Loans and advances to customers | 80,774 | - | - | - | 80,774 |
| Investment securities-available for sale | - | 2,303 | - | - | 2,303 |
| Derivative Assets | - | - | - | - | - |
| Other assets | 1,024 | - | - | - | 1,024 |
| **Total financial assets** | **140,092** | **2,303** | - | - | **142,395** |
| Total non-financial assets | | | | | 8,633 |
| **Total assets** | | | | | **151,028** |
| **Liabilities** | | | | | |
| Deposits by banks | - | - | 5,813 | - | 5,813 |
| Customer accounts | - | - | 117,627 | - | 117,627 |
| Derivative liabilities | - | - | - | 36 | 36 |
| Other liabilities | - | - | 1,561 | - | 1,561 |
| Deferred income | - | - | 286 | - | 286 |
| **Total financial liabilities** | - | - | **125,287** | **36** | **125,323** |
| Equity | | | | | 25,705 |
| **Total liabilities and equity** | | | | | **151,028** |

**Interest rate sensitivity gap analysis 2016**

| | Less than 3 months £'000 | 3-6 months £'000 | 6-12 months £'000 | 1-5 years £'000 | More than 5 years £'000 | Non-interest bearing £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 99,350 | - | - | - | - | 786 | 100,136 |
| Loans and advances to banks | - | - | 1,704 | - | - | - | 1,704 |
| Loans and advances to customers | 57,954 | 13,552 | 1,174 | - | 302 | (198) | 72,784 |
| Investment securities | - | 220 | 454 | - | - | 325 | 999 |
| Other assets | - | - | - | - | - | 8,979 | 8,979 |
| | 157,304 | 13,772 | 3,332 | - | 302 | 9,892 | 184,602 |
| **Liabilities** | | | | | | | |
| Deposits by banks | 3,804 | - | - | - | - | - | 3,804 |
| Customer accounts | 119,748 | 14,453 | 10,999 | 7,921 | - | - | 153,121 |
| Other liabilities | - | - | - | - | - | 1,908 | 1,908 |
| Shareholders' funds | - | - | - | - | - | 25,769 | 25,769 |
| | 123,552 | 14,453 | 10,999 | 7,921 | - | 27,677 | 184,602 |
| Interest rate sensitivity gap | 33,752 | (681) | (7,667) | (7,921) | 302 | (17,785) | - |
| Cumulative gap | 33,752 | 33,071 | 25,404 | 17,483 | 17,785 | - | - |

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 2016.

Other assets are classified as non-interest bearing in the above table and have contractual maturities of less than three months.

The bank has outstanding financial guarantee contracts of £25,000 (2015: £1,323,000) at the year end. The outstanding guarantees of £25,000 are due to mature within a year (2015: £1,323,000).

**Interest rate sensitivity gap analysis 2015**

| | Less than 3 months £'000 | 3-6 months £'000 | 6-12 months £'000 | 1-5 years £'000 | More than 5 years £'000 | Non-interest bearing £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 54,276 | - | - | - | - | 646 | 54,922 |
| Loans and advances to banks | - | - | 3,372 | - | - | - | 3,372 |
| Loans and advances to customers | 70,991 | 2,234 | 6,646 | 1,163 | - | (260) | 80,774 |
| Investment securities | - | 1,389 | 202 | 469 | 243 | - | 2,303 |
| Other assets | - | - | - | - | - | 9,657 | 9,657 |
| | 125,267 | 3,623 | 10,220 | 1,632 | 243 | 10,043 | 151,028 |
| **Liabilities** | | | | | | | |
| Deposits by banks | 5,813 | - | - | - | - | - | 5,813 |
| Customer accounts | 95,096 | 5,326 | 12,954 | 4,251 | - | - | 117,627 |
| Derivative liabilities | - | - | - | - | - | 36 | 36 |
| Other liabilities | - | - | - | - | - | 1,847 | 1,847 |
| Shareholders' funds | - | - | - | - | - | 25,705 | 25,705 |
| | 100,909 | 5,326 | 12,954 | 4,251 | - | 27,588 | 151,028 |
| Interest rate sensitivity gap | 24,358 | (1,703) | (2,734) | (2,619) | 243 | (17,545) | - |
| Cumulative gap | 24,358 | 22,655 | 19,921 | 17,302 | 17,545 | - | - |

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 2014.

Other liabilities are classified as non-interest bearing in the above table and have contractual maturities of less than three months.

A liability (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 (positive) gap position exists when assets reprise 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 are shown net of provisions totalling £198,000 (2015: £260,000).

The weighted average interest rates are as follows: 0.70% (2015: 1.21%) for the loans and advances to banks; 5.27% (2015: 5.33%) for the loans and advances to customers; 13.72% (2015: 12.99%) for the debt securities; 0.06% (2015: 0.06%) for the deposits by banks; and 1.28% (2015: 1.28%) 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 200 basis points higher/lower and all other variables were held constant the bank's net profit would increase/decrease by £124,000 / £124,000 respectively. As at 31 December 2015 the average impact of 200 basis point movement in interest rates was £40,000. 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.

**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 below 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 2016.

| | Carrying value 2016 £'000 | Fair value 2016 £'000 | Carrying value 2015 £'000 | Fair value 2015 £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 100,136 | 100,136 | 54,922 | 54,922 |
| Loans and advances to banks | 1,704 | 1,704 | 3,372 | 3,372 |
| Loans and advances to customers | 72,784 | 72,784 | 80,774 | 80,774 |
| Investment securities | 999 | 999 | 2,303 | 2,303 |
| **Financial liabilities** | | | | |
| Deposits by banks | 3,804 | 3,804 | 5,813 | 5,813 |
| Customer accounts | 153,121 | 153,121 | 117,627 | 117,627 |

Discounted cash flow techniques using the effective interest rates were used to ascertain that the fair values of the assets in this table approximate to their carrying values.

## 29. Post Balance Sheet Events

There are no significant post balance sheet events.