Company Registration No. 2643004

Turkish Bank (UK) Limited

Report and Financial Statements
31 December 2017

Turkish Bank (UK) Limited

Report and financial statements 2017

Contents

Report and financial statements 2017

Officers and professional advisors

Directors

I H Bortecene (Chairman)
A A Doherty (appointed 29 December 2017, resigned 31 January 2018, Chief Operating Officer)
R W Long (Chairman Audit Committee: Independent)
J Gillan (Appointed 28 September 2017: Independent)
S Betteridge (Chairman Risk Committee: Independent)
M Arig
M Y Rahmioglu

Registered office

84-86 Borough High Street
London SE1 1LN

Auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

Chairman's Statement

When we look back at 2017 in the future, we will most likely remember it as the year of unprecedented change, both in the wider global markets and also for Turkish Bank.

The year 2017 has been a year in which expectations for growth in the global economy have been revised upwards. World economic growth expectation of 3.6% for 2017 was raised to 3.7% for 2018. Moving on to our US outlook; at the last meeting in December, the Fed raised interest rates by 25 basis points (bp) as expected, raising the USD interest rates from 1,25% to 1,50% and further increases are expected in 2018. It is expected that the US economy will reach a 2.5% growth rate for the years 2017 and 2018. There is analysis that suggests that these cumulative interest increases will finally start to be reflected in terms of improved rates to depositors. Apart from interest rates we will also keep a close eye on US trade data and commodity prices.

In Europe we saw the impact of European Central Bank (ECB) policies, and growth targets continue to be revised upwards. Economic growth is expected to be 2.4% for 2017 and 2.3% for 2018. With mixed outlooks from the big banks and investment houses we will follow German economic data as well as European capital markets to gauge the Eurozone's pulse. But the big question is how will the UK fair as Brexit looms closer?

Despite Brexit uncertainty, the Bank of England (BoE) raised interest rates by 25 basis points in the month of November for the first time in 10 years reaching 0.5%. One or two interest rate increases are expected to continue in 2018 as well. However we must take into account that UK economic growth slowed in 2017 as inflation rose sharply. Growth expectations for 2018 remain at a modest 1.5%.

The London property market has lost some of its upward momentum through the effects of Brexit; this is most evident in new property developments around the River Thames area. London is still seeing an increased volume of incoming traffic from Turkish expatriates. The recent changes to the Turkish European Communities Association Agreement (ECAA), better known as the Ankara Agreement, need some time to be embedded for us to observe the effects. The overall profiles of the new expats differ from the historic ones. Some notable traits of the new profile are the availability of more disposable income and the preference of settling in South West London as opposed to the North East of the City. To judge the flow of migration and the reasons behind it, we look at the economic outlook for Turkey and if it correlates to our levels of customer demand.

The Turkish economy in the third quarter of 2017 showed the highest growth in the last 6 years with an 11.1% performance. Although rating agencies and the OECD have notched up their estimates throughout the year; the prospect of a growth of around 7% in 2017 seems likely. Looking at the sub-items of economic growth, it is seen that the main drivers are investment expenditures and a significant contribution through the increase in fixed investments. While the government's incentive policies and tax cuts contributed in the high growth rate, the effect of the 20.4% increase in the loan volume with the support provided by the credits originated from the Credit Guarantee Fund was also significant. Inflation, on the other hand, was 13%, the highest level in the last 14 years in November and closing at 11.9% in December.

This level is much higher than the targets and forecasts of the Central Bank of the Republic of Turkey (CBT). For this reason it is reasoned that the implementation of tight monetary policy will continue throughout the year.

We go on to look at The Turkish Republic of Northern Cyprus; in the jurisdiction of which is our Parent (Turk Bankasi Ltd). In 2017, geopolitical risks coupled with steps by the central banks in developed markets to increase interest rates, has affected the foreign currency rates for countries and in turn the interest rates of local currencies in developing countries. The Turkish Republic of Northern Cyprus has experienced higher than expected inflation at 14.68%. In 2018, it is expected that the government incentives and investments in the construction industry are likely to show positive results in growth.

Chairman's Statement (continued)

Turk Bankasi Ltd., our parent company, has also had an impressive year becoming the first Bank in the TRNC to team up with the European Bank for Reconstruction and Development (EBRD) for its Trade Facilitation Program. Certainly, this is a proud moment in our 117 year history.

In the course of the year 2018, the chief issues on the economic side are the course of growth in world economies and the level of tight monetary policies to be implemented by central banks of developed countries.

This year Turkish Bank (UK) has successfully completed a major accomplishment by joining three of the UK's payment schemes in a matter of months. This unprecedented achievement by a UK Bank is only made more impressive considering our size. This has been the single largest project the Bank has undertaken and by joining the Bacs and Faster Payment Services as their 18th member and the image based Cheque and Credit Clearing Schemes as their 17th member; we have distinguished ourselves out of the 295 banks serving the UK market.

The Board, in order to benefit from the opportunities arising from our payments systems investments and increased flow of Turkish expats, decided to upgrade the Bank's infrastructure, systems and controls as well as its human capital.

At the end of 2017, Mr David Stewart, who has been with the Bank since 2012, retired. After a vigorous and lengthy search process the Bank has appointed Mr. Steven Bennett as the new CEO of Turkish Bank (UK), subject to regulatory approval. Mr. Bennett has over 20 years' experience in financial services working across a multitude of business lines.

In other developments, Mr. James Gillan who has vast experience in Financial Crime Compliance positions at a number of firms, where he has had responsibility for oversight of policy, Due Diligence, Sanctions screening and investigations, including acting as Money Laundering Reporting Officer replaced Mr. David Blackmore, who stepped down after his 9 years of service. The Bank will continue to strengthen its Board and management team during 2018.

We continue to serve the Turkish speaking community in the UK. In the last few years we have seen a significant change in the profile of Turkish expatriates in London. As a result of this change, we have started to expand our operations towards South West London. As part of this effort, our branch in Mayfair continues to be a success and has grown substantially in the last year.

Turkish Bank (UK) is very pleased to help these expats settle smoothly into their new homes and lives by way of providing mortgages during 2017. It is expected that the strong demand for the mortgage products of the Bank will continue in 2018. We continue to serve the Turkish-speaking community with dignity, care and diligence. This has been our mission in the UK since 1974.

I am very proud of the achievements Turkish Bank (UK) Ltd. has attained this year. I would like to end my words by reminding all of our stakeholders that we look forward to a year where we will have opportunities to grow thanks to all the investments mentioned above.

Hakan Bortecene

Chairman of the Board

The Strategic report

For the year ended 31 December 2017

Review of the Year

Profit before tax decreased from £744k to £46k, the key reason being an increase in professional fees due to projects expanded on below.

The Bank decided in 2016 to apply to become a direct member of the Faster Payments, BACs and the Cheque Clearing Schemes. All of these projects successfully went live during 2017and have resulted in an improved service for our customers. Development costs of £1 million have been capitalised as explained in note 15. The Bank took this opportunity to review its processes and governance and upgrade its internet services. These costs together with other external professional fees, have resulted in an increase in general overheads as the Bank invests for its future.

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. In 2017 the Bank was able, following the successful completion of the payments projects to reduce the excess liquidity and use the funds to expand the lending book. As a result net interest income increased from £3.7million to £4.6million. Fee income was reduced mainly as a result of a reduction in remittance transfers.

Impairment losses for the year remained low at £16k and were partially offset by recoveries of £7k. Total provisions at £135k (2016: £198k) includes the IBNR (Incurred But Not Recorded) of £100k (2016: £100k); this level of provisioning, against a loan book of £99 million, is significantly below the norm for the industry. 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 increased by £6mn (13%) to £54mn (2016: £48mn). Non-resident lending increased from £19mn to £45mn reflecting the taking of new business opportunities, within the Bank's prudent approach to lending, to wealthy expatriates moving into South West London. Total lending increased overall by £26mn to £99mn.

In January 2017 the Bank repurchased £9.3mn of loans previously sold to its parent. The transaction was at notional cost and no profit or loss arose.

Customer deposits have decreased by £8mn (2016: increase £36mn) to £145mn (2016: £153mn), within this resident deposits have decreased by £3mn and non-resident deposits decreased by £5mn to £92mn (2016: £97mn), reflecting the opportunity to reduce the additional liquidity taken on during the payment projects.

There was an increase in the level of fees received from lending activities and also an increase in business accounts charges with the expansion of this business, the former will be reflected in future years over the life of the loans. These fee increases were offset by a planned reduction in remittance fee income, hence there was a reduction in total fee income.

The Bank continues to try and further improve the quality of services to its customer base. The project to improve customer service and standardisation across the Bank, which was started in 2016, continued during 2017, with an increased focus on efficiency. The Bank seeks to ensure that it keeps 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 build a positive and productive dialogue with its regulators as part of ensuring that the Bank applies 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. The Bank encourages both compliments and complaints, particularly in the latter instance where the quality of our service has fallen below what is expected, which in turn leads to a further improvement in our service in the future.

We look to 2018 to build on the underlying operating profits generated in 2017, and the investment in the Bank's systems, particularly the payment schemes, with the aim of continuing to provide our clients with the quality service to which they are entitled, 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, operational risk, reputational risk, liquidity risk and funding risk. The Bank uses only "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 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. This risk management policy, which includes a description of how financial instruments are used, is disclosed in note 27 to the financial statements.

Operational Risk can arise from internal or external factors. These include attempted fraud, cyber-attacks, terrorist activities, systems failures and legal risk. The Bank's risk appetite is to mitigate these as far as is practical. Various techniques are used including firewall protection, security controls, back up procedures and recovery plans.

Future developments

The directors aim to maintain the policies that have resulted in the Bank's growth. As stated in the review, the Bank has invested 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 its customers. Other future activities are covered in the Chairman's Report.

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

H Bortecene, Chairman

18 April 2018

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017.

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 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 shareholders. 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 2017 is presented in the Strategic Report on page 6.

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 6.

Going Concern
After making enquiries, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The Bank has invested in systems enabling it to become a direct member of a number of the UK payments systems. The directors believe that this investment in the Bank's infrastructure will maintain its competitiveness and 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 18.

Key performance indicators	**2017**	**2016 Restated**
Profit before tax as % of equity	0.17%	2.95%
Equity as % of total assets	15.00%	13.66%
General expenses as a % of net income	99.21%	87.82%

Profit before tax as a percentage of equity reduced mainly due to the increased costs resulting from the investment in systems and processes. Equity as a percentage of total assets increased following the reduction in the balance sheet as the Bank reduced the cash positions that had previously been increased whilst the payment projects were ongoing. General expenses as a % of net income increased due to the expenditure on systems and a reduction in fee income.

Results and dividends
The profit for the year after taxation amounted to £79,000 (2016 – profit £560,000).
The directors do not recommend the payment of a dividend (2016 - £nil).

Prior Year Adjustment

As detailed in Note 1 to these financial statements, a prior year adjustment has been made to correct the omission of a deferred tax liability on revaluations made to freehold land and properties prior to 2016. The additional deferred tax liability of £645,000 has been reflected in the opening balances for 2016. The Directors confirm that they believe that there has been no breach in regulatory or internal requirements relating to levels of capital.

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 £375 (2016 £650).

Directors' report (continued)

Directors and their interests

The directors who served during the year were as follows:

I H Bortecene (Chairman)
D I Stewart (resigned 29 December 2017)
A A Doherty (appointed 29 December 2017, resigned 31 January 2018)
R W Long *
D Blackmore* (resigned 31 March 2017)
J Gillan (appointed 28 September 2017)
S Betteridge**
M Arig
M Y Rahmioglu
* Chairman of the Audit Committee
** Chairman of the Risk Committee

Directors' indemnities

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

Audit Committee

The Bank has an Audit Committee comprising three non-executive directors, all of whom are experienced bankers. The Committee met on five occasions in 2017 (2016: five times).

Risk Committee

The Bank has a Risk Committee comprising three non-executive directors (including two independent directors), and the Chief Executive Officer whom are all experienced bankers, plus members of the executive management. The Committee met on five occasions in 2017 (2016: five times).

Disclosure of information to the auditor

Each of the directors of the Bank 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.

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

I H Bortecene

18 April 2018

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 Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank 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 Bank 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 Bank'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

H Bortecene, Chairman

18 April 2018
Registered in England. Company No. 2643004

KPMG

Independent auditor's report

to the members of Turkish Bank (UK) Limited

1. Our opinion is unmodified

We have audited the financial statements of Turkish Bank (UK) Limited ("the bank") for the year ended 31 December 2017 which comprise the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the bank's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 22nd May 2013.I The period of total uninterrupted engagement is for the four financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£129,000 (2016:£59,000) 0.5% of net assets (2016: 7.5% of pbt)	
Key Audit Matters		**vs 2016**
Recurring risks	Credit risk	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Impairment of loans and receivables: Impairment provision £135,000; 2016: £198,000) *Note 1e (accounting policy) and note 13 (financial disclosures).*	**Subjective estimate:** Impairments cover loans specifically identified as impaired and a collective impairment for all other loans for those impairments incurred but not yet specifically identified. The bank assesses each loan on a case by case basis to determine whether there is any objective evidence that the loan is impaired. In performing this assessment the bank considers criteria including arrears status and known cash flow difficulties experienced by the borrower. Where objective evidence of impairment exists, the bank determines the impairment provision by considering factors including the viability of the customer's repayment plan, the realisable value of security and the amount and timing of expected receipts and recoveries (net of expected costs of recovery). The assessment as to whether there is impairment (on an individual or collective basis) and the determination of an appropriate impairment provision (where impairment is identified) is an inherently judgemental area.	Our procedures included: • Controls design, observation and operation: for new mortgages originated in the year we tested the design and operating effectiveness of key controls over loan origination. We also tested the design and effectiveness of key controls over the determination of whether loans displayed indicators of impairment. • Test of detail: We identified a sample of 65 loans using attribute sampling which included specific items identified based on risk characteristics including LTV and size of loan to identify individual loans which may have unidentified impairments. We tested whether there was objective evidence of impairment for each of these loans by reference to relevant supporting information such as indexed valuation of collateral to challenge the completeness and accuracy of the bank's individual impairment provision estimate. We also considered whether the results of this testing to challenge management's assertion that there was no objective evidence of material incurred but not identified impairment in the mortgage portfolio. **Our results** — The results of our testing were satisfactory and we found the resulting estimate of the loan impairment provision to be acceptable.

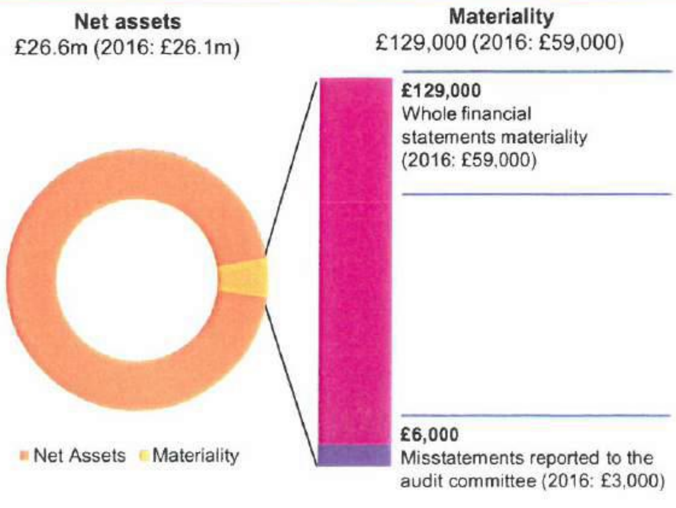
3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £129,000 (2016: £59,000), determined with reference to a benchmark of net assets, of which it represents 0.5% (2016: 7.5% of pbt).

We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £6,000 (2016: £3,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the bank was undertaken to the materiality level specified above and was performed at the bank's head office in London.



KPMG

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report and Financial Statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion

— adequate accounting records have not been kept by the bank, 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page [8], the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the bank's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct, money laundering, sanctions list and financial crime, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the bank's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

KPMG

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the bank'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 bank'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 bank and the bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mike Heath

Mike Heath
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
25 April 2018

KPMG

Turkish Bank (UK) Limited

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 £'000	2016 Restated £'000
Interest income	3	5,786	5,298
Interest expense	3	(1,217)	(1,613)
Net interest income	3	4,569	3,685
Fees and commissions receivable	4	1,299	1,396
Fees and commissions payable	4	(200)	(161)
Net fee and commission income	4	1,099	1,235
Net trading income	5	184	202
Other operating income		1	13
Gain on conversion of debt securities	14	-	975
Total operating income		5,853	6,110
Net (impairment) / recovery on financial assets	7	(9)	8
Personnel expenses	6	(2,828)	(2,578)
Premises and equipment		(552)	(521)
Administrative expenses		(1,890)	(1,772)
Depreciation and amortisation	15,16	(517)	(491)
Other expenses		(11)	(12)
Total operating expenses		(5,807)	(5,366)
Profit before taxation	8	46	744
Income tax credit / (expense)	9	33	(184)
Profit after taxation		79	560
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		(60)	(464)
Revaluation of properties		1,732	-
Deferred tax on property revaluation		(294)	34
Total other comprehensive income		**1,378**	**(430)**
Total comprehensive income		**1,457**	**130**

The notes on pages 18 to 50 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 2017

	Notes	2017	2016 Restated
		£'000	£'000
Assets			
Cash and cash equivalents	10	63,088	100,136
Loans and advances to banks	11	1,772	1,704
Loans and advances to customers	12	98,532	72,784
Investment Securities	14	812	999
Current taxation assets	9	151	-
Property and equipment	16	9,265	7,536
Intangible assets	15	1,459	601
Other assets	17	2,524	714
Total assets		177,603	184,474
Liabilities			
Deposits from banks	18	3,138	3,804
Deposits from customers	19	145,009	153,121
Current tax liabilities	9	-	65
Deferred tax liabilities	20	968	620
Derivative liabilities	23	50	-
Other liabilities	20	1,791	1,674
		150,956	159,284
Equity			
Called up share capital	21	12,000	12,000
Retained earnings		8,198	8,119
Available-for-sale reserve		265	325
Revaluation reserve		6,184	4,746
Total equity		26,647	25,190
Total liabilities and equity		177,603	184,474

The Board of Directors approved these financial statements and authorised for issue on 18 April 2018.

Signed on behalf of the Board of Directors

I H Bortecene
Director

S Betteridge
Director

Registered number 2643004
The notes on pages 18 to 50 form an integral part of these financial statements.

Statement of Cash flows
For the year ended 31 December 2017

	2017 £'000	2016 Restated £'000
Cash flows from operating activities		
Profit after taxation	**79**	**560**
Adjustments for:-		
Depreciation of property plant and equipment	375	349
Amortisation of intangible assets	142	142
Net Interest income	(4,569)	(3,685)
Gain on conversion of debt securities	-	(975)
Effective of foreign currency translation	-	-
Income tax (credit) /expense	(33)	184
	(4,006)	(3,425)
Changes in:-		
Loans and advances to customers	(25,748)	7,990
Loans to banks	(68)	1,668
Other assets	(1,810)	310
Derivative liabilities held for risk management	50	(36)
Deposits from banks	(666)	(2,009)
Deposits from customers	(8,112)	35,494
Other liabilities	128	306
	(36,226)	**43,723**
Interest received	5,786	5,298
Interest paid	(1,217)	(1,613)
Income tax paid	(140)	(264)
Net cash flows from operating activities	**(31,797)**	**47,144**
Cash flows from investing activities		
Acquisition of property and equipment	(372)	(138)
Acquisition of intangible assets	(1,000)	(23)
Acquisition of available for sale securities	(8,902)	(219)
Proceeds from disposal of available for sale securities	9,029	1,875
Net cash used in investing activities	**(1,245)**	**1,495**
Net increase / (decrease) in cash and cash equivalents	(37,048)	45,214
Cash and cash equivalents as at 1 January	100,136	54,922
Cash and cash equivalents as at 31 December	**63,088**	**100,136**

The notes on pages 18 to 50 form an integral part of these financial statements.

Statement of changes in Equity
For the year ended 31 December 2017

	Share Capital	Available for sale Reserve	Revaluation Reserve	Retained Earnings	Total
Balance as at 1 January 2016 (as previously stated)	12,000	789	5,357	7,559	25,705
Impact of prior year adjustment (see note 1)			(645)		(645)
Balance as at 1 January 2016 (as restated)	12,000	789	4,712	7,559	25,060
Profit for the year	-	-	-	560	560
Deferred tax on freehold property	-	-	34	-	34
Other comprehensive income	-	(464)	-	-	(464)
Balance as at 31 December 2016 Restated	**12,000**	**325**	**4,746**	**8,119**	**25,190**
Balance as at 1 January 2017	12,000	325	4,746	8,119	25,190
Profit for the year	-	-	-	79	79
Other comprehensive income	-	(60)	-	-	(60)
Revaluation of freehold property	-	-	1,732	-	1,732
Deferred tax on freehold revaluation	-	-	(294)	-	(294)
Balance as at 31 December 2017	**12,000**	**265**	**6,184**	**8,198**	**26,647**

The notes on pages 18 to 50 form an integral part of these financial statements.

1. (a) Reporting Entity

Turkish Bank (UK) Limited (the "Bank") is domiciled in the United Kingdom. The Bank's registered office is 84-86 Borough High Street, London SE1 1LN. The Bank is a regulated Bank, 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 April 2018

These accounts have been prepared on a going concern basis. The Bank invested in becoming a direct member of the BACS and Faster Payments System, and is one of the first niche banks in the UK to achieve this. The directors consider that this will retain the Bank's competitiveness in its chosen market 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 continues to offer the 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 Bank'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 2017 are included in the 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 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 administration fee received is taken upfront to offset costs incurred at that time; the remainder of the fee is deferred to the expected 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's available for sale and held for trading investment securities are stated 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 Bank, 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. Costs relating to the core banking system, and external costs relating to self-developed software are amortised over ten years.

(p) Property revaluations
The accounting policy for freehold land and buildings is to revalue them every three years. 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 London's Surveyors & Valuers Ltd, a chartered surveyor external to the Bank, in December 2017 which resulted in a net surplus of £1,732,000. Valuations were made on the basis of open market value for existing use. The directors are satisfied that the aggregate fair value of those assets at the time in question is not less than the aggregate amount at which they are or being stated in the Bank'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 Bank 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. Financial instruments can no longer be classified as Available for Sale. The Bank will classify its equity holding in Visa Inc. as Fair Value through other comprehensive income (FVOCI) and will decide the classification of any bond holdings at the time of purchase.

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.

The Bank estimates that the impact of implementing IFRS 9 on its 1 January 2018 balance sheet will require the establishment of an expected loss provision in the range of approximately £125K - £200K. However, this quantum is based upon the specific composition and nature of the Bank’s portfolio of contracts and economic conditions at the date of transition and the processes and the associated controls that are in place to comply with the new requirements have not been operational for a full reporting period.

The Bank currently classifies bond holdings as available for sale, under IFRS9 it is expected that such holdings will be treated as fair value through profit and loss account (FVPL). The Bank also holds preference shares in Visa Inc. which will convert to ordinary shares in Visa Inc. in due course. These will be held as fair value through other comprehensive income, (FVOCI).

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. Adoption of the standard is not expected to have a significant impact however, this assessment made by the entity is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment.

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.

(u) Prior Year Adjustment
During preparation of these financial statements it was identified that no deferred tax liability was recognised on revaluation of freehold land and properties which occurred prior to 1 January 2016. Subsequent movements on this deferred tax liability due to changes in tax rate and depreciation of the freehold property have also not been recorded in 2016. This has been corrected retrospectively and certain comparative figures in the financial statements have been adjusted. The effect of the adjustment is set out in detail below:

£’000	**Reported**	**Adjustment**	**Adjusted**
Impact at 1st January 2016			
Deferred tax liability	(207)	(645)	(852)
Revaluation Reserve	(5,357)	645	(4,712)
Impact at 31 December 2016			
Deferred tax liability	(41)	(579)	(620)
Revaluation Reserve	(5,357)	611	(4,746)
Retained Earnings	(8,087)	(32)	(8,119)
Total Equity	(25,769)	579	(25,190)

Notes to the accounts
For the year ended 31 December 2017

Prior Year Adjustment (Continued)

£'000	**Reported**	**Adjustment**	**Adjusted**
Impact for the year ended 31 December 2016			
Income tax expense	(216)	32	(184)
Profit after taxation	528	32	560
Impact of changes in tax rate – other comprehensive income	-	34	34
Total comprehensive income	64	66	130

2 Segmental Analysis

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

	Retail Banking	**Treasury**	**Central**	**Total**
2017	**£'000**	**£'000**	**£'000**	**£'000**
Net Interest Income	4,321	(13)	261	4,569
Net fee and commission income	1,042	129	(72)	1,099
Net trading income	-	184	-	184
Other operating income	(2)	3	-	1
Total segment revenues	**5,361**	**303**	**189**	**5,853**
Impairment losses	(9)	-	-	(9)
Operating expenses	(1,915)	(685)	(3,198)	(5,798)
Segment profit before tax	**3,437**	**(382)**	**(3,009)**	**46**
Segment Assets	99,684	68,864	9,055	177,603
Segment liabilities	121,567	4,234	25,155	150,956
2016				
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 operating 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	7,781	184,474
Segment liabilities (restated)	129,809	5,079	24,396	159,284

In the classifications above, Retail Banking is defined as the Bank's customer based business, Treasury is the money market, foreign exchange and financial instrument business, and Central is the remaining revenue and overheads relating to the shareholders equity and central operating costs.

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
2017	**£'000**	**£'000**	**£'000**
Net Interest Income	2,532	2,037	4,569
Net fee and commission income	634	465	1,099
Net trading income	184	-	184
Gain on investment securities	-	-	-
Other income	1	-	1
Total segment revenues	**3,351**	**2,502**	**5,853**
Impairment losses	(9)	-	(9)
Operating expenses	(5,455)	(343)	(5,798)
Segment profit before tax	**(2,113)**	**2,159**	**46**
Segment Assets	96,019	81,584	177,603
Segment liabilities	58,534	92,422	150,956
2016 (restated)			
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 provisions	8	-	8
Operating expenses	(5,046)	(328)	(5,374)
Segment profit before tax	**(375)**	**1,119**	**744**
Segment Assets	108,339	76,135	184,474
Segment liabilities	62,534	96,650	159,284

Europe excluding UK is mainly Turkey and the Turkish Republic of Northern Cyprus.

3. Net Interest income

	2017	2016
	£'000	£'000
Interest income		
Cash and cash equivalents	452	809
Loans and advances to banks	18	18
Loans and advances to customers	4,947	4,372
Debt Securities	369	99
Total interest income	**5,786**	**5,298**
Interest expense		
Deposits from banks	(2)	(4)
Deposits from customers	(1,215)	(1,609)
Total interest expense	**(1,217)**	**(1,613)**
Net interest income	**4,569**	**3,685**

4. Net Fee and Commission income

Net fee and commission income was all derived from retail banking customer fees for both 2017 and 2016

5. Net trading income

Net trading income was all from foreign exchange trading for both 2017 and 2016

6. Personnel expenses

	2017 £'000	2016 £'000
Personnel expenses during the year (including directors)		
Wages and salaries	2,268	2,113
Social security costs	255	193
Pension costs	85	72
Other staff costs	220	200
	2,828	2,578

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

	2017 No.	2016 No.
Commercial banking activities	82	82

Directors' remuneration during the year consisted of:

	2017 £'000	2016 £'000
Emoluments	266	223

The emoluments of the highest paid director for the year ended 31 December 2017 were £112,000 (2016: £122,000).

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

7. Impairment losses on loans and advances

	2017 £'000	2016 £'000
Impairment charge for the year	(16)	(4)
Recoveries	7	12
Net impairment (charge) /recovery for the year	(9)	8

8. Profit on ordinary activities before taxation

Profit is stated after charging:

	2017 £'000	2016 Restated £'000
Foreign currency gains	(184)	(202)
Operating lease rentals		
Land and buildings	203	183
Depreciation and amortisation		
Tangible fixed assets	375	349
Intangible fixed assets	142	142

	2017 £'000	2016 £'000
Fees payable to the Bank's auditor		
Audit of the Bank's annual accounts	112	82
Tax services	-	10
	112	92

9. Income taxes

	2017 £'000	2016 Restated £'000
Tax paid in respect of current year	80	128
Tax recoverable in respect of prior years	79	-
United Kingdom corporation tax at 19.25% (2016: 20%) based on taxable profit	(8)	(193)
Current taxation asset / (liability)	151	(65)
United Kingdom corporation tax at 19.25% (2016: 20%) based on taxable profit	(8)	(181)
Adjustment in respect of prior years	87	20
Total current tax	79	(161)
Deferred tax		
Current year movement	(54)	(24)
Prior year Adjustment	8	1
Current Year tax charge	33	(184)

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 19.25% (2016 20%) as explained overleaf:

	2017 £'000	2016 Restated £'000
Profit on ordinary activities before tax	46	744
Tax at 19.25% (2016: 20%) thereon	(9)	(149)
Expenses not deductible for tax purposes	(3)	(3)
Depreciation lower/(in excess) of capital allowances	9	(1)
Prior period adjustment	87	(12)
Reversal of timing differences	(5)	4
Total current tax	79	(161)
Deferred tax:		
Current year movement	(54)	(24)
Prior period adjustment	8	1
	33	(184)

10. Cash and Cash Equivalents

	2017 £'000	2016 £'000
Cash and cash equivalents are comprised of the following:		
Cash	775	786
Deposits at the Bank of England	21,682	28,508
On demand	4,210	24,293
Within three months	36,421	46,549
	63,088	100,136

Included within cash and cash equivalents is an amount of £5,064,000 in respect of group companies (2016: £1,644,000). The interest received from group companies during the year was £7,000 (2016: £7,000). Geographical analysis of cash and cash equivalents is as follows:

	2017 £'000	2016 £'000
UK		
- Cash	775	786
- Deposits with Bank of England	21,682	28,508
- On current account	2,599	6,869
- On deposit account in money market lending	886	13,885
Outside UK:		
- On current account	1,611	17,424
- Money Market Lending	35,535	32,664
	63,088	**100,136**

By Credit Rating		
Cash	775	786
AA- to AA+	25,890	67,534
A- to A+	883	8,635
BBB	-	20,285
BB	30,477	1,250
Not rated	5,063	1,646
Total	**63,088**	**100,136**

11. Loans and advances to banks

	2017 £'000	2016 £'000
Loan to a Turkish bank original maturity less than 1 year	1,772	1,704

12. Loans and advances to customers

	2017 £'000	2016 £'000
Loans are repayable as follows:		
On demand	5,023	2,853
Within three months	1,925	5,258
Between three months and one year	7,745	7,182
Between one and five years	63,083	47,715
Five years or more	20,891	9,974
Provision for impairment losses		
Specific	(35)	(98)
Collective	(100)	(100)
	98,532	72,784

Loans and advances are classified as non-performing if repayments are not made within 30 days of the due date. Non-performing loans and advances totalled £2,739,002 at the year-end (2016: £1,238,111).

Loans and advances to customers includes £ 2,703,288 (2016: £1,354,039) 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:

2017

	Fixed Rate Loan £'000		Floating Rate Loan £'000		Total £'000
	Secured	Unsecured	Secured	Unsecured	
Overdraft	-	-	4,788	235	5,023
Fixed term					
- Retail	1,944	-	76,514	978	79,436
- Corporation	272	2,962	10,974	-	14,208
	2,216	2,962	92,276	1,213	98,667
Provision for impairment	-	(15)		(120)	(135)
	2,216	2,947	92,276	1,093	98,532

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

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

	2017 £'000				2016 £'000			
	GBP	**USD**	**EURO**	**Total**	**GBP**	**USD**	**EURO**	**Total**
UK	49,758	13	-	49,771	41,800	505	-	42,305
Non UK								
- Turkey	41,204	4,267	909	46,380	23,993	2,285	2,130	28,408
- Others	2,381	-	-	2,381	2,071	-	-	2,071
Total	93,343	4,280	909	98,532	67,864	2,790	2,130	72,784

13. Provisions for impairment losses

	2017 £'000	2016 £'000
Specific Provision		
As at 1 January	98	160
Charge against profits	17	4
Less: recoveries	(8)	(12)
Net impairment / (credit) for the year	9	(8)
Less: loans written off	(72)	(54)
Closing Balance	35	98
Collective Provision		
As at 1 January	100	100
Charge against profits	0	0
Total Collective provision	100	100
Total provisions as at 31 December	135	198

Accounts that are in excess of agreed limits are discussed 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 2017 was £100,000 (2016: £100,000).

On an IFRS 9 basis it is estimated that this provision would increase to between £120,000, and £200,000.

Analysis of impaired assets

During the reporting year the Bank made new Specific Provisions of £17,000 (2016 £4,000).

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

	2017			2016		
	Share in Visa Inc.	**Floating rate bonds**	**Total**	**Share in Visa Europe**	**Floating rate bonds**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Share in Visa Inc. / Visa Europe	300	-	300	325	-	325
Corporate bonds	-	512	512	-	674	674
	300	512	812	325	674	999

Investment in debt securities will mature as follows:

	2017 £'000	**2016 £'000**
Repayable:		
3 to 12 months	512	674
Between one and five years	-	-
Five years or more	300	325
	812	999

During 2016 there was a reorganisation of the Visa network which included the sale of Visa Europe to Visa Inc. As a result in 2016 the Bank realised £975k through the profit and loss account of which Euro 1,040k was received during the year. In addition the bank received 743 preference shares valued at £325k which were treated as Available for Sale. The bank revalues these shares through other comprehensive income.

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 are classified as Level 2 and Level 3 for the purpose of fair value hierarchy.

The above balance includes debt securities of £512,000 which are due to mature in less than one year (2016: £674,000).

Analysis by currency of origin is as follows:

	2017				2016			
Origin of investment securities	**GBP**	**EUR**	**TRY**	**Total**	**GBP**	**EUR**	**TRY**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Europe	-	-	-	-	-	-	-	-
Turkey	-	-	512	512	-	-	674	674
USA	-	300	-	300	-	325	-	325
Total	-	300	512	812	-	325	674	999

15. Intangible fixed assets

	Computer Software £'000
Cost	
At 1 January 2017	2,470
Additions	1,000
Disposals	(65)
At 31 December 2017	3,405
Amortisation	
At 1 January 2017	1,869
Charge for the year	142
Disposals	(65)
At 31 December 2017	1,946
Net book value	
At 31 December 2017	1,459
At 31 December 2016	601

The intangible fixed assets comprise software purchased, and external costs relating to developed systems. The additions represent the costs incurred in the project to join the BACS and Faster Payments systems. These project costs as well as the licence for the core banking system are being amortised over 10 years, other software 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 £'000	Lease hold land and building £'000	Lease Equipment £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost/Revaluation					
At 1 January 2017	7,335	653	94	2,748	10,830
Additions	-	-	292	80	372
Revaluation	1,185	-	-	-	1,185
Disposals	-	-	-	(107)	(107)
At 31 December 2017	8,520	653	386	2,721	12,280
Depreciation					
At 1 January 2017	374	653	66	2,201	3,294
Charge for the year	173	-	26	176	375
Revaluation	(547)	-	-	-	(547)
Disposals	-	-	-	(107)	(107)
At 31 December 2017	-	653	92	2,270	3,015
Net book value					
At 31 December 2017	8,520	-	294	451	9,265
At 31 December 2016	6,961	-	28	547	7,536

The land and buildings are occupied by the Bank for its own activities. The properties were revalued by an independent surveyor in December 2017 resulting in a valuation increase of £1,880,000 (2016: £NIL). The carrying value of freehold buildings if they were carried at historical cost would be £ 1,537,000 (net of depreciation). Freehold land and buildings were revalued to fair value as at December 2017. The board considers that the fair value is not less than the carrying value. It is intended to next revalue these assets as at 31 December 2019.

17. Other assets

	2017 £'000	2016 £'000
Bonds sold awaiting settlement	1,145	-
Items in the course of collection	430	7
Prepayments	392	343
Other assets	557	364
	2,524	714

18. Deposits by banks

	2017 £'000	2016 £'000
Deposits by banks are repayable as follows:		
On demand		
- Group	2,180	2,847
- Other	958	957
	3,138	3,804

The interest paid to group companies during the year was £ 1,897 (2016: £2,304). All bank deposits mature the next day.

Geographical analysis of deposit by banks is as follows:

	2017 £'000	2016 £'000
In UK:		
On current account	-	15
Outside UK:		
On current account	3,138	3,789
On deposit account	-	-
	3,138	3,804

19. Deposits from customers

	2017 £'000	2016 £'000
Customer deposits are repayable as follows:		
On demand	84,685	89,400
Within three months	26,622	30,349
Between three months and one year	27,801	25,451
Between one year and five years	5,901	7,921
	145,009	153,121

The balance includes customers' deposits of £139 million (2016: £145 million) which are due to mature in less than one year.

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

	2017 £'000			2016 £'000		
	Fixed rate interest	Floating rate interest	Total	Fixed rate interest	Floating rate interest	Total
Current account	-	44,814	44,814	-	33,826	33,826
Deposit account	-	38,029	38,029	-	55,574	55,574
Fixed deposit	62,166	-	62,166	63,721	-	63,721
	62,166	82,843	145,009	63,721	89,400	153,121

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

	2017 £'000						2016 £'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	43,436	2,622	1,645	525	-	48,228	48,237	2,037	1,077	564	-	51,915
Turkey	37,768	26,318	4,765	2,072	-	70,923	33,403	27,218	5,010	2,620	-	68,251
TRNC	19,596	1,936	3,624	98	-	25,254	20,776	3,647	3,780	77	1	28,281
Others	442	147	10	5	-	604	3,141	653	880	-	-	4,674
Total	101,242	31,023	10,044	2,700	-	145,009	105,557	33,555	10,747	3,261	1	153,121

TRNC is the Turkish Republic of Northern Cyprus

20. Other liabilities

	2017 £'000	2016 £'000
Amounts owed to group companies	14	13
Other taxes and social security costs	64	56
Deferred income	632	455
Items in the course of transmission	53	103
Obligations under finance lease and hire purchase	301	24
Other liabilities	727	1,023
	1,791	1,674

Deferred tax

	2017 £'000	2016 Restated £'000
Opening balance deferred tax (asset) / liability at 1 January	620	852
Current year movement through the income statement	54	(8)
Impact of movement on revaluation reserve	27	-
Current year movement through other comprehensive income	267	(34)
Deferred tax adjustment re Visa shares	-	(190)
Closing balance deferred tax liability at 31 December	968	620

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

21. Called up share capital

	Called up, allotted and fully paid 2017 £'000	2016 £'000
12,000,000 Ordinary shares of £1 each	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.

	2017 £'000	2016 £'000
Formal standby facilities, credit lines and other commitments to lend:		
One year and over	-	-
Less than one year	2,485	1,523
	2,485	1,523

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

		Land and buildings
	2017 £'000	2016 £'000
Operating leases which expire:		
Within one year	202	196
Between two and five years	243	112
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:

	2017 £'000	2016 £'000
Assets	44,963	50,593
Liabilities	45,842	50,427

There was one open foreign exchange swap open as at 31 December 2017 value £49,706 (2016 nil).

24. Transactions with directors and managers

As at 31 December 2017 £ 9,564 was outstanding by way of loans to managers of the Bank (or persons connected with them) (2016: 24,170). During the year, £24,170 (2016: £21,462) was paid back and £9,564 drawn by the managers (or persons connected to them) (2016: £13,327). The transactions with related parties are on standard commercial terms.

25. Ultimate parent company

The ultimate parent and controlling company at 31 December 2017 was Ozyol Holding A.S., which is incorporated in Turkey, registered address:- Macka Polat Apartmani, 10 V Alaaddin Yavasca Sokak, Istanbul. 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, incorporated in Cyprus, registered address 92 Girne Cad, Lefkosa, Cyprus. 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 2017	31 December 2016
	£'000	£'000
Placements with group companies – fellow subsidiaries	6,230	1,644
Deposits from group companies – immediate parent	1,013	2,847
Purchase of loans from group companies immediate parent	9,300	-
Sale of loans to group companies immediate parent	-	9,948
Interest received from group companies fellow subsidiaries	27	14
Interest paid to group companies immediate parent	2	2

A number of loans were sold to the parent bank during 2016, the parent bank's regulator noted that the collateral remained in the name of the UK bank, and was proposing a higher than anticipated risk weighting, so the bank repurchased the loans in 2017. No profit or loss was made on the sale or the repurchase.

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 managed within an established control environment, 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 t9he 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. The Bank's credit process is guided by a well-established credit policy, rules and guidelines 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 and 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 £167 million (2016: £158 million). Credit risk exposure of £ 81 million (2016: £70 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 Bank as credit risk mitigating factors.

Notes to the accounts
For the year ended 31 December 2017

Total Collateral held as at 31 December:	**2017**	**2016**
	£'000	**£'000**
Cash	300	2,287
Freehold	196,819	152,008
Guarantees	190	20
Total	**197,309**	**154,315**

All collateral is held by the Bank in its original form until the debt has been repaid. The Bank 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 of a loan.

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

	2017 Loans £'000	**2017 Collateral £'000**	**2016 Loans £'000**	**2016 Collateral £'000**
Loans & advances to customers	98,532	197,309	72,784	154,315

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	**2017**	**2016**
	£'000	**£'000**
Less than 50%	36,106	22,044
51-70%	57,971	48,442
71-90%	-	1,495
Over 90%	-	-
Total	**94,077**	**71,981**

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

Debt Securities – External Ratings

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

	2017	**2016**
Corporate Bonds	**£'000**	**£'000**
A+	300	325
BBB/BBB+	-	450
BB	512	-
Unrated	-	224
Total	**812**	**999**

Internal credit rating
The Bank assigns internal credit ratings to each of its counterparties. The rating structure 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:

	2017	**2016**
	£'000	**£'000**
Real Estate	9,361	11,495
Hotels & Restaurants	4,418	1,371
Retail & Wholesale	3,932	5,923
Other Manufacturing	2,962	81
Service Providers	1,488	99
Financial	452	2,595
Individuals & Individual trusts	76,049	51,412
Recreational, Cultural, Sport Activities	5	6
Total	**98,667**	**72,982**
Provision for impairment losses	**(135)**	**(198)**
Total	**98,532**	**72,784**

During the year no credit interest was forgone.
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. During the year no credit or interest was foregone.

2017

	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	**40,631**	**98,532**	**1,772**	**812**	**2,485**
At amortised cost					
Performing	40,631	95,929	1,772	812	2,485
Watch list	-	2,703	-	-	-
Impaired	-	35	-	-	-
Total Gross amount	**40,631**	**98,667**	**1,772**	**812**	**2,485**
Impairment provisions	-	(135)	-	-	-
Net carrying amount	**40,631**	**98,532**	**1,772**	**812**	**2,485**

	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**

Encumbered Assets

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

ICAAP (Internal Capital Adequacy Assessment Process)

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. The Bank defines 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. The Bank only operates positions housed in its Banking book within strict Board approved guidelines. Currently Market Risk reporting is made to the Regulator 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 to reduce its foreign exchange exposure. Valuation and accounting policies in line with IFRS have been formulated and are operative. There was a notional amount outstanding at the year-end of £1,862,000 with a book value of £50,000 (nil outstanding as at 31 December 2016).

Currency and Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to minimise foreign exchange exposure. However, the Bank does incur small open positions 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 2017 £'000**	**Net currency position 2016 £'000**
US Dollar	289	(33)
Euro	-	212
Turkish Lira	(1,208)	(21)
Total	(919)	158

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 currency 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 49 and 50 reflect management's estimate of the interest rate sensitivity gap for the Bank as at 31 December 2017, and 31 December 2016. 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.

Maturity analysis of assets and liabilities
The table below shows the remaining contractual maturities for assets and liabilities For both 2017 and 2016 the contractual amounts are a reasonable approximation to the fair values (IFRS 7.29):-

£'000 **31 December 2017**	**Carrying amount**	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**
Cash and cash equivalents	63,088	7,167	55,921			
Loans and advances to banks	1,772	-	-	1,772	-	-
Loans & advances to customers	98,532	4,989	1,825	7,745	63,082	20,891
Investment Securities	812	-	-	512	-	300
Other assets	13,399	-	2,496	71	853	9,979
Total assets	**177,603**	**12,156**	**60,242**	**10,100**	**63,935**	**31,170**
Derivative liabilities	50	-	50	-	-	-
Deposits from banks	3,138	3,138	-	-	-	-
Deposits from customers	145,009	84,685	26,623	27,800	5,901	-
Other liabilities	2,759	-	908	128	822	901
Equity	26,647					26,647
Total Liabilities and equity	**177,603**	**87,823**	**27,581**	**27,928**	**6,723**	**27,548**

£'000 **31 December 2016 (restated)**	**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
Debt Securities	999	-	-	674	-	325
Other assets	8,851	-	351	376	17	8,107
Total assets	**184,474**	**76,991**	**31,409**	**9,936**	**47,732**	**18,406**
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	65	-	-	65	-	-
Other liabilities	2,294	-	1,206	194	315	579
Equity	25,190	-	-	-	-	25,190
Total Liabilities and equity	**184,474**	**54,479**	**70,279**	**25,711**	**8,236**	**25,769**

Operational Risk

Operational Risk controls are incorporated in the Temenos (Globus T24) system that allows an overall control of transactions centrally by Compliance Unit. The Board has approved the Operational Risk Policy. It has been further enhanced by the introduction over the last two years of a dedicated Risk Management System (in Globus T24) 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 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 and derivatives.

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 currency 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 2017				
Financial Assets				
Debt securities available for sale	-	512	300	812
	---------	---------	---------	---------
Financial Liabilities				
Derivative liabilities	-	(50)	-	(50)

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
31 December 2016				
Financial Assets				
Debt securities available for sale	-	674	325	999
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There were no transfers of assets between levels during 2017 or 2016 and no significant changes in valuation techniques. The Bank has not separately disclosed the fair values for financial instruments such as loans and advances and customer accounts because carrying amounts are a reasonable approximation to fair value.

Derivative financial instruments:

At the balance sheet date the Bank had derivative 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. As at 31 December 2016 the Bank had no derivative assets or liabilities.

		2017	
	Notional amount £'000	Fair value Assets £'000	Fair value Liabilities £'000
Foreign currency swap contracts	1,862	-	(50)

		2016	
	Notional Amount £'000	Fair value Assets £'000	Fair value Liabilities £'000
Foreign currency swap contracts	-	-	-

The foreign currency swap as at 31 December 2017 was due to mature in less than three months (2016 nil).. The swap was an over the counter short term swap with a non-connected third party.

No collateral was given or received in respect of the swap. The cash flows associated with the swap are that on maturity, the Bank will exchange currency amounts equivalent to the notional amount above with the contracted counterparty.

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's 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 2017 and 2016 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, retained earnings, 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 Bank's regulatory capital position was as follows:

	2017	**2016**
	£'000	**£'000**
Share Capital	12,000	12,000
Retained Earnings	8,198	8,119
Available for sale reserve	265	325
Revaluation reserve	6,184	4,746
Less intangible assets	(1,459)	(601)
Total regulatory capital	25,188	24,589
Capital surplus taking into account buffers	6,825	9,754

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:

	2017	**2016**
	£'000	**£'000**
Credit Risk	85,977	67,836
Operational Risk	10,338	10,375
FX Risk	111	19
	----------	----------
Total Risk weighted assets	**96,426**	**78,230**
	======	======

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.

Notes to the accounts
For the year ended 31 December 2017

Analysis of financial assets and liabilities by measurement basis 2017

	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	63,088	-	-	-	63,088
Loans & advances to banks	1,772	-	-	-	1,772
Loans and advances to customers	98,532	-	-	-	98,532
Investment securities-available for sale	-	812	-	-	812
Other assets	-	-	-	-	-
Total financial assets	**163,392**	**812**	**-**	**-**	**164,204**
Total non-financial assets					13,399
Total assets					**177,603**
Liabilities					
Deposits by banks	-	-	3,138	-	3,138
Customer accounts	-	-	145,009	-	145,009
Derivative liabilities	-	-	50	-	50
Other liabilities	-	-	1,791	-	1,791
Deferred tax liabilities	-	-	968	-	968
Total financial liabilities	**-**	**-**	**150,956**		**150,956**
Equity					26,647
Total liabilities and equity					**177,603**

Notes to the accounts
For the year ended 31 December 2017

Analysis of financial assets and liabilities by measurement basis 2016 (restated)

	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					8,851
Total assets					**184,474**
Liabilities					
Deposits by banks	-	-	3,804	-	3,804
Customer accounts	-	-	153,121	-	153,121
Derivative liabilities	-	-	-	-	-
Other liabilities	-	-	1,739	-	1,739
Deferred tax liabilities	-	-	620	-	620
Total financial liabilities	-	-	**159,284**	-	**159,284**
Equity					25,190
Total liabilities and equity					**184,474**

Interest rate sensitivity gap analysis 2017

	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	62,313	-	-	-	-	775	63,088
Loans and advances to banks	-	-	1,772	-	-	-	1,772
Loans and advances to customers	64,088	11,648	22,931	-		(135)	98,532
Investment securities	-	-	500	-	312	-	812
Other assets	-	-	-	-	-	13,399	13,399
	126,401	11,648	25,203	-	312	14,039	177,603
Liabilities							
Deposits by banks	3,138	-	-	-	-	-	3,138
Customer accounts	111,358	13,384	14,022	6,245	-	-	145,009
Other liabilities	-	-	-	-	-	2,809	2,809
Shareholders' funds	-	-	-	-	-	26,647	26,647
	114,496	13,384	14,022	6,245	-	29,456	177,603
Interest rate sensitivity gap	11,905	(1,736)	11,181	(6,245)	312	(15,417)	-
Cumulative gap	11,905	10,169	21,350	15,105	15,417	-	-

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 2017.

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

The Bank had no outstanding financial guarantee contracts at the year end (2016: £25,000) . The outstanding guarantees of £25,000 in 2016 were due to mature within a year.

Interest rate sensitivity gap analysis 2016 (restated)

	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	-	-	-	-	-	8,851	8,851
	157,304	13,772	3,332	-	302	9,764	184,474
Liabilities							
Deposits by banks	3,804	-	-	-	-	-	3,804
Customer accounts	119,748	14,453	10,999	7,921	-	-	153,121
Derivative liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	2,359	2,359
Shareholders' funds	-	-	-	-	-	25,190	25,190
	123,552	14,453	10,999	7,921	-	27,549	184,474
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 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 £135,000 (2016: £198,000).

The weighted average interest rates are as follows: 0.95% (2016: 0.70%) for the loans and advances to banks; 4.86% (2016: 5.26%) for the loans and advances to customers; 10.04% (2016: 13.72%) for the debt securities; 0.07% (2016: 0.06%) for the deposits by banks; and 1.20% (2016: 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 decrease/increase by £60,000 / £64,000 respectively. As at 31 December 2016 the average impact of 200 basis point movement in interest rates was £124,000. However, management believes that Bank interest rate risk is limited since the majority of customers' deposits are repriced within three months as per the terms of their issue.

29. Post Balance Sheet Events

There are no significant post balance sheet events.