

**TÜRKİYE SİNAİ KALKINMA BANKASI
ANONİM ŞİRKETİ**

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2004

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

To the Board of Directors
İstanbul

OPINION OF INDEPENDENT AUDITORS

1. We have audited the accompanying consolidated balance sheet of Türkiye Sınai Kalkınma Bankası (the “Bank”) and its subsidiaries (together the “Group”) as at 31 December 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira at 31 December 2004. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2004, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards.

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**

İstanbul, 18 February 2005

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004 AND 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

ASSETS

		31 December 2004	As Restated 31 December 2003
	Note	<u>TL Billion</u>	<u>TL Billion</u>
Liquid assets	4	205	134
Balances with the Central Bank	5	868	1,693
Balances with banks	6	52,754	35,818
Interbank money market placements	5	400	-
Securities held for trading	7	12,935	6,717
Securities available for sale (net)	7	691,444	525,557
Securities held to maturity	7	-	24,530
Originated loans and securities (net)	8	1,422,598	1,143,447
Investments in associated companies	9	57,929	46,465
Property, plant and equipment, net	10	22,888	23,213
Deferred tax asset (net)	14	-	4,426
Other assets	11	31,162	50,898
Goodwill (net)		366	478
Total assets		<u>2,293,549</u>	<u>1,863,376</u>

The accompanying notes form an integral part of these financial statements.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2004 AND 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

LIABILITIES

		31 December 2004 TL Billion	As Restated 31 December 2003 TL Billion
	Note		
Due to customers- securities sold under repurchase agreements	12	170,410	11,439
Financial liabilities held for trading		163	5
Interbank money market borrowings		5,641	12,007
Borrowings	13	1,615,932	1,457,558
Securities issued		1	1
Corporate tax payable	14	12,841	282
Other liabilities	15	24,427	58,841
Provisions	16	13,612	10,885
Deferred tax liability (net)	14	672	-
Subordinated loan	17	67,607	-
Total liabilities		1,911,306	1,551,018
Minority interest		3,826	2,179
Shareholders' equity			
Issued capital	19	949,960	919,732
Valuation reserve		14,984	13,245
Accumulated losses		(586,527)	(622,798)
Total shareholders' equity		378,417	310,179
Total liabilities and shareholders' equity		2,293,549	1,863,376
Commitments and contingent liabilities	23	-	-

The accompanying notes form an integral part of these financial statements.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

		1 January- 31 December 2004 <u>TL Billion</u>	As Restated 1 January- 31 December 2003 <u>TL Billion</u>
	Note		
Interest and similar income		183,263	119,277
Interest expense and similar charges		<u>(61,912)</u>	<u>(62,679)</u>
Net interest income	19	121,351	56,598
Fee and commission income		23,596	27,018
Fee and commission expense		<u>(4,849)</u>	<u>(4,180)</u>
Net fee and commission income	20	18,747	22,838
Dividend income		1,551	3,624
Net trading income		1,981	71,990
Foreign exchange gain (net)		-	18,859
Other operating income		<u>30,590</u>	<u>6,199</u>
Operating income		174,220	180,108
Salaries and employee benefits		(14,856)	(27,400)
Depreciation and amortization		(320)	(2,705)
Provision for losses on loans and other receivables		(14,264)	(42,979)
Foreign exchange loss (net)		(103)	-
Other operating expenses		<u>(32,114)</u>	<u>(22,289)</u>
Operating expenses		(61,657)	(95,373)
Income / (loss) from associates		<u>6,804</u>	<u>(4,741)</u>
Income before tax and loss on net monetary position		119,367	79,994
Loss on net monetary position		<u>(31,501)</u>	<u>(16,190)</u>
Income before tax		87,866	63,804
Income taxes	15	<u>(18,620)</u>	<u>(9,359)</u>
Income after tax		69,246	54,445
Minority interest		<u>(206)</u>	<u>(28)</u>
Net income for the year		<u>69,040</u>	<u>54,417</u>
Earnings per share (in full TL)		242	191
Average number of shares outstanding		285,000,000,000	285,000,000,000

The accompanying notes form an integral part of these financial statements.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

	Issued capital TL Billion	Valuation Reserve TL Billion	Accumulated losses TL Billion	Total TL Billion
Balance at 1 January 2003	919,732	9,337	(677,215)	251,854
Change in valuation reserve	-	3,908	-	3,908
Net income for the year	-	-	54,417	54,417
Balance at 31 December 2003	<u>919,732</u>	<u>13,245</u>	<u>(622,798)</u>	<u>310,179</u>
Balance at 1 January 2004	919,732	13,245	(622,798)	310,179
Dividends paid	-	-	(2,558)	(2,558)
Increase in capital	30,228	(17)	(30,211)	-
Change in valuation reserve	-	1,756	-	1,756
Net income for the year	-	-	69,040	69,040
Balance at 31 December 2004	<u>949,960</u>	<u>14,984</u>	<u>(586,527)</u>	<u>378,417</u>

The accompanying notes form an integral part of these financial statements.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

	31 December 2004 <u>TL Billion</u>	As Restated 31 December 2003 <u>TL Billion</u>
Operating Activities:		
Net income for the year	69,040	54,417
Adjustments for Non-Cash Items:		
Depreciation and amortization	207	2,621
Amortization of goodwill	113	84
Provision for losses on loans and other receivables	14,264	89,982
Changes in provisions	2,727	55
(Income) / loss from associates	(6,804)	4,741
Minority interest	1,647	(6,903)
Changes in Operating Assets and Liabilities:		
Financial instruments held for trading	(6,060)	3,412
Originated loans and securities	(293,415)	23,892
Other operating assets	(121,622)	(813)
Due to customers	158,971	(35,958)
Securities issued	-	(32,488)
Interbank money market borrowings	(6,366)	(20,459)
Other operating liabilities	(16,740)	4,590
Cash flows from operating activities	<u>(204,038)</u>	<u>87,173</u>
Investing Activities:		
(Increase) in investments	(2,921)	(35,002)
Goodwill	-	(562)
Acquisition/(sale) of property and equipment (net)	118	345
Cash flows from investing activities	<u>(2,732)</u>	<u>(35,219)</u>
Financing Activities:		
Dividends paid	(2,558)	-
Proceeds from borrowings	449,404	217,397
Repayment of borrowings	(223,423)	(421,047)
Cash flows from financing activities	<u>223,423</u>	<u>(203,650)</u>
Net change in cash and cash equivalents	16,582	(151,698)
Cash and cash equivalents at 1 January	<u>37,645</u>	<u>189,343</u>
Cash and cash equivalents at 31 December	<u>54,227</u>	<u>37,645</u>

The accompanying notes form an integral part of these financial statements.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. ACTIVITIES OF THE GROUP

Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB" or the "Bank") was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital market in Turkey. TSKB and Sınai Yatırım Bankası A.Ş. (SYB), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (BRSA) decision no.659 dated 27 March 2002, in accordance with Article 18 of the Banks Act no: 4389.

Ever since its foundation in 1950, TSKB has played an active role in every stage of Turkey's economic development. The Bank, through its support and extension of medium - term loans for more than 3500 investment projects, has contributed significantly to the progress and development of the private sector. Over the past 35 years, the Bank provided financing by way of participating in the share capital of more than 100 companies. Further, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group, Sabancı Group and T. Vakıflar Bankası T.A.O. with the percentages of 40.53%, 6.45% and 8.38%, respectively.

The Bank holds direct and indirect shareholdings in Yatırım Finansman Menkul Değerler A.Ş. and TSKB Menkul Değerler A.Ş. as discussed in greater detail in notes 2 and 3.2, the financial statements of these subsidiaries have been consolidated. Yatırım Finansman Menkul Değerler A.Ş. and TSKB Menkul Değerler A.Ş. were incorporated in Turkey in 1976 and in 1997, respectively. The main operation of Yatırım Finansman Menkul Değerler A.Ş. and TSKB Menkul Değerler A.Ş. is to provide stock broking services in capital markets.

The registered office of the Bank is at Meclisi Mebusan Cad. 161 Fındıklı, Istanbul and the number of personnel is 279.

2. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), formerly referred to as International Accounting Standards (IAS). The Bank and its consolidated subsidiaries maintain their books of account and prepare their financial statements in Turkish Lira, in accordance with current tax legislation, rules and regulations promulgated by the Bank Regulation and Supervision Agency and Turkish Capital Market Board, with adjustments and reclassifications for the purposes of fair presentation in accordance with International Financial Reporting Standards.

Inflation Accounting

In the accompanying consolidated financial statements, restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, as at the balance sheet date, in accordance with International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

Inflation Accounting (cont'd)

Major characteristics that necessitate the application of IAS 29 are:

- (a) The general population prefers to keep its wealth in non monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- (b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) Cumulative three-year inflation rate approaching or exceeding 100%.

Although the cumulative rate in Turkey is 69.72% for the three years ended 31 December 2004, the other characteristics are still valid. IAS 29 requires that financial statements be stated in terms of the measuring unit current at the balance sheet date and corresponding figures for previous periods be restated in the same terms by applying a general price index. Inflation adjustments are calculated by using the wholesale price index announced by the BRSA, based on the State Institute of Statistics Index.

The index and corresponding conversion factors for recent year ends to reach balance sheet date money values are as follows:

	<u>Index</u>	<u>Conversion Factor</u>
31 December 2001	4,951.7	1.6972
31 December 2002	6,478.8	1.2971
31 December 2003	7,382.1	1.1384
31 December 2004	8,403.8	1.0000

The comparative rates of currency devaluation of the Turkish Lira against the US Dollar, compared with the rates of general price inflation in Turkey at each year-end according to the WPI are set out below:

<u>Year:</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Currency devaluation US \$	(3.9)%	(14.6)%	13.5%	114.3%
WPI Inflation	13.8%	13.9%	30.8%	88.6%

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

Inflation Accounting (cont'd)

The principal adjustments related with inflation accounting are as follows:

- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- Non-monetary assets and liabilities and the components of shareholders' equity are restated by applying, to the initial acquisition cost and any accumulated depreciation, the relevant conversion factors reflecting the increase in the WPI from the date of acquisition or initial recording to the balance sheet date. Revaluations made on any other basis in the statutory records are eliminated.
- All items in the statements of income are restated by applying the relevant conversion factors, except for restatement of certain specific income statement items which arise from the restatement of non-monetary assets and liabilities like amortization, depreciation, gain or loss on sale of assets.
- The effect of general inflation on the Group's net monetary position is included in the statements of income as gain or loss on net monetary position.

Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries).

The financial statements of the entities below, have been consolidated with those of the Bank in the accompanying financial statements. The method of consolidation is set out in note 3.2. The ownership percentages stated below comprise the total of the Bank's direct and indirect holdings:

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Ownership (%)</u>
TSKB Menkul Değerler A.Ş.	Financial	92.40
Yatırım Finansman Menkul Değerler A.Ş.	Financial	90.44

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

Consolidation (cont'd)

The following equity investments have been accounted for under the equity method:

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Ownership (%)</u>
İş Finansal Kiralama A.Ş.	Financial	30.00
TSKB Yatırım Ortaklığı A.Ş.	Financial	44.03
Yatırım Finansman Yatırım Ortaklığı A.Ş.	Financial	29.24
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Financial	23.82
İş Factoring Finansman Hizmetleri A.Ş.	Financial	21.75

The following equity investments have not been consolidated or accounted for under equity method, but included in available for sale assets, as noted in Note 7.

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Ownership (%)</u>
TSKB Gayrimenkul Değerleme A.Ş.	Real-Estate Appraiser	80.00
Gözlük Sanayi A.Ş.	Manufacturing	21.71

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the accompanying consolidated financial statements are as follows:

3.1 Accounting Convention

The accompanying consolidated financial statements have been prepared in accordance with IFRS. Effect has been given in the financial statements to adjustments and reclassifications, which have not been entered in the general books of account of the Bank and its consolidated subsidiaries, maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Consolidation

The consolidation includes the companies set out in note 2. The consolidated financial statements incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries).

Entities in which the Bank, directly or indirectly, has above 50% shareholding or above 50% interest in the voting rights or otherwise has power to exercise control over operations, have been fully consolidated. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. In cases where the consolidated entities are not 100% owned, the shareholders' equity and net income, which belongs to third party shareholders, are separately disclosed as minority interest. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Bank. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between consolidated entities have been eliminated from the accompanying financial statements.

3.3 Investments in Associates

As at the balance sheet date, the Group has investments in associates with a position to exercise significant influence as set out in note 2, through participation in the financial and operating policy decisions of the investee. Such investments have been accounted for under equity method in the accompanying consolidated financial statements.

3.4 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis generally in 5 years.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate and is presented separately in the balance sheet.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Income and Expense Recognition

Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered and dividends from equity participations, which are recognized as income when received. Income and expenses are recognized in accordance with International Accounting Standard No.39 "Recognition and Measurement" ("IAS 39") at fair value or amortized cost basis. For the purposes of convenience, certain income and expenses are recognized on a straight-line basis where that does not materially differ from fair value or the amortized cost method. All income and expense items are restated in equivalent purchasing power at the balance sheet date.

Exchange gains arising from revaluation of Turkish Lira loans, which are indexed to foreign currencies, are included as interest income.

3.6 Foreign Currency Items

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. All exchange gains and losses arising on settlement and translation of foreign currency items are included in the statement of income.

Assets and liabilities denominated in foreign currencies are translated at the Bank's year-end exchange rate.

As at 31 December 2004 foreign currency assets and liabilities of the Bank are mainly in US Dollars, Euro and Yen. As at 31 December 2004 and 31 December 2003 the exchange rates of US Dollar, Euro and Yen are as follows:

	31 December 2004	31 December 2003
1 US Dollar	1,339,000	1,398,000
1 EURO	1,826,932	1,757,286
1 JPY	13,062	13,080

Average rates are as follows:

	31 December 2004	31 December 2003
1 US Dollar	1,427,790	1,499,118
1 EURO	1,774,070	1,692,115
1 JPY	13,200	12,937

3.7 Securities Portfolio

The Group's securities portfolio primarily represent government bonds and treasury bills which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices. The cost of foreign currency denominated securities is translated at period end exchange rates.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Securities Portfolio (cont'd)

Securities portfolio are impaired if their carrying amounts are greater than their estimated recoverable amounts. The Group assesses at each balance sheet date whether there is any objective evidence that they may be impaired. If any such evidence exists, the Group estimates the recoverable amount of that asset or group of assets and recognizes impairment losses in net profit or loss for the year.

Interest earned for holding securities are included in interest income. All gains or losses on sale of trading securities, and on investment securities if such transactions occur, are accounted for in the statement of income for the year.

The Group designates its securities portfolio in accordance with IAS 39 as follows:

Securities held for trading:

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their price or dealer's margin. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. Gains or losses on held for trading securities are included in net profit or loss for the period in which they arise.

Investment fund share certificates are stated at market value. Quoted shares are carried at market value.

Securities held to maturity:

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Held to maturity securities having a fixed maturity are measured at amortized cost using the effective interest rate method.

Securities available for sale:

Available-for-sale securities are those that are not (a) held-to-maturity securities, or (b) securities held for trading. Subsequent to acquisition, available for sale securities are valued at their fair value if reliably measurable. Otherwise, they are accounted for at amortized cost.

Investments in equity instruments that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable, are accounted for at cost. Securities that do not have a fixed maturity are measured at cost.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Loan Loss Provisions

Loans are financial instruments originated by the Group and accounted for at amortized cost in accordance with IAS 39. Based on its evaluation of the current status of the loans granted, the Group makes specific loan loss provisions, which it considers are adequate to cover estimated un-collectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known.

The Group classifies any loan, which is overdue or not adequately collateralized, or where management believes the borrower has lost creditworthiness, into overdue loans. The Group ceases to recognize income on overdue loans and receivables.

The loan loss provisions follow the requirements as specified by Turkish Banking regulations. In accordance with the prevailing provisioning legislation, banks in Turkey should appropriate 0.5% general provision for cash loans and other receivables and 0.1% general provision for non-cash loans.

3.9 Property, Plant and Equipment

Property, plant and equipment are carried at restated cost less restated depreciation at the equivalent purchasing power as at the reporting date. Property, plant and equipment are depreciated on a straight-line basis using rates, which write off the assets over their expected useful lives. The main depreciation rates used are:

Buildings	2%
Vehicles	20%
Furniture and fittings	20%
Computer equipment and software	20%
Leasehold and leasehold improvements	lease term or 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of income.

The Group regularly reviews its premises and equipment for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Finance and Operating Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Amounts due from lessees under finance leases in the accounts of the lessor are recorded as receivables at the amount of the Group's net investment in the leases. Lease rentals are allocated between principal payment and interest income. Finance lease interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Assets leased under operating leases are included in premises and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as Lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leases of assets under which the lessor effectively retains all risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of lease.

3.11 Equity Participations

In the statutory books of account the Group values its equity participations at cost plus the nominal value of bonus shares received from investee companies converting their profit reserves to share capital.

Equity investments are accounted for as securities portfolio available for sale, in accordance with IAS 39, using the policy set out in note 3.7 above. In cases where there is evidence of permanent impairment in value, recorded amounts are reduced by a provision for such impairment, charged to the statement of income.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of (i) the sales price of the asset (less any selling costs); (ii) the present value of the cash flows which are expected to arise from future use of the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Management of the Group believes that there is no indication of internal or external factors implying any impairment of assets.

3.13 Retirement Pay

The Group has both defined benefit and defined contribution plans as described below:

(i) *Pension and other post-retirement obligations*

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his /her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through informal practices of constructively paying additional amounts.

The surplus or deficit in the defined benefit pension plan is the fair value of plan assets less the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries under legal regulations, although the methodology is not IAS 19 compliant. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected real interest rates for Turkish lira. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying balance sheet in respect of any surplus in the fund.

The Bank also provides post-retirement benefits to their retirees through the Fund. These obligations are valued annually by independent actuaries.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3.13 Retirement Pay (cont'd)

(ii) Employment termination benefits

Under Turkish legislation as supplemented by union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. Such payments are based on number of years' service and final salary at the date of retirement or leaving.

International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19") has been applied in the accompanying financial statements. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit.

3.14 Related Parties

For the purpose of the accompanying financial statements shareholders of the Bank and related companies, consolidated and unconsolidated equity investments and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report.

During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year. Certain significant balances and transactions with Related Parties as at the balance sheet date are set out in note 21.

3.15 Taxation and Deferred Taxes

Taxes on income for the period comprise of current tax and the change in deferred taxes. The Group accounts for current and deferred taxation on the results for the period, in accordance with IAS 12 (Revised).

Provision is made in the accompanying financial statements for the estimated liability of the Group and its equity participations for local taxes on the results for the year by using tax rates that have been enacted or substantively enacted by the balance sheet date. The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Temporary differences arise in respect of retirement pay provisions, the difference between the book value of tangible fixed assets and the carrying value in the accompanying financial statements (which is based on indexed cost) and various other provisions not taxable or tax-deductible until the following year or years.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Taxation and Deferred Taxes (cont'd)

In principle, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.16 Securities Under Resale or Repurchase Transactions

Purchases or sales of securities under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of securities under the agreements of repurchase ("Repos") are retained in the balance sheet under securities portfolio and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as held for trading, held to maturity or available for sale, and interest expense accrued over the period to maturity. Purchases of securities under agreements of resale ("reverse repos") are included in securities portfolio and interest income on such transactions is accrued over the period to maturity.

3.17 Cash and Cash Equivalent Items

Cash and cash equivalent items seen in the statement of cash flows consist of cash, Central Bank accounts, bank balances and interbank funds sold.

3.18 Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.19 Fair Values of Financial Instruments

The term financial instruments include both financial assets and financial liabilities, and also derivatives. Financial instruments are fundamental to the Group's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Group's balance sheet. The Group trades in financial instruments for customer facilitation and as principal.

The Group accounts for financial instruments on a trade date basis. After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, except for loans and receivables originated by the enterprise and not held for trading, held-to-maturity investments and any financial asset that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. Those financial assets that are excluded from fair valuation and that have a fixed maturity are measured at amortized cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are reviewed periodically for impairment.

Various financial instruments are accounted for at fair value, as described above and in the related accounting policies notes. Other financial instruments are accounted for amortized cost but disclosure is required of fair value for comparison purposes wherever practicable. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market, if one exists.

Current economic conditions have led not only to volatility in Turkish markets, but also to low trading volumes in many markets. Consequently the Group is unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets, and calculation of present values on an internal rate of return basis. Where no reliable estimate of fair value is available, amortized cost is used as the carrying value. As there is a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

Gains or losses on financial assets or liabilities held for trading are included in net profit or loss for the period in which they arise. For those financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in net profit or loss when the financial asset or liability is derecognized or impaired, as well as through the amortization process.

As discussed below, for certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would never differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.19 Fair Values of Financial Instruments (cont'd)

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.

Financial assets: Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

Originated loans: The major portion of the originated loans have interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Securities under resale and repurchase agreements: The carrying amount is a reasonable estimate of fair value.

The fair values of balances denominated in foreign currencies, which are translated at period end exchange rates along with related accrued interest, are estimated to be their fair values.

In the normal course of business, the Group enters into a variety of derivative transactions principally in the foreign exchange and interest rate markets. These are used to provide financial services to customers and to actively take, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the balance sheet from a variety of activities including lending and securities investment. The majority of the counterparties in the Group's derivative transactions are banks and other financial institutions. The risks involved in derivatives include market, credit and liquidity risk.

The Group's off balance sheet financial instruments also include currency swaps and forward transactions as at the balance sheet date. All unrealized gains and losses on these instruments are included in the statement of income. Unrealized gains and losses on these instruments are not deductible for tax purposes. The fair values of off balance sheet derivative instruments are estimated based on the available quoted market rates prevailing at the reporting date.

The Group deals with financial instruments with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, pre-financing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.19 Fair Values of Financial Instruments (cont'd)

	31 December 2004	
	Carrying Value TL Billion	Fair Value TL Billion
Balances with banks	52,754	52,754
Interbank money market placements	400	400
Securities available for sale	691,444	691,444
Originated loans and securities	1,422,598	1,422,598
Financial assets	2,167,196	2,167,196
Financial liabilities held for trading	163	163
Interbank money market borrowings	5,641	5,641
Securities issued	1	1
Borrowings	1,615,932	1,615,932
Financial liabilities	1,621,737	1,621,737

	31 December 2003	
	Carrying Value TL Billion	Fair Value TL Billion
Balances with banks	35,818	35,818
Interbank money market placements	-	-
Securities available for sale	525,557	525,557
Securities held to maturity	24,530	24,552
Originated loans and securities	1,143,447	1,143,506
Financial assets	1,729,352	1,729,433
Financial liabilities held for trading	5	5
Interbank money market borrowings	12,007	12,007
Securities issued	1	1
Borrowings	1,457,558	1,457,558
Financial liabilities	1,469,571	1,469,571

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Risk Management

Risk Management has been a vital process for banks in Turkey due to the volatility of the economic variables and conditions. The Banking Regulation and Supervision Agency (“BRSA”) has issued a decree on Risk Management on 8 February 2001 and TSKB has adopted the BRSA standard and restructured its Risk Management operations based on this decree.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The Bank has an Executive Risk Committee that consists of four risk committee departments, which are the Bank Committee, Credit Committee, Market Committee and Operational Committee. These departments report to the Executive Risk Committee. The Board of Directors and Executive Risk Committee together execute the risk control operations and implement the strategies which are defined.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet financial commitments arising from the cash flows generated by its business activities. This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities, and off-balance sheet instruments.

The strategy of the Group is to raise funding as cost effectively as possible while ensuring that no significant unintended mismatches arise between loans and deposits. Close control is exercised over both volume and quality of short-term credits, with the sources and maturities being managed to avoid a concentration of funding requirements. A major advantage of the Group in avoiding liquidity risk is the diverse funding sources including long-term borrowings from various financial institutions, issued securities, government loans provided and share capital. In order to manage this risk, the Group continually measures and manages its cash flow commitments on a daily basis and monitors the daily changes.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

As at 31 December 2004 the estimated maturity analysis for certain assets and liabilities is as follows:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Risk Management (cont'd)

Liquidity risk (cont'd)

<u>TL Billion</u>						
31 December 2004	<u>On demand</u>	<u>Less than one month</u>	<u>Between one month and three months</u>	<u>Between three and twelve months</u>	<u>More than one year</u>	<u>Total</u>
Assets						
Cash, balances with Central Bank	1,073	-	-	-	-	1,073
Balances with banks	2,623	50,131	-	-	-	52,754
Interbank money market placements	-	400	-	-	-	400
Securities held for trading	1,125	1,291	375	2,101	8,043	12,935
Securities available for sale	1,606	6,544	21,385	253,214	408,695	691,444
Securities held to maturity	-	-	-	-	-	-
Originated loans and securities	-	2,305	28,139	149,073	1,243,081	1,422,598
	<u>6,427</u>	<u>60,671</u>	<u>49,899</u>	<u>404,388</u>	<u>1,659,819</u>	<u>2,181,204</u>
Liabilities						
Due to customers	-	170,410	-	-	-	170,410
Financial liabilities held for trading	-	163	-	-	-	163
Interbank money market borrowings	-	5,641	-	-	-	5,641
Borrowings and subordinated loans	-	114,639	3,745	120,099	1,445,056	1,683,539
Securities issued	1	-	-	-	-	1
	<u>1</u>	<u>290,853</u>	<u>3,745</u>	<u>120,099</u>	<u>1,445,056</u>	<u>1,859,754</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Risk Management (cont'd)

Liquidity risk (cont'd)

<u>TL Billion</u>						
31 December 2003	On demand	Less than one month	Between one month and three months	Between three and twelve months	More than one year	Total
Assets						
Cash, balances with Central Bank	1,827	-	-	-	-	1,827
Balances with banks	35,818	-	-	-	-	35,818
Securities held for trading	491	145	1,697	2,467	1,917	6,717
Securities available for sale and held to maturity	-	12,207	63,258	189,924	284,698	550,087
Originated loans and securities	-	3,734	40,931	142,486	956,296	1,143,447
	<u>38,136</u>	<u>16,086</u>	<u>105,886</u>	<u>334,877</u>	<u>1,242,911</u>	<u>1,737,896</u>
Liabilities						
Due to customers	-	11,439	-	-	-	11,439
Financial liabilities held for trading	-	5	-	-	-	5
Interbank money market borrowings	-	12,007	-	-	-	12,007
Borrowings	-	93,654	79,915	150,547	1,133,442	1,457,558
Securities issued	-	1	-	-	-	1
	<u>-</u>	<u>117,106</u>	<u>79,915</u>	<u>150,547</u>	<u>1,133,442</u>	<u>1,481,010</u>

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Risk Management (cont'd)

Credit risk

Credit risk arises where the possibility exists of a counter party defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. Funds, which are usually long-term, are obtained through institutions such as the World Bank, European Investment Bank, etc. After the evaluation of the credit risk by various analysts, the granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Bank places strong emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets. The credit portfolio is monitored according to the overall composition and quality of the credit portfolio considering factors such as loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally. The Bank has also an internal credit risk rating system in managing credit risk.

Market risk

Market risk is the risk to a financial institution's condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, or equity prices. The primary risks within the Group's activities are interest rate and foreign exchange rate risk. Turkish interest rates can be volatile. The Group's management of its exposure to market risk is performed through the Market Risk Committee, comprising members of senior management, and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions. The Bank benefits from Value-at-Risk (VaR) methods, stress testing and other non – statistical methods for measuring market risk. While the delta-gamma method is used in order to calculate VaR for the domestic fixed income securities portfolio, a variance-covariance model is used for overall foreign exchange risk. VaR calculations are made by choosing the 90%, 95% and 99% confidence intervals, 1 day / 10 day holding periods. Also back testing is applied to these measurements. The Bank also measures capital adequacy ratio by using the standardized methodology as stated in the regulatory requirements.

Interest Rate Risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. Borrowings provided are the basic sources of funding. Progressive forecasting is determined with simulation reports, interest rate fluctuations effects are identified with sensitivity reports and scenario analysis. The cash requirement in each period is determined with Gap analysis.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Risk Management (cont'd)

Operational risk

Operational risk arises from the potential for financial loss or reputation damage as a result of inadequate systems (including systems breakdown), errors, poor management, and breaches of internal controls, fraud or external events. The Bank has established the Operational Risk Department to be in overall charge of operations risk management. The department's activities include improving operating procedures and implementing systems upgrades as well as supervising branch operations and providing specific guidance. In addition, the Bank has set up the Inspection Department to perform internal checking functions, and this department conducts examinations and provides guidance to prevent operational problems before they occur at all the Bank's offices. The Bank's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

Currency risk

Currency risk is the risk of potential loss, as a result of change in the exchange rates in the course of the implementation of an agreement. Such losses arise from change in exchange rate of that currency, in which the price is determined, with respect to the payment currency, in the period between the signing of the agreement and settling the accounts under this agreement. Assets and liabilities denominated in foreign currencies together with purchase and sale commitments give rise to foreign currency exposure. The Bank's foreign currency assets are predominantly in US Dollars, Euro and Japanese Yen.

The currency structure of the Bank is as follows:

	TL Billion				
31 December 2004	US Dollar	Euro	Japanese Yen	Other FC	Total
Cash and balances with Central Bank	501	-	-	-	501
Balances with banks	1,011	988	124	460	2,583
Securities held for trading	221	36	-	-	257
Securities available for sale	239,614	32,096	-	-	271,710
Originated loans and securities	449,580	761,717	200,654	436	1,412,387
Other assets	2,889	310	5	7	3,211
	693,816	795,147	200,783	903	1,690,649
Due to customers	16,384	10,318	-	-	26,702
Financial liabilities held for trading	-	-	163	-	163
Borrowings	693,041	785,197	187,979	284	1,666,501
Other liabilities	4,417	4,398	5	175	8,995
Provisions	6,397	-	-	-	6,397
	720,239	799,913	188,147	459	1,708,758
Net foreign currency					
Long (short) position on balance sheet	(26,423)	(4,766)	12,636	444	(18,109)
Off-balance sheet net foreign currency					
long (short) position	9,422	3,310	(12,948)	-	(216)

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Risk Management (cont'd)

Currency risk (cont'd)

	TL Billion				
31 December 2003	US Dollar	Euro	Japanese Yen	Other FC	Total
Cash and balances with Central Bank	1,122	-	-	-	1,122
Balances with banks	25,181	6,851	114	2,648	34,794
Securities held for trading	-	-	79	-	79
Securities available for sale	173,789	51,326	-	-	225,115
Securities held to maturity	17,577	-	-	-	17,577
Originated loans and securities	230,703	658,020	246,409	927	1,136,059
Other assets	262	108	6	5	381
	448,734	716,305	246,608	3,580	1,415,227
Due to customers	8,768	1,052	-	-	9,820
Financial liabilities held for trading	-	-	5	-	5
Borrowings	437,392	703,036	248,889	1,297	1,390,614
Other liabilities	8,095	15,437	1,122	850	25,504
	454,255	719,525	250,016	2,147	1,425,943
Net foreign currency					
Long (short) position on balance sheet	(5,521)	(3,220)	(3,408)	1,433	(10,716)
Off-balance sheet net foreign currency					
long (short) position	(9,708)	-	9,793	-	85

3.21 Derivatives

Derivative instruments are contracts whose value is derived from that of an underlying instrument or market index and generally do not involve the exchange of principal but may involve the payment of a fee or receipt of a premium at inception of a contract. Certain instruments such as futures and forward contracts commit the Group to buy or sell a specified financial instrument, currency or precious metal at a future date. Futures contracts are exchange-trading instruments that settle through an independent clearinghouse and require daily cash settlement. Forward contracts are customized transactions that require no cash settlement until the end of the contract.

The Group has entered into certain forward and swap contracts as at the balance sheet date. The fair value of such derivative instruments held for trading at 31 December 2004 are as follows:

	31 December 2004		
	Notional Amount	Asset	Liability
	TL Billion	TL Billion	TL Billion
Currency swaps –sell	12,792	-	(140)
Currency swaps – buy	12,948	13	-
Forward contracts – sell	633	-	10
Forward contracts - buy	872	-	(33)
			(163)

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 Derivatives (cont'd)

	31 December 2003		
	Notional Amount	Asset	Liability
	TL Billion	TL Billion	TL Billion
Currency swaps –sell	4,852	75	-
Currency swaps – buy	(4,773)	-	(5)
		75	(5)

3.22 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.23 Derecognition

A financial asset is derecognized when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group commits to sell the assets.

Held-to-maturity instruments and originated loans and receivables are derecognized on the day they are transferred by the Group.

3.24 Earnings per share

Earnings per share disclosed in the accompanying consolidated statements of operations are calculated by dividing the net earnings (loss) attribute to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.24 Earnings per share (cont'd)

A summary of the weighted average number of shares outstanding for the years ended 31 December 2004 and 2003 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	2004	2003
Number of shares outstanding at 1 January (in full)	228,000,000,000	228,000,000,000
New shares issued	-	-
Conversion of existing resources	57,000,000,000	-
Number of shares outstanding at the year end (in full)	285,000,000,000	228,000,000,000
Weighted average number of shares Outstanding during the period (in full)	285,000,000,000	285,000,000,000
Net profit / (loss) (TL Billion)	69,040	54,417
Basic earnings / (loss) per share (in full TL)	242	191

4. LIQUID ASSETS

Liquid assets include cash balances on hand.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

5. BALANCES WITH THE CENTRAL BANK

a) Balances with the Central Bank

	31 December 2004	31 December 2003
	TL Billion	TL Billion
Balances with the Central Bank of Turkey	265	411

b) Liquidity requirements deposited at the Central Bank

	31 December 2004	31 December 2003
	TL Billion	TL Billion
Foreign currency reserves	494	1,218
Turkish Lira ("TL") reserves	109	64
	603	1,282

The liquidity requirements are to be maintained as cash in special Turkish Lira accounts for Turkish Lira liabilities and in special US Dollar and EURO accounts for respective foreign currency liabilities with the Central Bank of Turkey. Both such Turkish Lira and foreign currency reserves maintained with the Central Bank of Turkey earn interest on a quarterly basis at the interest rates determined by the Central Bank of Turkey.

The liquidity requirement should also be maintained as government bonds and treasury bills in special accounts with the Central Bank of Turkey.

c) Interbank money market placements

As at 31 December 2004, TL 400 Billion is sold in interbank money market (31 December 2003: nil).

6. BALANCES WITH BANKS

	31 December 2004 TL Billion	31 December 2003 TL Billion
<u>Domestic banks</u>		
Demand deposits	1,200	1,310
Time deposits	50,106	23,872
	51,306	25,182
<u>Banks abroad</u>		
Demand deposits	1,448	3,417
Time deposits	-	7,219
	1,448	10,636
	52,754	35,818

As at 31 December 2004, placements at domestic banks include TL 20,042 Billion, bearing interest rate of 19.1 % and with the maturity of 7 days and TL 30,064 Billion bearing interest rate of 19 % with the maturity of 7 days (31 December 2003: TL 23,872 Billion, bearing interest rate of 1.30 % and with the maturity of 4 days).

As at 31 December 2004, the Bank does not have time deposits at the foreign banks. (31 December 2003: 2.35 % for Euro and 3.50 % for GBP deposits with the maturity of 2 to 6 days).

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

7. SECURITIES (NET)

	31 December 2004 TL Billion	31 December 2003 TL Billion
<u>Held for trading:</u>		
Government bonds and treasury bills	10,255	4,420
Investment funds	1,330	492
Equity shares	1,120	1,286
Securities in foreign currencies	230	409
Others	-	110
	12,935	6,717
<u>Held to maturity (*):</u>		
Government bonds and treasury bills	-	6,281
Securities in foreign currencies	-	18,249
		24,530
<u>Available for sale:</u>		
TL	380,871	261,114
Foreign currency	156,387	79,869
Government bonds and treasury bills	537,258	340,983
Securities in foreign currencies	118,952	146,860
Investment funds	1,606	-
Equity investments	33,628	37,714
	691,444	525,557
Total securities(net)	704,379	556,804

(*) In the current period, the Bank has sold a portion of held-to-maturity financial assets before maturity, due to the favorable market conditions and reclassified the remaining portion of the portfolio to available-for-sale financial assets. Because of this fact, the Bank should not classify any securities as held-to-maturity during the current financial year as well as the following two financial years.

Estimated fair values for Government Bonds and Treasury Bills that are traded on a stock exchange were calculated based upon the prices quoted on the İstanbul Stock Exchange. For index-linked Government bonds, fair values were calculated based on the prices quoted in the Official Gazette by the Turkish Central Bank.

The blocked securities kept in the Central Bank, the İstanbul Stock Exchange and İMKB Takas ve Saklama Bankası A.Ş. (stock exchange clearing and settlement bank) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2004 are as follows:

	31 December 2004 Nominal Value TL Billion	31 December 2004 Book Value TL Billion
<u>Government Bonds and Treasury Bills:</u>		
Central Bank – Interbank market guarantee	37,677	35,515
Central Bank – Blocked securities	1,000	876
İMKB – Stock Exchange Bond Markets – Blocked securities	14,048	15,591
Central Bank – Foreign Currency Operations Guarantee	15,390	17,110
Clearing House – Blocked Securities	70,750	66,855
	138,865	135,947

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

7. SECURITIES (NET) (cont'd)

	31 December 2003 Nominal Value TL Billion	31 December 2003 Book Value TL Billion
<u>Government Bonds and Treasury Bills:</u>		
Central Bank - Interbank market guarantee	120,214	90,912
Central Bank – Blocked securities	1,594	1,204
İMKB – Stock Exchange Bond Markets – Blocked securities	4,698	4,679
Central Bank – Foreign Currency Operations Guarantee	28,904	28,805
Clearing House – Blocked Securities	138,331	106,305
	<u>293,741</u>	<u>231,905</u>

As at 31 December 2004, the Bank's available for sale equity investments are as follows:

<u>Investee</u>	<u>Ownership %</u>	<u>Indexed Acquisition Cost (Net) TL Billion</u>
İMKB Takas ve Saklama A.Ş.	6.80	14,344
Servus Bilgisayar A.Ş.	7.14	6,845
Ünsa Ambalaj San. ve Tic. Ltd.Şti.	13.04	5,293
Cam Elyaf Sanayi A.Ş.	1.18	1,530
Terme Metal San. ve Tic. A.Ş.	18.77	242
Senapa Plastik Ambalaj San. A.Ş.	10.41	1,988
İş Yatırım Ortaklığı A.Ş.	0.25	236
İş Portföy Yönetimi A.Ş.	10	443
Gözlük Sanayi A.Ş.	21.71	354
TSKB Gayrimenkul Değerleme A.Ş.	80	319
Vadeli İşlem ve Opsiyon Borsası A.Ş.	1	78
Aksa (*)		1,004
Alarko (*)		353
Enka (*)		370
Sabancı Holding		219
Others		10
		<u>33,628</u>

The investment in TSKB Gayrimenkul Değerleme A.Ş. has not been consolidated since its effect on consolidated income and net assets is not significant.

The investment in Gözlük Sanayi A.Ş. has not been accounted for under the equity method since the Group does not have any significant influence on this investment.

(*): These shares are purchased from Istanbul Stock Exchange; therefore, the ownership ratios cannot be determined.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

8. ORIGINATED LOANS AND SECURITIES (NET)

Originated loans represent the loans and advances to customers and securities:

	31 December 2004 TL Billion	31 December 2003 TL Billion
Loans and advances to customers	1,406,475	1,105,630
Originated securities	16,123	37,817
	<u>1,422,598</u>	<u>1,143,447</u>

Securities:

	31 December 2004 TL Billion	31 December 2003 TL Billion
Foreign currency indexed treasury bills	16,123	37,817
	<u>16,123</u>	<u>37,817</u>

As at 31 December 2004, originated securities of TL 16,123 Billion were given as guarantees to capital markets and interbank transactions (31 December 2003: TL 37,817 Billion).

On 31 December 2004, foreign currency indexed Treasury bill interest rate is 2.80 % (31 December 2003: 2.06 for foreign currency indexed Treasury Bill).

Loans and Advances to Customers:

	31 December 2004 TL Billion	31 December 2003 TL Billion
Short-term loans	13,529	34,312
Long-term loans	1,194,511	917,692
Investment in direct finance leases, net	185,322	145,702
Total performing loans	1,393,362	1,097,706
Overdue loans	59,205	89,683
Accrued interest	13,113	7,924
Total loans	1,465,680	1,195,313
Less: Provisions for loan losses	(59,205)	(89,683)
Total loans (net)	<u>1,406,475</u>	<u>1,105,630</u>

Interest rates ranges are as follows:

	31 December 2004	31 December 2003
EUR	3.75-8.21 %	3.79-8.21 %
USD	3.66-14.00 %	3.27-14.00 %
TL	15.00-25.60 %	10.00-30.20 %
JPY	3.70-6.00 %	3.70-9.00 %
CHF	10.00-10.00 %	10.00-10.00 %

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

8. ORIGINATED LOANS AND SECURITIES (NET) (cont'd)

Loans and Advances to Customers (cont'd):

Performing loans can be analyzed by currency as follows:

Currency	31 December 2004		31 December 2003	
	<u>TL Billion</u>		<u>TL Billion</u>	
	<u>Short-Term</u>	<u>Long-Term</u>	<u>Short-Term</u>	<u>Long-Term</u>
Turkish Lira	6,895	2,687	663	15,646
Foreign currency	29,281	1,254,195	17,707	1,033,363
Foreign currency (indexed)	313	99,991	15,942	14,385
	36,489	1,356,873	34,312	1,063,394
Add (deduct) current portion	140,875	(140,875)	167,737	(167,737)
Total	177,364	1,215,998	202,049	895,657

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid at the Turkish Lira equivalent of the currency to which they are indexed.

Performing loans and arrears can be analyzed by sector as follows:

<u>Sector</u>	<u>TL Billion</u>					
	31 December 2004			31 December 2003		
	Long – Term	Short – Term	Arrears	Long – Term	Short – Term	Arrears
Finance	255,590	-	-	16,525	-	114
Tourism	237,213	4,588	-	212,805	-	-
Textile	167,130	9,804	20,900	180,653	9,212	34,428
Metal	115,719	6,775	1,669	100,234	6,830	7,054
Motor Vehicles	92,608	-	-	102,478	-	5
Energy	89,667	1,152	-	83,918	-	-
Chemical	79,759	1,564	664	92,319	15,942	3,694
Plastics	56,236	683	5,962	48,946	-	9,815
Farming	50,912	492	-	35,249	-	7
Food and Beverages	17,779	-	27,184	19,442	-	31,560
Cement	30,177	727	-	40,651	-	-
Machinery Production	19,408	653	-	7,326	-	-
Lumber and Wood	17,897	49	-	28,485	-	-
Education	17,815	-	-	17,053	-	-
Health Services	10,996	382	-	6,415	-	-
Rubber & Tires	7,955	-	2,825	6,226	140	2,511
Ceramics	5,845	1,750	-	6,891	1,405	-
Pulp and Paper	6,381	-	-	6,241	-	-
Construction	5,329	-	-	2,017	-	-
Shipyard	2,231	-	-	6,978	-	492
Glass and Glass Products	-	-	-	2,584	-	-
Electronics	-	40	-	3,646	120	-
Other	70,226	7,830	1	36,312	663	3
	1,356,873	36,489	59,205	1,063,394	34,312	89,683

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****8. ORIGINATED LOANS AND SECURITIES (NET) (cont'd)****Loans and Advances to Customers (cont'd):**

Performing loans include rescheduled and loans on watch list amounting to TL 5,139 Billion as at 31 December 2004 (31 December 2003: TL 5,352 Billion).

Movements in the provision for loan losses are as follows:

	31 December 2004 TL Billion	31 December 2003 TL Billion
Opening balance at 1 January 2004	89,683	59,336
Charge for the year	5,130	89,981
Provision released	(24,705)	(47,002)
Monetary gain	(10,903)	(7,261)
Reclassification of general reserves to liabilities	-	(5,371)
Closing balance at 31 December 2004	59,205	89,683

Originated loans include financing lease receivables. Components of the lease contracts are as follows:

	31 December 2004 TL Billion	31 December 2003 TL Billion
Lease payments receivable	215,524	169,225
(Less): Unearned income	(30,202)	(23,523)
Investment in direct financing leases	185,322	145,702
Current maturity – net	22,960	20,075
Long - term portion – net	162,362	125,627
Investment in direct financing leases	185,322	145,702

Foreign currency components of financial lease receivables are as follows (amounts in thousand and original currencies)

	US Dollar	EURO	JPY	CHF
2005	3,405	10,347	581,750	388
2006	5,093	14,216	552,230	-
2007	3,962	16,148	543,091	-
2008	3,348	15,198	507,980	-
2009	2,938	14,565	218,985	-
2010	1,784	9,348	157,289	-
2011	1,316	3,334	-	-
2012	194	26	-	-
2013	97	-	-	-
	22,137	83,182	2,561,325	388

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

9. INVESTMENTS IN ASSOCIATED COMPANIES

	31 December 2004		31 December 2003	
	Carrying Value	Ownership	Carrying Value	Ownership
	TL Billion	(%)	TL Billion	(%)
İş Finansal Kiralama A.Ş.	27,176	30.00	19,954	30.00
TSKB Yatırım Ortaklığı A.Ş.	3,418	44.03	891	44.03
Yatırım Finansman Yat. Ortaklığı A.Ş.	1,111	29.24	447	29.21
İş Factoring Finansman Hizmetleri A.Ş.	4,389	21.75	5,020	21.75
İş Girişim Sermayesi Yat. Ortaklığı A.Ş.	21,835	23.82	20,153	23.82
	<u>57,929</u>		<u>46,465</u>	

10. PROPERTY, PLANT AND EQUIPMENT, NET

	31 December 2004	31 December 2003
	TL Billion	TL Billion
Buildings and installations	38,269	37,772
Furniture, data processing and office equipment	28,318	27,776
Vehicles	1,422	1,422
(Less: accumulated depreciation)	(45,121)	(43,757)
	<u>22,888</u>	<u>23,213</u>

11. OTHER ASSETS

	31 December 2004	31 December 2003
	TL Billion	TL Billion
Assets held for sale	6,387	9,689
Accounts receivable	16,796	40,071
Deferred management fee and other expenses	40	36
Receivable from personnel	84	140
Prepaid tax	4,936	76
Cash guarantees given	71	83
Others	2,848	803
	<u>31,162</u>	<u>50,898</u>

12. DUE TO CUSTOMERS-SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****12. DUE TO CUSTOMERS-SECURITIES SOLD UNDER REPURCHASE AGREEMENTS
(cont'd)**

Repurchase agreements on 31 December 2004:

	Fair Value of Underlying Assets	Carrying Amount of Corresponding Liabilities	Repurchase Dates	Repurchase Price
Financial assets available for sale	181,095	170,410	3-10 January 2005	170,674

Repurchase agreements on 31 December 2003:

	Fair Value of Underlying Assets	Carrying Amount of Corresponding Liabilities	Repurchase Dates	Repurchase Price
Financial assets available for sale	11,511	11,439	2-5 January 2004	11,441

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

13. BORROWINGS

	31 December 2004 TL Billion	31 December 2003 TL Billion
Foreign currency borrowings	1,585,967	1,388,499
Turkish Lira borrowings	16,978	66,535
Accrued interest	12,987	2,524
Total borrowings	1,615,932	1,457,558
Foreign Currency Borrowings	31 December 2004 TL Billion	31 December 2003 TL Billion
International Bank for Reconstruction and Development (IBRD)		
IBRD-3346 Investment Credit Project	21,796	40,555
IBRD-3077 Investment	-	10,262
IBRD-EXIM	5,356	25,464
IBRD-3077 Working Capital	-	2,468
IBRD-3067 Investment	-	2,314
IBRD-3067 Working Capital	-	1,063
IBRD-Renewable Energy Loan	1,014	-
EFIL II	236,047	-
	264,213	82,126
European Investment Bank (EIB)	731,741	641,802
Japan Bank of International Cooperation (JBIC)	186,855	248,510
Kreditanstalt Für Wiederaufbau (KfW)	136,984	139,068
Akbank T.A.Ş.	133,900	194,366
Council of European Development Bank (CEB)	54,808	-
Dresdner Bank	15,505	22,761
Instituto de Credito Oficial	8,473	10,070
T.İhracat Kredi Bankası A.Ş.	1,913	2,122
Black Sea Trade and Development Bank	1,400	2,773
Union Bank of Switzerland	278	1,294
Other domestic bank borrowings	49,897	43,607
	1,321,754	1,306,373
Total foreign currency borrowings	1,585,967	1,388,499
Turkish Lira Borrowings		
EIB-Venture Capital	10,542	12,001
Domestic bank borrowings	5,000	46,105
Treasury originated funds	686	8,429
T.İhracat Kredi Bankası A.Ş.	750	-
Total Turkish Lira borrowings	16,978	66,535
Accrued interest	12,987	2,524
Total borrowings	1,615,932	1,457,558
Current portion of medium and long-term loans	178,253	232,068

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

13. BORROWINGS (cont'd)

Sources of short-term portion of medium and long – term borrowings comprise the following:

	31 December 2004	31 December 2003
	<u>TL Billion</u>	<u>TL Billion</u>
IBRD-3067-TU	-	3,378
IBRD-3077-TU	-	12,730
IBRD-3346-TU	12,510	14,781
IBRD-EXIM	5,356	19,098
KFW	28,276	26,921
EIB	52,930	36,953
JBIC	31,142	35,501
Treasury Originated Funds	360	7,775
Dresdner Bank	5,168	5,783
Landesbank Baden-Wuerttemberg		-
Black Sea Trade and Development Bank	933	1,109
Union Bank of Switzerland	278	993
Akbank T.A.Ş.	40,170	67,046
Instituto de Credito Oficial	1,130	-
	<u>178,253</u>	<u>232,068</u>

Foreign Currency:

IBRD:

- 3346 – TU, private sector investment project loan, with variable interest rates of 5.20% for Euro and 5.36% - 5.53% for USD, repayable in scheduled installments up to 15 April 2008. (31 December 2003: 5.63 for Euro and 5.09% - 6.83% for USD)

- IBRD – EXIM: Variable interest rates of 3.92% for USD, repayable in scheduled installments up to 15 August 2005 (31 December 2003: 2.68% - 3.68% for USD).

- 3077 – TU, Agro Industry Project, no balance exists as of 31 December 2004 (31 December 2003: 5.63% for Euro and 5.09% for USD).

- 3067 – TU, second small and medium scale industry project loan, no balance exists as of 31 December 2004 (31 December 2003: 5.63% for Euro and 5.09% for USD),

- EFIL II: Variable interest rate 2.36% for USD, repayable in scheduled installments up to 15 January 2020.

- REL: Variable interest rate 1.87% for USD, repayable in scheduled installments up to 15 September 2016.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

13. BORROWINGS (cont'd)

Foreign Currency (cont'd)

EIB:

- Interest rates of 2.23% - 2.58% for Euro and 2.66% - 2.67% for USD (31 December 2003: 2.29% - 2.58% for Euro and 1.27% for USD), repayable in scheduled installments up to 15 March 2017.

JBIC:

- Interest rates of 1.65% - 2.40% for JPY (31 December 2003: 1.65% - 2.40 % for JPY), repayable in scheduled installments up to 28 September 2010.

Akbank T.A.Ş.:

- Variable interest rates of 5.64%- 6.27% for USD, repayable in scheduled installments up to 18 August 2006. (31 December 2003: 4.95%- 5.50% for USD and 5.73% for Euro).

CEB:

- Variable interest rates 2.49% for EUR, repayable in scheduled installments up to 15 October 2014.

KFW:

- Interest rates of 2.20% for Euro (31 December 2003: 2.24% for Euro), repayable in scheduled installments up to 30 November 2011.

KFW: (Trilateral Cooperation Fund)

- Fixed interest rates of 3.05% for Euro (31 December 2003: 2.00% - 3.05% for Euro), repayable in scheduled installments up to 30 November 2005.

KFW: (Pollution Fund)

- Fixed interest rate 2.00% for Euro, repayable in installments up to 30 December 2032.

DRESDNER BANK:

- Variable interest rates of 2.95% for Euro (31 December 2003: 2.96% - 3.10% for Euro), repayable in scheduled installments up to 4 November 2007.

INSTITUTO DE CREDITO OFFICIAL:

- Interest rate of 4% for USD (31 December 2003: 4% for USD), repayable in scheduled installments up to 17 April 2012.

BLACK SEA TRADE AND DEVELOPMENT BANK:

- Interest rate of 4.58% for USD (31 December 2003: 3.68% for USD), repayable in scheduled installments up to 20 March 2006.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

13. BORROWINGS (cont'd)

Foreign Currency (cont'd)

UNION BANK OF SWITZERLAND (FORMERLY SBC):

- Fixed interest rate of 4.88% for CHF (31 December 2003: 3.38% - 4.88% for CHF), repayable in scheduled installments up to 16 July 2005.

T. İHRACAT KREDİ BANKASI A.Ş.:

- Variable interest rates of 3.86% - 4.27% for USD and 4.18% - 4.47% for Euro (31 December 2003: 2.72%- 3.21% for USD and 3.60% - 4.43% for Euro), repayable in scheduled installments up to 27 June 2005.

Turkish Lira

TREASURY ORIGINATED FUNDS:

- Interest rates range between 11.00% - 21.00% (31 December 2003: 11.00% - 21.00 %) repayable in scheduled installments up to 1 June 2009.

T. İHRACAT KREDİ BANKASI A.Ş.:

- Fixed interest rate of 17%, repayable in scheduled installments up to 16 May 2005.

Certain parts of the long-term debt agreements provide that:

- 1) Debt Service coverage ratio shall not be less than 1.1.
- 2) A minimum collection of at least 85% shall be maintained.
- 3) Capital adequacy ratio to be set at 10% of the risk weighted assets.

The ratios disclosed below pertain to those of TSKB (parent) only.

Debt service coverage ratio and collection ratio as of 31 December 2004 are 1.6 and 96.50% respectively. (31 December 2003: 1.54 and 94.35% respectively).

As per the memorandum of IBRD related to the project agreement amendments to Loans No 3077 TU and No 3346 TU, dated 31 July 1995, the debt/equity ratio covenant is replaced with an asset-based capital adequacy ratio covenant to be calculated annually on a three-year moving average basis, to include the mid year and year end ratios of the last three years including the current year, and the projected financial results of the following year. It was also considered that the capital adequacy ratio is to be set at 10% of the risk weighted assets. The average capital adequacy ratio of 34.51 % on 31 December 2004 is determined by taking the average of the ratios existing at the dates shown below:

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

13. BORROWINGS (cont'd)

<u>Dates</u>	<u>Capital Adequacy Ratio of TSKB</u>	
31 December 2002	22.11 %	Audited
30 June 2003	24.12 %	Limited Review
31 December 2003	37.63 %	Audited
30 June 2004	35.58 %	Limited Review
31 December 2004	43.30 %	Audited
30 June 2005	39.21 %	Projected
31 December 2005	39.60 %	Projected

The average capital adequacy ratio of 34.63 % as at 31 December 2004, calculated as explained in the preceding paragraph, is in compliance with the project agreement.

14. TAXATION

Corporate Tax

The Group is subject to Turkish corporation and income withholding taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the year.

Corporation tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rates of tax are as follows:

- In 2002 and prior years: 33%, being 30% corporate tax plus a 10% surcharge of funds contribution on corporate tax.
- In 2003: 30% (the funds contribution was abolished for 2003).
- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004).
- In 2005: 30%

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003, and to 33% for 2004.

Prepaid taxes for corporate tax will be calculated on 30% for year 2005.

Losses can be carried forward for offset against future taxable income for up to 5 years. Losses cannot be carried back for offset against profits from previous periods.

In Turkey there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns by 15 April of the next year following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

14. TAXATION (cont'd)

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Income withholding tax was also calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not. Such withholding tax has been removed in general. However, 19.8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years. The unused exemption due to insufficient profit is used by restating the exemption with wholesale price index for the future years.

Inflation Adjusted Tax Calculation

For 2003 and previous years, taxable profits were calculated without any inflation adjustment to the statutory records, except that fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 requires the application of inflation accounting in Turkey in 2004 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in IAS 29 "Financial Reporting in Hyperinflationary Economies".

Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes and are set out below.

a) Balance sheet:

	31 December 2004 TL Billion	31 December 2003 TL Billion
Corporate tax payable	12,841	282
Deferred tax (asset)/liability (net)	672	(4,426)

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****14. TAXATION (cont'd)****b) Income statement**

	1 January- 31 December 2004 <u>TL Billion</u>	1 January- 31 December 2003 <u>TL Billion</u>
Corporate tax charge	(23,180)	(497)
Deferred tax (charge) / benefit	4,560	(8,862)
	<u>(18,620)</u>	<u>(9,359)</u>

c) Temporary differences subject to deferred tax:

	31 December 2004 <u>TL Billion</u>	31 December 2003 <u>TL Billion</u>
Restatement of property, plant and equipment and depreciation differences	(7,789)	(7,107)
Retirement pay provision	(3,115)	(2,350)
Financing lease receivables	35,363	-
General loan losses	(7,512)	-
Fair value adjustment on securities	(12,508)	-
Diminution in value of equity participations	(739)	-
Other provisions	(1,454)	-
Others	(4)	(5,297)
	<u>2,242</u>	<u>(14,754)</u>

The components of deferred tax (at 30% in 2004 and 2003) on major temporary differences as at the balance sheet date are as follows:

	31 December 2004 <u>TL Billion</u>	31 December 2003 <u>TL Billion</u>
Restatement of property, plant and equipment and depreciation differences	(2,337)	(2,132)
Retirement pay provision	(935)	(705)
Financing lease receivables	10,609	-
General loan losses	(2,254)	-
Fair value adjustment on securities	(3,752)	-
Diminution in value of equity participations	(222)	-
Other provisions	(436)	-
Others	(1)	(1,589)
Deferred tax (asset)/liability	<u>672</u>	<u>(4,426)</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

14. TAXATION (cont'd)

	31 December 2004 <u>TL Billion</u>	31 December 2003 <u>TL Billion</u>
<u>Movement of Deferred Tax (Assets)/Liabilities:</u>		
Opening balance at 1 January	(4,426)	(15,031)
Monetary gain (loss)	538	1,743
Deferred tax charge (benefit)	4,560	8,862
Closing balance	<u>672</u>	<u>(4,426)</u>

15. OTHER LIABILITIES

	31 December 2004 <u>TL Billion</u>	31 December 2003 <u>TL Billion</u>
Payable to customers	15,886	38,644
Transfer orders	931	10,412
Withholding taxes on interest, salaries and other expenses	1,948	2,012
Bonuses payable to directors and staff	896	159
Others	4,766	7,614
	<u>24,427</u>	<u>58,841</u>

16. PROVISIONS

	31 December 2004 <u>TL Billion</u>	31 December 2003 <u>TL Billion</u>
Retirement pay provision	3,115	3,189
General loan loss provision	7,512	5,975
Other provisions	2,985	1,721
	<u>13,612</u>	<u>10,885</u>

a) Pension scheme

The Group has established a pension scheme, which is a funded defined benefit plan covering substantially all employees. The assets of the plan are held independently of the Group's assets in the Fund. This scheme is valued by independent actuaries every year. The latest actuarial valuations were carried out as at 31 December 2004. Since the fair value of the Fund's plan assets exceeds the defined benefit obligation under local standards as per this actuarial report, no liability is recognized in the financial statements of the Group at 31 December 2004.

b) Employment termination benefits

Due to Turkish Labor Law, lump sum payments are made to all employees who retire from the Bank or whose employment is terminated for reasons other than misconduct. According to the law, the retirement condition is after certain number of years in service (25 years for men and 20 years for women) or the achievement of the retirement age (58 for women and 60 for men). The amount payable is 30 days gross pay for each year of eligible service. The rate of pay that is ruling on 31 December 2004 is subject to a maximum of TL 1,574,740,000 (in full TL) per month (31 December 2003: TL 1,389,950,000).

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

16. PROVISIONS (cont'd)

b) Employment termination benefits (cont'd)

Under the definitions set out in International Accounting Standard No 19, "Employee Benefits" the Turkish retirement pay system is an unfunded defined benefit scheme. IAS 19 requires that a provision be built up for employees' accrued entitlement as calculated actuarially.

In the accompanying financial statements the provision has been made on an estimated basis in compliance with IAS 19, assuming a real discount rate of 6% (the net of inflation of 10% and a discount rate of 16%).

Actuarial gains and losses are recognized in the income statement in the period they occur.

	31 December 2004	31 December 2003
	<u>TL Billion</u>	<u>TL Billion</u>
Balance – beginning	3,189	3,134
Payments during the year	(373)	(530)
Period charge	687	969
Monetary gain	(388)	(384)
Balance – period end	<u>3,115</u>	<u>3,189</u>

17. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting USD 50 Million from International Finance Corporation through direct financing.

The date of the loan contract is 21 September 2004. The first release of the loan is on 5 November 2004. The interest rate of the subordinated loan is Libor + 3.62%; which corresponds to 5.978% as of the balance sheet date. In the first five years, there is no repayment of principal and the maturity date is 15 October 2011.

18. SHARE CAPITAL

As at 31 December 2004, the authorized and issued capital consists of 284,999,950,000 shares of five hundred Turkish Lira and 250,000 shares of one hundred Turkish Lira each as reflected in the statutory financial statements. The total authorized and fully paid statutory issued capital is TL 142,500 Billion. (31 December 2003: TL 114,000 Billion). This excludes the IAS 29 uplift adjustment. Founder shares entitle the holders to receive dividends in total equal to 5% of statutory net income (such dividends are limited to 10,000 in total) for each year, after transfer to legal and loss contingency reserves and a dividend of 6% on the paid-up capital. Ordinary shares carry voting rights in proportion to their nominal value.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****18. SHARE CAPITAL (cont'd)**

<u>Shareholders</u>	<u>31 December 2004</u>		<u>31 December 2003</u>	
	<u>TL Billion</u>	<u>Percentage (%)</u>	<u>TL Billion</u>	<u>Percentage (%)</u>
T. İş Bankası A.Ş.	57,757	40.53	46,189	40.52
Akbank T.A.Ş.	9,187	6.45	7,349	6.45
Turkish Fund Equities and Bonds	7,691	5.40	8,961	7.86
T. Vakıflar Bankası T.A.O	11,938	8.38	9,550	8.38
T. Ticaret Bankası A.Ş. (in liquidation)	-	-	9,331	8.19
T. Garanti Bankası A.Ş.	4,403	3.09	3,523	3.09
Others	51,524	36.15	29,097	25.51
	142,500	100.00	114,000	100.00
 Inflation adjustment	 807,460	 -	 805,732	 -
	<u>949,960</u>	<u>100.00</u>	<u>919,732</u>	<u>100.00</u>

19. NET INTEREST INCOME

	<u>1 January – 31 December 2004 TL Billion</u>	<u>1 January – 31 December 2003 TL Billion</u>
Interest and Similar Income		
Securities portfolio (held for trading, available for sale, held to maturity)	111,012	61,282
Loans and advances to customers	60,587	47,112
Deposits at banks	3,884	1,472
Money market placements	432	3,199
Finance leases	7,348	6,212
	183,263	119,277
Interest expense and similar charges		
Borrowings	(55,988)	(47,101)
Money market borrowings	(5,924)	(14,037)
Securities issued	-	(1,541)
	(61,912)	(62,679)
Net interest income	<u>121,351</u>	<u>56,598</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****20. NET FEE AND COMMISSION INCOME**

	1 January – 31 December 2004 TL Billion	1 January – 31 December 2003 TL Billion
Fee and commission income		
Cash loans	8,804	10,234
Non-cash loans	972	1,298
Other commission and bank service income	13,820	15,486
	<u>23,596</u>	<u>27,018</u>
Fee and commission expenses		
Cash borrowings	(2,328)	(320)
Non-cash borrowings	(8)	(44)
Other fee and commission expenses	(2,513)	(3,816)
	<u>(4,849)</u>	<u>(4,180)</u>
Net fee and commission income	<u>18,747</u>	<u>22,838</u>

21. RELATED PARTIES

The accompanying financial statements include the following balances due from or due to related parties:

	31 December 2004 TL Billion	31 December 2003 TL Billion
Balances with related parties		
Borrowings	137,835	215,172
Loans and advances to customers	226,989	96,185
Non-cash loans (guarantee letters and letters of credit given)	34,051	10,667
Due from other banks	623	31,402
Other assets	730	14
Other liabilities	2,366	5,099

	1 January – 31 December 2004 TL Billion	1 January – 31 December 2003 TL Billion
Transactions with related parties		
Interest and similar income	5,248	410
Interest expenses and similar charges	(14,038)	(15,641)
Dividend income	401	3,088
Foreign exchange gain (loss)–net	16	1,258
Net fee and commission income	628	546
Operating expenses	(30)	(151)
Other income	1,329	1,278
Other expenses	(4,373)	-

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

22. SECTORAL ANALYSIS

As at 31 December 2004

<u>BALANCE SHEET</u>	<u>Banking TL Billion</u>	<u>Other Financial Institutions TL Billion</u>	<u>Combined TL Billion</u>	<u>Eliminations and Adjustments TL Billion</u>	<u>Total TL Billion</u>
Total assets	2,305,309	39,690	2,344,999	(51,450)	2,293,549
Liabilities	1,897,090	14,216	1,911,306	-	1,911,306

For the year ended 31 December 2004

<u>STATEMENT OF INCOME</u>	<u>Banking TL Billion</u>	<u>Other Financial Institutions TL Billion</u>	<u>Combined TL Billion</u>	<u>Eliminations and Adjustments TL Billion</u>	<u>Total TL Billion</u>
Operating income	154,129	20,135	174,264	(44)	174,220
Operating expenses	(47,284)	(14,304)	(61,588)	(69)	(61,657)

23. COMMITMENTS AND CONTINGENT LIABILITIES

	<u>31 December 2004 TL Billion</u>	<u>31 December 2003 TL Billion</u>
Letters of guarantee	35,925	16,783
Letters of credit commitments	54,307	36,276
Letters of loan commitments	288,864	72,599
Other commitments	8	591
	<u>379,104</u>	<u>126,249</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

24. SUBSEQUENT EVENTS

The Bank opened a branch in Bahrain and started its operations on 18 January 2005.

TSKB obtained broker authorization certificate from “Time Transactions and Option Exchange” for doing business on derivative instruments, on 17 January 2005.

The employee termination indemnity ceiling has increased to TL 1,648 Million commencing on 1 January 2005.

New Turkish Lira

A new law number 5083 was enacted with effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish republic, the Turkish Lira (“TL”), to form a new currency the New Turkish Lira (“YTL”). Thus 1 YTL = 1,000,000 TL. The New Turkish Lira is divided into 100 New Turkish cents (“YKr”). The accompanying financial statements are presented in Turkish Lira (TL) since that was still the official currency as at the balance sheet date.