

**TÜRKİYE SİNAİ KALKINMA
BANKASI ANONİM ŞİRKETİ**

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE PERIOD
ENDED 30 JUNE 2005

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

To the Board of Directors
İstanbul

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

1. We have reviewed the accompanying consolidated balance sheet of Türkiye Sınai Kalkınma Bankası (the "Bank") and its subsidiaries (together the "Group") as of 30 June 2005 and the related consolidated statements of income, shareholders' equity and cash flows for the period then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these financial statements based on our review.
2. We conducted our review in accordance with the International Standard on Review Engagements 2400 applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view in accordance with International Financial Reporting Standards.

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU**

İstanbul, 20 September 2005

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2005

<u>ASSETS</u>		30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
	<u>Note</u>		
Liquid Assets	6	180	212
Balances With The Central Bank	7	115	274
Balances With Banks	8	38,457	54,470
Interbank Money Market Placements		5,205	413
Financial Assets At Fair Value Through Profit Or Loss (Net)	9	15,359	13,342
Derivative Financial Assets	28	198	13
Reserve Deposits At The Central Bank	7	16,544	623
Loans and Receivables (Net)	10	1,503,623	1,452,223
Investment Securities (Net)	11	1,025,769	730,583
Equity Investments (Net)	12	60,405	59,813
Goodwill (Net)	13	378	378
Premises And Equipment (Net)	14	27,578	28,947
Intangible Assets (Net)	15	1,165	1,280
Other Assets	16	52,611	20,569
Total Assets		<u>2,747,587</u>	<u>2,363,140</u>

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2005**

<u>LIABILITIES</u>		30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
	<u>Note</u>		
Interbank Money Market Borrowings		55,925	5,824
Obligations Under Repurchase Agreements	17	278,193	175,953
Borrowings	18	1,828,564	1,668,493
Derivative Financial Liabilities	28	943	168
Obligations Under Finance Leases		226	341
Corporate Tax	19	7,707	8,248
Provisions	20	14,778	14,055
Subordinated Loan	21	68,319	69,806
Other Liabilities	22	55,809	24,882
Deferred Tax Liability (Net)	19	899	4,558
Total Liabilities		<u>2,311,363</u>	<u>1,972,328</u>
<u>Equity</u>	23		
Share Capital			
Nominal Capital		200,000	142,500
Inflation Adjustment To Capital		810,172	838,359
Total Paid-In Capital		<u>1,010,172</u>	<u>980,859</u>
Valuation Reserves		16,175	11,608
Accumulated Losses		<u>(595,417)</u>	<u>(605,605)</u>
Equity Attributable To The Equity Holders Of The Parent		430,930	368,862
Minority Interest		<u>5,294</u>	<u>3,950</u>
Total Equity		<u>436,224</u>	<u>390,812</u>
Total Liabilities And Shareholders' Equity		<u>2,747,587</u>	<u>2,363,140</u>
COMMITMENTS AND CONTINGENCIES	27	786,929	391,435

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2005

	Note	30 June 2005 NTL'000	30 June 2004 NTL'000
Interest Income			
Interest On Loans		36,627	29,325
Interest On Interbank Money Market Placements		55	721
Interest On Securities		72,038	57,499
Interest Received From Banks		1,231	157
Interest On Financial Leasing		4,518	3,332
Other Interest Income		1,956	2,278
		<u>116,425</u>	<u>93,312</u>
Interest Expenses			
Interest On Interbank Money Market Borrowings		(2,985)	(4,824)
Interest On Borrowings		(30,898)	(21,949)
Other Interest Expenses		(11,178)	(1,214)
		<u>(45,061)</u>	<u>(27,987)</u>
Net Interest Income / (Expense)		<u>71,364</u>	<u>65,325</u>
Fee And Commission Income		12,417	11,453
Fee And Commission Expense		(3,541)	(1,671)
Net Fee Income / (Expense)		<u>8,876</u>	<u>9,782</u>
Net Foreign Currency Gains / (Losses)		650	(4,322)
Net Securities Trading Gains / (Losses)		(19)	3,169
Total Trading Income / (Loss)		<u>631</u>	<u>(1,153)</u>
Impairment Losses		(2,561)	(12,572)
Net Trading Income / (Loss) After Impairment Losses		<u>(1,930)</u>	<u>(13,725)</u>
Other Operating Income	24	13,351	22,065
Other Operating Expenses	25	(28,655)	(26,766)
Income/ loss from associates		636	(96)
Income / (Loss) Before Monetary Gain / (Loss)		<u>63,642</u>	<u>56,585</u>
Net Gain / (Loss) On Monetary Position		(9,652)	(17,204)
Income / (Loss) Before Taxation		<u>53,990</u>	<u>39,381</u>
Taxation	19	(11,764)	(588)
Net Income / (Loss)		<u>42,226</u>	<u>38,793</u>
Net Income / (Loss) Attributable to:			
Equity Holders of the Parent		42,095	38,739
Minority Interest		131	54
		<u>42,226</u>	<u>38,793</u>
Weighted Number of Shares (in Million)		400,000	400,000
Earnings Per Share (In Full New Turkish Lira)	31	<u>0.000105</u>	<u>0.000097</u>

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2005**

	Share Capital NTL'000	Inflation Adjustment To Capital NTL'000	Valuation Reserves NTL'000	Accumulated Profit / (Loss) NTL'000	Minority Interest NTL'000	Total NTL'000
At 1 January 2004	114,000	835,648	13,677	(643,056)	2,250	322,519
Change in valuation reserve	-	-	(15,122)	-	-	(15,122)
Dividends paid	-	-	-	(2,642)	-	(2,642)
Change in minority interest	-	-	-	-	(38)	(38)
Income for the period	-	-	-	38,739	54	38,793
At 30 June 2004	<u>114,000</u>	<u>835,648</u>	<u>(1,445)</u>	<u>(606,959)</u>	<u>2,266</u>	<u>343,510</u>
At 1 January 2005	142,500	838,359	11,608	(605,605)	3,950	390,812
Transfers to capital	57,500	(28,187)	-	(29,313)	-	-
Change in valuation reserve	-	-	4,567	-	-	4,567
Dividends paid	-	-	-	(2,594)	-	(2,594)
Change in minority interest	-	-	-	-	1,213	1,213
Income for the period	-	-	-	42,095	131	42,226
At 30 June 2005	<u>200,000</u>	<u>810,172</u>	<u>16,175</u>	<u>(595,417)</u>	<u>5,294</u>	<u>436,224</u>

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2005**

	30 June 2005 <u>TL Billion</u>	30 June 2004 <u>TL Billion</u>
Operating Activities:		
Net income for the year	42,226	38,793
Adjustments for Non-Cash Items:		-
Depreciation and amortization	1,525	1,263
Impairment of goodwill	-	58
Increase / (decrease) in provision for losses on loans	2,002	12,572
Increase / (decrease) in provisions	27	(145)
(Income) / loss from associates	(636)	96
Increase / (Decrease) in deferred taxes	205	3,559
Increase / (decrease) in minority interest	(131)	(54)
Changes in Operating Assets and Liabilities:		
(Increase) / decrease in securities	(295,716)	36,216
(Increase) / decrease in loans	(53,405)	(111,434)
(Increase) / decrease in other operating assets	(26,494)	28,100
Increase / (decrease) in obligations under repurchase agreements	102,240	6,172
Increase / (decrease) in interbank money market borrowings	50,101	9,356
Increase / (decrease) in other operating liabilities	26,603	(21,366)
Cash flows provided from / (used in) operating activities	(151,453)	3,186
Investing Activities:		
(Increase) / decrease in investments	747	(15,860)
(Increase) / decrease in reserve deposits at the central bank	(15,922)	-
(Increase) / decrease in goodwill	-	-
Acquisition/(sale) of property and equipment (net)	(774)	(1,011)
Cash flows provided from / (used in) investing activities	(15,949)	(16,871)
Financing Activities:		
Dividends paid	(2,594)	(2,642)
Proceeds / (repayment) of borrowings	158,584	12,508
Cash flows from financing activities	155,990	9,866
Net change in cash and cash equivalents	(11,412)	(3,819)
Cash and cash equivalents at 1 January	55,369	38,870
Cash and cash equivalents at 30 June	43,957	35,051

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

1. ACTIVITIES OF THE BANK AND 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. The registered office of the Bank is at Meclisi Mebusan Cad. 161 Fındıklı, İstanbul.

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 4000 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., TSKB Menkul Değerler A.Ş. and Yatırım Finansman Yatırım Ortaklığı A.Ş. as discussed in greater detail in note 3.3, 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. Yatırım Finansman Yatırım Ortaklığı A.Ş. was established on 31 December 1998. The main purpose of Yatırım Finansman Yatırım Ortaklığı A.Ş. is to invest in the shares of companies (without obtaining control of their capital and management), to invest in gold and other precious metals traded on national and international exchanges and other organized markets, and to manage such portfolios.

2. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standards (“IAS”). The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

Basis of Presentation of Financial Statements

The Bank maintains its books of account and prepares its financial statements in New Turkish Lira, which is the currency of the primary economic environment in which the Bank operates, in accordance with the Banking Act, based on accounting principles regulated by the Banking Regulation and Supervision Agency (“BRSA”), the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish tax legislation and relevant accounting rules and regulations. The Bank’s consolidated subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with regulations prevailing in their area of specialization, commercial practice and tax legislation.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

Basis of Presentation of Financial Statements (cont'd)

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention, except for those items measured at fair value, with adjustments and reclassifications for the purposes of fair presentation in accordance with IFRS. These financial statements are presented in New Turkish Lira since that is the currency in which the majority of the Group's transactions are denominated.

The accompanying IFRS financial statements adopt the accounting principles and policies applied by the BRSA in the Bank's statutory financial statements wherever those do not conflict with IFRS.

The effects of the differences between IFRS and generally accepted accounting principles in other countries than Turkey have not been quantified in the accompanying notes to the financial statements. In the opinion of the Group's management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the period have been made in the accompanying financial statements.

Certain reclassifications have been made to the prior year figures to comply with the current period presentation.

Adoption of New and Revised IFRSs

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for periods beginning 1 January 2005. Please see note 4 for the effects of such changes. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policy in goodwill (IFRS 3) and the presentation of minority interest under equity (IFRS 1) that have affected the amounts reported for the current or prior years.

At the date of authorization of these financial statements, additional Standards and Interpretations were in issue but not yet effective. The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

Adoption of New and Revised IFRSs (cont'd)

IFRS 3, Business Combinations

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations. The Group had no acquisitions on or after 31 March 2004. Therefore, the new standard has not been applied.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 *Impairment of Assets* (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortization of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortization and accumulated impairment losses. Amortization was charged over the estimated useful life of the goodwill, subject to the reputable presumption that the maximum useful life of goodwill was 20 years.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after 31 March 2004, i.e. 1 January 2005, to goodwill acquired in business combinations for which the agreement date was before 31 March 2004. Therefore, from 1 January 2005, the Group has discontinued amortizing such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At 1 January 2005, the carrying amount of amortization accumulated before that date of NTL 203 thousand has been eliminated, with a corresponding decrease in goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

No amortization has been charged in 2005. The charge in 2004 was NTL 116 thousand.

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 ("NTL" or "YTL"). Thus 1 NTL = 1,000,000 TL. The New Turkish Lira is divided into 100 New Turkish cents ("YKr"). The accompanying financial statements including comparatives are presented in New Turkish Lira ("NTL") since it is the official currency as at the balance sheet date.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accompanying financial statements are as follows:

3.1 Accounting Convention

The accompanying financial statements have been prepared in accordance with IFRS. The financial statements have been prepared on the historical cost basis. 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 subsidiaries maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

3.2 Financial Reporting in Hyperinflationary Economies

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 New Turkish Lira, as of the balance sheet date, in accordance with International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

Major characteristics that necessitate the application of IAS 29 are:

- a. The general population prefers to keep its wealth in nonmonetary 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 55.73%, below 100%, for the three years ended 30 June 2005, other characteristics are still valid and improvements in the economic indicators do not yet lead to an assured conclusion that the economy is no longer hyperinflationary. Consequently, the accompanying financial statements are adjusted for the effect of changes in the general purchasing power of NTL.

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. The restatement adjustments are based on the nationwide wholesale price index ("WPI") published by Turkish State Institute of Statistics (1994=100).

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Financial Reporting in Hyperinflationary Economies (cont'd)

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 2002	6,478.8	1.3393
31 December 2003	7,382.1	1.1754
31 December 2004	8,403.8	1.0325
30 June 2005	8,677.15	1.0000

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

	<u>6/2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Currency Devaluation US \$	(0.06)%	(3.9)%	14.6%	13.5%
WPI Inflation	3.2%	13.8%	13.9%	30.8%

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 are restated by applying, to the initial acquisition cost and any accumulated depreciation, the change in the general price index from the date of acquisition or initial recording to the balance sheet date. Hence, property, plant and equipment, investments and similar assets are restated from the date of their purchase, not to exceed their market value. Depreciation is similarly restated. The components of shareholders' equity are restated by applying the applicable general price index from the dates when components were contributed or otherwise arose.
- All items in the statement 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 and gain or loss on sale of fixed assets.
- The gain or loss on the net monetary position is the result of the effect of general inflation and is the difference resulting from the restatement of non-monetary assets, liabilities, shareholders' equity and income statement items. The gain or loss on the net monetary position is included in the statement of income.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The financial statements of the entities below have been consolidated with those of the Bank in the accompanying financial statements. 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
Yatırım Finansman Yatırım Ort. A.Ş.	Financial	29.24

The financial statements of the companies below are accounted for under the equity method, since the Bank holds more than 20% but less than 50% of the voting power of the investee:

<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
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Financial	23.82
İş Factoring Finansman Hizmetleri A.Ş.	Financial	21.75

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Basis of Consolidation (cont'd)

The following equity investments have not been consolidated or accounted for under equity method, but included in investment securities, as noted in Note 11.

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

3.4 Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As at the balance sheet date, the Group has investments in associates with a position to exercise significant influence as set out in note 3.3, 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3.6 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Income and Expense Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered which are recognized as income when received. Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income on overdue loans is recognized on a cash basis when collected. Income and expenses are recognized at fair value or amortized cost basis. For the purpose of convenience, certain income and expenses are recognized on a straight line basis wherever does not materially differ from fair value or amortized cost method.

3.8 Foreign Currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying financial statements, the results and financial position of each entity are expressed in New Turkish Lira, which is the functional currency of the Bank, and the presentation currency for the accompanying financial statements.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

As at 30 June 2005 and 31 December 2004 foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and Yen. As at 30 June 2005 and 31 December 2004 exchange rates of US Dollar, Euro and Yen are as follows:

	30 June 2005	31 December 2004
1 US Dollar	1.3390	1.3390
1 Euro	1.6181	1.8269
1 JPY	0.0121	0.0131

Average rates are as follows:

	30 June 2005	31 December 2004
1 US Dollar	1.3570	1.4278
1 Euro	1.6512	1.7741
1 JPY	0.0125	0.0132

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Financial instruments

The term financial instruments include both financial assets and financial liabilities, and also derivatives. Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. 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.

Investments

Investments are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognized.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Financial instruments (cont'd)

Investments (cont'd)

Investments 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.

The Group's investments primarily represents Turkish Republic Government bonds, Treasury bills and Eurobonds 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 and subsequently measured as explained above in accordance with their classification.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Loans and other Receivables

Loans and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Financial instruments (cont'd)

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Off balance sheet commitments and contingencies

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

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. 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 placements, lending and securities investment. The majority of the counterparties in the Group's derivative transactions are banks and other financial institutions.

The Group uses derivative financial instruments (primarily foreign currency forward, swap, and option contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The significant interest rate risk arises from placements, securities invested, loans extended and bank borrowings.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting 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.

Fair value considerations

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.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted at amortised cost but disclosure is required of fair value for comparison purposes, wherever practicable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Financial instruments (cont'd)

Fair value considerations (cont'd)

Due to economic conditions and volatility or low trading volumes in markets, the Group may be 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 IRR basis. Where no reliable estimate of fair value is available, amortized cost is used as the carrying value. As there are 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.

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.

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

Securities investments: 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.

Loans: The major portion of the 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.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3.10 Investments Under Repurchase Transactions

Sales of investments under agreements of repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet 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 financial assets at fair value through profit or loss, investments held to maturity or investments available for sale, and interest expense is accounted for on an accrual basis over the period of the transactions.

3.11 Loans and Loan Loss Provisions

Loans are financial instruments extended by the Bank and accounted for at amortized cost using the effective interest rate method, except for certain loans where the straight line accrual basis does not materially differ from amortized cost method.

Based on its evaluation of the current status of the loans granted, the Bank makes specific loan loss provisions which it considers are adequate to cover estimated uncollectible 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 Bank classifies any loan which is not adequately collateralized or the management believing borrowers lost their creditworthiness into overdue loans. The Bank ceases to recognize income on overdue loans and receivables.

The loan loss provisions and the general loan provision 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.

3.12 Premises and Equipment

Premises and equipment are carried at inflation adjusted cost less inflation adjusted accumulated depreciation at the equivalent purchasing power as at the reporting date. Premises and equipment, except land that is deemed to have indefinite life, are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

Buildings	2%
Vehicles	20%
Furniture and Fittings	20%
Computer Equipment and Software	20%
Leasehold and Leasehold Improvements	lease term or 20%

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Premises and Equipment (cont'd)

The costs of a major inspection or overhaul that are accounted as a separate asset component are capitalized. Subsequent expenditures incurred on the premises and equipments are added to the carrying amount of the asset when it is probable that the future economic benefits in excess of the originally assessed standard of performance of the asset will flow to the entity. All other subsequent expenditures and major inspection or overhaul costs that are embodied in the item of property and equipment are recognized as an expense when it is incurred.

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.

3.13 Non-current Assets Held For Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

3.14 Leasing

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 are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease 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. Lease receivables are classified under loans in the accompanying balance sheet.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Leasing (cont'd)

The Group as Lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3.15 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to 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. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

3.17 Retirement Benefits

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 liability to be recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of assets. 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 recognised in the accompanying balance sheet in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for New Turkish Lira.

(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. A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the balance sheet date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Related Parties

For the purpose of the accompanying financial statements shareholders of the Group and related companies, consolidated and non consolidated equity participations 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 26.

3.19 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Business and Geographical Segments

Business Segments

For management purposes, the Group is currently organized into two operating divisions – banking and stock broking. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock broking: intermediary stock broking activities, portfolio management and investment management services.

Geographical Segments

The Group's operations are mainly located in Turkey. Accordingly, geographical segment information is not presented.

3.21 Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards 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.

3.22 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 reconized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.23 Client Assets

Client assets, held under custody, in fiduciary, agency or intermediary capacity are not recognized in the accompanying financial statements as customers have ownership of such assets.

3.24 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.25 Internally-generated Intangible Assets

Computer Software Development Costs:

The Group generally recognizes computer software development costs as expenses in the period in which they are incurred. However, if it is probable that future economic benefits will flow to the Group, to the extent that assets created can be identified and create future economic benefit and expenditures can reliably be measured and attributable to the asset, development costs incurred are incorporated into the initial cost of computer software. All other subsequent expenditure associated with the maintenance of the existing computer software is recognized as expense in the period in which it is incurred.

Computer software development costs capitalized as assets are amortized on a straight line basis over their expected useful lives, generally five years.

4. CHANGE IN ACCOUNTING POLICIES

The Group restates its prior year financial statements wherever required by new or revised standards in IFRS. The significant change as compared to prior year is as follows:

- The minority interests which have been separately disclosed are reclassified into shareholders' equity.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

5. SEGMENT INFORMATION

STATEMENT OF INCOME

Period ending 30 June 2005

	<u>Banking</u> <u>NTL'000</u>	<u>Brokerage</u> <u>NTL'000</u>	<u>Combined</u> <u>NTL'000</u>	<u>Eliminations</u> <u>NTL'000</u>	<u>Total</u> <u>NTL'000</u>
Interest Income	114,844	1,581	116,425	-	116,425
Interest Expenses	(45,059)	(2)	(45,061)	-	(45,061)
Net Interest Income / (Loss)	<u>69,785</u>	<u>1,579</u>	<u>71,364</u>	<u>-</u>	<u>71,364</u>
Net Fee and Commission Income/(Expense)	4,178	4,698	8,876	-	8,876
Net Foreign Currency Gains/(Losses)	650	-	650	-	650
Net Securities Trading Gains/(Losses)	(1,170)	1,151	(19)	-	(19)
Net Trading Income / (Loss)	<u>(520)</u>	<u>1,151</u>	<u>631</u>	<u>-</u>	<u>631</u>
Impairment Losses	(2,561)	-	(2,561)	-	(2,561)
Net Trading Income / (Loss) After Impairment	<u>(3,081)</u>	<u>1,151</u>	<u>(1,930)</u>	<u>-</u>	<u>(1,930)</u>
Other Operating Income	7,643	5,708	13,351	-	13,351
Other Operating Expenses	(17,932)	(10,723)	(28,655)	-	(28,655)
Income / (Loss) From Associates	716	-	716	(80)	636
Income/(Loss) Before Tax And Monetary Gain/(Loss)	<u>61,309</u>	<u>2,413</u>	<u>63,722</u>	<u>(80)</u>	<u>63,642</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

5. SEGMENT INFORMATION (cont'd)

STATEMENT OF INCOME

Period ending 30 June 2004

	<u>Banking NTL'000</u>	<u>Brokerage NTL'000</u>	<u>Combined NTL'000</u>	<u>Eliminations NTL'000</u>	<u>Total NTL'000</u>
Interest Income	91,450	1,862	93,312	-	93,312
Interest Expenses	(27,987)	-	(27,987)	-	(27,987)
Net Interest Income / (Loss)	<u>63,463</u>	<u>1,862</u>	<u>65,325</u>	<u>-</u>	<u>65,325</u>
Net Fee and Commission Income/(Expense)	4,972	4,810	9,782	-	9,782
Net Foreign Currency Gains/(Losses)	(4,331)	9	(4,322)	-	(4,322)
Net Securities Trading Gains/(Losses)	1,350	1,819	3,169	-	3,169
Net Trading Income / (Loss)	<u>(2,981)</u>	<u>1,828</u>	<u>(1,153)</u>	<u>-</u>	<u>(1,153)</u>
Impairment Losses	(12,572)	-	(12,572)	-	(12,572)
Net Trading Income / (Loss) After Impairment	<u>(15,553)</u>	<u>1,828</u>	<u>(13,725)</u>	<u>-</u>	<u>(13,725)</u>
Other Operating Income	20,199	2,053	22,252	(187)	22,065
Other Operating Expenses	(18,799)	(8,095)	(26,894)	128	(26,766)
Income / (Loss) From Associates	-	-	-	(96)	(96)
Income/(Loss) Before Tax And Monetary Gain/(Loss)	<u>54,282</u>	<u>2,458</u>	<u>56,740</u>	<u>(155)</u>	<u>56,585</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

5. SEGMENT INFORMATION (cont'd)

<u>BALANCE SHEET</u>	<u>Banking</u> <u>NTL'000</u>	<u>Brokerage</u> <u>NTL'000</u>	<u>Combined</u> <u>NTL'000</u>	<u>Eliminations</u> <u>NTL'000</u>	<u>Total</u> <u>NTL'000</u>
<u>At 30 June 2005</u>					
Total Assets	2,729,977	72,512	2,802,489	(54,902)	2,747,587
Liabilities	2,269,516	41,847	2,311,363	-	2,311,363
Shareholders' Equity Before Net Income	419,217	29,699	448,916	(54,918)	393,998
Net Income	41,244	966	42,210	16	42,226
Total Shareholders' Equity	460,461	30,665	491,126	(54,902)	436,224
Total Liabilities and Shareholders' Equity	2,729,977	72,512	2,802,489	(54,902)	2,747,587
<u>At 31 December 2004</u>					
Total Assets	2,375,284	40,980	2,416,264	(53,124)	2,363,140
Liabilities	1,957,650	14,678	1,972,328	-	1,972,328
Shareholders' Equity Before Net Income	339,452	24,057	363,509	(43,983)	319,526
Net Income	78,182	2,245	80,427	(9,141)	71,286
Total Shareholders' Equity	417,634	26,302	443,936	(53,124)	390,812
Total Liabilities and Shareholders' Equity	2,375,284	40,980	2,416,264	(53,124)	2,363,140

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

6. LIQUID ASSETS

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
Cash balances – New Turkish Lira (“NTL”)	171	212
Cash balances – Foreign currencies (“FC”)	9	-
	<u>180</u>	<u>212</u>

7. BALANCES WITH THE CENTRAL BANK

a) Balances with the Central Bank

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
Demand deposits – NTL	102	267
Demand deposits – FC	13	7
	<u>115</u>	<u>274</u>

b) Reserve Deposits at the Central Bank

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
New Turkish Lira reserves	127	113
Foreign currency reserves	16,417	510
	<u>16,544</u>	<u>623</u>

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; which is 10.25% for NTL deposits and 1.435% for foreign currency deposits (31 December 2004: 12.50% and 1.040%; respectively).

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

7. BALANCES WITH THE CENTRAL BANK (cont'd)

Banks have to maintain minimum amounts of cash-on-hand, deposits with the Central Bank and government bonds in their portfolio against their liabilities, computed on the basis of certain rates that are prescribed in the related regulation, as follows:

<u>Liabilities</u>	<u>Liquidity Ratio</u>
Turkish Lira	4
Foreign Exchange	1

8. BALANCES WITH BANKS

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
<u>Domestic Banks</u>		
Demand deposits – New Turkish Lira	1,148	67
Time deposits – New Turkish Lira	-	51,736
Demand deposits – Foreign currency	1,194	1,172
Time deposits – Foreign currency	14,937	-
	<u>17,279</u>	<u>52,975</u>
<u>Banks Abroad</u>		
Demand deposits – Foreign currency	3,099	1,495
Time deposits – Foreign currency	18,079	-
	<u>21,178</u>	<u>1,495</u>
Total	<u>38,457</u>	<u>54,470</u>

The time deposits above mature within 1 day and earn interest at rates ranging from 3.35% to 3.50% as at the balance sheet date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NET)

	30 June 2005 NTL'000	31 December 2004 NTL'000
Government bonds and treasury bills in NTL	9,889	10,324
Government bonds and treasury bills in foreign currencies	69	264
Eurobonds	-	237
Investment funds	1,557	1,361
Equity shares	3,844	1,156
	<u>15,359</u>	<u>13,342</u>

Income on debt instruments at fair value is included in the statement of income as interest income. Gains and losses on other financial assets at fair value through profit or loss are included in the trading income.

10. LOANS AND RECEIVABLES (NET)

	30 June 2005 NTL'000	31 December 2004 NTL'000
Short-term loans	27,537	14,119
Long-term loans	1,270,203	1,245,330
Investment in direct finance leases, net	205,883	192,774
Total performing loans	<u>1,503,623</u>	<u>1,452,223</u>
Overdue loans	57,428	61,131
Total loans	<u>1,561,051</u>	<u>1,513,354</u>
Less: Provisions for loan losses	<u>(57,428)</u>	<u>(61,131)</u>
Total loans (net)	<u>1,503,623</u>	<u>1,452,223</u>

Movements in the provision for loan losses are as follows:

	30 June 2005 NTL'000	31 December 2004 NTL'000
Provision For Cash Loans:		
As at 1 January	61,131	92,600
Charge for the period	1,306	5,297
Provision released	(3,083)	(25,510)
Monetary effect	(1,926)	(11,256)
As at 30 June / 31 December	<u>57,428</u>	<u>61,131</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

10. LOANS AND RECEIVABLES (NET) (cont'd)

Loans can be further analyzed by customer groups, currency and sector as follows:

	30 June 2005 NTL'000	31 December 2004 NTL'000
<u>Customer Groups</u>		
Corporate customers	1,494,047	1,445,878
Others	9,576	6,345
	<u>1,503,623</u>	<u>1,452,223</u>

	30 June 2005 NTL'000	31 December 2004 NTL'000
<u>Currency</u>		
New Turkish Lira	15,688	13,501
US Dollars	453,743	394,387
Euro	703,904	745,511
Other currencies	159,052	198,049
Foreign currency indexed NTL loans	171,236	100,775
	<u>1,503,623</u>	<u>1,452,223</u>

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

10. LOANS AND RECEIVABLES (NET) (cont'd)

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

Sector	NTL'000					
	30 June 2005			31 December 2004		
	Long – Term	Short – Term	Arrears	Long – Term	Short – Term	Arrears
Finance	331,897	12,933	-	268,426	-	-
Tourism	244,571	-	-	252,376	-	-
Textile	156,803	1,245	20,260	181,700	2,105	21,579
Metal	116,420	2,915	1,449	123,726	3,925	1,723
Motor Vehicles	82,906	-	-	96,146	-	-
Energy	99,585	-	-	94,699	-	-
Chemical	77,297	-	665	83,875	-	687
Plastics	49,280	-	5,909	59,051	-	6,156
Farming	45,222	-	-	55,044	-	-
Food and Beverages	27,217	-	26,904	18,591	-	28,068
Cement	30,035	-	-	32,258	-	-
Machinery Production	22,438	-	-	20,918	-	-
Lumber and Wood	13,617	-	-	18,590	-	-
Education	17,044	-	-	18,627	-	-
Health Services	19,533	-	-	11,876	-	-
Rubber & Tires	8,889	-	2,240	8,258	-	2,917
Ceramics	4,741	841	-	6,228	1,673	-
Pulp and Paper	14,087	-	-	6,663	-	-
Construction	16,112	-	-	5,520	-	-
Shipyard	12,166	-	-	2,322	-	-
Glass and Glass Products	-	-	-	-	-	-
Electronics	-	-	-	-	41	-
Other	86,226	9,603	1	73,210	6,374	1
	1,476,086	27,537	57,428	1,438,105	14,118	61,131

Interest rates charged for short term loans are 22.11% for New Turkish Lira loans and in the range of 4.43 – 5.22% for Euro loans and 4.7 - 6% US Dollar loans per annum during the period.

The Bank mainly extends long term loans to customers. Interest rates ranges for long term loans are as follows:

	30 June 2005	31 December 2004
Euro	3.76-8.14 %	3.75-8.21 %
US Dollars	4.03-14.00 %	3.66-14.00 %
NTL	15.00-20.00 %	15.00-25.60 %
JPY	3.75-5.40 %	3.70-6.00 %
CHF	10.00-10.00 %	10.00-10.00 %

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

10. LOANS AND RECEIVABLES (NET) (cont'd)

NTL 180,204 Thousand of the cash loans are extended to TSKB Group companies, of which the Bank is a related party. TSKB Group companies have NTL 71,854 thousand non-cash loan risk as at the balance sheet date.

The collaterals for the loans extended to the TSKB Group companies are NTL 41,129 Thousand as at the balance sheet date.

The Bank has extended total loans of NTL 5,986 Thousand to its non-consolidated equity investments as of 30 June 2005 (31 December 2004: NTL 6,707 Thousand).

Loans include finance lease receivables. Components of the lease contracts are as follows:

	30 June 2005	31 December 2004
	NTL'000	NTL'000
Lease payments receivable	239,798	223,958
(Less): Unearned income	(33,915)	(31,184)
Investment in direct financing leases	<u>205,883</u>	<u>192,774</u>
Current maturity – net	13,132	25,131
Long - term portion – net	192,751	167,643
Investment in direct financing leases	<u>205,883</u>	<u>192,774</u>

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

	CHF	EURO	JPY	USD
2005	194	4,671	252,842	1,720
2006	-	12,171	462,270	4,054
2007	-	16,598	475,531	5,791
2008	-	16,879	485,784	5,543
2009	-	17,029	208,722	5,332
2010	-	11,035	156,313	4,302
2011	-	5,896	-	4,047
2012	-	695	-	1,504
2013	-	-	-	131
	<u>194</u>	<u>84,974</u>	<u>2,041,462</u>	<u>32,424</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

11. INVESTMENT SECURITIES (NET)

	30 June 2005 NTL'000	31 December 2004 NTL'000
Investments held to maturity	-	-
Investments available for sale	1,025,769	730,583
	<u>1,025,769</u>	<u>730,583</u>
	30 June 2005 NTL'000	31 December 2004 NTL'000
<u>Investments available for sale:</u>		
Government bonds and treasury bills in NTL	595,388	409,908
Government bonds and treasury bills in foreign currencies	171,347	161,474
Eurobonds	208,042	122,821
Investment funds	16,313	1,658
Equity shares	34,679	34,722
	<u>1,025,769</u>	<u>730,583</u>

In year 2004, 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 investments. 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 financial year.

Interest income on debt instruments with fixed or floating rates is included in the interest income. Gains and losses on the changes in the fair value of investments available for sale are included under a separate component of equity.

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to NTL 314,244 thousand as at the balance sheet date.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

11. INVESTMENT SECURITIES (NET) (cont'd)

The blocked securities kept in the Central Bank, the İstanbul Stock Exchange and İMKB Takas ve Saklama Bankası A.Ş. (stock exchange settlement bank) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 30 June 2005 are as follows:

	2005 Nominal Value NTL'000	2005 Carrying Value NTL'000	2004 Nominal Value NTL'000	2004 Carrying Value NTL'000
<u>Government Bonds and Treasury Bills:</u>				
Central Bank- Interbank Market Guarantee	36,577	35,863	38,903	36,670
Central Bank- Liquidity Requirement	1,000	1,049	1,033	904
İstanbul Stock Exchange- Trading Guarantee	14,000	13,972	14,505	16,098
Central Bank – Foreign Currency Operations Guarantee	20,746	20,611	15,891	17,667
Clearing House – Blocked Securities	135,765	128,755	73,051	69,030
	<u>208,088</u>	<u>200,250</u>	<u>143,383</u>	<u>140,369</u>

The Group's available for sale equity investments are as follows:

<u>Investee</u>	<u>Ownership %</u>	30 June 2005 Indexed Acquisition Cost TL Billion	31 December 2004 Indexed Acquisition Cost TL Billion
İMKB Takas ve Saklama A.Ş.	6.80	14,971	14,811
Servus Bilgisayar A.Ş.	7.14	7,068	7,068
Ünsa Ambalaj San. ve Tic. Ltd.Şti.	12.00	5,465	5,465
Cam Elyaf Sanayi A.Ş.	1.18	1,580	1,580
Terme Metal San. ve Tic. A.Ş.	17.83	301	250
Senapa Plastik Ambalaj San. A.Ş.	10.41	2,053	2,053
İş Yatırım Ortaklığı A.Ş.	-	-	244
İş Portföy Yönetimi A.Ş.	10.00	457	457
Gözlük Sanayi A.Ş.	21.71	366	366
TSKB Gayrimenkul Değerleme A.Ş.	80.00	329	329
Vadeli İşlem ve Opsiyon Borsası A.Ş.	1.00	81	81
Aksa	*	838	1,037
Ak Enerji	*	688	-
Koç Holding	*	79	-
Yapı ve Kredi Bankası	*	255	-
Aksigorta	*	142	-
Alarko	*	-	364
Enka	*	-	382
Sabancı Holding	*	-	226
Others		6	9
		<u>34,679</u>	<u>34,722</u>

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

11. INVESTMENT SECURITIES (NET) (cont'd)

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.

12. EQUITY INVESTMENTS

As of 30 June 2005, in the accompanying financial statements, the following entities are accounted for under the equity method:

			30 June	31
	Ownership	Nominal	2005	December
<u>Investee</u>	<u>%</u>	<u>NTL'000</u>	<u>NTL'000</u>	<u>NTL'000</u>
İş Finansal Kiralama A.Ş.	30.00	15,000	32,605	28,060
TSKB Yatırım Ortaklığı A.Ş.	44.03	2,642	3,956	3,529
Yatırım Finansman Yat. Ort. A.Ş.	29.24	-	-	1,147
İş Factoring Finansman Hizm. A.Ş.	21.75	3,480	4,581	4,532
İş Girişim Sermayesi Yat. Ort. A.Ş.	23.82	5,360	19,263	22,545
		<u>26,482</u>	<u>60,405</u>	<u>59,813</u>

Yatırım Finansman Yatırım Ortaklığı A.Ş. is included in consolidation with line-by-line method in the current period, since the Bank has the control power on the management of this company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

13. GOODWILL (NET)

	<u>NTL'000</u>
<u>Cost</u>	
At 1 January 2004	581
Exchange differences	-
At 1 January 2005	581
Netting of amortization accumulated prior to the adoption of IFRS 3 (see note 2)	(203)
At 30 June 2005	378
<u>Amortization</u>	
At 1 January 2004	(86)
Amortization for the period	(117)
At 1 January 2005	(203)
Elimination of amortization accumulated prior to the adoption of IFRS 3 (see note 2)	203
At 30 June 2005	-
<u>Impairment</u>	
Impairment loss recognized as at the period end	-
<u>Carrying Amount</u>	
At 30 June 2005	378
At 31 December 2004	378

The above goodwill is attributable to Yatırım Finansman Menkul Değerler A.Ş.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the investees are determined from cash flows projections. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next one year and extrapolates cash flows for the following five years based on an estimated annual growth rate of 4% in average. This rate does not exceed the average long-term growth rate for the relevant investees and their respective markets.

The rate used to discount the forecast cash flows from Yatırım Finansman Menkul Değerler A.Ş. is 11.75%.

At 30 June 2005, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

14. PREMISES AND EQUIPMENT (NET)

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
Land	1,157	1,220
Buildings	34,177	34,133
Machinery and Equipment	16,792	17,348
Vehicles	1,374	1,468
Furniture and Fixtures	17,350	17,231
Other fixed assets	8	8
Construction in progress and advances given	18	67
Premises and equipment	<u>70,876</u>	<u>71,475</u>
Less: Accumulated depreciation	<u>(43,298)</u>	<u>(42,528)</u>
Premises and equipment (net)	<u>27,578</u>	<u>28,947</u>

15. INTANGIBLE ASSETS (NET)

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
<u>Acquisition cost</u>		
Opening balance, 1 January 2005	5,344	5,052
Additions	142	489
Disposals	<u>(1)</u>	<u>(197)</u>
Closing balance, 30 June / 31 December	<u>5,485</u>	<u>5,344</u>
<u>Accumulated amortization</u>		
Opening balance, 1 January 2005	(4,064)	(3,757)
Charge for the period	(257)	(504)
Disposals	<u>1</u>	<u>197</u>
Closing balance, 30 June / 31 December	<u>(4,320)</u>	<u>(4,064)</u>
Net Book Value, as of 30 June / 31 December	<u>1,165</u>	<u>1,280</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

16. OTHER ASSETS

	30 June 2005 NTL'000	31 December 2004 NTL'000
Receivables from brokerage customers	43,468	15,490
Prepaid expenses	2,640	2,457
Advances given	391	74
Preopening expenses	229	309
Receivables from banking services	271	680
Deposits and guarantees given	71	73
Prepaid taxes	48	67
Stationery	56	9
Transactions awaiting documents	2	-
Receivables from personnel	-	20
Other (net)	5,435	1,390
	<u>52,611</u>	<u>20,569</u>

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The securities sold under repurchase agreements and corresponding obligations are as follows:

	2005 Carrying Value of Underlying Securities NTL'000	2005 Carrying Value of Corresponding Liability NTL'000	2005 Repurchase Value NTL'000
Investment securities	314,244	278,193	279,702
	<u>314,244</u>	<u>278,193</u>	<u>279,702</u>

	2004 Carrying Value of Underlying Securities NTL'000	2004 Carrying Value of Corresponding Liability NTL'000	2004 Repurchase Value NTL'000
Investment securities	174,423	175,953	176,226
	<u>174,423</u>	<u>175,953</u>	<u>176,226</u>

The repurchase agreements have maturity periods of one day to 10 months. The Group has applied interest rates of 1.75-3.93% for foreign currency, 12.75-15.84% for domestic currency agreements. Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounted to NTL 409 thousand (2004: NTL 172 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

18. BORROWINGS

	30 June 2005 NTL'000	31 December 2004 NTL'000
Foreign currency borrowings	1,817,417	1,650,916
Turkish Lira borrowings	11,147	17,577
Total borrowings	1,828,564	1,668,493
	30 June 2005 NTL'000	31 December 2004 NTL'000
<u>Foreign Currency Borrowings</u>		
International Bank for Reconstruction and Development (IBRD)		
EFIL II	301,863	246,394
IBRD-3346 Investment Credit Project	15,522	22,678
IBRD-EXIM	2,734	5,634
IBRD-Renewable Energy Loan	3,952	1,929
	324,071	276,635
European Investment Bank (EIB)	724,147	759,369
Syndicated Loan	162,116	-
Japan Bank of International Cooperation (JBIC)	160,171	194,203
Kreditanstalt Für Wiederaufbau (KfW)	130,908	141,574
Akbank T.A.Ş.	97,203	142,381
Council of European Development Bank (CEB)	81,293	56,648
Dresdner Bank	11,413	15,974
Instituto de Credito Oficial	8,292	8,825
T.İhracat Kredi Bankası A.Ş.	435	1,998
Black Sea Trade and Development Bank	949	1,471
Union Bank of Switzerland	126	292
Association of French Development (AFD)	16,313	51,546
Other domestic bank borrowings	88,450	-
Other foreign bank borrowings	11,530	-
	1,493,346	1,374,281
Total foreign currency borrowings	1,817,417	1,650,916
<u>Turkish Lira Borrowings</u>		
EIB-Venture Capital	10,542	10,891
Domestic bank borrowings	200	5,168
Treasury originated funds	405	728
T.İhracat Kredi Bankası A.Ş.	-	790
Total Turkish Lira borrowings	11,147	17,577
Total borrowings	1,828,564	1,668,493
Current portion of medium and long-term loans	136,232	184,051

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

18. BORROWINGS (cont'd)

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

	30 June 2005	31 December 2004
	<u>NTL'000</u>	<u>NTL'000</u>
KFW	25,466	29,196
EIB	57,094	54,652
JBIC	28,927	32,155
Treasury Originated Funds	187	372
Dresdner Bank	4,577	5,336
Black Sea Trade and Development Bank	933	963
Union Bank of Switzerland	123	287
Akbank T.A.Ş.	-	41,477
Instituto de Credito Oficial	813	1,167
IBRD-3346-TU	15,433	12,917
IBRD-EXIM	2,679	5,529
	<u>136,232</u>	<u>184,051</u>

Foreign Currency:

IBRD:

- 3346 – TU, private sector investment project loan, with variable interest rates of 4.70 % for EUR and 5.29 % - 5.68 % for USD, repayable in scheduled up to 12 August 2005. (31 December 2004: 5.20 % for EUR and 5.36 % - 5.53 % for USD)

IBRD – EXIM:

-Variable interest rate 5.01 %, repayable in scheduled installments up to 15 August 2005 (31 December 2004: 3.92% for USD)

IBRD - EFIL II:

- Variable interest rate 3.39 % for USD, repayable in scheduled installments up to 15 January 2020 (31 December 2004: 2.36% for USD)

IBRD - REL :

- Variable interest rate 3.76 % for USD, repayable in scheduled installments up to 15 September 2016 (31 December 2004: 2.56% for USD)

EIB:

-Interest rates 1.83% - 2.58% for EUR and 3.56% - 3.61% for USD (31 December 2004: 2.23% - 2.58% for EUR and 2.66%-2.67% for USD), repayable in scheduled installments up to 15 March 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

18. BORROWINGS (cont'd)

JBIC:

-Fixed Interest rates 1.65% - 2.40% for JPY (31 December 2004 : 1.65% - 2.40 % for JPY), repayable in scheduled installments up to 28 September 2010.

AKBANK:

- Variable interest rates 5.71%- 7.49% for USD, repayable in scheduled installments up to 18 August 2006 (31 December 2004: 5.64%- 6.27 % for USD)

CEB:

-Variable interest rates 2.48%-2.49% for EUR (31 December 2004: 2.49% for EUR), repayable in scheduled installments up to 15 April 2015.

IFC:

- Variable interest rates 7.03% for USD (31 December 2004: 5.98% for USD), repayable in scheduled installments up to 15 October 2011.

KFW:

-Variable Interest rates 2.00%-3.05% for EUR (31 December 2004: 2.20%-3.05% for EUR), repayable in scheduled installments up to 30 December 2032.

DRESDNER BANK:

-Variable interest rates 2.90%-3.20% for EUR (31 December 2004: 2.95% for EUR), repayable in scheduled installments up to 4 November 2007.

INSTITUTO DE CREDITO OFFICIAL:

- Interest rate of 4 % for USD (31 December 2004: 4% for USD), repayable in scheduled installments up to 17 April 2013.

BLACK SEA TRADE AND DEVELOPMENT BANK:

- Interest rate of 5.81 % for USD (31 December 2004: 4.58 % for USD), repayable in scheduled installments up to 20 March 2006.

UNION BANK OF SWITZERLAND (FORMERLY SBC):

- Fixed interest rate 4.88 % for CHF (31 December 2004: 4.88% for CHF), repayable in scheduled installments up to 18 July 2005.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

18. BORROWINGS (cont'd)

T. İHRACAT KREDİ BANKASI A.Ş.:

-Fixed interest rate 3.68 % for EUR (31 December 2004: 4.18%-4.47% for EUR), repayable in scheduled installments up to 13 February 2006.

AFD:

- Variable interest rate 2.91% for EUR (no balance exists as of 31 December 2004), repayable in scheduled installments up to 31 January 2017.

SYNDICATION LOAN:

- Variable interest rate 3.88% for USD (no balance exists as of 31 December 2004), repayable in scheduled installments up to 11 April 2006.

The loan is granted by the following banks: American Express Bank GmbH, Arab Banking Corporation (B.S.C.), Bayerische Landesbank, BHF-BANK Aktiengesellschaft, Citibank N.A., Commerzbank Aktiengesellschaft, Dresdner Kleinwort Wasserstein , Erste Bank der oesterreichischen Sparkassen AG, Gulf International Bank B.S.C., HVB Group, Raiffeisen Zentralbank Österreich Aktiengesellschaft, Standard Bank London Limited, Sumitomo Mitsui Banking Corporation Europe Limited, WestLB AG, London Branch

TREASURY ORIGINATED FUNDS:

- Interest rates range between 11 % - 21 % for NTL. (31 December 2004: 11% - 21%) repayable in scheduled installments up to 1 June 2009.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

18. BORROWINGS (cont'd)

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 30 June 2005 are 1.6 and 96.7% respectively. (31 December 2004: 1.6 and 96.5% respectively).

As per the memorandum of IBRD related to the project agreement amendments to Loan 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 37.31% on 30 June 2005 is determined by taking the average of the ratios existing at the dates shown below:

<u>Dates</u>	<u>Capital Adequacy Ratio of TSKB</u>	
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	41.96 %	Limited Review
31 December 2005	39.60 %	Projected
30 June 2006	38.98 %	Projected

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

19. TAXATION

Corporate Tax

The Bank is subject to Turkish corporation taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the year. Tax legislation in Turkey does not allow companies file their tax returns on a consolidated basis but on a stand alone basis. Accordingly, the corporation tax in the accompanying financial statements is calculated on the results of each consolidated entity separately.

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 2003: 30%
- In 2004: 33%
- In 2005: 30%

In Turkey, advance tax returns are filed on a quarterly basis at 30%.

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 in 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

19. 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 2004. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Income withholding tax was also calculated in 2003 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 2004. 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.

Inflation Adjusted Tax Calculation

For 2004 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 2004 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”. Since the actual rate of inflation as at the balance sheet date did not exceed the thresholds specified in the taxation legislation, the statutory financial statements have not been inflation adjusted.

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.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

19. TAXATION (cont'd)

In the accompanying financial statements corporate tax and deferred tax asset/liability are comprised of the following:

a) Balance sheet:

	30 June 2005 NTL'000	31 December 2004 NTL'000
Corporate tax	15,106	13,935
Advance taxes	(7,399)	(5,687)
	<u>7,707</u>	<u>8,248</u>

b) Income statement

	30 June 2005 NTL'000	30 June 2004 NTL'000
Corporate tax charge	15,073	4,265
Deferred tax charge (benefit)	(3,309)	(3,707)
	<u>11,764</u>	<u>588</u>

In addition to the deferred tax expense charged to profit or loss, a deferred tax benefit of NTL 206 thousand has been recognized in the equity in the period (see note 3.19).

The deferred taxes (at 30%) on major temporary differences as at the balance sheet are as follows:

	30 June 2005 NTL'000	31 December 2004 NTL'000
Restatement of property, plant and equipment useful life differences	2,063	2,413
Retirement pay provision	1,073	965
Finance lease receivables	(7,111)	(10,954)
General loan loss provisions	2,463	2,327
Impairment in equity participations	221	229
Other provisions	437	450
Others	(45)	12
Deferred tax asset/(liability)	<u>(899)</u>	<u>(4,558)</u>
Less: Valuation allowance	-	-
Net deferred tax at 30 June / 31 December	<u>(899)</u>	<u>(4,558)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

19. TAXATION (cont'd)

Taxation can be reconciled to the profit per the statement of income as follows:

<u>Reconciliation of Taxation</u>	30 June 2005 <u>NTL'000</u>	30 June 2004 <u>NTL'000</u>
Income/(loss) before taxation, after monetary loss	53,990	39,381
Tax at the statutory income tax rate of 30% in 2005; 33% in 2004	16,197	12,996
Tax effect of restatement of non monetary items and adjustments	2,751	(1,262)
Tax effect of income that is deductible in determining taxable income	(4,289)	(5,352)
Tax effect of undeductable expenses	8,232	5,958
Tax effect of reversal of provisions	(818)	(105)
Tax effect of investment incentives	(5,964)	(7,426)
Tax effect of dividend income	-	(514)
Tax effect of gains/(losses) on sale of assets	(921)	-
Tax effect of other deductions	(115)	-
Deferred tax charge	(3,309)	(3,707)
Net tax expense / (benefit)	<u>11,764</u>	<u>588</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

20. PROVISIONS

	30 June 2005 NTL'000	30 June 2004 NTL'000
<u>Provision For Retirement Pay</u>		
At 1 January	3,216	3,293
Provision for the Period	486	(385)
Indemnities Paid	(17)	709
Net Effect of Indexation	(101)	(401)
At 30 June	3,584	3,216
<u>General Provision For Loans</u>		
At 1 January	7,757	6,168
Additions During the Period	696	2,379
Provision Released	-	(40)
Net Effect of Indexation	(244)	(750)
At 30 June	8,209	7,757
<u>Provision For Other Liabilities</u>		
Other Provisions	2,985	3,082
TOTAL PROVISIONS	14,778	14,055

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 and no provision is provided.

b) Retirement pay provision

Lump sum payments are made to all employees who retire from the Group or whose employment is terminated for reasons other than misconduct. The amount payable is 30 days' gross pay for each year of eligible service. The eligible gross pay is subject to a ceiling as at 30 June 2005 of NTL 1,648.9 (in full NTL) per month. The ceiling was raised to NTL 1,727.15 (in full NTL) per month on 1 July 2005.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

20. PROVISIONS (cont'd)

b) Retirement pay provision: (cont'd)

A provision is recognized in the balance sheet for the present value of the defined benefit obligation. The provision is calculated based on the amount that would have been payable had all employees been terminated at the balance sheet date, discounted to reflect the time period until the expected retirement date of each employee and reduced by a factor to reflect the fact that some employees will resign from the Group and will therefore forfeit their right to such payments.

The principal assumptions used for the purpose of the calculations are as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	16%	25%
Expected rate of increase in salaries and eligible ceiling	10%	18%
Factor for expected forfeitures of retirement pay rights (per year)	0%	0%

21. 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 was on 5 November 2004. The interest rate of the subordinated loan is Libor + 3.62%; which corresponds to 7.03% 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.

22. OTHER LIABILITIES

	<u>30 June 2005 NTL'000</u>	<u>31 December 2004 NTL'000</u>
Payables to brokerage customers	42,355	16,403
Transfer orders	6,652	961
Bonuses payable to directors and staff	1	1
Taxes and dues payable	1,592	2,011
Securities issued	1	1
Others	5,208	5,505
	<u>55,809</u>	<u>24,882</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

23. EQUITY

Share Capital

As at 30 June 2005, the authorized and issued capital consists of 399,999,500,000 shares of 0.0005 New Turkish Lira and 250,000 shares of 0.0001 New Turkish Lira each as reflected in the statutory financial statements. Founder shares entitle the holders to receive dividends in total equal to 5% of statutory net income 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.

Shareholders	%	2005	2005	%	2004	2004
		Authorised Capital NTL'000	Paid-Up Capital NTL'000		Authorised Capital NTL'000	Paid-Up Capital NTL'000
T. İş Bankası A.Ş.	40.53	81,035	81,035	40.53	57,757	57,757
Akbank T.A.Ş.	6.45	12,894	12,894	6.45	9,187	9,187
Turkish Fund Equities and Bonds	7.60	15,193	15,193	5.40	7,691	7,691
T. Vakıflar Bankası T.A.O	8.38	16,755	16,755	8.38	11,938	11,938
T. Garanti Bankası A.Ş.	-	-	-	3.09	4,403	4,403
Others	37.04	74,123	74,123	36.15	51,524	51,524
	<u>100.00</u>	<u>200,000</u>	<u>200,000</u>	<u>100.00</u>	<u>142,500</u>	<u>142,500</u>
<u>Components of Capital:</u>						
Nominal capital		200,000	200,000		142,500	142,500
Effect of inflation		810,172	810,172		838,359	838,359
		<u>1,010,172</u>	<u>1,010,172</u>		<u>980,859</u>	<u>980,859</u>

The Bank has increased its nominal capital in the current period. The sources of the increase are, NTL 29,313 Thousand transfer from previous year's income and NTL 28,187 Thousand transfer from inflation effect of capital.

Minority interest:

In accordance with the revised standards of IFRS, minority interest which has been separately disclosed is reclassified as a separate component of equity. As at the balance sheet the minority interest is as follows:

	30 June 2005 NTL'000	31 December 2004 NTL'000
Capital	10,631	9,429
Reserves	54	18
Retained earnings / (accumulated losses)	(5,522)	(5,710)
Current period net income / (loss)	131	213
	<u>5,294</u>	<u>3,950</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

24. OTHER OPERATING INCOME

	30 June 2005 <u>NTL'000</u>	30 June 2004 <u>NTL'000</u>
Dividend Income	2,223	1,460
Reversal of Unnecessary Provision	3,176	14,984
Gain on sale of assets	1,451	88
Other	6,501	5,533
	<u>13,351</u>	<u>22,065</u>

25. OTHER OPERATING EXPENSES

	30 June 2005 <u>NTL'000</u>	30 June 2004 <u>NTL'000</u>
Personnel expenses	14,324	12,655
Taxes and dues other than on income	1,201	730
Depreciation and amortization	1,525	1,263
Rent expenses	512	580
Communication expenses	323	140
Other administrative expenses	10,179	10,823
Indemnities paid	591	575
	<u>28,655</u>	<u>26,766</u>

26. RELATED PARTY TRANSACTIONS AND BALANCES

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

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
<u>Balances with related parties</u>		
Borrowings	111,664	142,318
Loans and advances to customers	180,204	234,372
Non-cash loans (guarantee letters and letters of credit given)	71,854	35,159
Due from other banks	12,301	643
Other assets	579	754
Other liabilities	1,890	2,443

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

26. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd)

	30 June 2005 <u>NTL'000</u>	30 June 2004 <u>NTL'000</u>
<u>Transactions with related parties</u>		
Interest and similar income	4,371	4,143
Interest expenses and similar charges	(4,367)	(4,877)
Dividend income	2,223	1,460
Foreign exchange gain (loss)—net	16	29
Net fee and commission income	(586)	847
Operating expenses	3	(25)
Other income	1,254	732
Other expenses	(1,447)	(70)

27. COMMITMENTS AND CONTINGENCIES

	30 June 2005 <u>NTL'000</u>	31 December 2004 <u>NTL'000</u>
Letters of guarantee	41,679	37,094
Letters of credit commitments	92,563	56,073
Letters of loan commitments	646,591	298,260
Other commitments	6,096	8
	<u>786,929</u>	<u>391,435</u>

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2005 Assets <u>NTL'000</u>	2005 Liabilities <u>NTL'000</u>	2004 Assets <u>NTL'000</u>	2004 Liabilities <u>NTL'000</u>
Forward foreign exchange contracts	35	42	-	24
Futures	-	-	-	-
Currency swaps	-	55	13	144
Interest rate swaps	163	654	-	-
Futures	-	-	-	-
Options	-	192	-	-
	<u>198</u>	<u>943</u>	<u>13</u>	<u>168</u>

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

28. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

At the balance sheet date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	30 June 2005 NTL'000	31 December 2004 NTL'000
Forward foreign exchange contracts – buy	7,528	654
Forward foreign exchange contracts – sell	11,504	900
Futures – buy	670	-
Futures – sell	1,956	-
Currency swaps – buy	62,096	11,134
Currency swaps – sell	62,409	11,278
Interest rate swaps – buy	575	-
Interest rate swaps – sell	728	-
Currency option – buy	22,152	-
Currency option – sell	-	-
Bond option – buy	17,403	-
Bond option – sell	-	-

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. Contracts with nominal values of NTL 26,780 thousand have fixed interest payments at an average rate of 3.87% for periods up until 26 October 2005.

29. DIVIDENDS

On 16 March 2005, NTL 2,594 thousand of dividend was paid to shareholders. In May 2004, the dividend paid was NTL 2,642 thousand.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT

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 risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Group's general management and appropriate sub-committees.

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Group measures and manages its cashflow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

As at 30 June 2005 the estimated maturity analysis for certain assets and liabilities

	Up to 3 Months TL Billion	3 to 12 Months TL Billion	Over 1 Year TL Billion	No Maturity TL Billion	Total TL Billion
ASSETS					
Liquid assets	-	-	-	180	180
Balance with the Central Bank	-	-	-	115	115
Balances with banks	33,016	-	-	5,441	38,457
Interbank money market placements	5,205	-	-	-	5,205
Financial assets at fair value through profit or loss	597	3,190	6,171	5,401	15,359
Derivative financial assets	-	-	-	198	198
Reserve deposits at the Central Bank	-	-	-	16,544	16,544
Loans and receivables (net)	44,282	164,648	1,294,693	-	1,503,623
Investment securities (net)	18,950	342,731	628,142	15,946	1,025,769
Equity investments (net)	-	-	-	60,405	60,405
Goodwill (net)	-	-	-	378	378
Premises and equipment (net)	-	-	-	27,578	27,578
Intangible assets (net)	-	-	-	1,165	1,165
Other assets	7,536	35,918	2,649	6,508	52,611
Deferred tax asset (net)	-	-	-	-	-
Total	109,586	566,487	1,931,655	139,859	2,747,587
LIABILITIES					
Interbank money market borrowings	55,925	-	-	-	55,925
Obligations under repurchase agreements	219,661	58,532	-	-	278,193
Borrowings and subordinated loans	119,155	279,640	1,498,088	-	1,896,883
Derivative financial liabilities	-	-	-	943	943
Obligations Under Finance Leases	-	226	-	-	226
Corporate tax	-	-	-	7,707	7,707
Provisions	-	-	-	14,778	14,778
Other liabilities	4,997	47,478	1,518	1,816	55,809
Deferred tax liability (net)	-	-	-	899	899
Share capital	-	-	-	1,010,172	1,010,172
Reserves	-	-	-	16,175	16,175
Retained earnings / (accumulated losses)	-	-	-	(595,417)	(595,417)
Equity attributable to Equity Holders of Parent	-	-	-	430,930	430,930
Minority Interest	-	-	-	5,294	5,294
Total	399,738	385,876	1,499,606	462,367	2,747,587

The maturity analysis for certain asset and liability items is estimated.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

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

	Up to 3 Months TL Billion	3 to 12 Months TL Billion	Over 1 Year TL Billion	No Maturity TL Billion	Total TL Billion
ASSETS					
Liquid assets	-	-	-	212	212
Balance with the Central Bank	-	-	-	274	274
Balances with banks	51,762	-	-	2,708	54,470
Interbank money market placements	413	-	-	-	413
Financial assets at fair value through profit or loss	1,720	2,169	8,305	1,148	13,342
Derivative financial assets	-	-	-	13	13
Reserve deposits at the Central Bank	-	-	-	623	623
Loans and receivables (net)	31,434	153,922	1,266,867	-	1,452,223
Investment securities	28,837	261,450	438,638	1,658	730,583
Equity investments	-	-	-	59,813	59,813
Goodwill	-	-	-	378	378
Premises and equipment (net)	-	-	-	28,947	28,947
Intangible assets (net)	-	-	-	1,280	1,280
Other assets	515	15,761	2,798	1,495	20,569
Deferred tax asset (net)	-	-	-	-	-
Total	114,681	433,302	1,716,606	98,549	2,363,140
LIABILITIES					
Interbank money market borrowings	5,824	-	-	-	5,824
Obligations under repurchase agreements	175,953	-	-	-	175,953
Borrowings and subordinated loans	122,235	124,005	1,492,059	-	1,738,299
Derivative financial liabilities	-	-	-	168	168
Obligations Under Finance Leases	-	341	-	-	341
Corporate tax	-	-	-	8,248	8,248
Provisions	-	-	-	14,055	14,055
Other liabilities	7,343	17,373	-	164	24,882
Deferred tax liability (net)	-	-	-	4,558	4,558
Share capital	-	-	-	980,859	980,859
Reserves	-	-	-	11,608	11,608
Retained earnings / (accumulated losses)	-	-	-	(605,605)	(605,605)
Equity attributable to Equity Holders of Parent	-	-	-	386,862	386,862
Minority Interest	-	-	-	3,950	3,950
Total	311,355	141,719	1,492,059	418,007	2,363,140

The maturity analysis for certain asset and liability items is estimated.

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorised 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 Group 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 the credit risk.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

The credit portfolio is also monitored according to various criteria including industry sector, geographical area and risk categories. The geographical concentration of asset liabilities and other credit related commitments are as follows:

	Total Assets		Total Liabilities		Other Credit Related Commitments	
<u>30 June 2005</u>	<u>NTL'000</u>	<u>%</u>	<u>NTL'000</u>	<u>%</u>	<u>NTL'000</u>	<u>%</u>
Turkey	2,671,698	97	977,050	36	786,929	100
Euro Zone	48,040	2	1,219,666	44	-	-
USA	27,588	1	390,561	14	-	-
OECD Countries	261	-	160,310	6	-	-
	<u>2,747,587</u>		<u>2,747,587</u>		<u>786,929</u>	

	Total Assets		Total Liabilities		Other Credit Related Commitments	
<u>31 December 2004</u>	<u>NTL'000</u>	<u>%</u>	<u>NTL'000</u>	<u>%</u>	<u>NTL'000</u>	<u>%</u>
Turkey	2,335,889	99	841,038	36	391,435	100
Euro Zone	26,549	1	990,805	42	-	-
USA	308	-	337,181	14	-	-
OECD Countries	394	-	194,116	8	-	-
	<u>2,363,140</u>		<u>2,363,140</u>		<u>391,435</u>	

Market risk

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of financial assets and other financial contracts will have an adverse financial impact. The primary risks within the Group's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Group's balance sheet is denominated in currencies other than the New Turkish Lira (principally the US dollar and Euro-zone currencies).

The Group's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Group's treasury and financial assets trading divisions.

The Group benefits from VAR methods, stress testing and scenario analysis for measuring market risk. VAR calculations are made by choosing the 90, 95, and 99 % confidence intervals, 1 day/10 day holding periods.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

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. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

The below table summarises the Group's exposure to interest rate risks as at 30 June 2005:

	Up to 3 Months NTL'000	3 to 12 Months NTL'000	Over 1 Year NTL'000	No Interest Rate NTL'000	Total NTL'000
ASSETS					
Liquid assets	-	-	-	180	180
Balance with the Central Bank	-	-	-	115	115
Balances with banks	37,483	-	-	974	38,457
Interbank money market placements	5,205	-	-	-	5,205
Financial assets at fair value through profit or loss	597	3,190	6,171	5,401	15,359
Derivative financial assets	-	-	-	198	198
Reserve deposits at the Central Bank	-	-	-	16,544	16,544
Loans and receivables (net)	903,296	260,182	340,145	-	1,503,623
Investment securities (net)	19,811	302,312	673,307	30,339	1,025,769
Equity investments (net)	-	-	-	60,405	60,405
Goodwill (net)	-	-	-	378	378
Premises and equipment (net)	-	-	-	27,578	27,578
Intangible assets (net)	-	-	-	1,165	1,165
Other assets	7,536	35,918	2,649	6,508	52,611
Deferred tax asset (net)	-	-	-	-	-
Total	973,928	601,602	1,022,272	149,785	2,747,587
LIABILITIES					
Interbank money market borrowings	55,925	-	-	-	55,925
Obligations under repurchase agreements	219,661	58,532	-	-	278,193
Borrowings and subordinated loans	1,206,470	475,069	215,344	-	1,896,883
Derivative financial liabilities	-	-	-	943	943
Obligations Under Finance Leases	-	-	226	-	226
Corporate tax	-	-	-	7,707	7,707
Provisions	-	-	-	14,778	14,778
Other liabilities	4,997	47,478	1,518	1,816	55,809
Deferred tax liability (net)	-	-	-	899	899
Share capital	-	-	-	1,010,172	1,010,172
Reserves	-	-	-	16,175	16,175
Retained earnings / (accumulated losses)	-	-	-	(595,417)	(595,417)
Equity attributable to Equity Holders of Parent	-	-	-	430,930	430,930
Minority Interest	-	-	-	5,294	5,294
Total	1,487,053	581,079	217,088	462,367	2,747,587

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

Interest Rate Risk (cont'd)

The below table summarises the Group's exposure to interest rate risks as at 31 December 2004:

	Up to 3 Months NTL'000	3 to 12 Months NTL'000	Over 1 Year NTL'000	No Interest Rate NTL'000	Total NTL'000
ASSETS					
Liquid assets	-	-	-	212	212
Balance with the Central Bank	-	-	-	274	274
Balances with banks	51,762	-	-	2,708	54,470
Interbank money market placements	413	-	-	-	413
Financial assets at fair value through profit or loss	1,720	2,169	8,305	1,148	13,342
Derivative financial assets	-	-	-	13	13
Reserve deposits at the Central Bank	-	-	-	623	623
Loans and receivables (net)	802,556	236,182	413,485	-	1,452,223
Investment securities	23,404	257,786	417,801	31,592	730,583
Equity investments (net)	-	-	-	59,813	59,813
Goodwill (net)	-	-	-	378	378
Premises and equipment (net)	-	-	-	28,947	28,947
Intangible assets (net)	-	-	-	1,280	1,280
Other assets	515	15,761	2,798	1,495	20,569
Deferred tax asset (net)	-	-	-	-	-
Total	880,370	511,898	842,389	128,483	2,363,140
LIABILITIES					
Interbank money market borrowings	5,824	-	-	-	5,824
Obligations under repurchase agreements	175,953	-	-	-	175,953
Borrowings and subordinated loans	1,197,614	322,789	217,897	-	1,738,299
Derivative financial liabilities	-	-	-	168	168
Obligations Under Finance Leases	-	-	341	-	341
Corporate tax	-	-	-	8,248	8,248
Provisions	-	-	-	14,055	14,055
Other liabilities	7,343	17,373	-	166	24,882
Deferred tax liability (net)	-	-	-	4,558	4,558
Share capital	-	-	-	980,859	980,859
Reserves	-	-	-	11,608	11,608
Retained earnings / (accumulated losses)	-	-	-	(605,605)	(605,605)
Equity attributable to Equity Holders of Parent	-	-	-	386,862	386,862
Minority Interest	-	-	-	3,950	3,950
Total	1,386,734	340,162	218,237	418,007	2,363,140

As at 30 June 2005, a summary of average interest rates for different assets and liabilities are as follows:

	Euro %	US Dollar %	NTL %
<u>Assets</u>			
Balances with banks	-	3.41	-
Loans	4.83	5.83	20.75
Investments available for sale	4.40	5.70	18.60
<u>Liabilities</u>			
Borrowings	2.33	4.27	11.00

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

Currency risk

Assets and liabilities denominated in foreign currencies together with purchase and sale commitments give rise to foreign currency exposure. The Group is closely controlling its exposure to foreign exchange risk, short or long position because of uncertainties and volatility of the markets.

The below tables summarize the foreign currency position of the Group as at 30 June 2005:

	<u>NTL'000</u>				
	<u>EURO</u>	<u>USD</u>	<u>Yen</u>	<u>Other Foreign Currencies</u>	<u>Total</u>
Assets					
Liquid assets including Central Bank	-	13	-	9	22
Balances with banks	1,573	38,728	125	834	41,260
Financial assets at fair value through profit or loss	-	69	-	-	69
Loans and receivables (net)	788,334	531,378	167,901	202	1,487,815
Reserve deposits	-	16,417	-	-	16,417
Investments available for sale	40,849	355,886	-	-	396,735
Premises and equipment (net)	-	-	-	16	16
Other assets	4,169	2,928	126	26	7,249
Total Assets	834,925	945,419	168,152	1,087	1,949,583
Liabilities					
Borrowings	779,974	945,734	159,902	126	1,885,736
Obligations under repurchase agreements	29,980	69,023	-	-	99,003
Derivative financial instruments	78	169	-	-	247
Provisions	-	6,598	-	-	6,598
Other liabilities	7,350	1,130	-	826	9,306
Total Liabilities	817,382	1,022,654	159,902	952	2,000,890
Net Balance Sheet Position	17,543	(77,235)	8,250	135	(51,307)
Off Balance Sheet Position					
Derivatives to sell	2,021	70,450	-	-	72,471
Derivatives to buy	(32,239)	(9,847)	(6,853)	-	(48,939)
Net Off Balance Sheet position	(30,218)	60,603	(6,853)	-	23,532

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

The below tables summarize the foreign currency position of the Group as at 31 December 2004:

	<u>NTL'000</u>				
	<u>EURO</u>	<u>USD</u>	<u>Yen</u>	<u>Other Foreign Currencies</u>	<u>Total</u>
Assets					
Liquid assets including Central Bank	-	7	-	-	7
Balances with banks	1,020	1,044	128	475	2,667
Financial assets at fair value through profit or loss	37	228	-	-	265
Loans and receivables (net)	786,493	461,246	207,181	450	1,455,370
Reserve deposits	-	510	-	-	510
Investments available for sale	33,140	250,365	-	-	283,505
Premises and equipment (net)	-	-	-	-	-
Other assets	320	2,983	5	7	3,315
Total Assets	821,010	716,383	207,314	932	1,745,639
Liabilities					
Borrowings	810,737	715,584	194,093	293	1,720,707
Obligations under repurchase agreements	10,654	16,917	-	-	27,571
Derivative financial instruments	-	-	144	-	144
Provisions	-	6,605	-	-	6,605
Other liabilities	4,541	4,560	5	181	9,287
Total Liabilities	825,932	743,666	194,242	474	1,764,314
Net Balance Sheet Position	(4,922)	(27,283)	13,072	458	(18,675)
Off Balance Sheet Position					
Derivatives to sell	3,849	9,887	-	-	13,736
Derivatives to buy	(431)	(228)	(13,369)	-	(14,028)
Net Off Balance Sheet position	3,418	9,659	(13,369)	-	(292)

Operational risk

Operational risk arises from the potential for financial loss or reputational damage as a result of inadequate systems (including systems breakdown), errors, poor management, breaches of internal controls, fraud or external events. The Risk Management Group manages this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

30. RISK MANAGEMENT (cont'd)

Fair values of financial instruments

As at 30 June 2005 and 31 December 2004, fair values of financial assets and liabilities are as follows:

	30 June 2005		31 December 2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	NTL'000	NTL'000	NTL'000	NTL'000
Balances with banks	38,457	38,457	54,470	54,470
Interbank money market placements	5,205	5,205	413	413
Financial assets at fair value through profit or loss	15,359	15,359	13,342	13,342
Available for sale securities	1,025,769	1,025,769	730,583	730,583
Loans and receivables	1,503,623	1,503,623	1,452,223	1,452,223
Financial assets	2,588,413	2,588,413	2,251,031	2,251,031
Obligations under repurchase agreements	278,193	278,193	175,953	175,953
Borrowings	1,828,564	1,828,564	1,668,493	1,668,493
Financial liabilities	2,106,757	2,106,757	1,844,446	1,844,446

31. 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.

A summary of the weighted average number of shares outstanding for the periods ended 30 June 2005 and 2004 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	2005	2004
Number of shares outstanding at 1 January	285,000,000,000	228,000,000,000
New shares issued	-	-
Conversion of existing reserves	115,000,000,000	-
Number of shares outstanding at the period end	400,000,000,000	228,000,000,000
Weighted average number of shares during the period	400,000,000,000	400,000,000,000
Net profit / (loss) (NTL Thousand)	42,095	38,739
Basic earnings / (loss) per share (in full NTL)	0,000105	0,000097

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2005

32. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors and authorized for issue on 20 September 2005.