

**TÜRKİYE SİNAİ KALKINMA
BANKASI ANONİM ŞİRKETİ**

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE PERIOD
ENDED 30 JUNE 2006

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 2006 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.

DRT Bağımsız Denetim ve Serbest Muh. Mali Müş. A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU**

İstanbul, 25 September 2006

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2006**

<u>ASSETS</u>		30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
	<u>Note</u>		
Liquid Assets	5	275	163
Balances With The Central Bank	6	626	367
Balances With Banks	7	294,297	140,250
Interbank Money Market Placements		43,464	-
Funds Lent Under Securities Resale Agreements		2,122	-
Investments Held For Trading (Net)	8	32,473	18,203
Derivative Financial Assets	28	20,780	167
Reserve Deposits At The Central Bank	6	47,068	25,011
Loans and Receivables (Net)	9	2,481,094	1,773,031
Investment Securities (Net)	10	749,589	1,172,023
Investments in Associates (Net)	11	63,257	60,809
Goodwill (Net)	12	383	383
Premises And Equipment (Net)	13	41,663	40,334
Investment Properties (Net)	14	2,591	-
Intangible Assets (Net)	15	368	295
Other Assets	16	106,849	59,731
Deferred Tax Asset (Net)	19	1,339	2,071
Total Assets		<u>3,888,238</u>	<u>3,292,838</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 2006****LIABILITIES**

		30 June 2006 TRY'000	31 December 2005 TRY'000
	Note		
Interbank Money Market Borrowings		23,044	20,054
Obligations Under Repurchase Agreements	17	218,863	461,385
Borrowings	18	2,943,986	2,160,247
Derivative Financial Liabilities	28	5,824	4,336
Obligations Under Finance Leases		750	717
Corporate Tax	19	-	11,499
Provisions	20	10,816	8,856
Subordinated Loan	21	81,877	69,240
Other Liabilities	22	97,810	52,529
Deferred Tax Liability (Net)	19	10	-
Total Liabilities		<u>3,382,980</u>	<u>2,788,863</u>
<u>Equity</u>	23		
Share Capital			
Nominal Capital		300,000	200,000
Inflation Adjustment To Capital		780,035	822,814
Total Paid-In Capital		<u>1,080,035</u>	<u>1,022,814</u>
Premium in Excess of Par		2	-
Unrealized Gains/(Losses) on Available for Sale Investments, Net of Tax		(27,798)	15,560
Accumulated Losses		<u>(559,402)</u>	<u>(542,619)</u>
Equity Attributable To The Equity Holders Of The Parent		<u>492,837</u>	<u>495,755</u>
Minority Interest		<u>12,421</u>	<u>8,220</u>
Total Equity		<u>505,258</u>	<u>503,975</u>
Total Liabilities And Shareholders' Equity		<u>3,888,238</u>	<u>3,292,838</u>
COMMITMENTS AND CONTINGENCIES	27	-	-

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 2006

		1 January – 30 June 2006 TRY'000	1 January – 30 June 2005 TRY'000
	Note		
Interest Income			
Interest On Loans		69,288	37,085
Interest On Interbank Money Market Placements		1,361	56
Interest On Securities		60,189	72,940
Interest Received From Banks		4,471	1,246
Interest On Financial Leasing		7,975	4,575
Other Interest Income		2,792	1,980
		<u>146,076</u>	<u>117,882</u>
Interest Expenses			
Interest On Interbank Money Market Borrowings		(3,635)	(3,022)
Interest On Borrowings		(68,425)	(31,285)
Other Interest Expenses		(5,397)	(11,318)
		<u>(77,457)</u>	<u>(45,625)</u>
Net Interest Income / (Expenses)		<u>68,619</u>	<u>72,257</u>
Fee And Commission Income		19,213	12,572
Fee And Commission Expenses		(2,724)	(3,585)
Net Fee Income / (Expenses)		<u>16,489</u>	<u>8,987</u>
Net Foreign Currency Gains / (Losses)		(8,294)	658
Net Securities Trading Gains / (Losses)		3,331	(19)
Total Trading Income / (Loss)		<u>11,526</u>	<u>9,626</u>
(Provision for)/Recoveries from Impairment on Loans and Receivables, Net		2,688	1,383
Net Operating Income / (Loss) After Impairment Losses		<u>82,833</u>	<u>83,266</u>
Other Operating Income	24	7,238	10,302
Other Operating Expenses	25	(37,360)	(29,774)
Income/ (Loss) from Associates		2,460	644
Income / (Loss) Before Tax and Monetary Gain / (Loss)		<u>55,171</u>	<u>64,438</u>
Net Gain / (Loss) On Monetary Position		-	(9,773)
Income / (Loss) Before Taxation		<u>55,171</u>	<u>54,665</u>
Taxation	19	(12,635)	(11,911)
Net Income / (Loss)		<u>42,536</u>	<u>42,754</u>
Net Income / (Loss) Attributable to:			
Equity Holders of the Parent		42,965	42,622
Minority Interest		(429)	132
		<u>42,536</u>	<u>42,754</u>
Weighted Number of Shares (in Million)		300,000	300,000
Earnings Per Share (In Full New Turkish Lira)	31	<u>0.1418</u>	<u>0.1425</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 2006**

	Share Capital <u>TRY'000</u>	Inflation Adjustment To Capital <u>TRY'000</u>	Premium in Excess Of Par <u>TRY'000</u>	Unrealized Gains/(Losses) On Available For Sale Investments, Net of Tax <u>TRY'000</u>	Accumulated Losses <u>TRY'000</u>	Minority Interest <u>TRY'000</u>	Total <u>TRY'000</u>
At 1 January 2005	142,500	850,630	-	11,753	(613,181)	3,999	395,701
Transfers to capital	57,500	(27,820)	-	-	(29,680)	-	-
Gain on available for sale investments, net	-	-	-	4,624	-	-	4,624
Dividends paid	-	-	-	-	(2,626)	-	(2,626)
Change in minority interest	-	-	-	-	-	1,228	1,228
Income for the period	-	-	-	-	42,622	132	42,754
At 30 June 2005	<u>200,000</u>	<u>822,810</u>	<u>-</u>	<u>16,377</u>	<u>(602,865)</u>	<u>5,359</u>	<u>441,681</u>
At 1 January 2006	200,000	822,814	-	15,560	(542,619)	8,220	503,975
Transfers to capital	100,000	(42,779)	-	-	(57,221)	-	-
Premium in excess of par	-	-	2	-	-	-	2
Loss on available for sale investments, net	-	-	-	(43,358)	-	-	(43,358)
Dividends paid	-	-	-	-	(2,527)	-	(2,527)
Change in minority interest	-	-	-	-	-	4,630	4,630
Income / (loss) for the period	-	-	-	-	42,965	(429)	42,536
At 30 June 2006	<u>300,000</u>	<u>780,035</u>	<u>2</u>	<u>(27,798)</u>	<u>(559,402)</u>	<u>12,421</u>	<u>505,258</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 2006

	30 June 2006 TRY '000	30 June 2005 TRY '000
Cash Flows From Operating Activities:		
Net Profit For The Year	42,536	42,754
Adjustments To Reconcile Net Income To Net		
Cash Provided By Operating Activities:		
Depreciation of property and equipment booked in operating expenses	13 1,184	1,284
Amortization of intangible assets	15 45	260
Impairment losses on loans and receivables	9 1,723	1,322
Employment termination benefits	20 301	492
Income from associates	(2,460)	(644)
Other provision expenses	4,031	240
Deferred tax (benefit) / charge	19 11,966	(3,349)
Accrued income (net)	(52,035)	1,627
Minority interest	23 429	(133)
Inflation and unrealized gains/losses effect on non-operating activities	458,963	(63,836)
Operating profits before changes in operating assets/liabilities	466,683	(19,983)
Changes in operating assets and liabilities:		
(Increase)/decrease loans and leasing receivables	(605,596)	(49,557)
(Increase)/decrease in other assets	(364,206)	66,234
Increase/(decrease) in other creditors, taxes & liabilities	56,369	48,456
	(913,433)	65,133
Income taxes paid	(18,180)	(15,843)
Net Cash (Used In) Operating Activities	(931,613)	49,290
Cash Flows From Investing Activities:		
(Increase) in reserve requirements with the Central Bank	(22,057)	(16,087)
(Increase) in balances with banks	(259)	162
(Increase) in investments held for trading	(16,392)	(2,042)
(Increase) / decrease in investments	399,504	(297,571)
(Purchase) / sale of premises and equipment and investment property	(5,104)	102
Purchase of intangible assets	15 (118)	(144)
Net cash (used in)/provided by investing activities	355,574	(315,580)
Cash flow from financing activities:		
Increase in capital	-	-
New borrowings	507,821	562,131
Repayment of borrowings	(241,812)	(239,970)
Increase in / (Repayment of) obligations under finance lease	33	(116)
Dividends paid	29 (2,527)	(2,626)
Net cash (used in)/provided by financing activities	263,515	319,419
Net Increase / (Decrease) In Cash And Cash Equivalents	154,159	33,146
Effect of inflation on cash and cash equivalents	-	(49,392)
Cash And Cash Equivalents At The Beginning Of The Year	140,413	55,366
Cash And Cash Equivalents At The End Of The Year	294,572	39,120

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 2006

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, Istanbul.

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 4,000 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, T. Vakıflar Bankası T.A.O. with the percentages of 40.52% and 8.38%, respectively.

The Bank holds direct and indirect shareholdings in Yatırım Finansman Menkul Değerler A.Ş., TSKB Menkul Değerler A.Ş., Yatırım Finansman Yatırım Ortaklığı A.Ş. and TSKB Gayrimenkul 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 30 June 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. TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. was incorporated in the current period, on 3 February 2006. The main purpose of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. is to invest in real estates, capital market instruments based on real estates, real estate projects and to establish ordinary partnerships to undertake certain projects and undertake other activities permitted by Capital Markets Board Communiqué Serial:VI No:11 within the procedures and principles determined therein.

The accompanying consolidated financial statements of the Bank were authorized for issue by the management on 25 September 2006.

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:

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

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.

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 year 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 period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for accounting periods beginning on 1 January 2006.

The Group has not applied the IFRSs and IFRIC Interpretations that have been issued but are not yet effective. In this context, the Group expects that the adoption of IFRS 7 "Financial Instruments: Disclosures", which supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after 1 January 2007 will impact the presentation of additional disclosures on financial instruments. Other than that, the management of the Group does not anticipate that the adoption of the following Standard and Interpretations in future periods will have a material impact on the financial statements of the Group:

IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IAS 1	Presentation of Financial Statements – Additional disclosures related to the Entity's capital

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 Prior to 1 January 2006

Financial statements of the Group as of 31 December 2005 include restatement to reflect changes in the purchasing power of the Turkish Lira as required by IAS 29. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. 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 was 35.61% for the three years ended 31 December 2005, other characteristics were valid and improvements in the economic indicators were not yet led to an assured conclusion that the economy was no longer hyperinflationary as of 31 December 2005. However, it has been concluded that the economy is no longer hyperinflationary as of 1 January 2006. Consequently, the accompanying financial statements are adjusted for the effect of changes in the general purchasing power of TRY prior to 1 January 2006.

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 as of 31 December 2005 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 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Financial Reporting in Hyperinflationary Economies Prior to 1 January 2006 (cont'd)

Such index and corresponding conversion factors used to restate accompanying financial statements as of the end of 31 December 2005 are given below:

	<u>Index</u>	<u>Conversion Factor</u>
31 December 2002	6,478.8	1.3561
31 December 2003	7,382.1	1.1901
31 December 2004	8,403.8	1.0454
31 December 2005	8,785.7	1.0000

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

<u>Year:</u>	<u>06/2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Currency Devaluation US \$	19.45%	(0.02)%	(3.9)%	(14.6)%	13.6%
WPI Inflation	11.68%	4.5%	13.8%	13.9%	30.8%

The principal adjustments related with inflation accounting are as follows:

- All amounts as of 31 December 2005 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.
- As of 31 December 2005, monetary assets and liabilities are not restated because they are already expressed in terms of the measuring unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- As of 31 December 2005, 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 calculated at their restated amounts. The components of shareholders' equity are restated by applying the applicable general price index from the dates when components were contributed or otherwise arose.
- As of 31 December 2005, 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 2006

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	90.04
Yatırım Finansman Yatırım Ort. A.Ş.	Financial	28.64
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	Financial	99.29

The financial statements of the companies below are accounted for under the equity method:

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Ownership (%)</u>
İş Finansal Kiralama A.Ş.	Financial	28.56
TSKB Yatırım Ortaklığı A.Ş.	Financial	29.75
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Financial	16.80
İş Factoring Finansman Hizmetleri A.Ş.	Financial	14.75

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Basis of Consolidation (cont'd)

The following equity investments have not been accounted at indexed cost, not consolidated or accounted under the equity method: their consolidation would not have a material effect on income for the year or shareholder's equity.

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

3.4 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 2006

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 2006

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 Group, 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 2006 and 31 December 2005 foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and Yen. As at 30 June 2006 and 31 December 2005 exchange rates of US Dollar, Euro and Yen are as follows:

	30 June 2006	31 December 2005
1 US Dollar	1.5725	1.3460
1 Euro	1.9988	1.5992
1 JPY	0.0137	0.0115

Average rates are as follows:

	30 June 2006	31 December 2005
1 US Dollar	1.3882	1.3489
1 Euro	1.7098	1.5989
1 JPY	0.0120	0.0114

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

All regular way purchases of investments are recognized on a settlement day basis. The settlement date is the date that an asset is delivered to or by the Group. Regular way purchases or sales are sales or purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place concerned. Change in the fair value of the asset to be received during the period between the trade date and the settlement date are accounted for in the same way accounted for as the acquired assets. The change in value is not recognized for assets carried at cost or amortized cost; it is recognized in profit or loss for assets classified as financial assets at fair value through profit or loss; and it is recognized in equity for assets classified as available for sale.

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. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income. 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 2006

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 receivables

Loans and 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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, future, swap and option contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions in IAS 39, they are treated as derivatives held for trading. The significant interest rate risk arises from placements, securities invested, loans extended, deposits and bank borrowings.

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.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss as they arise.

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 2006

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 has 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Investments Under Resale or 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 investments held for trading, 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.

Purchases of securities under agreements of resale ("reverse repos") are separately disclosed under assets as "funds lent under securities resale agreements" and interest income on such transactions is accounted for on an accrual basis over the period of transactions.

3.11 Loans and Allowances for Impairment Losses

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 provides allowance for impairment losses on loans 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 specific allowance for impairment losses on loans 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 cost less accumulated depreciation and any impairment in value. 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 2006

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 Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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 2006

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 defined benefit plans as described below:

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.

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, final salary at the date of retirement or leaving, turnover of employees and discount rate to be used.

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.

"T. Sinaî Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "T.Sinaî Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("Funds"), are separate legal entities and foundations recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Funds are defined benefit plan under which the Bank pays fixed contributions, and are 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 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 2006

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 and other. 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 and other: intermediary stock broking activities, portfolio management and investment management and real estate investment management services.

Geographical Segments

The Group's operations are mainly located in Turkey.

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 recognized 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 2006

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.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

4. SEGMENT INFORMATION

<u>STATEMENT OF INCOME</u> <u>Period ending 30 June 2006</u>	<u>Banking</u> <u>TRY'000</u>	<u>Securities</u> <u>Brokerage</u> <u>and Other</u> <u>TRY'000</u>	<u>Combined</u> <u>TRY'000</u>	<u>Eliminations</u> <u>TRY'000</u>	<u>Total</u> <u>TRY'000</u>
Interest Income	142,543	3,533	146,076	-	146,076
Interest Expenses	(76,818)	(639)	(77,457)	-	(77,457)
Net Interest Income / (Expenses)	<u>65,725</u>	<u>2,894</u>	<u>68,619</u>	<u>-</u>	<u>68,619</u>
Net Fee and Commission Income / (Expense)	7,688	8,801	16,489	-	16,489
Net Foreign Currency Gains / (Losses)	(8,308)	14	(8,294)	-	(8,294)
Net Securities Trading Gains / (Losses)	3,149	182	3,331	-	3,331
Total Trading Income / (Loss)	<u>2,529</u>	<u>8,997</u>	<u>11,526</u>	<u>-</u>	<u>11,526</u>
(Provision for)/Recoveries from Impairment on Loans and Receivables, net	2,688	-	2,688	-	2,688
Net Operating Income / (Loss) After Impairment Losses	<u>70,942</u>	<u>11,891</u>	<u>82,833</u>	<u>-</u>	<u>82,833</u>
Other Operating Income	6,851	503	7,354	(116)	7,238
Other Operating Expenses	(20,547)	(10,406)	(30,953)	(6,407)	(37,360)
Income / (Loss) From Associates	-	-	-	2,460	2,460
Income / (Loss) Before Tax and Monetary Gain / (Loss)	<u>57,246</u>	<u>1,988</u>	<u>59,234</u>	<u>(4,063)</u>	<u>55,171</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

4. SEGMENT INFORMATION (cont'd)

<u>STATEMENT OF INCOME</u> <u>Period ending 30 June 2005</u>	<u>Banking</u> <u>TRY'000</u>	<u>Securities</u> <u>Brokerage</u> <u>and Other</u> <u>TRY'000</u>	<u>Combined</u> <u>TRY'000</u>	<u>Eliminations</u> <u>TRY'000</u>	<u>Total</u> <u>TRY'000</u>
Interest Income	116,281	1,601	117,882	-	117,882
Interest Expenses	(45,623)	(2)	(45,625)	-	(45,625)
Net Interest Income / (Loss)	<u>70,658</u>	<u>1,599</u>	<u>72,257</u>	<u>-</u>	<u>72,257</u>
Net Fee and Commission Income / (Expense)	4,230	4,757	8,987	-	8,987
Net Foreign Currency Gains / (Losses)	658	-	658	-	658
Net Securities Trading Gains / (Losses)	(1,184)	1,165	(19)	-	(19)
Total Trading Income / (Loss)	<u>3,704</u>	<u>5,922</u>	<u>9,626</u>	<u>-</u>	<u>9,626</u>
(Provision for)/Recoveries from Impairment on Loans and Receivables, net	1,383	-	1,383	-	1,383
Net Trading Income / (Loss) After Impairment	<u>75,745</u>	<u>5,922</u>	<u>83,266</u>	<u>-</u>	<u>83,266</u>
Other Operating Income	4,523	5,779	10,302	-	10,302
Other Operating Expenses	(18,917)	(10,857)	(29,774)	-	(29,774)
Income / (Loss) From Associates	725	-	725	(81)	644
Income / (Loss) Before Tax and Monetary Gain / (Loss)	<u>62,076</u>	<u>2,443</u>	<u>64,519</u>	<u>(81)</u>	<u>64,438</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

4. SEGMENT INFORMATION (cont'd)

<u>BALANCE SHEET</u>	<u>Banking</u> <u>TRY'000</u>	<u>Securities</u> <u>Brokerage</u> <u>and other</u> <u>TRY'000</u>	<u>Combined</u> <u>TRY'000</u>	<u>Eliminations</u> <u>TRY'000</u>	<u>Total</u> <u>TRY'000</u>
<u>At 30 June 2006</u>					
Total Assets	3,819,286	145,457	3,964,743	(76,505)	3,888,238
Liabilities	3,289,290	93,693	3,382,983	(3)	3,382,980
Shareholders' Equity Before Net Income	484,738	49,699	534,437	(72,144)	462,293
Net Income / (Loss)	45,258	2,065	47,323	(4,358)	42,965
Total Shareholders' Equity	529,996	51,764	581,760	(76,502)	505,258
Total Liabilities and Shareholders' Equity	3,819,286	145,457	3,964,743	(76,505)	3,888,238
<u>At 31 December 2005</u>					
Total Assets	3,319,459	97,082	3,416,541	(123,703)	3,292,838
Liabilities	2,737,929	59,239	2,797,168	(8,305)	2,788,863
Shareholders' Equity Before Net Income	485,189	32,102	517,291	(116,186)	401,105
Net Income / (Loss)	96,341	5,741	102,082	788	102,870
Total Shareholders' Equity	581,530	37,843	619,373	(115,398)	503,975
Total Liabilities and Shareholders' Equity	3,319,459	97,082	3,416,541	(123,703)	3,292,838

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

5. LIQUID ASSETS

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Cash balances – New Turkish Lira (“TRY”)	207	149
Cash balances – Foreign currencies (“FC”)	68	14
	<u>275</u>	<u>163</u>

6. BALANCES WITH THE CENTRAL BANK

a) Balances with the Central Bank

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Demand deposits – TRY	208	251
Demand deposits – FC	418	116
	<u>626</u>	<u>367</u>

b) Reserve Deposits at the Central Bank

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Foreign currency reserves	47,068	25,011
	<u>47,068</u>	<u>25,011</u>

Under the regulations of the Central Bank of Turkish Republic (“Central Bank”), banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than domestic inter-bank deposits. These reserves are not available funds to finance the operations of the Bank. Such New Turkish Lira and foreign currency reserves maintained with the Central Bank earn interest at the interest rates of 12.93% for TRY deposits, 2.415% for foreign currency USD deposits and 1.195% for foreign currency EUR deposits. (31 December 2005: 10.25% for TRY deposits, 2.030% for USD deposits and 1.135% for EUR deposits). Due to a change in regulations, starting from December 2005, the Banks are not obliged to set a reserve on blocked Central Bank accounts on local currency deposits and liabilities.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

7. BALANCES WITH BANKS

	30 June 2006 TRY'000	31 December 2005 TRY'000
<u>Domestic Banks</u>		
Demand deposits – TRY	5,599	1,740
Time deposits – TRY	48,825	51,083
Demand deposits – FC	2,223	1,388
Time deposits – FC	113,891	47,718
	<u>170,538</u>	<u>101,929</u>
<u>Banks Abroad</u>		
Demand deposits – FC	7,011	4,646
Time deposits – FC	116,748	33,675
	<u>123,759</u>	<u>38,321</u>
Total	<u>294,297</u>	<u>140,250</u>

The time deposits above mature within 1 - 4 days and earn interest at rates ranging from 3.05 – 5.40% for foreign currency balances, 17.25 - 18.50% for TRY balances as at the balance sheet date.

8. INVESTMENTS HELD FOR TRADING (NET)

	30 June 2006 TRY'000	31 December 2005 TRY'000
Government bonds and treasury bills in TRY	24,741	10,690
Investment funds	1,454	1,763
Equity shares	6,278	5,714
Government bonds and treasury bills in FC	-	36
	<u>32,473</u>	<u>18,203</u>

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 4,249 thousand as at the balance sheet date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

9. LOANS AND RECEIVABLES (NET)

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Short-term loans	45,767	47,599
Long-term loans	2,120,566	1,497,190
Investment in direct finance leases, net	324,709	235,818
Total performing loans	<u>2,491,042</u>	<u>1,780,607</u>
Loans in arrears	<u>39,383</u>	<u>44,443</u>
Total loans	<u>2,530,425</u>	<u>1,825,050</u>
Less: Specific allowance for impairment losses on loans	(39,383)	(44,443)
Less: General allowance for impairment losses on loans	(9,948)	(7,576)
Total loans (net)	<u>2,481,094</u>	<u>1,773,031</u>

Movements in the allowance for impairment losses on loans are as follows:

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Allowance For Cash Loans:		
As of 1 January	44,443	61,896
Charge for the period	1,723	4,303
Allowance released	(6,783)	(19,065)
Monetary gain	-	(2,691)
As of 30 June, 31 December	<u>39,383</u>	<u>44,443</u>

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

<u>Customer Groups</u>	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Corporate customers	2,480,605	1,763,890
Others	<u>10,437</u>	<u>16,717</u>
	<u>2,491,042</u>	<u>1,780,607</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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

<u>Currency</u>	30 June 2006 TRY'000	31 December 2005 TRY'000
Euro	1,027,366	776,952
US Dollar	718,420	516,949
Foreign currency indexed TRY loans	587,135	342,514
New Turkish Lira	28,578	15,169
Other currencies	129,543	129,023
	<u>2,491,042</u>	<u>1,780,607</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.

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

<u>Sector</u>	TRY'000					
	30 June 2006			31 December 2005		
	Long – Term	Short – Term	Arrears	Long – Term	Short – Term	Arrears
Finance	669,901	29,077	-	473,019	25,305	-
Energy	299,907	-	-	147,876	-	-
Tourism	277,342	4,454	-	235,434	3,804	-
Textile	184,243	1,780	15,757	147,501	1,754	17,113
Metal	153,065	-	894	128,521	-	1,170
Chemical	143,964	-	542	83,250	-	2,867
Construction	120,867	-	-	32,296	-	-
Motor Vehicles	73,709	-	-	81,896	-	-
Plastics	58,333	-	5,790	48,449	-	5,806
Cement	55,460	-	-	31,128	-	-
Farming	49,297	-	-	41,473	-	-
Food and Beverages	47,887	-	-	37,441	-	15,568
Health Services	42,790	-	14,726	18,838	-	-
Education	38,322	-	-	21,815	-	-
Lumber and Wood	23,717	-	-	15,804	-	-
Machinery Production	23,112	-	1,673	22,596	-	-
Pulp and Paper	18,165	-	-	14,963	-	-
Shipyard	18,098	-	-	14,460	-	-
Ceramics	9,476	-	-	4,192	-	-
Rubber & Tires	9,326	-	-	8,447	-	1,918
Other	128,294	10,456	1	123,609	16,736	1
	<u>2,445,275</u>	<u>45,767</u>	<u>39,383</u>	<u>1,733,008</u>	<u>47,599</u>	<u>44,443</u>

Interest rates charged for short term loans are 24.66% for New Turkish Lira loans and in the range of 5.93 – 6.07% for Euro loans and 6.07 – 8.27% US Dollar loans per annum during the period.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
Euro	3.77-8.14 %	3.77-12.00 %
US Dollars	5.00-11.02 %	4.03-14.00 %
TRY	14.5-20.00 %	15.00-20.00 %
JPY	3.70-5.40 %	3.70-5.40 %

TRY 18,891 thousand of the cash loans are extended to TSKB Group companies. TSKB Group companies have TRY 24,516 thousand non-cash loan risk as at the balance sheet date (31 December 2005: TRY 24,673 thousand and 24,515 thousand; respectively).

The collaterals for the loans extended to the TSKB Group companies are TRY 8,000 thousand as at the balance sheet date (31 December 2005: TRY 35,103 thousand).

Included in the related party exposures above, the Bank has extended total loans of TRY 7,405 thousand to its non-consolidated equity investments as of 30 June 2006 (31 December 2005: TRY 5,597 thousand).

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

	<u>30 June 2006</u>	<u>31 December 2005</u>
	<u>TRY'000</u>	<u>TRY'000</u>
Lease payments receivable	383,560	277,201
(Less): Unearned income	(58,851)	(41,383)
Investment in direct financing leases	<u>324,709</u>	<u>235,818</u>
Current maturity – net	58,693	31,528
Long - term portion – net	<u>266,016</u>	<u>204,290</u>
Investment in direct financing leases	<u>324,709</u>	<u>235,818</u>

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

	<u>TRY</u>	<u>EURO</u>	<u>JPY</u>	<u>USD</u>
2006	824	9,175	402,719	1,374
2007	2,039	22,610	388,816	5,943
2008	1,357	24,705	394,570	6,856
2009	911	25,393	198,007	6,769
2010	269	18,815	105,264	6,002
2011	-	10,990	-	6,057
2012	-	3,149	-	3,616
2013	-	482	-	1,357
2014	-	306	-	1,318
2015	-	-	-	1,432
	<u>5,400</u>	<u>115,625</u>	<u>1,489,376</u>	<u>40,724</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

10. INVESTMENT SECURITIES (NET)

	30 June 2006 TRY'000	31 December 2005 TRY'000
Investments held to maturity	-	-
Investments available for sale	749,589	1,172,023
	<u>749,589</u>	<u>1,172,023</u>
	30 June 2006 TRY'000	31 December 2005 TRY'000
<u>Investments available for sale:</u>		
Government bonds and treasury bills in TRY	397,619	799,661
Government bonds and treasury bills in FC	194,345	156,179
Eurobonds	104,877	159,504
Investment funds	18,538	19,755
Equity shares	34,210	36,924
	<u>749,589</u>	<u>1,172,023</u>

In the 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 until the end of the current financial year.

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 232,931 thousand as at the balance sheet date (31 December 2005: TRY 510,241 thousand).

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 2006 are as follows:

	2006 Nominal Value TRY'000	2006 Carrying Value TRY'000	2005 Nominal Value TRY'000	2005 Carrying Value TRY'000
<u>Government Bonds and Treasury Bills:</u>				
Central Bank- Interbank Market Guarantee	75,600	57,785	55,685	57,988
Central Bank- Liquidity Requirement	1,500	1,249	-	-
İstanbul Stock Exchange- Trading Guarantee	27,377	25,192	33,892	35,194
Central Bank – Foreign Currency Operations Guarantee	22,740	22,139	21,957	24,991
Clearing House – Blocked Securities	166,132	136,947	164,785	179,512
	<u>293,349</u>	<u>243,312</u>	<u>276,319</u>	<u>297,685</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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

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

Investee	Ownership %	30 June 2006 Indexed Acquisition Cost TRY'000	31 December 2005 Indexed Acquisition Cost TRY'000
İMKB Takas ve Saklama A.Ş.	6.80	15,103	15,103
Servus Bilgisayar A.Ş.	7.14	6,845	6,845
Ünsa Ambalaj San. ve Tic. Ltd.Şti.	12.00	5,293	5,293
Cam Elyaf Sanayi A.Ş.	1.18	1,600	1,600
Terme Metal San. Ve Tic. A.Ş.	17.83	304	304
Senapa Plastik Ambalaj San. A.Ş.	10.41	1,988	1,988
İş Portföy Yönetimi A.Ş.	10.00	977	977
Gözlük Sanayi A.Ş.	21.71	407	369
TSKB Gayrimenkul Değerleme A.Ş.	80.00	334	334
Vadeli İşlem ve Opsiyon Borsası A.Ş.	1.00	111	111
İş Finansal Kiralama	*	-	1,623
Adana Çimento	*	-	170
Anadolu Isuzu	*	82	268
Arçelik	*	46	-
Bolu Çimento	*	63	105
Doğuş Otomotiv	*	51	163
Döktaş	*	-	109
Ereğli Demir Çelik	*	-	398
Garanti Bankası	*	-	220
Fortis Bank	*	54	-
Kordsa	*	-	140
Petrol Ofisi	*	-	252
Trakya Cam	*	-	104
TSKB Yatırım Ortaklığı	*	710	49
Türk Traktör	*	154	242
Tüpraş	*	-	148
Usaş	*	19	-
Sabancı Holding	*	31	-
Others	*	38	9
		<u>34,210</u>	<u>36,924</u>

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

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.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

11. INVESTMENTS IN ASSOCIATES

As of 30 June 2006, in the accompanying financial statements, the following entities are accounted for under the equity method:

<u>Investee</u>	<u>Ownership %</u>	<u>Nominal TRY'000</u>	<u>30 June 2006 TRY'000</u>	<u>31 December 2005 TRY'000</u>
İş Finansal Kiralama A.Ş.	28.56	14,280	39,251	37,240
TSKB Yatırım Ortaklığı A.Ş.	29.75	5,355	5,342	5,331
İş Factoring Finansman Hizm. A.Ş.	14.75	2,360	3,338	3,223
İş Girişim Sermayesi Yat. Ort. A.Ş.	16.80	3,750	15,326	15,015
		<u>25,745</u>	<u>63,257</u>	<u>60,809</u>

12. GOODWILL (NET)

<u>Cost</u>	<u>TRY'000</u>
At 1 January 2006	383
Arising on acquisition of subsidiaries	-
Eliminated on disposal of subsidiaries	-
At 30 June 2006	<u>383</u>
<u>Impairment</u>	
At 1 January 2006	-
Impairment loss recognised during the period	-
At 30 June 2006	<u>-</u>
<u>Carrying Amount</u>	
At 30 June 2006	<u>383</u>
At 31 December 2005	<u>383</u>

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 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 2006, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

13. PREMISES AND EQUIPMENT (NET)

TRY'000

	Land	Land Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	Other Fixed Assets	Construction in Progress and Advances Given	Total
<u>Acquisition Cost</u>									
Opening Balance, 1 January 2006	2,658	3,813	41,366	20,432	1,411	17,830	8	577	88,095
Additions	-	30	474	3,250	29	118	-	676	4,577
Disposals	-	-	(1,948)	-	(276)	-	-	-	(2,224)
Closing Balance, 30 June 2006	<u>2,658</u>	<u>3,843</u>	<u>39,892</u>	<u>23,682</u>	<u>1,164</u>	<u>17,948</u>	<u>8</u>	<u>1,253</u>	<u>90,448</u>
<u>Accumulated Depreciation</u>									
Opening Balance, 1 January 2006	-	(2,961)	(14,475)	(12,993)	(699)	(16,633)	-	-	(47,761)
Charge for the year	-	(188)	(556)	(104)	(113)	(223)	-	-	(1,184)
Disposals	-	-	18	-	142	-	-	-	160
Closing Balance, 30 June 2006	<u>-</u>	<u>(3,149)</u>	<u>(15,013)</u>	<u>(13,097)</u>	<u>(670)</u>	<u>(16,856)</u>	<u>-</u>	<u>-</u>	<u>(48,785)</u>
Net Book Value at 30 June 2006	<u>2,658</u>	<u>694</u>	<u>24,879</u>	<u>10,585</u>	<u>494</u>	<u>1,092</u>	<u>8</u>	<u>1,253</u>	<u>41,663</u>

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

13. PREMISES AND EQUIPMENT (NET) (cont'd)

TRY'000

		Land		Machinery and		Furniture and	Other Fixed	Construction in Progress and Advances	
<u>Acquisition Cost</u>	<u>Land</u>	<u>Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Fixture</u>	<u>Assets</u>	<u>Given</u>	<u>Total</u>
Opening Balance, 1 January 2005	1,382	3,595	34,974	17,006	1,487	17,446	8	65	75,963
Additions	1,470	219	6,465	3,432	146	389	-	578	12,699
Disposals	(194)	(1)	(139)	(6)	(222)	(5)	-	-	(567)
Transfers from CIP	-	-	66	-	-	-	-	(66)	-
Closing Balance, 31 December 2005	<u>2,658</u>	<u>3,813</u>	<u>41,366</u>	<u>20,432</u>	<u>1,411</u>	<u>17,830</u>	<u>8</u>	<u>577</u>	<u>88,095</u>
<u>Accumulated Depreciation</u>									
Opening Balance, 1 January 2005	-	(2,516)	(13,637)	(12,793)	(639)	(15,990)	-	-	(45,575)
Charge for the year	-	(446)	(838)	(200)	(266)	(921)	-	-	(2,671)
Disposals	-	1	-	-	206	278	-	-	485
Closing Balance, 31 December 2005	<u>-</u>	<u>(2,961)</u>	<u>(14,475)</u>	<u>(12,993)</u>	<u>(699)</u>	<u>(16,633)</u>	<u>-</u>	<u>-</u>	<u>(47,761)</u>
Net Book Value at 30 December 2005	<u>2,658</u>	<u>852</u>	<u>26,891</u>	<u>7,439</u>	<u>712</u>	<u>1,197</u>	<u>8</u>	<u>577</u>	<u>40,334</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

14. INVESTMENT PROPERTIES (NET)

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Fair value of investment properties	2,591	-
Deferred initial direct costs	-	-
	<u>2,591</u>	<u>-</u>

The Group's investment properties are held under freehold interests.

The fair value of investment properties at 30 June 2006 has been arrived at on the basis of an appraisal carried out on 7 November 2005 by an independent appraiser not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The total rent income earned by the Group from its investment properties is 7,738 thousand TRY in the current period. The management states that there is no material operating expense arising on its investments as of period end.

15. INTANGIBLE ASSETS (NET)

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
<u>Acquisition cost</u>		
Opening balance, 1 January	1,966	1,815
Additions	118	151
Disposals	-	-
Closing balance, 30 June, 31 December	<u>2,084</u>	<u>1,966</u>
<u>Accumulated amortization</u>		
Opening balance, 1 January	(1,671)	(1,598)
Charge for the period	(45)	(73)
Disposals	-	-
Closing balance, 30 June, 31 December	<u>(1,716)</u>	<u>(1,671)</u>
Net Book Value, as of 30 June, 31 December	<u>368</u>	<u>295</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

16. OTHER ASSETS

	30 June 2006 TRY'000	31 December 2005 TRY'000
Receivables from brokerage customers	94,329	47,297
Prepaid expenses	2,430	2,175
Advances given	304	105
Receivables from personnel	83	94
Deposits and guarantees given	87	86
Stationery	55	54
Advance taxes	6,012	14
VAT carried forward	442	-
Other (net)	3,107	9,906
	<u>106,849</u>	<u>59,731</u>

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	2006 Carrying Value of Underlying Securities TRY'000	2006 Carrying Value of Corresponding Liability TRY'000	2006 Repurchase Value TRY'000
<u>Investment Securities:</u>			
Investments held for trading	4,249	4,254	4,258
Available for sale investments	232,931	214,609	215,518
	<u>237,180</u>	<u>218,863</u>	<u>219,776</u>

	2005 Carrying Value of Underlying Securities TRY'000	2005 Carrying Value of Corresponding Liability TRY'000	2005 Repurchase Value TRY'000
<u>Investment Securities:</u>			
Available for sale investments	510,241	461,385	476,954
	<u>510,241</u>	<u>461,385</u>	<u>476,954</u>

The repurchase agreements have maturity periods of three days to 3 months. The Group has applied interest rates of 0.25%-5.76% for foreign currency, 16.00%-19.00% for domestic currency agreements. Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounted to TRY 236 thousand (2005: TRY 1,180 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

18. BORROWINGS

	30 June 2006 TRY'000	31 December 2005 TRY'000
Short-term borrowings	474,570	363,873
Medium and long-term borrowings	2,469,416	1,796,374
Total borrowings	2,943,986	2,160,247
Current portion of medium and long-term loans	278,254	208,881
	30 June 2006 TRY'000	31 December 2005 TRY'000
Foreign currency borrowings	2,927,620	2,130,950
New Turkish Lira borrowings	16,366	29,297
Total borrowings	2,943,986	2,160,247
	30 June 2006 TRY'000	31 December 2005 TRY'000
<u>Foreign Currency Borrowings</u>		
International Bank for Reconstruction and Development (IBRD)		
EFIL II	449,230	357,437
EFIL III	109,406	21,884
IBRD-Renewable Energy Loan	40,742	15,440
	599,378	394,761
European Investment Bank (EIB)	1,159,778	832,896
Syndicated Loan	309,718	163,572
Kreditanstalt Für Wiederaufbau (KfW)	196,005	142,759
Japan Bank of International Cooperation (JBIC)	148,139	137,598
Council of European Development Bank (CEB)	132,713	105,347
Akbank T.A.Ş.	114,134	98,109
Association of French Development (AFD)	91,198	56,478
Morgan Stanley	79,715	-
Murabaha Syndicated Loan	79,506	67,869
Instituto de Credito Oficial	8,775	8,084
Dresdner Bank	8,561	9,077
Black Sea Trade and Development Bank	-	480
Other domestic bank borrowings	-	113,082
Other foreign bank borrowings	-	838
	2,328,242	1,736,189
Total foreign currency borrowings	2,927,620	2,130,950

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

18. BORROWINGS (cont'd)

	30 June 2006	31 December 2005
<u>Turkish Lira Borrowings</u>	<u>TRY'000</u>	<u>TRY'000</u>
EIB-Venture Capital	10,542	10,542
Domestic bank borrowings	5,631	18,515
Treasury originated funds	193	240
Total Turkish Lira borrowings	<u>16,366</u>	<u>29,297</u>
TOTAL BORROWINGS	<u>2,943,986</u>	<u>2,160,247</u>

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

	30 June 2006	31 December 2005
	<u>TRY'000</u>	<u>TRY'000</u>
Akbank T.A.Ş.	114,134	94,220
EIB	88,071	57,685
KFW	36,331	23,376
JBIC	32,650	27,382
Dresdner Bank	5,655	4,524
Instituto de Credito Oficial	1,327	1,136
Treasury Originated Funds	86	89
Black Sea Trade and Development Bank	-	469
	<u>278,254</u>	<u>208,881</u>

IBRD EFIL II:

-Variable interest rate 4.99% for USD (31 December 2005: 4.32% for USD), repayable in scheduled installments up to 15 January 2020.

IBRD REL:

- Variable interest rate 5.57% for USD (31 December 2005 4.51% for USD), repayable in scheduled installments up to 15 September 2016.

IBRD EFIL III :

- Variable interest rate 4.99% for USD (31 December 2005 4.95% for USD) and variable interest rate 2.93 % -3.18% for EUR (31 December 2005 2.89% for EUR) repayable in scheduled installments up to 15 January 2021.

EIB:

- Fixed interest rates of 1.77% - 2.58% and variable interest rates of 3.07%-3.37% for Euro and 5.41%-5.56% for USD (31 December 2005: 2.61% - 2.72% for Euro and 3.64% - 3.71% for USD), repayable in scheduled installments up to 15 September 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

18. BORROWINGS (cont'd)

JBIC:

- Interest rates of 1.65% - 2.40% for JPY (31 December 2005: 1.65% - 2.40 % for JPY), repayable in scheduled installments up to 28 September 2010.

Akbank T.A.Ş.:

- Variable interest rates of 7.65%- 9.44% for USD (31 December 2005: 6.69%- 8.49% for USD), repayable in scheduled installments up to 18 August 2006.

CEB:

- Variable interest rates of 3.21%- 3.22% for EUR (31 December 2005: 2.55%-2.56% for EUR) , repayable in scheduled installments up to 15 October 2015.

KFW:

- Interest rates of 3.12% for Euro (31 December 2005: 2.59% for Euro), repayable in scheduled installments up to 30 November 2012.

KFW SME :

- Interest rates of 2.00% for Euro (31 December 2005: 2.00% for Euro), repayable in scheduled installments up to 30 December 2032.

KFW: (Pollution Fund)

- Fixed interest rate 2.00% for Euro (31 December 2005: 2.00 % for Euro), repayable in installments up to 30 December 2032.

DRESDNER BANK:

- Variable interest rates of 3.78 % for Euro (31 December 2005: 3.14% for Euro), repayable in scheduled installments up to 4 November 2007.

INSTITUTO DE CREDITO OFFICIAL:

- Interest rate of 4% for USD (31 December 2005: 4% for USD), repayable in scheduled installments up to 17 April 2013.

BLACK SEA TRADE AND DEVELOPMENT BANK:

- Repaid in March 2006 (Interest rate 31 December 2005: 6.52% for USD)

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

18. BORROWINGS (cont'd)

Agence Française de Développement (AFD):

- Variable interest rate of 3.09 % for EUR (31 December 2005 2.54% for EUR), repayable in scheduled installments up to 31 January 2017.

Syndicated Loan:

- Variable interest rate of 5.52% for USD, (31 December 2005: 4.8% for USD) repayable on 26 April 2007.

The loan is granted by the following banks: Alpha Bank A.E., American Express Bank GmbH, The Bank of Nova Scotia, Bayerische Landesbank, Citibank N.A., Commerzbank Aktiengesellschaft, Dresdner Bank AG, HSH Nordbank AG-Luxembourg Branch, Mashreqbank psc, Raiffeisen Zentralbank Österreich Aktiengesellschaft, Standard Bank Plc, Wachovia Bank-National Association, WestLB AG-London Branch

Murabaha Syndicated Loan:

- Variable interest rate of 5.70% for USD (31 December 2005 : 4.89% for USD), repayable in scheduled installments up to 25 October 2006 .

The loan is granted by the following banks: Abu Dhabi Islamic Bank, Alpha Bank A.E., Bank Fur Arbeit Und Wirtschaft A.G., Finansbank (Holland) N.V., HSH Nordbank A.G., Mashreqbank PSC., Raiffeisen Zentralbank Oesterreich A.G., West Deutsche Landesbank A.G.

Morgan Stanley :

- Variable interest rate of 5.51% for USD (no balance exists as of 31 December 2005), repayable in scheduled installments up to 5 April 2007 .

TREASURY ORIGINATED FUNDS:

- Interest rate of 11.00% (31 December 2005: 11.00%), 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 2006

19. TAXATION

Corporate Tax

The Bank and its subsidiaries are 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 2004: 33%
- In 2005: 30%
- In 2006: 20%

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was decreased to 20% for 2006 (2005: 30%). The excess temporary tax paid of corporate income that was calculated at the rate of 30% during the taxation of the corporate income in advance taxation periods after January 2006 over 20% will be deducted from future advance tax returns.

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 1-25 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.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. This rate was changed to 15% with the code numbered 5520 article 15 commencing from 21 June 2006. However, until the resolution of council of ministers, it will be used as 10%. According to decision of council of ministers published in the Official Gazette on 23 July 2006 the income withholding tax has increased from 10% to 15%. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, companies can deduct 40% of the investments within the scope of the investment incentive certificate and that are directly related to production facilities of the company. The investments without investment incentive certificates do not qualify for tax allowance.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

19. TAXATION (cont'd)

Investment incentive certificates are revoked commencing from 1 January 2006. If companies cannot use investment incentive due to inadequate profit, such outstanding investment incentive can be carried forward to following years as of 31 December 2005 so as to be deducted from taxable income of subsequent profitable years. However the companies can deduct the carried forward outstanding allowance from 2006, 2007 and 2008 taxable income. The investment incentive amount that cannot be deducted from 2008 taxable income will not be carried forward to following years.

The tax rate that the companies can use in the case of deducting the tax investment incentive amount in 2006, 2007 and 2008 is 30%. If the Company cannot use the investment incentive carried forward, the effective tax rate will be 20% and the unused investment incentive will be cancelled.

The corporate tax rate of 20% has been applied as the Group has no future plan to use investment incentive.

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 for the current period.

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 2006

19. TAXATION (cont'd)

a) Balance sheet:

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Corporate tax	669	33,924
Advance taxes	(6,681)	(22,425)
	<u>(6,012)</u>	<u>11,499</u>

The advance taxes paid of TRY 6,012 thousand is presented in other assets in the accompanying financial statements as at 30 June 2006.

b) Income statement

	30 June 2006 <u>TRY'000</u>	30 June 2005 <u>TRY'000</u>
Corporate tax charge	669	15,261
Deferred tax charge / (benefit)	11,966	(3,350)
	<u>12,635</u>	<u>11,911</u>

In addition to the deferred tax charged to profit or loss, a deferred tax benefit of TRY 11,225 thousand has been recognized in the equity in the period (see note 3.19).

The deferred taxes (at 20% for 30 June 2006 and 30% for 31 December 2005) on major temporary differences as at the balance sheet are as follows:

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Useful life differences on property, plant and Equipment	1,185	1,775
Retirement pay provision	923	1,050
Finance lease receivables	(5,135)	(5,356)
General loan loss provisions	2,654	3,028
Accruals on derivative financial instruments	(626)	963
Impairment for equity investments	355	221
Other provisions	291	448
Others	1,682	(58)
Deferred tax asset / (liability)	<u>1,329</u>	<u>2,071</u>
Less: Valuation allowance	-	-
Net deferred tax	<u>1,329</u>	<u>2,071</u>

Reflected as:

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Deferred tax asset	1,339	2,071
Deferred tax liability	(10)	-

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 2006 TRY'000	30 June 2005 TRY'000
Income/(loss) before taxation, after monetary loss	55,171	54,666
Tax at the statutory income tax rate of 20% in 2006; 30% in 2005	11,034	16,400
Tax effect of restatement of non monetary items and adjustments	9,854	(565)
Effect of rate change	690	(4,343)
Tax effect of income that is deductible in determining taxable income	(14,347)	8,335
Tax effect of loss making companies	2,024	(828)
Tax effect of undeductable expenses	3,798	(6,039)
Tax effect of investment incentives	-	(933)
Tax effect of dividend income	-	(116)
Tax effect of gains/(losses) on sale of assets	(418)	-
Net tax expense / (benefit)	<u>12,635</u>	<u>11,911</u>

20. PROVISIONS

	30 June 2006 TRY'000	31 December 2005 TRY'000
<u>Provision For Retirement Pay</u>		
At 1 January	3,505	3,262
Provision for the Period	301	871
Indemnities Paid	(221)	(485)
Net Effect of Indexation	-	(143)
At 30 June	<u>3,585</u>	<u>3,505</u>
<u>Generic Provision For Non-Cash Loans</u>		
At 1 January	2,516	1,629
Additions During the Period	807	967
Provision Released	-	-
Net Effect of Indexation	-	(80)
At 30 June	<u>3,323</u>	<u>2,516</u>
<u>Provision For Other Liabilities</u>		
Other Provisions	<u>3,908</u>	<u>2,835</u>
TOTAL PROVISIONS	<u>10,816</u>	<u>8,856</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

20. PROVISIONS (cont'd)

a) Pension scheme

The Group has established two pension schemes, which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group's assets in the Funds. These schemes are valued by independent actuaries every year. The latest actuarial valuations were carried out as at 31 December 2005 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 2006 of TRY 1,770.63 (in full TRY) per month.

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>2006</u>	<u>2005</u>
Discount rate	12%	12%
Expected rate of increase in salaries and eligible ceiling	6.175%	6.175%

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 interest rate of the subordinated loan is Libor + 3.62%; which corresponds to 8.829% 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

22. OTHER LIABILITIES

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Payables to brokerage customers	88,537	40,246
Transfer orders	2,242	1,698
Taxes and dues payable	1,444	2,094
Bonuses payable to directors and staff	-	966
Securities issued	-	1
Other	5,587	7,524
	<u>97,810</u>	<u>52,529</u>

23. EQUITY

Share Capital

As at 30 June 2006, the authorized and issued capital consists of 300,000,000 shares of 1 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	%	2006 Authorised Capital <u>TRY'000</u>	2006 Paid-Up Capital <u>TRY'000</u>	%	2005 Authorised Capital <u>TRY'000</u>	2005 Paid-Up Capital <u>TRY'000</u>
T. İş Bankası A.Ş.	40.52	121,552	121,552	40.52	81,035	81,035
T. Vakıflar Bankası						
T.A.O	8.38	25,132	25,132	8.38	16,755	16,755
Akbank T.A.Ş	-	-	-	6.45	12,894	12,894
Turkish Fund Equities and Bonds	-	-	-	4.60	9,193	9,193
Others	51.1	153,316	153,316	40.05	80,123	80,123
	<u>100</u>	<u>300,000</u>	<u>300,000</u>	<u>100.00</u>	<u>200,000</u>	<u>200,000</u>
<u>Components of Capital:</u>						
Nominal capital		300,000	300,000		200,000	200,000
Effect of inflation		780,035	780,035		822,814	822,814
		<u>1,080,035</u>	<u>1,080,035</u>		<u>1,022,814</u>	<u>1,022,814</u>

The Bank has increased its nominal capital in the current period. The sources of the increase are, TRY 57,221 thousand transfer from previous year's income and TRY 42,779 thousand transfer from inflation effect of capital.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

23. EQUITY (cont'd)

Minority interest:

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

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Capital	17,412	12,247
Premium in excess of par	8	-
Unrealized gains/(losses) on available for sale investments, net of tax	75	100
Retained earnings / (accumulated losses)	(4,645)	(5,585)
Current period net income / (loss)	(429)	1,458
	<u>12,421</u>	<u>8,220</u>

24. OTHER OPERATING INCOME

	30 June 2006 <u>TRY'000</u>	30 June 2005 <u>TRY'000</u>
Dividend Income	2,822	2,251
Gain on sale of assets	1,719	1,469
Other	2,697	6,582
	<u>7,238</u>	<u>10,302</u>

25. OTHER OPERATING EXPENSES

	30 June 2006 <u>TRY'000</u>	30 June 2005 <u>TRY'000</u>
Personnel expenses	15,773	14,503
Generic provision for non-cash loans	807	289
Taxes and dues other than on income	1,767	1,216
Depreciation and amortization	1,277	1,544
Marketing expenses	630	518
Communication expenses	11	327
Other administrative expenses	4,805	4,302
Other	12,290	7,075
	<u>37,360</u>	<u>29,774</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

26. RELATED PARTY TRANSACTIONS AND BALANCES

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

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
<u>Balances with related parties</u>		
Borrowings	-	115,240
Loans and advances to customers	18,891	24,673
Non-cash loans	24,516	24,515
Due from other banks	6,129	73,162
Other assets	11,443	885
Other liabilities	983	1,278

	30 June 2006 <u>TRY'000</u>	30 June 2005 <u>TRY'000</u>
<u>Transactions with related parties</u>		
Interest and similar income	583	6,973
Interest expenses and similar charges	(331)	(9,355)
Dividend income	2,303	1,420
Foreign exchange gain (loss)—net	-	217
Net fee and commission income	308	454
Operating expenses	(2)	(4)
Other income	251	1,598
Other expenses	-	(523)

Compensation of Key Management Personnel of the Group

The executive and non-executive members of the Board of Directors and management received remuneration and fees totaling TRY 4,485 thousand (2005- TRY 4,775 thousand)

27. COMMITMENTS AND CONTINGENCIES

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Letters of guarantee	249,489	61,658
Letters of loan commitments	774,794	805,141
Letters of credit commitments	96,880	82,102
Other commitments	8	8
	<u>1,121,171</u>	<u>948,909</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2006 Assets <u>TRY'000</u>	2006 Liabilities <u>TRY'000</u>	2005 Assets <u>TRY'000</u>	2005 Liabilities <u>TRY'000</u>
Forward foreign exchange contracts	1,931	-	1	19
Currency swaps	17,561	4,536	165	4,267
Interest rate swaps	4	1	1	12
Futures	-	-	-	-
Options	1,284	1,287	-	38
	<u>20,780</u>	<u>5,824</u>	<u>167</u>	<u>4,336</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.

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

	30 June 2006 <u>TRY'000</u>	31 December 2005 <u>TRY'000</u>
Forward foreign exchange contracts – buy	66,152	20,883
Forward foreign exchange contracts – sell	67,236	20,894
Futures – buy	16,445	16,735
Futures – sell	889	488
Currency swaps – buy	156,203	87,638
Currency swaps – sell	139,635	87,638
Interest rate swaps – buy	320	577
Interest rate swaps – sell	347	595
Currency option – buy	36,992	72,993
Currency option – sell	36,410	29,274
Bond option – buy	-	-
Bond option – sell	4,466	9,530
Other – buy	22,952	-
Other – sell	26,579	-

29. DIVIDENDS

In March 2006, TRY 2,527 thousand of dividend was paid to shareholders. In March 2005, the dividend paid was TRY 2,626 thousand.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 2006

30. RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

As at 30 June 2006 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months TRY'000	3 to 12 Months TRY'000	Over 1 Year TRY'000	No Maturity TRY'000	Total TRY'000
ASSETS					
Liquid assets	-	-	-	275	275
Balance with the Central Bank	-	-	-	626	626
Balances with banks	279,478	-	-	14,819	294,297
Interbank money market placements	43,464	-	-	-	43,464
Funds lent under securities resale agreements	2,122	-	-	-	2,122
Investments held for trading	12,546	8,805	4,076	7,046	32,473
Derivative financial assets	-	-	-	20,780	20,780
Reserve deposits at the Central Bank	-	-	-	47,068	47,068
Loans and receivables (net)	112,354	245,011	2,123,729	-	2,481,094
Investment securities (net)	687	111,879	584,276	52,747	749,589
Investments in associates (net)	-	-	-	63,257	63,257
Goodwill (net)	-	-	-	383	383
Premises and equipment (net)	-	-	-	41,663	41,663
Investment properties	-	-	-	2,591	2,591
Intangible assets (net)	-	-	-	368	368
Other assets	96,192	6,247	4,032	378	106,849
Deferred tax asset (net)	-	-	-	1,339	1,339
Total	546,843	371,942	2,716,113	253,340	3,888,238
LIABILITIES					
Interbank money market borrowings	23,044	-	-	-	23,044
Obligations under repurchase agreements	218,863	-	-	-	218,863
Borrowings and subordinated loans	137,046	607,310	2,281,507	-	3,025,863
Derivative financial liabilities	-	-	-	5,824	5,824
Obligations Under Finance Leases	-	750	-	-	750
Corporate tax	-	-	-	-	-
Provisions	-	-	-	10,816	10,816
Other liabilities	92,362	4,359	53	1,036	97,810
Deferred tax liability (net)	-	-	10	-	10
Equity attributable to Equity Holders of Parent	-	-	-	492,837	492,837
Minority Interest	-	-	-	12,421	12,421
Total	471,315	612,419	2,281,570	522,934	3,888,238

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 2006

30. RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

As at 31 December 2005 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months TRY'000	3 to 12 Months TRY'000	Over 1 Year TRY'000	No Maturity TRY'000	Total TRY'000
ASSETS					
Liquid assets	-	-	-	163	163
Balance with the Central Bank	-	-	-	367	367
Balances with banks	132,513	-	-	7,737	140,250
Funds lent under securities resale agreements	-	-	-	-	-
Interbank money market placements	-	-	-	-	-
Investments held for trading	1,862	5,926	5,772	4,643	18,203
Derivative financial assets	-	-	-	167	167
Reserve deposits at the Central Bank	-	-	-	25,011	25,011
Loans and receivables (net)	48,908	164,846	1,559,277	-	1,773,031
Investment securities	17,745	482,302	615,297	56,679	1,172,023
Investments in associates (net)	-	-	-	60,809	60,809
Goodwill	-	-	-	383	383
Premises and equipment (net)	-	-	-	40,334	40,334
Investment properties (net)	-	-	-	-	-
Intangible assets (net)	-	-	-	295	295
Other assets	5,952	460	4,581	48,738	59,731
Deferred tax asset (net)	-	-	-	2,071	2,071
Total	206,980	653,534	2,184,927	247,397	3,292,838
LIABILITIES					
Interbank money market borrowings	20,054	-	-	-	20,054
Obligations under repurchase agreements	443,998	17,387	-	-	461,385
Borrowings and subordinated loans	148,570	430,773	1,650,144	-	2,229,487
Derivative financial liabilities	-	-	-	4,336	4,336
Obligations Under Finance Leases	-	669	48	-	717
Corporate tax	-	-	-	11,499	11,499
Provisions	-	-	-	8,856	8,856
Other liabilities	9,503	2,075	495	40,456	52,529
Deferred tax liability (net)	-	-	-	-	-
Equity attributable to Equity Holders of Parent	-	-	-	495,755	495,755
Minority Interest	-	-	-	8,220	8,220
Total	622,125	450,904	1,650,687	569,122	3,292,838

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 2006

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 And Equity	%	Other Credit Related Commitments	%
	TRY'000		TRY'000		TRY'000	
<u>30 June 2006</u>						
Turkey	3,743,018	96	895,901	23	1,121,171	100
EuroZone	141,365	4	2,175,310	56	-	-
USA	2,751	-	668,386	17	-	-
OECD Countries	684	-	147,662	4	-	-
Offshore	54	-	-	-	-	-
Other	366	-	979	-	-	-
	<u>3,888,238</u>		<u>3,888,238</u>		<u>1,121,171</u>	

	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
	TRY'000		TRY'000		TRY'000	
<u>31 December 2005</u>						
Turkey	2,965,466	90	1,004,994	31	948,909	100
Euro Zone	71,763	2	1,464,423	44	-	-
USA	28,896	1	465,844	14	-	-
Offshore	226,458	7	212,676	6	-	-
Other	39	-	6,976	-	-	-
OECD Countries	216	-	137,925	4	-	-
	<u>3,292,838</u>		<u>3,292,838</u>		<u>948,909</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 days holding periods.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 2006:

	Up to 3 Months TRY'000	3 to 12 Months TRY'000	Over 1 Year TRY'000	No Interest Rate TRY'000	Total TRY'000
ASSETS					
Liquid assets	-	-	-	275	275
Balance with the Central Bank	-	-	-	626	626
Balances with banks	279,478	-	-	14,819	294,297
Interbank money market placements	43,464	-	-	-	43,464
Funds lent under securities resale agreements	2,122	-	-	-	2,122
Investments held for trading	11,003	9,386	4,076	8,008	32,473
Derivative financial assets	-	-	-	20,780	20,780
Reserve deposits at the Central Bank	-	-	-	47,068	47,068
Loans and receivables (net)	1,544,529	459,462	477,103	-	2,481,094
Investment securities (net)	152,129	155,124	389,589	52,747	749,589
Investments in associates (net)	-	-	-	63,257	63,257
Goodwill (net)	-	-	-	383	383
Premises and equipment (net)	-	-	-	41,663	41,663
Investment properties (net)	-	-	-	2,591	2,591
Intangible assets (net)	-	-	-	368	368
Other assets	94,931	-	-	11,918	106,849
Deferred tax asset (net)	-	-	-	1,339	1,339
Total	2,127,656	623,972	870,768	265,842	3,888,238
LIABILITIES					
Interbank money market borrowings	23,044	-	-	-	23,044
Obligations under repurchase agreements	218,863	-	-	-	218,863
Borrowings and subordinated loans	1,926,915	824,530	274,418	-	3,025,863
Derivative financial liabilities	-	-	-	5,824	5,824
Obligations Under Finance Leases	-	750	-	-	750
Corporate tax	-	-	-	-	-
Provisions	-	-	-	10,816	10,816
Other liabilities	88,396	-	-	9,414	97,810
Deferred tax liability (net)	-	-	-	10	10
Equity attributable to Equity Holders of Parent	-	-	-	492,837	492,837
Minority Interest	-	-	-	12,421	12,421
Total	2,257,218	825,280	274,418	531,322	3,888,238

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 2005:

	Up to 3 Months TRY'000	3 to 12 Months TRY'000	Over 1 Year TRY'000	No Interest Rate TRY'000	Total TRY'000
ASSETS					
Liquid assets	-	-	-	163	163
Balance with the Central Bank	-	-	-	367	367
Balances with banks	132,513	-	-	7,737	140,250
Interbank money market placements	-	-	-	-	-
Investments held for trading	1,862	5,926	5,772	4,643	18,203
Derivative financial assets	-	-	-	167	167
Reserve deposits at the Central Bank	-	-	-	25,011	25,011
Loans and receivables (net)	1,074,940	323,875	374,216	-	1,773,031
Investment securities	433,983	454,094	227,267	56,679	1,172,023
Investments in associates (net)	-	-	-	60,809	60,809
Goodwill (net)	-	-	-	383	383
Premises and equipment (net)	-	-	-	40,334	40,334
Intangible assets (net)	-	-	-	295	295
Other assets	5,952	460	4,581	48,738	59,731
Deferred tax asset (net)	-	-	-	2,071	2,071
Total	1,649,250	784,355	611,836	247,397	3,292,838
LIABILITIES					
Interbank money market borrowings	20,054	-	-	-	20,054
Obligations under repurchase agreements	443,998	17,387	-	-	461,385
Borrowings and subordinated loans	1,414,923	578,326	236,238	-	2,229,487
Derivative financial liabilities	-	-	-	4,336	4,336
Obligations Under Finance Leases	-	669	48	-	717
Corporate tax	-	-	-	11,499	11,499
Provisions	-	-	-	8,856	8,856
Other liabilities	9,503	2,075	495	40,456	52,529
Deferred tax liability (net)	-	-	-	-	-
Equity attributable to Equity Holders of Parent	-	-	-	495,755	495,755
Minority Interest	-	-	-	8,220	8,220
Total	1,888,478	598,457	236,781	569,122	3,292,838

As at 30 June 2006, a summary of average interest rates for different assets and liabilities are as follows:

	TRY %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with banks	18.12	3.17	5.33	-
Loans	19.55	5.49	7.70	4.89
Investments available for sale	14.53	4.51	6.32	-
<u>Liabilities</u>				
Borrowings	11.00	3.04	5.88	1.96

As at 31 December, a summary of average interest rates for different assets and liabilities are as follows:

	TRY %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with banks	14.81	-	4.46	-
Loans	20.40	5.10	6.91	-
Investments available for sale	16.04	4.34	5.83	-
<u>Liabilities</u>				
Borrowings	11.00	2.58	5.13	1.96

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

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 table summarizes the foreign currency position of the Group as at 30 June 2006:

	<u>TRY'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	38	443	-	5	486
Balances with banks	22,738	216,088	626	422	239,874
Investments held for trading	-	204	-	-	204
Loans and receivables (net)	1,409,909	913,994	138,166	-	2,462,069
Reserve deposits	-	47,068	-	-	47,068
Investments available for sale	60,317	238,905	-	-	299,222
Premises and equipment (net)	-	-	-	14	14
Other assets	218	3,118	-	31	3,367
Total Assets	1,493,220	1,419,820	138,792	472	3,052,304
Liabilities					
Borrowings and subordinated loan	(1,409,229)	(1,452,129)	(148,139)	-	(3,009,497)
Obligations under repurchase agreements	(39,743)	(92,468)	-	-	(132,211)
Derivative financial instruments	(36)	(1,252)	(24)	-	(1,312)
Provisions	-	-	-	-	-
Other liabilities	(3,947)	(2,741)	-	(23)	(6,711)
Total Liabilities	(1,452,955)	(1,548,590)	(148,163)	(23)	(3,149,731)
Net Balance Sheet Position	40,265	(128,770)	(9,371)	449	(97,427)
Off Balance Sheet Position					
Derivatives to sell	7,847	211,246	10,700	288	230,081
Derivatives to buy	(42,354)	(86,647)	-	(288)	(129,289)
Net Off Balance Sheet position	(34,507)	124,599	10,700	-	100,792
Net Position	5,758	(4,171)	1,329	449	3,365

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

30. RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

The below tables summarize the foreign currency position of the Group as at 31 December 2005:

	TRY'000				
	<u>EURO</u>	<u>USD</u>	<u>Yen</u>	<u>Other Foreign Currencies</u>	<u>Total</u>
Assets					
Liquid assets including Central Bank	-	129	-	1	130
Balances with banks	2,647	83,790	143	251	86,831
Investments held for trading	-	9	-	-	9
Loans and receivables (net)	980,607	647,834	137,092	-	1,765,533
Reserve deposits	-	25,011	-	-	25,011
Investments available for sale	36,237	299,642	-	-	335,879
Premises and equipment (net)	-	-	-	14	14
Other assets	830	3,633	4	4	4,471
Total Assets	1,020,321	1,060,048	137,239	270	2,217,878
Liabilities					
Borrowings and subordinated loan	(1,008,015)	(1,054,577)	(137,597)	-	(2,200,189)
Obligations under repurchase agreements	(6,944)	(77,270)	-	-	(84,214)
Derivative financial instruments	(35)	(133)	(3)	-	(171)
Provisions	-	(7,188)	-	-	(7,188)
Other liabilities	(2,740)	(4,070)	(332)	(14)	(7,156)
Total Liabilities	(1,017,734)	(1,143,238)	(137,932)	(14)	(2,298,918)
Net Balance Sheet Position	2,587	(83,190)	(693)	256	(81,040)
Off Balance Sheet Position					
Derivatives to sell	28,116	115,715	1,626	-	145,457
Derivatives to buy	(31,022)	(43,219)	-	-	(74,241)
Net Off Balance Sheet position	(2,906)	72,496	1,626	-	71,216
Net Position	(319)	(10,694)	933	256	(9,824)

Operational risk

Operational risk arises from the potential for financial loss as a result of inadequate systems (including systems breakdown), errors, poor management and 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 2006

30. RISK MANAGEMENT (cont'd)

Fair values of financial instruments

As at 30 June 2006 and 31 December 2005, fair values of financial assets and liabilities are as follows:

	30 June 2006		31 December 2005	
	Carrying Value TRY'000	Fair Value TRY'000	Carrying Value TRY'000	Fair Value TRY'000
Balances with banks	294,297	294,297	140,250	140,250
Interbank money market placements	43,464	43,464	-	-
Funds Lent Under Securities Resale Agreements	2,122	2,122	-	-
Investments held for trading Available for sale securities	32,473	32,473	18,203	18,203
	749,589	749,589	1,172,023	1,172,023
Loans and receivables	2,481,094	2,481,094	1,773,031	1,773,031
Financial assets	3,603,039	3,603,039	3,103,507	3,103,507
Obligations under repurchase agreements	218,863	218,863	461,385	461,385
Borrowings and subordinated loans	3,025,863	3,025,863	2,229,487	2,229,487
Financial liabilities	3,244,726	3,244,726	2,690,872	2,690,872

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 2006 and 2005 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	2006	2005
Number of shares outstanding at 1 January	200,000,000	142,500,000
New shares issued	-	-
Conversion of existing reserves	100,000,000	57,500,000
Number of shares outstanding at the period end	300,000,000	200,000,000
Weighted average number of shares during the period	300,000,000	300,000,000
Net profit / (loss) (TRY Thousand)	42,536	42,754
Basic earnings / (loss) per share (in full TRY)	0.1418	0.1425

32. EVENTS AFTER THE BALANCE SHEET DATE

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

As per the Board of Directors decision of Yatırım Finansman Menkul Değerler A.Ş., dated 14 July 2006, TSKB Menkul Kıymetler A.Ş. will be acquired by Yatırım Finansman Menkul Değerler A.Ş. with all of its rights, assets and liabilities presented in the financial statements as of 30 June 2006.

The employee termination indemnity ceiling has increased to TRY 1,815.29 commencing on 1 July 2006.