

**TÜRKİYE SİNAİ KALKINMA
BANKASI ANONİM ŞİRKETİ
AND SUBSIDIRIES**

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2006

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası A.Ş.
Istanbul

INDEPENDENT AUDITOR’S REPORT

We have audited the accompanying consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the “Bank”) and its subsidiaries (together the “Group”), which comprise the consolidated balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**

Istanbul, 23 May 2007

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TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006**

| <u>ASSETS</u> | | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---|-------------|---------------------------------------|---------------------------------------|
| | <u>Note</u> | | |
| Liquid Assets | 5 | 146 | 163 |
| Balances with The Central Bank | 6 | 948 | 367 |
| Balances with Banks | 7 | 113,017 | 140,250 |
| Interbank Money Market Placements | | 15,851 | - |
| Funds Lent Under Securities Resale Agreements | | 12,638 | - |
| Investments Held For Trading (Net) | 8 | 43,458 | 18,203 |
| Derivative Financial Assets | 28 | 7,329 | 167 |
| Reserve Deposits at the Central Bank | 6 | 44,392 | 25,011 |
| Loans and Receivables (Net) | 9 | 2,466,456 | 1,773,031 |
| Investment Securities (Net) | 10 | 1,239,816 | 1,172,023 |
| Investments in Associates (Net) | 11 | 68,484 | 60,809 |
| Goodwill (Net) | 12 | 383 | 383 |
| Premises and Equipment (Net) | 13 | 45,464 | 40,334 |
| Investment Properties (Net) | 14 | 3,651 | - |
| Intangible Assets (Net) | 15 | 477 | 295 |
| Other Assets | 16 | 82,353 | 59,731 |
| Deferred Tax Asset (Net) | 19 | 3,984 | 2,071 |
| Total Assets | | <u>4,148,847</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 31 DECEMBER 2006****LIABILITIES**

| | | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---|-------------|---------------------------------------|---------------------------------------|
| | <u>Note</u> | | |
| Interbank Money Market Borrowings | | 12,092 | 20,054 |
| Obligations Under Repurchase Agreements | 17 | 463,762 | 461,385 |
| Borrowings | 18 | 2,873,559 | 2,160,247 |
| Derivative Financial Liabilities | 28 | 11,700 | 4,336 |
| Obligations Under Finance Leases | | 880 | 717 |
| Corporate Tax | 19 | 10,174 | 11,499 |
| Provisions | 20 | 10,510 | 9,822 |
| Subordinated Loan | 21 | 73,199 | 69,240 |
| Other Liabilities | 22 | 88,330 | 51,563 |
| Deferred Tax Liability (Net) | 19 | - | - |
| Total Liabilities | | <u>3,544,206</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 | | 1,080,035 | 1,022,814 |
| Premium in Excess of Par | | 13 | - |
| Unrealized Gains/(Losses) on Available for Sale Investments, Net of Tax | | (11,474) | 15,560 |
| Accumulated Losses | | (491,706) | (542,619) |
| Equity Attributable to Equity Holders of the Parent | | 576,868 | 495,755 |
| Minority Interest | | 27,773 | 8,220 |
| Total Equity | | <u>604,641</u> | <u>503,975</u> |
| Total Liabilities And Shareholders' Equity | | <u>4,148,847</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 YEAR ENDED 31 DECEMBER 2006

| | | 1 January – 31 December 2006 | 1 January – 31 December 2005 |
|--|-----------|------------------------------------|------------------------------------|
| | Note | TRY'000 | TRY'000 |
| Interest Income | | | |
| Interest on Loans | | 141,185 | 83,258 |
| Interest on Interbank Money Market Placements | | 1,464 | 260 |
| Interest on Securities | | 137,672 | 150,713 |
| Interest Received from Banks | | 9,406 | 3,966 |
| Interest Received from Reserve Deposits | | 776 | 131 |
| Interest on Financial Leasing | | 17,048 | 10,056 |
| Other Interest Income | | 4,167 | 3,248 |
| | | <u>311,718</u> | <u>251,632</u> |
| Interest Expenses | | | |
| Interest on Interbank Money Market Borrowings | | (3,309) | (10,036) |
| Interest on Borrowings | | (136,386) | (75,905) |
| Other Interest Expenses | | (32,461) | (24,251) |
| | | <u>(172,156)</u> | <u>(110,192)</u> |
| Net Interest Income / (Expenses) | | <u>139,562</u> | <u>141,440</u> |
| Fee and Commission Income | | 35,424 | 27,454 |
| Fee and Commission Expenses | | (3,538) | (5,848) |
| Net Fee Income / (Expenses) | | <u>31,886</u> | <u>21,606</u> |
| Net Foreign Currency Gains / (Losses) | | (6,189) | 1,374 |
| Net Securities Trading Gains / (Losses) | | (682) | 3,045 |
| Total Trading Income / (Loss) | | <u>25,015</u> | <u>26,025</u> |
| (Provision for)/Recoveries from Impairment on Loans and Receivables, Net | | 7,511 | 13,411 |
| Net Operating Income / (Loss) After Impairment Losses | | <u>172,088</u> | <u>180,876</u> |
| Other Operating Income | 24 | 10,081 | 10,722 |
| Other Operating Expenses | 25 | (59,953) | (53,832) |
| Income/ (Loss) from Associates | | 13,019 | 247 |
| Income / (Loss) Before Tax and Monetary Gain / (Loss) | | <u>135,235</u> | <u>138,013</u> |
| Net Gain / (Loss) on Monetary Position | | - | (6,968) |
| Income / (Loss) Before Taxation | | <u>135,235</u> | <u>131,045</u> |
| Taxation | 19 | (23,899) | (26,717) |
| Net Income / (Loss) | | <u>111,336</u> | <u>104,328</u> |
| Net Income / (Loss) Attributable to: | | | |
| Equity Holders of the Parent | | 110,661 | 102,870 |
| Minority Interest | | 675 | 1,458 |
| | | <u>111,336</u> | <u>104,328</u> |
| Weighted Number of Shares (in Million) | | 300,000 | 300,000 |
| Earnings Per Share (In Full New Turkish Lira) | 31 | <u>0. 3711</u> | <u>0. 3478</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 YEAR ENDED 31 DECEMBER 2006**

| | Share Capital TRY'000 | Inflation Adjustment to Capital TRY'000 | Premium in Excess Of Par TRY'000 | Unrealized Gains/(Losses) on Available For Sale Investments, Net of Tax TRY'000 | Accumulated Losses TRY'000 | Equity Attributable to Equity Holders of the Parent TRY'000 | Minority Interest TRY'000 | Total Equity TRY'000 |
|---|-----------------------------|--|---|---|----------------------------------|--|---------------------------------|----------------------------|
| At 1 January 2005 | 142,500 | 850,634 | - | 11,753 | (613,183) | 391,704 | 4,000 | 395,704 |
| Transfers to capital | 57,500 | (27,820) | - | - | (29,680) | - | - | - |
| Gain on available for sale investments, net | - | - | - | 3,807 | - | 3,807 | - | 3,807 |
| Dividends paid | - | - | - | - | (2,626) | (2,626) | - | (2,626) |
| Change in minority interest | - | - | - | - | - | - | 2,762 | 2,762 |
| Income for the period | - | - | - | - | 102,870 | 102,870 | 1,458 | 104,328 |
| At 31 December 2005 | <u>200,000</u> | <u>822,814</u> | <u>-</u> | <u>15,560</u> | <u>(542,619)</u> | <u>495,755</u> | <u>8,220</u> | <u>503,975</u> |
| At 1 January 2006 | 200,000 | 822,814 | - | 15,560 | (542,619) | 495,755 | 8,220 | 503,975 |
| Transfers to capital | 100,000 | (42,779) | - | - | (57,221) | - | - | - |
| Premium in excess of par | - | - | 13 | - | - | 13 | - | 13 |
| Loss on available for sale investments, net | - | - | - | (27,034) | - | (27,034) | - | (27,034) |
| Dividends paid | - | - | - | - | (2,527) | (2,527) | - | (2,527) |
| Change in minority interest | - | - | - | - | - | - | 18,878 | 18,878 |
| Income / (loss) for the period | - | - | - | - | 110,661 | 110,661 | 675 | 111,336 |
| At 31 December 2006 | <u>300,000</u> | <u>780,035</u> | <u>13</u> | <u>(11,474)</u> | <u>(491,706)</u> | <u>576,868</u> | <u>27,773</u> | <u>604,641</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 YEAR ENDED 31 DECEMBER 2006

| | 31 December 2006 TRY '000 | 31 December 2005 TRY '000 |
|--|---------------------------------|---------------------------------|
| Cash Flows from Operating Activities: | | |
| Net Profit for the Year | 111,336 | 104,328 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation of property and equipment booked in operating expenses | 13 4,233 | 2,671 |
| Amortization of intangible assets | 15 105 | 73 |
| Impairment losses on loans and receivables | 9 5,593 | 9,148 |
| Employment termination benefits | 20 (146) | 871 |
| Income from associates | (13,019) | (247) |
| Other provision expenses | 834 | 1,330 |
| Deferred tax (benefit) / charge | 19 6,446 | (7,207) |
| Accrued (income) / expense (net) | (56,856) | 5,489 |
| Minority interest | 23 (675) | (1,458) |
| Inflation and unrealized gains/losses effect on non-operating activities | 21,113 | 148,730 |
| Operating profits before changes in operating assets/liabilities | 78,964 | 263,728 |
| Changes in Operating Assets and Liabilities: | | |
| (Increase)/decrease loans and leasing receivables | (438,541) | (305,663) |
| (Increase)/decrease in other assets | (46,809) | 248,156 |
| Increase/(decrease) in other creditors, taxes & liabilities | 75,541 | 57,687 |
| | (409,809) | 180 |
| Income taxes paid | (17,799) | (22,425) |
| Net Cash (Used in) Operating Activities | (427,608) | (22,245) |
| Cash Flows from Investing Activities: | | |
| (Increase) in reserve requirements with the Central Bank | (19,381) | (24,380) |
| (Increase) in balances with banks | (581) | (90) |
| (Increase) in investments held for trading | (37,893) | (4,694) |
| (Increase) / decrease in investments | (58,319) | (425,682) |
| (Purchase) / sale of premises and equipment and investment property | (13,014) | (12,617) |
| Purchase of intangible assets | 15 (287) | (151) |
| Net cash (used in)/provided by investing activities | (129,475) | (467,614) |
| Cash Flow from Financing Activities: | | |
| Increase in capital | - | - |
| New borrowings | 1,031,959 | 549,918 |
| Repayment of borrowings | (585,425) | (237,004) |
| Increase in / (repayment of) obligations under finance lease | 163 | 372 |
| Dividends paid | 29 (2,527) | (2,626) |
| Net cash (used in)/provided by financing activities | 444,170 | 310,660 |
| Net Increase / (Decrease) in Cash and Cash Equivalents | (33,949) | 84,529 |
| Effect of inflation on cash and cash equivalents | - | (7) |
| Cash and Cash Equivalents at the Beginning of the Year | 139,783 | 55,261 |
| Cash and Cash Equivalents at the End of the Year | 105,834 | 139,783 |

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 YEAR ENDED 31 DECEMBER 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, İstanbul.

Ever since its foundation in 1950, TSKB has played an active role in every stage of Turkey's economic development. The Bank, through its support and extension of medium - term loans for more than 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 through participating in the share capital of more than 100 companies. Furthermore, 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 and T. Vakıflar Bankası T.A.O. with the percentages of 50.10% and 8.38%, respectively.

Information about the Consolidated Parent Bank and its Subsidiaries

Yatırım Finansman Menkul Değerler A.Ş.:

Yatırım Finansman Menkul Değerler A.Ş. was established and registered with İstanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. Name of the Company was changed into Yatırım Finansman Menkul Değerler A.Ş. by the announcement made in the Turkish Trade Registry Gazette No: 4762 on 2 April, 1999. The Company's purpose is to perform capital market operations specified in the Company's main contract in accordance with the Capital Markets Board (“CMB”) and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.:

Core business of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The Company was established on 3 February 2006.

Yatırım Finansman Yatırım Ortaklığı A.Ş.:

Yatırım Finansman Yatırım Ortaklığı A.Ş., was established and registered with İstanbul Trade Registry on 31 December 1998 and it was announced in the Turkish Trade Registry Gazette No: 4714 on 18 January 1999. The purpose of Yatırım Finansman Yatırım Ortaklığı A.Ş. is to manage capital market instruments and gold or other precious metal portfolios in the local or international markets or over-the-counter markets, without having the control of management and capital of the investee companies, under the Capital Markets Law No: 2499 as amended y Law No: 3794, and the related legislation.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACTIVITIES OF THE BANK AND THE GROUP (cont'd)

Information about the Consolidated Parent Bank and its Subsidiaries (cont'd)

TSKB Yatırım Ortaklığı A.Ş.:

The Company was established under the name of SYB Yatırım Ortaklığı A.Ş. on 10 November 2000. The Company's name, Sınai Yatırım Bankası Yatırım Ortaklığı A.Ş., was changed into TSKB Yatırım Ortaklığı A.Ş. on 17 April 2003 since Sınai Yatırım Bankası A.Ş. ceased to operate and it was transferred to TSKB. The name change was published in the Turkish Trade Registry Gazette No: 5784 on 24 April 2003. The Company's headquarters is in İstanbul.

The purpose of TSKB Yatırım Ortaklığı A.Ş. is to manage capital market instruments and gold or other precious metal portfolios in the local or international markets or over-the-counter markets, without having the control or significant effect over/on management and capital of the investees, under the principles and guidelines specified by the CMB and the related legislation.

İş Finansal Kiralama A.Ş.:

İş Finansal Kiralama A.Ş. was established on 8 February 1988 and it has been performing its operations in accordance with the Turkish Leasing Law No: 3226. The Company started its leasing operations in July 1998. The Company is a Türkiye İş Bankası A.Ş. Group entity. The Company's headquarters is located at İş Kuleleri, Kule:2 Kat:10 34330 Levent-İstanbul/Turkey.

İş Factoring Finansman Hizmetleri A.Ş.:

İş Factoring Finansman Hizmetleri A.Ş., was incorporated in Turkey on 4 July 1993 and started its operations in October 1993. The Company's main operation is domestic and export factoring transactions.

The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş. with 78.23% shareholding.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.:

Principal business of İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The Company is continuing its operations at İş Kuleleri Kule 2, Kat:8, Levent, İstanbul. The Company is a Türkiye İş Bankası A.Ş. Group entity.

Bank's statutory financial statements as of 31 December 2006 have been approved during the General Assembly Meeting realized on 22 March 2007.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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:

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 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 year presentation wherever required.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

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 amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 21 “The Effects of Changes in Foreign Exchange Rates” and IAS 39 “Financial Instruments: Recognition and Measurement” had no material effect on the Group’s accounting policies. IFRS 4 “Insurance Contracts” and IFRS 6 “Exploration for and Evaluation of Mineral Resources” are not relevant to the Group’s operations.

The Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 7 “Financial Instruments-Disclosures”- This Standard supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after 1 January 2007.

IFRS 8 “Operating Segments” – This Standard is effective for periods beginning on or after 1 January 2009.

IFRIC 7 “First-time Adoption of IAS 29” – This Interpretation is effective for annual periods beginning on or after 1 March 2006.

IFRIC 8 “Scope of IFRS 2” – This Interpretation is effective for annual periods beginning on or after 1 May 2006.

IFRIC 9 “Financial Instruments; Reassessment of Embedded Derivatives” – This Interpretation is effective for annual periods beginning on or after 1 June 2006

IFRIC 10 “Interim Financial Reporting and Impairment” – This Interpretation is effective for annual periods beginning on or after 1 November 2006.

IFRIC 11 “Group and Treasury Share Transactions” – This Interpretation is effective for periods beginning on or after 1 March 2007

IFRIC 12 “Service Concession Arrangements” – This Interpretation is effective for periods beginning on or after 1 January 2008.

The Group expects that adoption of the pronouncements listed above will have no material impact on the Group’s financial statements in the period of initial application other than presentation of additional disclosures on financial instruments as required by IFRS 7.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 "Financial Reporting in Hyperinflationary Economies". 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 those necessitate the applications 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. On 22 November 2005, American Institute of Certified Public Accountants (AICPA) International Practices Task Force in its highlights memorandum declared that Turkey will come off its highly inflationary status as of the first period beginning after 15 December 2005. Consequently, the accompanying consolidated financial statements are not adjusted for the effect of changes in the general purchasing power of TRY beginning from 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 YEAR ENDED 31 DECEMBER 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>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Currency Devaluation US \$ | 4.75% | (0.02)% | (3.9)% | (14.6)% | 13.6% |
| WPI Inflation | 11.71% | 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 YEAR ENDED 31 DECEMBER 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> |
|---|---------------|-------------------------------------|
| Yatırım Finansman Menkul Değerler A.Ş. | Financial | 88.78 |
| Yatırım Finansman Yatırım Ort. A.Ş. | Financial | 27.12 |
| TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. | Financial | 97.78 |
| TSKB Yatırım Ortaklığı A.Ş. | Financial | 27.17 |

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 |
| İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. | Financial | 17.00 |
| İş Factoring Finansman Hizmetleri A.Ş. | Financial | 37.09 |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Basis of Consolidation (cont'd)

The following equity investments have been accounted at 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 31 December 2006 and 31 December 2005 foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and Yen. As at 31 December 2006 and 31 December 2005 exchange rates of US Dollar, Euro and Yen are as follows:

| | 31 December 2006 | 31 December 2005 |
|-------------|------------------|------------------|
| 1 US Dollar | 1.4100 | 1.3460 |
| 1 Euro | 1.8568 | 1.5992 |
| 1 JPY | 0.0119 | 0.0115 |

Average rates are as follows:

| | 31 December 2006 | 31 December 2005 |
|-------------|------------------|------------------|
| 1 US Dollar | 1.4257 | 1.3489 |
| 1 Euro | 1.8832 | 1.5989 |
| 1 JPY | 0.0121 | 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 initial recognition, the investments are measured at its fair value plus, in case of an investment not recognised at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the investment. 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.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 YEAR ENDED 31 DECEMBER 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 for at amortised cost but disclosure is required of fair value for comparison purposes, wherever practicable.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 YEAR ENDED 31 DECEMBER 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 as of 31 October 2006 and 1% for any subsequent increase, 0.1% general provision for non-cash loans as of 31 October 2006 and 0.2% for any subsequent increase. General provisions for cash loans are classified in assets, in loans and receivables; while the remaining general provisions are presented in liabilities, in provisions in the accompanying financial statements. The Bank's statistical default rate in its loans book is below the general provisions calculated under Turkish Banking Regulations. Accordingly, the Bank adopted to keep general provisions in its IFRS financial statements and disclosed such general provisions as portfolio allowance in the notes to the financial statements.

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 YEAR ENDED 31 DECEMBER 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 YEAR ENDED 31 DECEMBER 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.

Funds functioning as Foundations that are subject to 20th Provisional Article of the National Insurance Act No: 506, are to be transferred to Social Insurance Institution in accordance with the Board of Minister's decision published in the Official Gazette No: 2006/1135 on 15.12.2006. Social Security Institution Funds are required to provide a "Health Expense" and "Administrative Expense" provision in their actuarial balance sheet as a result of this transfer. Even though there is no detailed legislation issued for this matter, as of 31 December 2006 there is no technical deficit in the statutory TSKB funds based on the current calculations under the prevailing legislation. (Please also see Note 20)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 recognised 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 YEAR ENDED 31 DECEMBER 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 YEAR ENDED 31 DECEMBER 2006

4. SEGMENT INFORMATION

| <u>STATEMENT OF INCOME</u> <u>Year ending 31 December 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 | 304,970 | 6,748 | 311,718 | - | 311,718 |
| Interest Expenses | (171,403) | (753) | (172,156) | - | (172,156) |
| | | | | - | |
| Net Interest Income / (Expenses) | <u>133,567</u> | <u>5,995</u> | <u>139,562</u> | <u>-</u> | <u>139,562</u> |
| Net Fee and Commission Income / (Expense) | 15,322 | 16,564 | 31,886 | - | 31,886 |
| Net Foreign Currency Gains / (Losses) | (6,194) | 5 | (6,189) | - | (6,189) |
| Net Securities Trading Gains / (Losses) | (1,103) | 421 | (682) | - | (682) |
| Total Trading Income / (Loss) | <u>8,025</u> | <u>16,990</u> | <u>25,015</u> | <u>-</u> | <u>25,015</u> |
| (Provision for)/Recoveries from Impairment on Loans and Receivables, net | 7,511 | - | 7,511 | - | 7,511 |
| Net Operating Income / (Loss) After Impairment Losses | <u>149,103</u> | <u>22,985</u> | <u>172,088</u> | <u>-</u> | <u>172,088</u> |
| Other Operating Income | 8,161 | 2,733 | 10,894 | (813) | 10,081 |
| Other Operating Expenses | (43,826) | (17,808) | (61,634) | 1,681 | (59,953) |
| Income / (Loss) From Associates | - | - | - | 13,019 | 13,019 |
| Income / (Loss) Before Tax and Monetary Gain / (Loss) | <u>113,438</u> | <u>7,910</u> | <u>121,348</u> | <u>13,887</u> | <u>135,235</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

4. SEGMENT INFORMATION (cont'd)

| <u>STATEMENT OF INCOME</u> <u>Year ending 31 December 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 | 247,078 | 4,554 | 251,632 | - | 251,632 |
| Interest Expenses | (109,865) | (327) | (110,192) | - | (110,192) |
| Net Interest Income / (Loss) | <u>137,213</u> | <u>4,227</u> | <u>141,440</u> | <u>-</u> | <u>141,440</u> |
| Net Fee and Commission Income / (Expense) | 8,431 | 13,175 | 21,606 | - | 21,606 |
| Net Foreign Currency Gains / (Losses) | 1,357 | 17 | 1,374 | - | 1,374 |
| Net Securities Trading Gains / (Losses) | 427 | 2,618 | 3,045 | - | 3,045 |
| Total Trading Income / (Loss) | <u>10,215</u> | <u>15,810</u> | <u>26,025</u> | <u>-</u> | <u>26,025</u> |
| (Provision for)/Recoveries from Impairment on Loans and Receivables, net | 13,411 | - | 13,411 | - | 13,411 |
| Net Operating Income / (Loss) After Impairment | <u>160,839</u> | <u>20,037</u> | <u>180,876</u> | <u>-</u> | <u>180,876</u> |
| Other Operating Income | 7,129 | 3,593 | 10,722 | - | 10,722 |
| Other Operating Expenses | (38,907) | (14,925) | (53,832) | - | (53,832) |
| Income / (Loss) From Associates | - | - | - | 247 | 247 |
| Income / (Loss) Before Tax and Monetary Gain / (Loss) | <u>129,061</u> | <u>8,705</u> | <u>137,766</u> | <u>247</u> | <u>138,013</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

4. SEGMENT INFORMATION (cont'd)

| <u>BALANCE SHEET</u> | <u>Banking TRY'000</u> | <u>Securities Brokerage and other TRY'000</u> | <u>Combined TRY'000</u> | <u>Eliminations TRY'000</u> | <u>Total TRY'000</u> |
|--|----------------------------|---|-----------------------------|---------------------------------|--------------------------|
| <u>At 31 December 2006</u> | | | | | |
| Total Assets | 4,073,466 | 165,231 | 4,238,697 | (89,850) | 4,148,847 |
| Liabilities | 3,456,520 | 87,731 | 3,544,251 | (45) | 3,544,206 |
| Shareholders' Equity Before Net Income | 526,181 | 70,816 | 596,997 | (103,017) | 493,980 |
| Net Income / (Loss) | 90,765 | 6,684 | 97,449 | 13,212 | 110,661 |
| Total Shareholders' Equity | 616,946 | 77,500 | 694,446 | (89,805) | 604,641 |
| Total Liabilities and Shareholders' Equity | 4,073,466 | 165,231 | 4,238,697 | (89,850) | 4,148,847 |
| <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 |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

5. LIQUID ASSETS

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---|---------------------------------------|---------------------------------------|
| Cash balances – New Turkish Lira (“TRY”) | 108 | 149 |
| Cash balances – Foreign currencies (“FC”) | 38 | 14 |
| | <u>146</u> | <u>163</u> |

6. BALANCES WITH THE CENTRAL BANK

a) Balances with the Central Bank

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|-----------------------|---------------------------------------|---------------------------------------|
| Demand deposits – TRY | 114 | 251 |
| Demand deposits – FC | 834 | 116 |
| | <u>948</u> | <u>367</u> |

b) Reserve Deposits at the Central Bank

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---------------------------|---------------------------------------|---------------------------------------|
| Foreign currency reserves | 44,392 | 25,011 |
| | <u>44,392</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 13.12% for TRY deposits, 2.515% for foreign currency USD deposits and 1.730% 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 YEAR ENDED 31 DECEMBER 2006

7. BALANCES WITH BANKS

| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|-----------------------|--------------------------------|--------------------------------|
| <u>Domestic Banks</u> | | |
| Demand deposits – TRY | 6,391 | 1,740 |
| Time deposits – TRY | 16,325 | 51,083 |
| Demand deposits – FC | 2,521 | 1,388 |
| Time deposits – FC | 81,827 | 47,718 |
| | <u>107,064</u> | <u>101,929</u> |
| <u>Banks Abroad</u> | | |
| Demand deposits – FC | 5,953 | 4,646 |
| Time deposits – FC | - | 33,675 |
| | <u>5,953</u> | <u>38,321</u> |
| Total | <u>113,017</u> | <u>140,250</u> |

The time deposits above mature within 1 - 7 days and earn interest at rates ranging from 5.25 – 5.28% for foreign currency balances, 17.75 - 18.60% for TRY balances as at the balance sheet date.

8. INVESTMENTS HELD FOR TRADING (NET)

| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|--|--------------------------------|--------------------------------|
| Government bonds and treasury bills in TRY | 22,556 | 10,690 |
| Investment funds | 6,963 | 1,763 |
| Equity shares | 13,939 | 5,714 |
| Government bonds and treasury bills in FC | - | 36 |
| | <u>43,458</u> | <u>18,203</u> |

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 7,312 thousand as at the balance sheet date (31 December 2005: nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

9. LOANS AND RECEIVABLES (NET)

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|--|---------------------------------------|---------------------------------------|
| Short-term loans | 35,226 | 47,599 |
| Long-term loans | 2,156,119 | 1,497,190 |
| Investment in direct finance leases, net | 286,089 | 235,818 |
| Total performing loans | <u>2,477,434</u> | <u>1,780,607</u> |
| Loans in arrears | <u>33,530</u> | <u>44,443</u> |
| Total loans | <u>2,510,964</u> | <u>1,825,050</u> |
| Less: Specific allowance for impairment losses on loans | (33,530) | (44,443) |
| Less: Portfolio allowance for impairment losses on loans | <u>(10,978)</u> | <u>(7,576)</u> |
| Total loans (net) | <u>2,466,456</u> | <u>1,773,031</u> |

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

| | 31 December 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 | 2,191 | 4,303 |
| Allowance released | (13,104) | (19,065) |
| Monetary gain | - | (2,691) |
| As of 1 January, 31 December | <u>33,530</u> | <u>44,443</u> |

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

| <u>Customer Groups</u> | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|------------------------|---------------------------------------|---------------------------------------|
| Corporate customers | 2,467,944 | 1,763,890 |
| Others | <u>9,490</u> | <u>16,717</u> |
| | <u>2,477,434</u> | <u>1,780,607</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

| <u>Currency</u> | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|------------------------------------|--------------------------------|--------------------------------|
| Euro | 932,954 | 776,952 |
| US Dollar | 725,725 | 516,949 |
| Foreign currency indexed TRY loans | 704,240 | 342,514 |
| New Turkish Lira | 26,788 | 15,169 |
| Other currencies | 87,727 | 129,023 |
| | <u>2,477,434</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 | | | | | |
|----------------------|------------------|-----------------|---------------|------------------|-----------------|---------------|
| | 31 December 2006 | | | 31 December 2005 | | |
| | Long – Term | Short – Term | Arrears | Long – Term | Short – Term | Arrears |
| Finance | 801,768 | 20,371 | - | 473,019 | 25,305 | - |
| Energy | 370,489 | 1,588 | - | 147,876 | - | - |
| Tourism | 188,551 | 6,903 | - | 235,434 | 3,804 | - |
| Textile | 155,055 | 9,722 | 23,818 | 147,501 | 1,754 | 17,113 |
| Chemical | 131,843 | 167 | - | 83,250 | - | 2,867 |
| Food and Beverages | 95,846 | 2,104 | - | 37,441 | - | 15,568 |
| Cement | 93,189 | 969 | - | 31,128 | - | - |
| Health Services | 76,924 | 3,670 | 3,035 | 18,838 | - | - |
| Metal | 68,975 | 7,177 | 94 | 128,521 | - | 1,170 |
| Plastics | 60,301 | 4,023 | 4,344 | 48,449 | - | 5,806 |
| Motor Vehicles | 39,219 | 3,855 | 1 | 81,896 | - | - |
| Construction | 37,275 | 1,192 | - | 32,296 | - | - |
| Machinery Production | 34,439 | 2,592 | - | 22,596 | - | - |
| Pulp and Paper | 32,539 | 2,222 | 580 | 14,963 | - | - |
| Ceramics | 27,772 | 2,351 | 1,658 | 4,192 | - | - |
| Lumber and Wood | 25,219 | 1,583 | - | 15,804 | - | - |
| Rubber & Tires | 11,583 | 6,288 | - | 8,447 | - | 1,918 |
| Education | 7,105 | - | - | 21,815 | - | - |
| Shipyard | 7,103 | - | - | 14,460 | - | - |
| Farming | 74 | - | - | 41,473 | - | - |
| Other | 117,430 | 17,958 | - | 123,609 | 16,736 | 1 |
| | <u>2,382,699</u> | <u>94,735</u> | <u>33,530</u> | <u>1,733,008</u> | <u>47,599</u> | <u>44,443</u> |

Interest rates charged for short term loans are 23.60% for New Turkish Lira loans and 6.57% for Euro loans and 6.10 – 8.38% US Dollar loans per annum during the period.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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:

| | 31 December 2006 | 31 December 2005 |
|------------|---------------------|---------------------|
| Euro | 3.77-8.78% | 3.77-12.00% |
| US Dollars | 5.00-11.20% | 4.03-14.00% |
| TRY | 14.5-22.90% | 15.00-20.00% |
| JPY | 3.65-5.40%- | 3.70-5.40% |

TRY 13,882 thousand of the cash loans are extended to TSKB Group companies. TSKB Group companies have TRY 25,926 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 5,174 thousand as at the balance sheet date (31 December 2005: TRY 35,103 thousand).

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

| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|---------------------------------------|-----------------------------|-----------------------------|
| Lease payments receivable | 337,212 | 277,201 |
| (Less): Unearned income | (51,123) | (41,383) |
| Investment in direct financing leases | 286,089 | 235,818 |
| Current maturity – net | 59,510 | 31,528 |
| Long - term portion – net | 226,579 | 204,290 |
| Investment in direct financing leases | 286,089 | 235,818 |

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

| | TRY | EURO | JPY | USD |
|------|-------|---------|-----------|--------|
| 2007 | 2,217 | 23,768 | 361,886 | 6,322 |
| 2008 | 1,423 | 26,152 | 366,445 | 7,171 |
| 2009 | 963 | 26,975 | 200,276 | 7,096 |
| 2010 | 271 | 20,083 | 106,402 | 6,326 |
| 2011 | - | 11,837 | - | 6,330 |
| 2012 | - | 3,678 | - | 3,851 |
| 2013 | - | 497 | - | 1,454 |
| 2014 | - | 318 | - | 1,424 |
| 2015 | - | - | - | 1,550 |
| | 4,874 | 113,308 | 1,035,009 | 41,524 |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

10. INVESTMENT SECURITIES (NET)

| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|--|--------------------------------|--------------------------------|
| Investments held to maturity | - | - |
| Investments available for sale | 1,239,816 | 1,172,023 |
| | <u>1,239,816</u> | <u>1,172,023</u> |
| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
| <u>Investments available for sale:</u> | | |
| Government bonds and treasury bills in TRY | 843,983 | 799,661 |
| Government bonds and treasury bills in FC | 176,958 | 156,179 |
| Eurobonds | 164,827 | 159,504 |
| Investment funds | 17,609 | 19,755 |
| Equity shares | 36,439 | 36,924 |
| | <u>1,239,816</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 favourable market conditions and reclassified the remaining portion of the portfolio to available-for-sale investments. Because of this fact, the Bank could not classify any securities as held-to-maturity until the end of 31 December 2006.

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 503,996 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 31 December 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 | 30,170 | 31,849 | 55,685 | 57,988 |
| Central Bank- Liquidity Requirement | 1,500 | 1,187 | - | - |
| İstanbul Stock Exchange- Trading Guarantee | 27,877 | 26,079 | 33,892 | 35,194 |
| Central Bank – Foreign Currency Operations Guarantee | 21,640 | 22,847 | 21,957 | 24,991 |
| Clearing House – Blocked Securities | 104,827 | 97,472 | 164,785 | 179,512 |
| Capital Market Board - Blocked Securities | 500 | 473 | - | - |
| | <u>186,514</u> | <u>179,907</u> | <u>276,319</u> | <u>297,685</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

| <u>Investee</u> | Ownership % | 31 December 2006 Indexed Acquisition Cost TRY'000 | 31 December 2005 Indexed Acquisition Cost TRY'000 |
|--------------------------------------|----------------|---|---|
| | | | |
| İMKB Takas ve Saklama A.Ş. | 6.8 | 15,103 | 15,103 |
| Servus Bilgisayar A.Ş. | 7.14 | 6,845 | 6,845 |
| Ünsa Ambalaj San. ve Tic. Ltd.Şti. | 12 | 5,293 | 5,293 |
| Senapa Plastik Ambalaj San. A.Ş. | 10.41 | 1,988 | 1,988 |
| Avrupa Yatırım Fonu | 0.15 | 1,702 | - |
| Cam Elyaf Sanayi A.Ş. | 1.18 | 1,600 | 1,600 |
| İş Portföy Yönetimi A.Ş. | 10 | 1,477 | 977 |
| Gözlük Sanayi A.Ş. | 21.71 | 407 | 369 |
| TSKB Gayrimenkul Değerleme A.Ş. | 80 | 334 | 334 |
| Terme Metal San. Ve Tic. A.Ş. | 17.83 | 304 | 304 |
| Vadeli İşlem ve Opsiyon Borsası A.Ş. | 1 | 111 | 111 |
| TSKB Yatırım Ortaklığı | * | 1,057 | 49 |
| İş Finansal Kiralama | * | 155 | 1,623 |
| Gelişen İşlemler Piyasası | * | 50 | - |
| Adana Çimento | * | - | 170 |
| Anadolu Isuzu | * | - | 268 |
| Bolu Çimento | * | - | 105 |
| Doğuş Otomotiv | * | - | 163 |
| Döktaş | * | - | 109 |
| Ereğli Demir Çelik | * | - | 398 |
| Garanti Bankası | * | - | 220 |
| Kordsa | * | - | 140 |
| Petrol Ofisi | * | - | 252 |
| Trakya Cam | * | - | 104 |
| Türk Traktör | * | - | 242 |
| Tüpraş | * | - | 148 |
| Others | * | 13 | 9 |
| | | <u>36,439</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 YEAR ENDED 31 DECEMBER 2006

11. INVESTMENTS IN ASSOCIATES

As of 31 December 2006, in the accompanying financial statements, the following entities are accounted for under the equity method:

| <u>Investee</u> | <u>Ownership</u> <u>%</u> | <u>Nominal</u> <u>TRY'000</u> | <u>31 December</u> <u>2006</u> <u>TRY'000</u> | <u>31 December</u> <u>2005</u> <u>TRY'000</u> |
|-----------------------------------|------------------------------|----------------------------------|---|---|
| İş Finansal Kiralama A.Ş. | 28.56 | 28,560 | 48,042 | 37,240 |
| TSKB Yatırım Ortaklığı A.Ş. | 29.75 | - | - | 5,331 |
| İş Factoring Finansman Hizm. A.Ş. | 37.09 | 2,360 | 2,730 | 3,223 |
| İş Girişim Serm. Yat. Ort. A.Ş. | 17.00 | 3,750 | 17,712 | 15,015 |
| | | <u>34,670</u> | <u>68,484</u> | <u>60,809</u> |

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

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 31 December 2006 | <u>383</u> |
| <u>Impairment</u> | |
| At 1 January 2006 | - |
| Impairment loss recognised during the period | - |
| At 31 December 2006 | <u>-</u> |
| <u>Carrying Amount</u> | |
| At 31 December 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.

At 31 December 2006, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

13. PREMISES AND EQUIPMENT (NET)

TRY'000

| | | Land | | Machinery and Equipment | Vehicles | Furniture and Fixture | Other Fixed Assets | Construction in Progress and Advances Given | Total |
|------------------------------------|--------------|---------------------|------------------|-------------------------------|--------------|-----------------------------|-----------------------|--|-----------------|
| <u>Acquisition Cost</u> | <u>Land</u> | <u>Improvements</u> | <u>Buildings</u> | | | | | | |
| Opening Balance, 1 January 2006 | 2,658 | 3,813 | 41,366 | 20,432 | 1,411 | 17,830 | 8 | 577 | 88,095 |
| Additions | 87 | 42 | 5,854 | 3,636 | 136 | 555 | - | 1,317 | 11,627 |
| Disposals | (124) | - | (1,948) | - | (379) | (287) | - | - | (2,738) |
| Closing Balance, 31 December 2006 | <u>2,621</u> | <u>3,855</u> | <u>45,272</u> | <u>24,068</u> | <u>1,168</u> | <u>18,098</u> | <u>8</u> | <u>1,894</u> | <u>96,984</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 | - | (360) | (2,992) | (210) | (209) | (462) | - | - | (4,233) |
| Disposals | - | - | 18 | - | 173 | 283 | - | - | 474 |
| Closing Balance, 31 December 2006 | <u>-</u> | <u>(3,321)</u> | <u>(17,449)</u> | <u>(13,203)</u> | <u>(735)</u> | <u>(16,812)</u> | <u>-</u> | <u>-</u> | <u>(51,520)</u> |
| Net Book Value at 31 December 2006 | <u>2,621</u> | <u>534</u> | <u>27,823</u> | <u>10,865</u> | <u>433</u> | <u>1,286</u> | <u>8</u> | <u>1,894</u> | <u>45,464</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 31 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> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

14. INVESTMENT PROPERTIES (NET)

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|-------------------------------------|---------------------------------------|---------------------------------------|
| Fair value of investment properties | 3,651 | - |
| Deferred initial direct costs | - | - |
| | <u>3,651</u> | <u>-</u> |

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

The fair value of investment properties at 31 December 2006 has been arrived at on the basis of an appraisal carried out on 14 February 2007 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 25 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)

| | 31 December 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 | 287 | 151 |
| Disposals | (22) | - |
| Closing balance, 31 December | <u>2,231</u> | <u>1,966</u> |
| <u>Accumulated amortization</u> | | |
| Opening balance, 1 January | (1,671) | (1,598) |
| Charge for the year | (105) | (73) |
| Disposals | 22 | - |
| Closing balance, 31 December | <u>(1,754)</u> | <u>(1,671)</u> |
| Net Book Value, as of 31 December | <u>477</u> | <u>295</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

16. OTHER ASSETS

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Receivables from brokerage customers | 76,389 | 47,297 |
| Prepaid expenses | 2,539 | 2,175 |
| VAT carried forward | 338 | 309 |
| Advances given | 242 | 105 |
| Deposits and guarantees given | 173 | 86 |
| Receivables from personnel | 165 | 94 |
| Stationery | 58 | 54 |
| Advance taxes | 43 | 14 |
| Other | 2,406 | 9,597 |
| | <u>82,353</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 <u>TRY'000</u> | 2006 Carrying Value of Corresponding Liability <u>TRY'000</u> | 2006 Repurchase Value <u>TRY'000</u> |
|--------------------------------|--|--|---|
| <u>Investment Securities:</u> | | | |
| Investments held for trading | 7,312 | 7,302 | 7,359 |
| Available for sale investments | 503,996 | 456,460 | 457,490 |
| | <u>511,308</u> | <u>463,762</u> | <u>464,849</u> |

| | 2005 Carrying Value of Underlying Securities <u>TRY'000</u> | 2005 Carrying Value of Corresponding Liability <u>TRY'000</u> | 2005 Repurchase Value <u>TRY'000</u> |
|--------------------------------|--|--|---|
| <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 2.00%-5.47% for foreign currency, 11.10%-18.70% for domestic currency agreements. Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounted to TRY 1,926 thousand (2005: TRY 1,180 thousand).

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

18. BORROWINGS

| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|--|--------------------------------|--------------------------------|
| Short-term borrowings | 533,412 | 363,873 |
| Medium and long-term borrowings | 2,340,147 | 1,796,374 |
| Total borrowings | 2,873,559 | 2,160,247 |
| Current portion of medium and long-term loans | 569,209 | 208,881 |
| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
| Foreign currency borrowings | 2,861,670 | 2,130,950 |
| New Turkish Lira borrowings | 11,889 | 29,297 |
| Total borrowings | 2,873,559 | 2,160,247 |
| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
| <u>Foreign Currency Borrowings</u> | | |
| International Bank for Reconstruction and Development (IBRD) | | |
| EFIL II | 429,565 | 357,437 |
| EFIL III | 178,822 | 21,884 |
| IBRD-Renewable Energy Loan | 92,791 | 15,440 |
| | 701,178 | 394,761 |
| European Investment Bank (EIB) | 1,095,663 | 832,896 |
| Syndicated Loan | 349,015 | 163,572 |
| Kreditanstalt Für Wiederaufbau (KfW) | 174,000 | 142,759 |
| Council of European Development Bank (CEB) | 143,023 | 105,347 |
| Japan Bank of International Cooperation (JBIC) | 113,682 | 137,598 |
| Association of French Development (AFD) | 95,189 | 56,478 |
| Morgan Stanley | 71,510 | - |
| Instituto de Credito Oficial | 7,270 | 8,084 |
| Dresdner Bank | 5,319 | 9,077 |
| Akbank T.A.Ş. | - | 98,109 |
| Murabaha Syndicated Loan | - | 67,869 |
| Black Sea Trade and Development Bank | - | 480 |
| Other domestic bank borrowings | 105,821 | 113,082 |
| Other foreign bank borrowings | - | 838 |
| | 2,160,492 | 1,736,189 |
| Total foreign currency borrowings | 2,861,670 | 2,130,950 |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

18. BORROWINGS (cont'd)

| | 31 December 2006 | 31 December 2005 |
|-------------------------------|------------------|------------------|
| | <u>TRY'000</u> | <u>TRY'000</u> |
| Turkish Lira Borrowings | | |
| EIB-Venture Capital | 10,540 | 10,542 |
| Domestic bank borrowings | 1,202 | 18,515 |
| Treasury originated funds | 147 | 240 |
| Total Turkish Lira borrowings | <u>11,889</u> | <u>29,297</u> |
| TOTAL BORROWINGS | <u>2,873,559</u> | <u>2,160,247</u> |

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

| | 31 December 2006 | 31 December 2005 |
|--------------------------------------|------------------|------------------|
| | <u>TRY'000</u> | <u>TRY'000</u> |
| Syndicated Loan | 345,450 | - |
| EIB | 86,260 | 57,685 |
| Morgan Stanley | 70,500 | - |
| KFW | 32,204 | 23,376 |
| JBIC | 28,278 | 27,382 |
| Dresdner Bank | 5,253 | 4,524 |
| Instituto de Credito Oficial | 1,190 | 1,136 |
| Treasury Originated Funds | 74 | 89 |
| Akbank T.A.Ş. | - | 94,220 |
| Black Sea Trade and Development Bank | - | 469 |
| | <u>569,209</u> | <u>208,881</u> |

IBRD EFIL II:

- Variable interest rate 5.86% for USD (31 December 2005: 4.32% for USD), repayable in scheduled instalments up to 15 January 2020.

IBRD REL:

- Variable interest rate 5.68% for USD (31 December 2005: 4.51% for USD), repayable in scheduled instalments up to 15 September 2016.

IBRD EFIL III :

- Variable interest rate 5.86% for USD (31 December 2005: 4.95% for USD) and variable interest rate 3.55% for EUR (31 December 2005 2.89% for EUR) repayable in scheduled instalments up to 15 January 2021.

EIB:

- Fixed interest rates of 1.77% - 2.58% and variable interest rates of 3.79%-4.07% for Euro and 5.44%-5.59% for USD (31 December 2005: 2.61% - 2.72% for Euro and 3.64% - 3.71% for USD), repayable in scheduled instalments up to 15 September 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 instalments up to 28 September 2010.

CEB:

- Variable interest rates of 3.94%- 4.05% for EUR (31 December 2005: 2.55%-2.56% for EUR), repayable in scheduled instalments up to 15 October 2015.

KFW:

- Interest rates of 3.74% for Euro (31 December 2005: 2.59% for Euro), repayable in scheduled instalments up to 30 November 2012.

KFW SME :

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

KFW: (Pollution Fund)

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

DRESDNER BANK:

- Variable interest rates of 4.45% for Euro (31 December 2005: 3.14% for Euro), repayable in scheduled instalments up to 4 November 2007.

INSTITUTO DE CREDITO OFFICIAL:

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

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

18. BORROWINGS (cont'd)

Agence Française de Développement (AFD):

- Variable interest rate of 3.73% for EUR (31 December 2005: 2.54% for EUR), repayable in scheduled instalments up to 31 January 2017.

Syndicated Loan:

- Variable interest rate of 5.68%-5.73% 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

Morgan Stanley:

- Variable interest rate of 5.87% for USD (no balance exists as of 31 December 2005), repayable in scheduled instalments up to 5 April 2007.

TREASURY ORIGINATED FUNDS:

- Interest rate of 11.00%-21.00% (31 December 2005: 11.00%), repayable in scheduled instalments up to 1 June 2009.

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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% were 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 was 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. 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 YEAR ENDED 31 DECEMBER 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 YEAR ENDED 31 DECEMBER 2006

19. TAXATION (cont'd)

a) Balance sheet:

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---------------|---------------------------------------|---------------------------------------|
| Corporate tax | 17,453 | 33,924 |
| Advance taxes | (7,279) | (22,425) |
| | <u>10,174</u> | <u>11,499</u> |

b) Income statement

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---------------------------------|---------------------------------------|---------------------------------------|
| Corporate tax charge | 17,453 | 33,924 |
| Deferred tax charge / (benefit) | 6,446 | (7,207) |
| | <u>23,899</u> | <u>26,717</u> |

In addition to the deferred tax charged to profit or loss, a deferred tax charge of TRY 3,591 thousand has been recognized in the equity in the current year (31 December 2005: tax benefit of TRY 4,768 thousand) (see note 3.19).

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

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|--|---------------------------------------|---------------------------------------|
| Useful life differences on property, plant and Equipment | 823 | 1,775 |
| Retirement pay provision | 681 | 1,050 |
| Finance lease receivables | (1,598) | (5,356) |
| General loan loss provisions | 2,820 | 3,028 |
| Accruals on derivative financial instruments | 650 | 963 |
| Impairment for equity investments | - | 221 |
| Other provisions | 567 | 448 |
| Others | 41 | (58) |
| Deferred tax asset / (liability) | <u>3,984</u> | <u>2,071</u> |
| Less: Valuation allowance | - | - |
| Net deferred tax | <u>3,984</u> | <u>2,071</u> |

Reflected as:

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|------------------------|---------------------------------------|---------------------------------------|
| Deferred tax asset | 3,984 | 2,071 |
| Deferred tax liability | - | - |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

19. TAXATION (cont'd)

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

| <u>Reconciliation of Taxation</u> | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|--|---------------------------------------|---------------------------------------|
| Income/(loss) before taxation, after monetary loss | 135,235 | 131,045 |
| Tax at the statutory income tax rate of 20% in 2006; 30% in 2005 | 27,047 | 39,314 |
| Tax effect of adjustments and restatement of non monetary items | 2,737 | (4,278) |
| Effect on deferred tax balances due to the change in income tax rate | 690 | (420) |
| Tax effect of income that is deductible in determining taxable income | (8,789) | (5,652) |
| Tax effect of undeductable expenses | 6,236 | 12,716 |
| Tax effect of reversal of provisions | (932) | (1,802) |
| Tax effect of investment incentives | - | (11,788) |
| Tax effect of gains/(losses) on sale of assets | (2,281) | (741) |
| Tax effect of other deductions | (820) | (205) |
| Tax effect of loss making companies | 11 | (427) |
| Net tax expense / (benefit) | <u>23,899</u> | <u>26,717</u> |

20. PROVISIONS

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---|---------------------------------------|---------------------------------------|
| <u>Provision For Retirement Pay</u> | | |
| At 1 January | 3,505 | 3,262 |
| Provision for the Year | - | 871 |
| Provision Released | (146) | - |
| Indemnities Paid | (403) | (485) |
| Net Effect of Indexation | - | (143) |
| At 31 December | <u>2,956</u> | <u>3,505</u> |
| <u>General Provision For Non-Cash Loans</u> | | |
| At 1 January | 2,516 | 1,629 |
| Additions During the Year | 605 | 967 |
| Net Effect of Indexation | - | (80) |
| At 31 December | <u>3,121</u> | <u>2,516</u> |
| <u>Provision For Other Liabilities</u> | | |
| Provision for unused vacations | 471 | - |
| Provision for premium pay | 1,127 | 966 |
| Other Provisions | 2,835 | 2,835 |
| | <u>4,433</u> | <u>3,801</u> |
| TOTAL PROVISIONS | <u>10,510</u> | <u>9,822</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 2006 and no provision is provided. Any deficit of Türkiye Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı, under IAS 19, is guaranteed by Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı, which has free reserves of TRY 55,329 thousand to be used for that purpose. Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı has commitment to cover such deficits of Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı.

b) Retirement pay provision

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. As the maximum liability is revised semi annually, the maximum amount of YTL 1,960.69 effective from 1 January 2007 has been taken into consideration in calculation of provision from employment termination benefits.

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

| | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|
| Discount rate | 11% | 12% |
| Expected rate of increase in salaries and eligible ceiling | 5% | 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 9.02% 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 YEAR ENDED 31 DECEMBER 2006

22. OTHER LIABILITIES

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---------------------------------|---------------------------------------|---------------------------------------|
| Payables to brokerage customers | 78,867 | 40,246 |
| Taxes and dues payable | 2,801 | 2,094 |
| Transfer orders | 320 | 1,698 |
| Other | 6,342 | 7,525 |
| | <u>88,330</u> | <u>51,563</u> |

23. EQUITY

Share Capital

As at 31 December 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.

| <u>31 December 2006</u> | | Authorised Capital <u>TRY'000</u> | Paid-Up Capital <u>TRY'000</u> |
|---|---------------|---|--------------------------------------|
| <u>Shareholders</u> | <u>%</u> | | |
| T. İş Bankası A.Ş. | 50.10 | 150,293 | 150,293 |
| T. Vakıflar Bankası T.A.O | 8.38 | 25,132 | 25,132 |
| Under Custody at Merkezi Kayıt Kuruluşu (National Custody Institution) | 38.26 | 114,770 | 114,770 |
| Others | 3.26 | 9,805 | 9,805 |
| | <u>100.00</u> | <u>300,000</u> | <u>300,000</u> |
| <u>Components of Capital:</u> | | | |
| Nominal capital | | 300,000 | 300,000 |
| Effect of inflation | | 780,035 | 780,035 |
| | | <u>1,080,035</u> | <u>1,080,035</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

23. EQUITY (cont'd)

| <u>31 December 2005</u> | | Authorised Capital TRY'000 | Paid-Up Capital TRY'000 |
|---------------------------------|---------------|----------------------------------|-------------------------------|
| <u>Shareholders</u> | <u>%</u> | | |
| T. İş Bankası A.Ş. | 40.52 | 81,035 | 81,035 |
| T. Vakıflar Bankası T.A.O | 8.38 | 16,755 | 16,755 |
| Akbank T.A.Ş | 6.45 | 12,894 | 12,894 |
| Under Custody at Takasbank A.Ş. | 30.92 | 61,839 | 61,839 |
| Others | 13.73 | 27,477 | 27,477 |
| | <u>100.00</u> | <u>200,000</u> | <u>200,000</u> |
| <u>Components of Capital:</u> | | | |
| Nominal capital | | 200,000 | 200,000 |
| Effect of inflation | | 822,814 | 822,814 |
| | | <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.

Minority interest:

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

| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|--|--------------------------------|--------------------------------|
| Capital | 31,031 | 12,247 |
| Premium in excess of par | 30 | - |
| Unrealized gains/(losses) on available for sale investments, net of tax | 111 | 100 |
| Retained earnings / (accumulated losses) | (4,074) | (5,585) |
| Current period net income / (loss) | 675 | 1,458 |
| | <u>27,773</u> | <u>8,220</u> |

24. OTHER OPERATING INCOME

| | 31 December 2006 TRY'000 | 31 December 2005 TRY'000 |
|--|--------------------------------|--------------------------------|
| Dividend Income | 3,960 | 3,006 |
| Gain on sale of assets | 1,868 | 3,984 |
| Increase in value of investment properties | 1,060 | - |
| Other | 3,193 | 3,732 |
| | <u>10,081</u> | <u>10,722</u> |

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

25. OTHER OPERATING EXPENSES

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Personnel expenses | 32,473 | 28,120 |
| Depreciation and amortization | 4,338 | 2,744 |
| Taxes and dues other than on income | 3,550 | 2,996 |
| Marketing expenses | 2,206 | 1,402 |
| General provision for non-cash loans | 605 | 888 |
| Communication expenses | 291 | 12 |
| Other administrative expenses | 9,267 | 10,860 |
| Other | 7,223 | 6,810 |
| | <u>59,953</u> | <u>53,832</u> |

26. RELATED PARTY TRANSACTIONS AND BALANCES

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

| | 31 December 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 | 13,882 | 24,673 |
| Non-cash loans | 25,926 | 24,515 |
| Due from other banks | 6,600 | 73,162 |
| Other assets | 5,436 | 885 |
| Other liabilities | 3,714 | 1,278 |

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|--|------------------------------------|------------------------------------|
| <u>Transactions with related parties</u> | | |
| Interest and similar income | 1,101 | 6,973 |
| Interest expenses and similar charges | (4,229) | (9,355) |
| Dividend income | 12,237 | 1,420 |
| Foreign exchange gain (loss)—net | 1 | 217 |
| Net fee and commission income | 466 | 454 |
| Operating expenses | (3) | (4) |
| Other income | 1,515 | 1,598 |
| Other expenses | - | (523) |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

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 totalling TRY 8,824 thousand (2005- TRY 7,630 thousand)

27. COMMITMENTS AND CONTINGENCIES

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|-------------------------------|---------------------------------------|---------------------------------------|
| Letters of guarantee | 274,672 | 61,658 |
| Letters of loan commitments | 570,534 | 805,141 |
| Letters of credit commitments | 97,910 | 82,102 |
| Swap and forward agreements | 498,232 | 218,225 |
| Option agreements | 176,832 | 111,797 |
| Futures agreements | 87,485 | 17,223 |
| Other commitments | 69,834 | 8 |
| | <u>1,775,499</u> | <u>1,296,154</u> |

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> |
|------------------------------------|----------------------------------|---------------------------------------|----------------------------------|---------------------------------------|
| Currency swaps | 6,185 | 10,962 | 165 | 4,267 |
| Options | 589 | 732 | - | 38 |
| Forward foreign exchange contracts | 549 | 2 | 1 | 19 |
| Interest rate swaps | 6 | 4 | 1 | 12 |
| | <u>7,329</u> | <u>11,700</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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

28. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

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

| | 31 December 2006 <u>TRY'000</u> | 31 December 2005 <u>TRY'000</u> |
|---|---------------------------------------|---------------------------------------|
| Forward foreign exchange contracts – buy | 57,736 | 20,883 |
| Forward foreign exchange contracts – sell | 57,327 | 20,894 |
| Futures – buy | 44,123 | 16,735 |
| Futures – sell | 43,362 | 488 |
| Currency swaps – buy | 191,588 | 87,638 |
| Currency swaps – sell | 190,973 | 87,638 |
| Interest rate swaps – buy | 306 | 577 |
| Interest rate swaps – sell | 302 | 595 |
| Currency option – buy | 86,166 | 72,993 |
| Currency option – sell | 90,666 | 29,274 |
| Bond option – buy | - | - |
| Bond option – sell | - | 9,530 |
| Other – buy | 34,315 | - |
| Other – sell | 35,511 | - |

29. DIVIDENDS

In March 2006, TRY 2,527 thousand dividends were paid to shareholders. In March 2005, the dividends paid were TRY 2,626 thousand.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 YEAR ENDED 31 DECEMBER 2006

30. RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

As at 31 December 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 | - | - | - | 146 | 146 |
| Balances with the Central Bank | - | - | - | 948 | 948 |
| Balances with banks | 98,151 | - | - | 14,866 | 113,017 |
| Interbank money market placements | - | - | - | 15,851 | 15,851 |
| Funds lent under securities resale agreements | 12,638 | - | - | - | 12,638 |
| Investments held for trading (net) | 1,257 | 18,337 | 8,716 | 15,148 | 43,458 |
| Derivative financial assets | 1,299 | 2,459 | 3,571 | - | 7,329 |
| Reserve deposits at the Central Bank | 44,392 | - | - | - | 44,392 |
| Loans and receivables (net) | 124,080 | 252,403 | 2,089,973 | - | 2,466,456 |
| Investment securities (net) | 87,155 | 461,977 | 636,636 | 54,048 | 1,239,816 |
| Investments in associates (net) | - | - | - | 68,484 | 68,484 |
| Goodwill (net) | - | - | - | 383 | 383 |
| Premises and equipment (net) | - | - | - | 45,464 | 45,464 |
| Investment properties (net) | - | - | - | 3,651 | 3,651 |
| Intangible assets (net) | - | - | - | 477 | 477 |
| Other assets | 43 | 1,022 | 4,069 | 77,219 | 82,353 |
| Deferred tax asset (net) | - | - | - | 3,984 | 3,984 |
| Total | 369,015 | 736,198 | 2,742,965 | 300,669 | 4,148,847 |
| LIABILITIES | | | | | |
| Interbank money market borrowings | 12,092 | - | - | - | 12,092 |
| Obligations under repurchase agreements | 463,762 | - | - | - | 463,762 |
| Borrowings and subordinated loan | 133,706 | 557,975 | 2,255,077 | - | 2,946,758 |
| Derivative financial liabilities | 11,700 | - | - | - | 11,700 |
| Obligations under finance leases | - | 880 | - | - | 880 |
| Corporate tax | - | - | - | 10,174 | 10,174 |
| Provisions | - | - | - | 10,510 | 10,510 |
| Other liabilities | 5,688 | 1,096 | 3,215 | 78,331 | 88,330 |
| Deferred tax liability (net) | - | - | - | - | - |
| Equity attributable to equity holders of the parent | - | - | - | 576,868 | 576,868 |
| Minority interest | - | - | - | 27,773 | 27,773 |
| Total | 626,948 | 559,951 | 2,258,292 | 703,656 | 4,148,847 |

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 (net) | 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 (net) | 17,745 | 482,302 | 615,297 | 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 |
| 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 | - | - | - | 9,822 | 9,822 |
| Other liabilities | 8,537 | 2,075 | 495 | 40,456 | 51,563 |
| Deferred tax liability (net) | - | - | - | - | - |
| Equity attributable to equity holders of the parent | - | - | - | 495,755 | 495,755 |
| Minority interest | - | - | - | 8,220 | 8,220 |
| Total | 621,159 | 450,904 | 1,650,687 | 570,088 | 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 YEAR ENDED 31 DECEMBER 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>31 December 2006</u> | | | | | | |
| Turkey | 4,053,138 | 98 | 1,259,200 | 30 | 1,775,499 | 100 |
| Euro Zone | 82,871 | 2 | 2,018,929 | 49 | - | - |
| Offshore | 5,752 | - | 3,030 | - | - | - |
| Other | 3,525 | - | 341 | - | - | - |
| USA | 3,316 | - | 754,153 | 18 | - | - |
| OECD Countries | 245 | - | 113,194 | 3 | - | - |
| | <u>4,148,847</u> | | <u>4,148,847</u> | | <u>1,775,499</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 | 1,296,154 | 100 |
| Offshore | 226,458 | 7 | 212,676 | 6 | - | - |
| Euro Zone | 71,763 | 2 | 1,464,423 | 44 | - | - |
| USA | 28,896 | 1 | 465,844 | 14 | - | - |
| OECD Countries | 216 | - | 137,925 | 4 | - | - |
| Other | 39 | - | 6,976 | - | - | - |
| | <u>3,292,838</u> | | <u>3,292,838</u> | | <u>1,296,154</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 YEAR ENDED 31 DECEMBER 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 31 December 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 | - | - | - | 146 | 146 |
| Balance with the Central Bank | - | - | - | 948 | 948 |
| Balances with banks | 98,152 | - | - | 14,865 | 113,017 |
| Interbank money market placements | 2,111 | - | - | 13,740 | 15,851 |
| Funds lent under securities resale agreements | 12,638 | - | - | - | 12,638 |
| Investments held for trading (net) | 1,253 | 19,346 | 7,668 | 15,191 | 43,458 |
| Derivative financial assets | 710 | 221 | 466 | 5,932 | 7,329 |
| Reserve deposits at the Central Bank | 44,392 | - | - | - | 44,392 |
| Loans and receivables (net) | 1,609,106 | 450,755 | 406,595 | - | 2,466,456 |
| Investment securities (net) | 425,735 | 515,945 | 244,088 | 54,048 | 1,239,816 |
| Investments in associates (net) | - | - | - | 68,484 | 68,484 |
| Goodwill (net) | - | - | - | 383 | 383 |
| Premises and equipment (net) | - | - | - | 45,464 | 45,464 |
| Investment properties (net) | - | - | - | 3,651 | 3,651 |
| Intangible assets (net) | - | - | - | 477 | 477 |
| Other assets | - | - | - | 82,353 | 82,353 |
| Deferred tax asset (net) | - | - | - | 3,984 | 3,984 |
| Total | 2,194,097 | 986,267 | 658,817 | 309,666 | 4,148,847 |
| LIABILITIES | | | | | |
| Interbank money market borrowings | 12,092 | - | - | - | 12,092 |
| Obligations under repurchase agreements | 463,762 | - | - | - | 463,762 |
| Borrowings and subordinated loans | 1,974,291 | 741,713 | 230,754 | - | 2,946,758 |
| Derivative financial liabilities | 3,094 | 2,259 | - | 6,347 | 11,700 |
| Obligations under finance leases | - | 880 | - | - | 880 |
| Corporate tax | - | - | - | 10,174 | 10,174 |
| Provisions | - | - | - | 10,510 | 10,510 |
| Other liabilities | - | - | - | 88,330 | 88,330 |
| Deferred tax liability (net) | - | - | - | - | - |
| Equity attributable to equity holders of the parent | - | - | - | 576,868 | 576,868 |
| Minority interest | - | - | - | 27,773 | 27,773 |
| Total | 2,453,239 | 744,852 | 230,754 | 720,002 | 4,148,847 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 (net) | 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 (net) | 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 | - | - | - | 9,822 | 9,822 |
| Other liabilities | 8,537 | 2,075 | 495 | 40,456 | 51,563 |
| Deferred tax liability (net) | - | - | - | - | - |
| Equity attributable to equity holders of the parent | - | - | - | 495,755 | 495,755 |
| Minority interest | - | - | - | 8,220 | 8,220 |
| Total | 1,887,512 | 598,457 | 236,781 | 570,088 | 3,292,838 |

As at 31 December 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 | 18.19 | - | 5.19 | - |
| Loans | 20.32 | 6.09 | 8.05 | 4.83 |
| Investments available for sale | 18.24 | 5.10 | 6.89 | - |
| <u>Liabilities</u> | | | | |
| Borrowings | 11.00 | 3.60 | 5.94 | 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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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 31 December 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 | 29 | 841 | - | 2 | 872 |
| Balances with banks | 2,906 | 86,903 | 187 | 296 | 90,292 |
| Investments held for trading (net) | 6 | 1,680 | 1 | - | 1,687 |
| Loans and receivables (net) | 1,137,603 | 945,431 | 86,398 | - | 2,169,432 |
| Reserve deposits at the Central Bank | - | 44,392 | - | - | 44,392 |
| Investment securities (net) | 47,870 | 295,617 | - | - | 343,487 |
| Premises and equipment (net) | - | - | - | 11 | 11 |
| Other assets | 210,658 | 61,561 | 12,292 | 15 | 284,526 |
| Total Assets | 1,399,072 | 1,436,425 | 98,878 | 324 | 2,934,699 |
| Liabilities | | | | | |
| Borrowings and subordinated loan | (1,397,391) | (1,423,796) | (113,682) | - | (2,934,869) |
| Obligations under repurchase agreements | (22,889) | (54,552) | - | - | (77,441) |
| Derivative financial instruments | (4) | (735) | (81) | - | (820) |
| Other liabilities | (1,340) | (4,706) | (9) | (12) | (6,067) |
| Total Liabilities | (1,421,624) | (1,483,789) | (113,772) | (12) | (3,019,197) |
| Net Balance Sheet Position | (22,552) | (47,364) | (14,894) | 312 | (84,498) |
| Off Balance Sheet Position | | | | | |
| Derivatives to sell | 19,987 | 228,071 | 23,224 | - | 271,282 |
| Derivatives to buy | (3,263) | (169,080) | (2,426) | - | (174,769) |
| Net Off Balance Sheet position | 16,724 | 58,991 | 20,798 | - | 96,513 |
| Net Position | (5,828) | 11,627 | 5,904 | 312 | 12,015 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

30. RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

The below table summarizes the foreign currency position of the Group as at 31 December 2005:

| | <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 | - | 129 | - | 1 | 130 |
| Balances with banks | 2,647 | 83,790 | 143 | 251 | 86,831 |
| Investments held for trading (net) | - | 9 | - | - | 9 |
| Loans and receivables (net) | 980,607 | 647,834 | 137,092 | - | 1,765,533 |
| Reserve deposits at the Central Bank | - | 25,011 | - | - | 25,011 |
| Investment securities (net) | 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 YEAR ENDED 31 DECEMBER 2006

30. RISK MANAGEMENT (cont'd)

Fair values of financial instruments

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

| | 31 December 2006 | | 31 December 2005 | |
|---|------------------|------------|------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | TRY'000 | TRY'000 | TRY'000 | TRY'000 |
| Balances with banks | 113,017 | 113,017 | 140,250 | 140,250 |
| Balances with the Central bank and reserve deposits | 45,340 | 45,340 | 25,378 | 25,378 |
| Interbank money market placements | 15,851 | 15,851 | - | - |
| Funds lent under securities resale agreements | 12,638 | 12,638 | - | - |
| Investments held for trading (net) | 43,458 | 43,458 | 18,203 | 18,203 |
| Derivative financial assets | 7,329 | 7,329 | 167 | 167 |
| Loans and receivables (net) | 2,466,456 | 2,466,456 | 1,773,031 | 1,773,031 |
| Investment securities (net) | 1,239,816 | 1,239,816 | 1,172,023 | 1,172,023 |
| Investments in associates (net) | 68,484 | 68,484 | 60,809 | 60,809 |
| Financial assets | 4,012,389 | 4,012,389 | 3,189,861 | 3,189,861 |
| Interbank money market borrowings | 12,092 | 12,092 | 20,054 | 20,054 |
| Obligations under repurchase agreements | 463,762 | 463,762 | 461,385 | 461,385 |
| Borrowings and subordinated loans | 2,946,758 | 2,946,758 | 2,229,487 | 2,229,487 |
| Derivative financial liabilities | 11,700 | 11,700 | 4,336 | 4,336 |
| Obligations under financial leases | 880 | 880 | 717 | 717 |
| Financial liabilities | 3,435,192 | 3,435,192 | 2,715,979 | 2,715,979 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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 31 December 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) | 111,336 | 104,328 |
| Basic earnings / (loss) per share (in full TRY) | 0.3711 | 0.3478 |

32. EVENTS AFTER THE BALANCE SHEET DATE

The Parent Bank has announced the profit distribution, in the General Assembly held on 22 March 2007 as follows:

First dividend amounting to TRY 18,000 thousand and second dividend amounting to TRY 32,000 thousand will be distributed to shareholders and TRY 5,320 thousand first reserve, TRY 3,772 thousand second reserve, TRY 5,320 thousand possible loss provision and TRY 39,265 thousand extraordinary reserve will be appropriated by the Parent Bank.