

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

**CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2007**

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

## 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 2007, and the consolidated statement of income, 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 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*DRT Bağımsız Denetim ve ŞMMM A.Ş.*

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

Istanbul, 9 May 2008

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# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

<u>ASSETS</u>		31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
	<u>Note</u>		
Liquid Assets	5	1,088	146
Balances with The Central Bank	6	3,135	948
Balances with Banks	7	50,891	113,017
Interbank Money Market Placements		79	15,851
Funds Lent Under Securities Resale Agreements		11,757	12,638
Financial Assets at Fair Value Through Profit and Loss	8	105,007	43,458
Derivative Financial Assets	27	31,466	7,329
Reserve Deposits at the Central Bank	6	36,328	44,392
Loans and Receivables (Net)	9	2,739,114	2,466,456
Investment Securities (Net)	10	1,682,430	1,239,816
Investments in Associates (Net)	11	86,455	68,484
Goodwill (Net)	12	383	383
Premises and Equipment (Net)	13	80,876	45,464
Investment Properties (Net)	14	4,945	3,651
Intangible Assets (Net)	15	586	477
Assets Classified as Held For Sale		10,510	-
Other Assets	16	62,523	82,353
Deferred Tax Asset (Net)	19	10,255	3,984
<b>Total Assets</b>		<b><u>4,917,828</u></b>	<b><u>4,148,847</u></b>

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

### LIABILITIES

	Note	31 December 2007 TRY'000	31 December 2006 TRY'000
Interbank Money Market Borrowings		79	12,092
Obligations Under Repurchase Agreements	17	844,249	463,762
Borrowings	18	3,126,246	2,873,559
Derivative Financial Liabilities	27	45,212	11,700
Obligations Under Finance Leases		480	880
Corporate Tax	19	12,491	10,174
Provisions	20	17,565	10,510
Subordinated Loan	21	59,624	73,199
Other Liabilities		71,764	88,330
Liabilities Directly Associated with Assets Classified as Held for Sale		2,252	-
Deferred Tax Liability (Net)	19	-	-
Total Liabilities		4,179,962	3,544,206
<u>Equity</u>	22		
Share Capital			
Nominal Capital		400,000	300,000
Inflation Adjustment to Capital		730,035	780,035
Total Paid-in Capital		1,130,035	1,080,035
Premium in Excess of Par		13	13
Unrealized Gains/(Losses) on Available for Sale Investments, Net of Tax		14,086	(11,474)
Legal Reserves		-	-
Accumulated Losses		(436,103)	(491,706)
Equity Attributable to Equity Holders of the Parent		708,031	576,868
Minority Interest		29,835	27,773
Total Equity		737,866	604,641
Total Liabilities And Shareholders' Equity		4,917,828	4,148,847
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The accompanying notes form an integral part of these consolidated financial statements.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2007

		1 January – 31 December 2007	1 January – 31 December 2006
	Note	TRY'000	TRY'000
Interest Income			
Interest on Loans		166,427	141,185
Interest on Interbank Money Market Placements		272	1,464
Interest on Securities		209,963	137,672
Interest Received from Banks		10,845	9,406
Interest Received from Reserve Deposits		1,129	776
Interest on Financial Leasing		17,163	17,048
Other Interest Income		7,227	4,167
		<u>413,026</u>	<u>311,718</u>
Interest Expenses			
Interest on Interbank Money Market Borrowings		(119,319)	(3,309)
Interest on Borrowings		(150,216)	(136,386)
Other Interest Expenses		(360)	(32,461)
		<u>(269,895)</u>	<u>(172,156)</u>
<b>Net Interest Income / (Expenses)</b>		<b><u>143,131</u></b>	<b><u>139,562</u></b>
Fee and Commission Income		22,540	35,424
Fee and Commission Expenses		(707)	(3,538)
<b>Net Fee Income / (Expenses)</b>		<b><u>21,833</u></b>	<b><u>31,886</u></b>
Net Foreign Currency Gains / (Losses)		(15,673)	(6,189)
Net Securities Trading Gains / (Losses)		27,752	(682)
<b>Total Trading Income / (Loss)</b>		<b><u>33,912</u></b>	<b><u>25,015</u></b>
(Provision for)/Recoveries from Impairment on Loans and Receivables, Net		946	7,511
<b>Net Operating Income / (Loss) After Impairment Losses</b>		<b><u>177,989</u></b>	<b><u>172,088</u></b>
Other Operating Income	23	10,171	10,081
Other Operating Expenses	24	(61,170)	(59,953)
Income/ (Loss) from Associates		14,046	13,019
<b>Income / (Loss) Before Taxation</b>		<b><u>141,036</u></b>	<b><u>135,235</u></b>
Taxation	19	(23,511)	(23,899)
<b>Net Income / (Loss)</b>		<b><u>117,525</u></b>	<b><u>111,336</u></b>
<b>Net Income / (Loss) Attributable to:</b>			
Equity Holders of the Parent		113,954	110,661
Minority Interest		3,571	675
		<u>117,525</u>	<u>111,336</u>
Weighted Number of Shares (in Million)		400,000	400,000
<b>Earnings Per Share (In Full New Turkish Lira)</b>	30	<b><u>0.2938</u></b>	<b><u>0.2783</u></b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	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 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	300,000	780,035	13	(11,474)	(491,706)	576,868	27,773	604,641
At 1 January 2007	300,000	780,035	13	(11,474)	(491,706)	576,868	27,773	604,641
Transfers to capital	100,000	(50,000)	-	-	(50,000)	-	-	-
Premium in excess of par	-	-	-	-	-	-	-	-
Income / (Loss) on available for sale investments, net	-	-	-	25,560	(5,627)	19,933	-	19,933
Dividends paid	-	-	-	-	(2,724)	(2,724)	-	(2,724)
Change in minority interest	-	-	-	-	-	-	(1,509)	(1,509)
Income / (loss) for the period	-	-	-	-	113,954	113,954	3,571	117,525
At 31 December 2007	400,000	730,035	13	14,086	(436,103)	708,031	29,835	737,866

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



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

		31 December 2007 TRY '000	31 December 2006 TRY '000
Cash Flows from Operating Activities:			
Net Profit for the Year		117,525	111,336
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation of property and equipment booked in operating expenses	13	2,216	4,233
Amortization of intangible assets	15	167	105
Impairment losses on loans and receivables	9	13,890	5,593
Employment termination benefits/releases	20	283	(146)
Income from associates		(14,046)	(13,019)
Other provision expenses		6,772	834
Deferred tax (benefit)/charge	19	(12,001)	6,446
Accrued (income)/expense (net)		35,134	(56,856)
Minority interest	22	(3,571)	(675)
Unrealized gains/losses on non-interest income/expenses		(34,146)	21,113
Operating profits before changes in operating assets/liabilities		112,223	78,964
Changes in Operating Assets and Liabilities:			
(Increase)/decrease loans and leasing receivables		(661,187)	(438,541)
(Increase)/decrease in other assets		32,310	(46,809)
Increase/(decrease) in other creditors, taxes & liabilities		398,657	75,541
		(230,220)	(409,809)
Income taxes paid		(28,367)	(17,799)
Net Cash (Used in) Operating Activities		(258,587)	(427,608)
Cash Flows from Investing Activities:			
(Increase) in reserve requirements with the Central Bank		8,064	(19,381)
(Increase) in balances with banks		(2,187)	(581)
(Increase) in investments held for trading		(60,668)	(37,893)
(Increase) / decrease in investments		(459,159)	(58,319)
(Purchase) / sale of premises and equipment and investment property		(42,847)	(13,014)
Purchase of intangible assets	15	(276)	(287)
Net cash (used in)/provided by investing activities		(557,073)	(129,475)
Cash Flow from Financing Activities:			
Increase in capital		-	-
New borrowings		1,412,246	1,031,959
Repayment of borrowings		(759,717)	(585,425)
Increase in / (repayment of) obligations under finance lease		(400)	163
Dividends paid	28	(2,724)	(2,527)
Net cash (used in)/provided by financing activities		649,405	444,170
Net Increase / (Decrease) in Cash and Cash Equivalents		(54,032)	(33,949)
Effect of inflation on cash and cash equivalents		-	-
Cash and Cash Equivalents at the Beginning of the Year		105,834	139,783
Cash and Cash Equivalents at the End of the Year		51,802	105,834

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

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **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 markets 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 2007**

### **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 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 its parent is İş Finansal Kiralama A.Ş. with 78.23% shareholding. The share of TSKB is 21.75%.

##### **İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.:**

The 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.

The Bank's statutory financial statements as of 31 December 2007 have been approved during the General Assembly Meeting realized on 25 March 2008.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**2. BASIS OF FINANCIAL STATEMENTS**

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

**Basis of Presentation of Financial Statements**

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

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.

**Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial years except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2007.

In summary:

IFRS 7 “Financial Instruments-Disclosures” that supersedes IAS 30 and amendments to IAS 1 “Presentation of Financial Statements” that includes disclosures about an entity’s capital became effective for annual periods beginning on or after 1 January 2007 and were applied in the accompanying financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**2. BASIS OF FINANCIAL STATEMENTS (cont'd)**

**IFRS and IFRIC Interpretations not yet effective**

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

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

IFRS 2 “Share-based Payment— Amendment relating to vesting conditions and cancellations” – This amendment is effective for periods beginning on or after 1 January 2009.

IFRS 3 “Business Combinations — Comprehensive revision on applying the acquisition method” – This revision is effective for periods beginning on or after 1 July 2009.

IAS 1 “Presentation of Financial Statements” Includes comprehensive revision including a statement of comprehensive income. This revision will be effective for annual periods beginning on or after 1 January 2009.

IAS 1 “Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on litigation”. This amendment will be effective for annual periods beginning on or after 1 January 2009.

IAS 23 “Borrowing Costs” Includes comprehensive revision to prohibit immediate expensing relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009.

IAS 27, “Consolidated and Separate Financial Statements — Consequential amendments arising from amendments to IFRS 3”. This revision is effective for periods beginning on or after 1 July 2009.

IAS 28, “Investments in Associates — Consequential amendments arising from amendments to IFRS 3”. This revision is effective for periods beginning on or after 1 July 2009.

IAS 31, “Investments in joint ventures — Consequential amendments arising from amendments to IFRS 3”. This amendment is effective for periods beginning on or after 1 July 2009.

IAS 32 “Financial Instruments: Presentation” includes amendments relating to puttable instruments and obligations arising on liquidation and is effective for annual periods beginning on or after 1 January 2009.

IFRIC 11, “IFRS 2 - Company 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.

IFRIC 13 “Customer Loyalty Programmes” — This Interpretation is effective for periods beginning on or after 1 July 2008.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction – 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.

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **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 Summary of Significant Accounting Policies, Judgments and Estimates**

##### **Judgments and Estimates**

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections below.

##### **Functional and Presentation Currency**

##### **Functional and Presentation Currency for the Bank and Its Subsidiaries Which Operate in Turkey:**

Functional currency of the bank and its subsidiaries, which operate in Turkey, is New Turkish Lira (TRY). Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TRY based on IAS 29, which 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 and the corresponding figures for previous periods be restated in the same terms.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 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	95.78
Yatırım Finansman Yatırım Ort. A.Ş.	Financial	10.78
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	Financial	96.00
TSKB Yatırım Ortaklığı A.Ş.	Financial	29.75

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	16.67
İş Factoring Finansman Hizmetleri A.Ş.	Financial	21.75

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 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.



# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **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 2007

### 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 2007 and 31 December 2006 foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and Yen. As at 31 December 2007 and 31 December 2006 exchange rates of US Dollar, Euro and Yen are as follows:

	31 December 2007	31 December 2006
1 US Dollar	1.1640	1.4100
1 Euro	1.7163	1.8568
1 JPY	0.010401	0.01186

Average rates are as follows:

	2007	2006
1 US Dollar	1.1751	1.4257
1 Euro	1.7116	1.8832
1 JPY	0.010461	0.0121

**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 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.9 Financial Instruments (cont'd)

##### Investments (cont'd)

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

The Group's investments primarily represents Turkish Republic government bonds, treasury bills and eurobonds which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices and subsequently measured as explained above in accordance with their classification.

##### Cash and cash equivalents

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

##### Loans and 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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 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.

**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.

**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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.10 Investments under Resale or Repurchase Transactions (cont'd)

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.

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **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.

##### **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.



**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**3.14 Leasing (cont'd)**

**The Group as Lessee (cont'd)**

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.

**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. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**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. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “T.Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (the “Pension Funds”), are separate legal entities and foundations recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Pension Funds are defined benefit plan under which the Bank pays fixed contributions as employer share of monthly premium contributions, and is not obliged to pay any other additional obligation.

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.

Paragraph 1 of the provisional Article 23 of the Banking Act (“Banking Act”) No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution (SSI) within 3 years as of the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations should be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions, including the Ministry of Labor and Social Security. Such calculated obligation shall be settled in equal installments in maximum 15 years.

Accordingly, the Group calculated its obligations on the Pension Funds transferable to the SSI in accordance with the Council of Ministers Decree for the purposes of determining the principles and procedures for such transfer.

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **3.17 Retirement Benefits (cont'd)**

Nonetheless, the related Article of the Banking Law was vetoed by the President and upon the President's litigation filed with the Constitutional Court this Article has been subsequently withdrawn by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, the execution of this article was suspended as of the publication of the decision and the underlying reasoning of the decision for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, the articles of the new Social Security Law numbered 5754 related with the transfer of banks' pension fund participants to Social Security Institution within 3 years as of the enactment date were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of the Ministry of Labor and Social Security, the Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institution. If benefits paid by the pension fund of a bank and the income and expenses of the pension fund in respect of the insurance branches, stated in the Law, exceeds the benefits paid under the regulations of Social Security Institution, differences would be considered while calculating the present value for the liabilities of the transferees as stated by the Social Security Law.

According to the actuarial report obtained, there is neither technical nor actual deficit for providing any provisions in accordance with the principles set out in the Council of Minister's Resolution No: 2006/11345 published in the Official Gazette No: 26377 on December 15, 2006 for the purpose of identifying procedures and principles to apply transfer requirements.

#### **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.

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **3.19 Taxation (cont'd)**

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.

#### **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.

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **3.21 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.

#### **3.22 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.

#### **3.23 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.

#### **3.24 Internally-generated Intangible Assets**

Computer Software Development Costs:

The Group generally recognizes computer software development costs as expense 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 expenditures associated with the maintenance of the existing computer software are recognized as expense in the period in which they are 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 2007**

**4. SEGMENT INFORMATION**

**STATEMENT OF INCOME**  
**Year ending 31 December 2007**

	Banking TRY'000	Securities Brokerage and Other TRY'000	Combined TRY'000	Eliminations TRY'000	Total TRY'000
Interest Income	406,678	8,018	414,696	(1,670)	413,026
Interest Expenses	(269,696)	(220)	(269,916)	21	(269,895)
Net Interest Income / (Expenses)	<u>136,982</u>	<u>7,798</u>	<u>144,780</u>	<u>(1,649)</u>	<u>143,131</u>
Net Fee and Commission Income / (Expense)	4,795	17,038	21,833	-	21,833
Net Foreign Currency Gains / (Losses)	(18,789)	3,116	(15,673)	-	(15,673)
Net Securities Trading Gains / (Losses)	22,876	4,876	27,752	-	27,752
Total Trading Income / (Loss)	<u>8,882</u>	<u>25,030</u>	<u>33,912</u>	<u>-</u>	<u>33,912</u>
(Provision for)/Recoveries from Impairment on Loans and Receivables, net	946	-	946	-	946
Net Operating Income / (Loss) After Impairment Losses	<u>146,810</u>	<u>32,828</u>	<u>179,638</u>	<u>(1,649)</u>	<u>177,989</u>
Other Operating Income	48,599	4,414	53,013	(42,842)	10,171
Other Operating Expenses	(43,093)	(19,019)	(62,112)	942	(61,170)
Income / (Loss) From Associates	-	-	-	14,046	14,046
Income / (Loss) Before Taxation	<u>152,316</u>	<u>18,223</u>	<u>170,539</u>	<u>(29,503)</u>	<u>141,036</u>

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**4. SEGMENT INFORMATION (cont'd)**

<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 / (Loss)	<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	<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 Taxation	<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 2007**

**4. SEGMENT INFORMATION (cont'd)**

**BALANCE SHEET**

	Banking TRY'000	Securities Brokerage and other TRY'000	Combined TRY'000	Eliminations TRY'000	Total TRY'000
<u>At 31 December 2007</u>					
Total Assets	4,886,703	261,298	5,148,001	(230,173)	4,917,828
Liabilities	4,107,779	102,832	4,210,611	(30,649)	4,179,962
Shareholders' Equity Before Net Income	648,943	142,004	790,947	(167,035)	623,912
Net Income / (Loss)	129,983	16,462	146,445	(32,491)	113,954
Total Shareholders' Equity	778,926	158,466	937,392	(199,526)	737,866
Total Liabilities and Shareholders' Equity	4,886,705	261,298	5,148,003	(230,175)	4,917,828
<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



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 5. LIQUID ASSETS

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Cash balances – New Turkish Lira (“TRY”)	210	108
Cash balances – Foreign currencies (“FC”)	878	38
	<u>1,088</u>	<u>146</u>

### 6. BALANCES WITH THE CENTRAL BANK

#### a) Balances with the Central Bank

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Demand deposits – TRY	98	114
Demand deposits – FC	3,037	834
	<u>3,135</u>	<u>948</u>

#### b) Reserve Deposits at the Central Bank

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Foreign currency reserves	36,328	44,392
	<u>36,328</u>	<u>44,392</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 11.81 % for TRY deposits, 1.95 % for foreign currency USD deposits and 1.80 % for foreign currency EUR deposits. (31 December 2006: 13.12% for TRY deposits, 2.515% for USD deposits and 1.730% 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 2007

### 7. BALANCES WITH BANKS

	31 December 2007 TRY'000	31 December 2006 TRY'000
<u>Domestic Banks</u>		
Demand deposits – TRY	7,217	6,391
Time deposits – TRY	31,548	16,325
Demand deposits – FC	529	2,521
Time deposits – FC	1,028	81,827
	<u>40,322</u>	<u>107,064</u>
<u>Banks Abroad</u>		
Demand deposits – FC	10,569	5,953
Time deposits – FC	-	-
	<u>10,569</u>	<u>5,953</u>
Total	<u>50,891</u>	<u>113,017</u>

The time deposits above mature within 1 - 90 days and earn interest at rates ranging 4.10 % for foreign currency balances, 16.5 - 18.23% for TRY balances as at the balance sheet date ( 31 December 2006: Maturity: 1-7 days; interest rate 5.25-5.28% for foreign currency, 17.75-18.60% for TRY balances).

### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2007 TRY'000	31 December 2006 TRY'000
<u>Trading Securities:</u>		
Government bonds and treasury bills in TRY	87,139	22,556
Investment funds	1,257	6,963
Equity shares	15,120	13,939
Government bonds and treasury bills in FC	398	-
Other	1,093	-
Total	<u>105,007</u>	<u>43,458</u>

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 10,271 thousand trading securities as at the balance sheet date (31 December 2006: TRY 7,312 thousand).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 9. LOANS AND RECEIVABLES (NET)

	31 December 2007 TRY'000	31 December 2006 TRY'000
Short-term loans	61,163	35,226
Long-term loans	2,462,717	2,156,119
Investment in direct finance leases, net	230,762	286,089
Total performing loans	2,754,642	2,477,434
Loans in arrears	19,420	33,530
Total loans	2,774,062	2,510,964
Less: Specific allowance for impairment losses on loans	(19,420)	(33,530)
Less: Portfolio allowance for impairment losses on loans	(15,528)	(10,978)
Total loans (net)	2,739,114	2,466,456

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

	31 December 2007 TRY'000	31 December 2006 TRY'000
Specific Allowance For Cash Loans:		
As of 1 January	33,530	44,443
Charge for the period	726	2,191
Allowance released and write offs	(14,836)	(13,104)
As of 1 January, 31 December	19,420	33,530
Portfolio Allowance For Cash Loans:		
As of 1 January	10,978	7,576
Charge for the period	4,550	3,402
Allowance released and write offs	-	-
As of 1 January, 31 December	15,528	10,978
Total Allowance	34,948	44,508

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

	31 December 2007 TRY'000	31 December 2006 TRY'000
<u>Customer Groups</u>		
Corporate customers	2,744,258	2,467,944
Others	10,384	9,490
	2,754,642	2,477,434

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

Currency	31 December 2007	31 December 2006
	TRY'000	TRY'000
Euro	918,502	932,954
US Dollar	829,282	725,725
Foreign currency indexed TRY loans	929,531	704,240
New Turkish Lira	26,431	26,788
Other currencies	50,896	87,727
Total	2,754,642	2,477,434

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:

Sector	31 December 2007			31 December 2006		
	Long Term	Short Term	Arrears	Long Term	Short Term	Arrears
	TRY'000	TRY'000	TRY'000	TRY'000	TRY'000	TRY'000
Finance	747,460	12,795	-	801,768	20,371	-
Energy	457,630	3,229	-	370,489	1,588	-
Tourism	154,447	2,707	-	188,551	6,903	-
Textile	117,156	3,759	9,846	155,055	9,722	23,818
Chemical	98,921	-	94	131,843	167	-
Food and Beverages	120,875	12,608	2,550	95,846	2,104	-
Cement	97,120	351	-	93,189	969	-
Health Services	29,382	-	-	76,924	3,670	3,035
Metal	121,763	4,195	-	68,975	7,177	94
Plastics	61,492	1,223	4,345	60,301	4,023	4,344
Motor Vehicles	96,657	830	-	39,219	3,855	1
Construction	86,958	1,767	358	37,275	1,192	-
Machinery Production	26,780	-	366	34,439	2,592	-
Pulp and Paper	41,897	2,206	1,659	32,539	2,222	580
Ceramics	25,608	1,394	-	27,772	2,351	1,658
Lumber and Wood	24,667	-	-	25,219	1,583	-
Rubber & Tires	4,879	-	-	11,583	6,288	-
Education	27,563	-	-	7,105	-	-
Shipyards	38	-	-	7,103	-	-
Farming	15,945	-	-	74	-	-
Other	333,477	16,863	202	117,430	17,958	-
	2,690,715	63,927	19,420	2,382,699	94,735	33,530

Interest rates charged for short term loans are 21.00-24.00% for New Turkish Lira loans, 6.11% for Euro loans and 6.05 – 7.36% US Dollar loans per annum during the period (31 December 2006: 23.60% for New Turkish Lira loans, 6.57% for Euro loan and 6.10-8.38% US Dollar loans).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 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 2007	31 December 2006
Euro	3.77-9.37%	3.77-8.78%
US Dollars	5.00-9.94%	5.00-11.20%
TRY	14.5-22.00%	14.5-22.90%
JPY	3.65-5.40%	3.65-5.40%

TRY 49,127 thousand of the cash loans are extended to TSKB Group companies. TSKB Group companies have TRY 24,515 thousand non-cash loan risk as at the balance sheet date (31 December 2006: TRY 13,882 thousand and 25,926 thousand; respectively).

The collaterals for the loans extended to the TSKB Group companies are TRY 34,329 thousand as at the balance sheet date (31 December 2006: TRY 5,174 thousand).

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

	31 December 2007 TRY'000	31 December 2006 TRY'000
Lease payments receivable	270,695	337,212
(Less): Unearned income	(39,933)	(51,123)
Investment in direct financing leases	230,762	286,089
Current maturity – net	60,113	59,510
Long - term portion – net	170,649	226,579
Investment in direct financing leases	230,762	286,089

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

	TRY	EURO	JPY	USD
2008	1,462	27,503	327,798	6,908
2009	973	29,150	203,736	7,308
2010	272	22,912	133,477	5,918
2011	-	14,423	28,637	6,396
2012	-	5,968	-	4,579
2013	-	2,622	-	1,456
2014	-	1,980	-	1,429
2015	-	-	-	1,560
2016	-	-	-	-
	2,707	104,558	693,648	35,554

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007****9. LOANS AND RECEIVABLES (NET) (cont'd)**

For the period ended in 31 December 2007 the details of the loans is as follows:

	Corporate <u>TRY'000</u>	Small Business <u>TRY'000</u>	Other <u>TRY'000</u>	Total <u>TRY'000</u>
Neither past due nor impaired	2,061,214	693,292	-	2,754,506
Past due not impaired	87	49	-	136
Individually impaired	19,054	366	-	19,420
Total Gross	<u>2,080,355</u>	<u>693,707</u>	<u>-</u>	<u>2,774,062</u>
Less: allowance for individually impaired loans	(19,054)	(366)	-	(19,420)
Less: allowance for collectively impaired loans	-	-	(15,528)	(15,528)
Total allowance for impairment	(19,054)	(366)	(15,528)	(34,948)
Total net	<u>2,061,301</u>	<u>693,341</u>	<u>(15,528)</u>	<u>2,739,114</u>

For the period ended in 31 December 2006 the details of the other loans is as follows:

	Corporate <u>TRY'000</u>	Small Business <u>TRY'000</u>	Other <u>TRY'000</u>	Total <u>TRY'000</u>
Neither past due nor impaired	1,838,900	638,227	-	2,477,127
Past due not impaired	59	248	-	307
Individually impaired	19,579	13,951	-	33,530
Total Gross	<u>1,858,538</u>	<u>652,426</u>	<u>-</u>	<u>2,510,964</u>
Less: allowance for individually impaired loans	(19,579)	(13,951)	-	(33,530)
Less: allowance for collectively impaired loans	-	-	(10,978)	(10,978)
Total Allowance for impairment	(19,579)	(13,951)	(10,978)	(44,508)
Total net	<u>1,838,959</u>	<u>638,475</u>	<u>(10,978)</u>	<u>2,466,456</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

A reconciliation of the specific allowance for impairment losses and advances by classes is as follows;

	Corporate TRY'000	Small Business TRY'000	Total TRY'000
At 1 January 2007	(19,579)	(13,951)	(33,530)
Charge for the year	(725)	(1)	(726)
Recoveries	1,250	1,655	2,905
Amounts written off	-	11,931	11,931
At 31 December 2007	<u>(19,054)</u>	<u>(366)</u>	<u>(19,420)</u>

	Corporate TRY'000	Small Business TRY'000	Total TRY'000
At 1 January 2006	(29,944)	(14,499)	(44,443)
Charge for the year	(666)	(1,525)	(2,191)
Recoveries	10,737	2,073	12,810
Amounts written off	294	-	294
At 31 December 2006	<u>(19,579)</u>	<u>(13,951)</u>	<u>(33,530)</u>

For the period ended by 31 December 2007 a breakdown of the specific allowance for impairment losses;

	Corporate TRY'000	Small Business TRY'000	Total TRY'000
Individual impairment	(19,054)	(366)	(19,420)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	19,054	366	19,420

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007****9. LOANS AND RECEIVABLES (NET) (cont'd)**

For the period ended by 31 December 2006 a breakdown of the specific allowance for impairment losses:

	Corporate <u>TRY'000</u>	Small Business <u>TRY'000</u>	Total <u>TRY'000</u>
Individual impairment	(19,579)	(13,951)	(33,530)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	19,579	13,951	33,530

Collateral and credit enhancement obtained during the year:

	Corporate <u>TRY'000</u>	Small Business <u>TRY'000</u>	Total <u>TRY'000</u>
Residential, commercial or industrial property	889,088	120,510	1,009,598
Financial assets	1,149,401	283,281	1,432,682
Other (suretyship, pledge of vehicles and sea vessels)	2,223,239	965,381	3,188,620
Total	<u>4,261,728</u>	<u>1,369,172</u>	<u>5,630,900</u>

For the period ended 31 December 2007 the aging analysis of past due but not impaired loans per class of financial statements is as follows:

	Less than 30 days <u>TRY'000</u>	31-60 days <u>TRY'000</u>	61-90 days <u>TRY'000</u>	More than 91 days <u>TRY'000</u>	Total <u>TRY'000</u>
Loans and advances to customers					
Corporate lending	-	87	-	-	87
Small business lending	49	-	-	-	49
Other	-	-	-	-	-
Total	<u>49</u>	<u>87</u>	<u>-</u>	<u>-</u>	<u>136</u>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

For the period ended 31 December 2006 the aging analysis of past due but not impaired loans per class of financial statements is as follows:

	Less than 30 days TRY'000	31-60 days TRY'000	61-90 days TRY'000	More than 91 days TRY'000	Total TRY'000
Loans and advances to customers					
Corporate lending	-	59	-	-	59
Small business lending	248	-	-	-	248
Other	-	-	-	-	-
Total	<u>248</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>307</u>

Of the total aggregate amount of gross past due but not yet impaired loans and other receivables, the fair value of collateral, capped with the respective outstanding loan balances including those not past due, that the Bank held as at 31 December 2007 is TRY 2,514 Thousand (31 December 2006: TRY 5,094 Thousand).

Loans and other receivables amounting to TRY 2,298,194 Thousand have floating interest rates (31 December 2006 TRY 1,975,880 Thousand) and the remaining TRY 225,860 Thousand have fixed interest rates (31 December 2006: TRY 215,630 Thousand).

### 10. INVESTMENT SECURITIES (NET)

	31 December 2007 TRY'000	31 December 2006 TRY'000
Investments available for sale	1,682,430	1,239,816
	<u>1,682,430</u>	<u>1,239,816</u>
<u>Investments available for sale:</u>		
Government bonds and treasury bills in TRY	1,327,045	843,983
Government bonds and treasury bills in FC	87,895	176,958
Eurobonds	165,294	164,827
Investment funds	68,978	17,609
Equity shares	33,218	36,439
	<u>1,682,430</u>	<u>1,239,816</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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 951,755 thousand as at the balance sheet date (31 December 2006: TRY 503,996 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 2007 are as follows:

	2007 Nominal Value TRY'000	2007 Carrying Value TRY'000	2006 Nominal Value TRY'000	2006 Carrying Value TRY'000
<b>Government Bonds and Treasury Bills:</b>				
Central Bank- Interbank Market				
Guarantee	20,000	20,937	30,170	31,849
Central Bank- Liquidity Requirement	-	-	1,500	1,187
İstanbul Stock Exchange- Trading				
Guarantee	105,000	109,920	27,877	26,079
Central Bank – Foreign Currency				
Operations Guarantee	-	-	21,640	22,847
Clearing House – Blocked Securities	29,546	31,197	104,827	97,472
Capital Market Board - Blocked				
Securities	-	-	500	473
Other (International Bank) Foreign				
Currency	95,145	110,401	-	-
	<u>249,691</u>	<u>272,455</u>	<u>186,514</u>	<u>179,907</u>

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

Investee	Ownership %	31 December 2007 Indexed Acquisition Cost TRY'000	31 December 2006 Indexed Acquisition Cost TRY'000
İMKB Takas ve Saklama A.Ş.	6.8	14,642	15,103
Servus Bilgisayar A.Ş.	-	-	6,845
Ünsa Ambalaj San. ve Tic. Ltd.Şti.	12	5,293	5,293
Senapa Plastik Ambalaj San. A.Ş.	7.97	2,290	1,988
Avrupa Yatırım Fonu	0.17	2,957	1,702
Cam Elyaf Sanayi A.Ş.	1.18	1,530	1,600
İş Portföy Yönetimi A.Ş.	9.9	2,043	1,477
Gözlük Sanayi A.Ş.	21.71	407	407
TSKB Gayrimenkul Değerleme A.Ş.	80	334	334
Terme Metal San. Ve Tic. A.Ş.	18.77	204	304
Vadeli İşlem ve Opsiyon Borsası A.Ş.	1	108	111
TSKB Yatırım Ortaklığı	*	2,412	1,057
İş Finansal Kiralama	*	391	155
Gelişen İşlemler Piyasası	<1	50	50
Others	<1	557	13
		<u>33,218</u>	<u>36,439</u>

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

The investments in TSKB Gayrimenkul Değerleme A.Ş. and Gözlük Sanayi A.Ş. have not been consolidated since their effect on consolidated income and net assets is not significant.

### 11. INVESTMENTS IN ASSOCIATES

As of 31 December 2007, 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>2007</u> <u>TRY'000</u>	<u>31 December</u> <u>2006</u> <u>TRY'000</u>
İş Finansal Kiralama A.Ş.	28.56	28,560	62,525	48,042
İş Factoring Finansman Hizm. A.Ş.	37.09	2,360	5,783	2,730
İş Girişim Serm. Yat. Ort. A.Ş.	17.00	3,750	18,147	17,712
		<u>34,670</u>	<u>86,455</u>	<u>68,484</u>

### 12. GOODWILL (NET)

<u>Cost</u>	<u>TRY'000</u>
At 1 January 2007	383
Arising on acquisition of subsidiaries	-
Eliminated on disposal of subsidiaries	-
At 31 December 2007	<u>383</u>
<u>Impairment</u>	
At 1 January 2007	-
Impairment loss recognised during the period	-
At 31 December 2007	<u>-</u>
<u>Carrying Amount</u>	
At 31 December 2007	<u>383</u>
At 31 December 2006	<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 2007, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**13. PREMISES AND EQUIPMENT (NET)**

TRY'000

<u>Acquisition Cost</u>	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixture</u>	<u>Other Fixed Assets</u>	<u>Construction in Progress and Advances Given</u>	<u>Total</u>
Opening Balance, 1 January 2007	2,621	3,855	45,272	24,068	1,168	18,098	8	1,894	96,984
Additions	40,382	3,562	1,061	450	109	1,381	-	-	46,945
Disposals	-	-	(17,844)	(14,834)	(602)	(12,910)	-	(1,208)	(47,398)
Closing Balance, 31 December 2007	43,003	7,417	28,489	9,684	675	6,569	8	686	96,531
<u>Accumulated Depreciation</u>									
Opening Balance, 1 January 2007	-	(3,321)	(17,449)	(13,203)	(735)	(16,812)	-	-	(51,520)
Charge for the year	-	(283)	(1,012)	(323)	(126)	(470)	(2)	-	(2,216)
Disposals	-	-	14,989	11,768	427	10,897	-	-	38,081
Closing Balance, 31 December 2007	-	(3,604)	(3,472)	(1,758)	(434)	(6,385)	(2)	-	(15,655)
Net Book Value at 31 December 2007	43,003	3,813	25,017	7,926	241	184	6	686	80,876

**TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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

TRY'000

<u>Acquisition Cost</u>	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixture</u>	<u>Other Fixed Assets</u>	<u>Construction in Progress and Advances Given</u>	<u>Total</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	2,621	3,855	45,272	24,068	1,168	18,098	8	1,894	96,984
<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	-	(3,321)	(17,449)	(13,203)	(735)	(16,812)	-	-	(51,520)
Net Book Value at 31 December 2006	2,621	534	27,823	10,865	433	1,286	8	1,894	45,464

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 14. INVESTMENT PROPERTIES (NET)

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Fair value of investment properties	4,945	3,651
Deferred initial direct costs	-	-
	<u>4,945</u>	<u>3,651</u>

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

In the current period, the Parent Bank has investment properties amounting to TRY 4,945 Thousand in fair value belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector. The fair value of the investment property is determined as TRY 4,945 Thousand based on report issued on 26 December 2007 by a registered real-estate appraiser. TRY 1,294 Thousand of fair value difference is recognized under the other operating income in the accompanying financial statements.

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 external rent income earned by the Group from its investment properties is 66 thousand TRY in the current period. The management states that there is no material operating expenses arising on its investment properties for the year.

### 15. INTANGIBLE ASSETS (NET)

	Current Period <u>TRY'000</u>	Prior Period <u>TRY'000</u>
<u>Acquisition cost</u>		
Opening balance, 1 January	2,231	1,966
Additions	276	287
Disposals	-	(22)
Closing balance, 31 December	<u>2,507</u>	<u>2,231</u>
<u>Accumulated amortization</u>		
Opening balance, 1 January	(1,754)	(1,671)
Charge for the year	(167)	(105)
Disposals	-	22
Closing balance, 31 December	<u>(1,921)</u>	<u>(1,754)</u>
Net Book Value, as of 31 December	<u>586</u>	<u>477</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 16. OTHER ASSETS

	31 December 2007 TRY'000	31 December 2006 TRY'000
Receivables from brokerage customers	41,634	76,389
Receivables from banking services	1,038	-
Prepaid expenses	2,768	2,539
VAT carried forward	-	338
Advances given	377	242
Deposits and guarantees given	7,217	173
Receivables from personnel	174	165
Stationery	-	58
Advance taxes	-	43
Other	9,315	2,406
	<u>62,523</u>	<u>82,353</u>

### 17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	2007 Carrying Value of Underlying Securities TRY'000	2007 Carrying Value of Corresponding Liability TRY'000	2007 Repurchase Value TRY'000
<u>Investment Securities:</u>			
Investments held for trading	10,247	10,161	11,843
Available for sale investments	<u>951,755</u>	<u>834,088</u>	<u>835,066</u>
	<u>962,002</u>	<u>844,249</u>	<u>846,909</u>
	2006 Carrying Value of Underlying Securities TRY'000	2006 Carrying Value of Corresponding Liability TRY'000	2006 Repurchase Value TRY'000
<u>Investment Securities:</u>			
Investments held for trading	7,312	7,302	7,359
Available for sale investments	<u>503,996</u>	<u>456,460</u>	<u>457,490</u>
	<u>511,308</u>	<u>463,762</u>	<u>464,849</u>

The repurchase agreements have maturity periods of three days to 3 months. The Group has applied interest rates of 2.50%-4.82% for foreign currency, 14.50%-17.90% for domestic currency agreements (31 December 2006: 2.00%-5.47% for foreign currency, 11.10%-18.70% for domestic currency). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounted to TRY 498 thousand (2006: TRY 1,926 thousand).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 18. BORROWINGS

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Short-term borrowings	577,671	533,412
Medium and long-term borrowings	<u>2,548,575</u>	<u>2,340,147</u>
Total borrowings	<u>3,126,246</u>	<u>2,873,559</u>
Current portion of medium and long-term loans	<u>178,961</u>	<u>153,890</u>

  

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Foreign currency borrowings	3,067,988	2,861,670
New Turkish Lira borrowings	<u>58,258</u>	<u>11,889</u>
Total borrowings	<u>3,126,246</u>	<u>2,873,559</u>

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

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
EIB	121,657	86,260
KFW	31,477	32,204
JBIC	24,799	28,278
Dresdner Bank	-	5,253
Instituto de Credito Oficial	982	1,190
Treasury Originated Funds	<u>46</u>	<u>75</u>
	<u>178,961</u>	<u>153,890</u>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 18. BORROWINGS (cont'd)

	31 December 2007 TRY'000	31 December 2006 TRY'000
<u>Foreign Currency Borrowings</u>		
International Bank for Reconstruction and Development (IBRD)		
EFIL II	370,245	429,565
EFIL III	303,817	178,822
IBRD-Renewable Energy Loan (REL)	108,924	92,791
IBRD-Small Medium Enterprises (SME)	32,357	-
	<u>815,343</u>	<u>701,178</u>
European Investment Bank (EIB)	1,076,666	1,095,663
Syndicated Loan	229,066	349,015
Kreditanstalt Für Wiederaufbau (KfW)	130,746	174,000
Council of European Development Bank (CEB)	206,207	143,023
Japan Bank of International Cooperation (JBIC)	74,769	113,682
Association of French Development (AFD)	137,077	95,189
Morgan Stanley	-	71,510
Instituto de Credito Oficial	5,011	7,270
Dresdner Bank	-	5,319
Barclays Bank	88,567	-
RZB Austria	18,003	-
Bank Austria Creditanstalt	17,643	-
Cash borrowings through promissory notes	232,957	-
Other domestic bank borrowings	9,440	105,821
Other foreign bank borrowings	26,493	-
	<u>2,252,645</u>	<u>2,160,492</u>
Total foreign currency borrowings	<u>3,067,988</u>	<u>2,861,670</u>
	31 December 2007 TRY'000	31 December 2006 TRY'000
<u>Turkish Lira Borrowings</u>		
EIB-Venture Capital	4,155	10,540
Domestic bank borrowings	54,031	1,202
Treasury originated funds	72	147
Total Turkish Lira borrowings	<u>58,258</u>	<u>11,889</u>
TOTAL BORROWINGS	<u>3,126,246</u>	<u>2,873,559</u>

#### IBRD EFIL II:

- Variable interest rate 5.64% for USD (31 December 2006: 5.86% for USD), repayable in scheduled instalments up to 15 January 2020.

#### IBRD REL:

- Variable interest rate 5.76% for USD (31 December 2007: 5.68% for USD), repayable in scheduled instalments up to 15 September 2019.

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **18. BORROWINGS (cont'd)**

#### **IBRD EFIL III:**

- Variable interest rate 5.64-5.89% for USD (31 December 2006: 5.86% for USD) and variable interest rate 4.63% for EUR (31 December 2006: 3.55% for EUR) repayable in scheduled instalments up to 15 January 2021.

#### **IBRD SME:**

- Variable interest rate 4.83% for EUR, repayable in scheduled installments up to 15 March 2021 (31 December 2006: N/A).

#### **EIB:**

- Fixed interest rates of 1.77-2.58% and variable interest rates of 4.88-5.35% for Euro and 3.59-5.22% for USD (31 December 2006: 3.79%-4.07% for Euro and 5.44%-5.59% for USD), repayable in scheduled instalments up to 15 September 2017.

#### **JBIC:**

- Interest rates of 1.65% - 2.40% for JPY (31 December 2006: 1.65% - 2.40% for JPY), repayable in scheduled instalments up to 28 September 2010.

#### **CEB:**

- Variable interest rates of 4.95-5.03% for EUR (31 December 2006: 3.94%- 4.05%for EUR), repayable in scheduled instalments up to 15 April 2017.

#### **KFW:**

-Interest rates of 4.87% for Euro (31 December 2006: 3.74% for Euro), repayable in scheduled instalments up to 31 May 2013.

#### **KFW SME :**

- Interest rates of 2.00% for Euro (31 December 2006: 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 2006: 2.00% for Euro), repayable in instalments up to 30 December 2032.

#### **INSTITUTO DE CREDITO OFFICIAL:**

- Interest rate of 4.00% for USD (31 December 2006: 4.00% for USD), repayable in scheduled instalments up to 17 April 2013.

#### **BANK AUSTRIA CREDITANSTALT 1:**

- Variable interest rate of 4.99% for EUR, (31 December 2006: N/A) repayable in scheduled installments up to 20 May 2009.

# **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **18. BORROWINGS (cont'd)**

#### **BANK AUSTRIA CREDITANSTALT 2:**

- Variable interest rate of 5.13% for EUR, (31 December 2006: N/A) repayable in scheduled installments up to 4 July 2009.

#### **CASH BORROWINGS THROUGH PROMISSORY NOTES:**

- Variable interest rate of 5.25-6.10 % for EUR, (31 December 2006: N/A) repayable in scheduled installments up to 26 June 2009.

#### **CASH BORROWINGS THROUGH PROMISSORY NOTES:**

- Variable interest rate of 6.05-6.77 % for USD, (31 December 2006: N/A) repayable in scheduled installments up to 27 July 2009.

#### **RZB AUSTRIA:**

- Variable interest rate of 5.79 % for USD, (31 December 2006: N/A) for USD repayable in scheduled installments up to 13 June 2008.

#### **BARCLAYS BANK:**

- Variable interest rate of 4.72 % for USD, (31 December 2006: N/A) for USD repayable in scheduled installments up to 1 December 2008.

#### **ASSOCIATION OF FRENCH DEVELOPMENT ( AFD)**

- Variable interest rate of 4.77% for EUR (31 December 2006: 3.73% for EUR), repayable in scheduled instalments up to 31 January 2017.

#### **ASSOCIATION OF FRENCH DEVELOPMENT ( AFD):**

- Variable interest rate of 4.80% for EUR, (31 December 2006: N/A) repayable in scheduled installments up to 31 January 2017.

#### **SYNDICATED LOAN:**

- Variable interest rate of 7.71% for USD, (31 December 2006: 5.68-5.73% for USD) repayable on 15 October 2016.

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

#### **TREASURY ORIGINATED FUNDS:**

- Interest rate of 16.00% (31 December 2006: 11.00-21.00%), 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 2007

### 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 2005: 30%
- In 2006: 20%
- In 2007: 20%

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was decreased to 20% for 2007 (2006: 20%).

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. 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 2007

### 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 companies 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.

#### 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.

#### a) Balance sheet:

	31 December 2007	31 December 2006
	TRY'000	TRY'000
Corporate tax	35,512	17,453
Advance income tax	(23,021)	(7,279)
	<u>12,491</u>	<u>10,174</u>

#### b) Income statement

	31 December 2007	31 December 2006
	TRY'000	TRY'000
Corporate tax charge	35,512	17,453
Deferred tax charge / (benefit)	(12,001)	6,446
	<u>23,511</u>	<u>23,899</u>

In addition to the deferred tax charged to profit or loss, a deferred tax benefit of TRY 2,104 thousand has been recognized in the equity in the current year (31 December 2006: tax charge of TRY 3,591 thousand (see note 3.19).

## TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 19. TAXATION (cont'd)

The deferred taxes on major temporary differences as at the balance sheet are as follows:

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Useful life differences on premises and equipment	822	823
Retirement pay and unused vacation provision	740	685
Finance lease receivables	652	(1,598)
General loan loss provisions	3,763	2,820
Accruals on derivative financial instruments	876	650
Other provisions	1,849	567
Loan commissions accrual adjustment	1,424	-
Others	129	37
Deferred tax asset / (liability)	<u>10,255</u>	<u>3,984</u>
Less: Valuation allowance	-	-
Net deferred tax	<u>10,255</u>	<u>3,984</u>
Reflected as:		
	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Deferred tax asset	10,255	3,984
Deferred tax liability	-	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 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 2007 TRY'000	31 December 2006 TRY'000
Income/(loss) before taxation, after monetary loss	141,036	135,235
Tax at the statutory income tax rate of 20%	28,207	27,047
Tax effect of adjustments and restatement of non monetary items	-	2,737
Effect on deferred tax balances due to the change in income tax rate	-	690
Tax effect of income that is deductible in determining taxable income	(6,068)	(8,789)
Tax effect of undeductable expenses	9,335	6,236
Tax effect of reversal of provisions	(115)	(932)
Tax effect of gains/(losses) on sale of assets	(5,836)	(2,281)
Tax effect of other deductions	(1,039)	(820)
Tax effect of loss making companies	(231)	11
Tax effect of dividend income	(742)	-
Net tax expense / (benefit)	23,511	23,899

### 20. PROVISIONS

	Current Period TRY'000	Prior Period TRY'000
<u>Provision For Retirement Pay</u>		
At 1 January	2,956	3,505
Provision for the Year	851	-
Provision Released	(568)	(146)
Indemnities Paid	(80)	(403)
At 31 December	3,159	2,956
<u>General Provision For Non-Cash Loans</u>		
At 1 January	3,121	2,516
Additions During the Year	165	605
At 31 December	3,286	3,121
<u>Provision For Other Liabilities</u>		
Provision for unused vacations	540	471
Provision for premium pay	1,288	1,127
Other Provisions	9,292	2,835
	11,120	4,433
TOTAL PROVISIONS	17,565	10,510

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 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 Pension Funds. These schemes are valued by independent actuaries every year. As per the latest actuarial valuation carried out as of 31 December 2007, the Bank has no obligation to book any provision for the Pension Funds.

#### 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 2,087.92 effective from 1 January 2008 has been taken into consideration in calculation of provision for employment termination benefits.

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

	<u>2007</u>	<u>2006</u>
Discount rate	11%	11%
Expected rate of increase in salaries and eligible ceiling	5%	5%

### 21. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting USD 50 Million (TRY 59,624 thousand) from International Finance Corporation through direct financing (31 December 2006: TRY 73.199 thousand).

The date of the loan contract is 21 September 2004. The interest rate of the subordinated loan is Libor + 2.5%; which corresponds to 7.705% as of the balance sheet date. In the first five years, there is no repayment of principal and the maturity date is 15 October 2016.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 22. EQUITY

#### Share Capital

As at 31 December 2007, the authorized and issued capital consists of 400,000,000 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 2007</u>		Authorised Capital TRY'000	Paid-Up Capital TRY'000
<u>Shareholders</u>	<u>%</u>		
T. İş Bankası A.Ş.	50.10	200,391	200,391
T. Vakıflar Bankası T.A.O	8.38	33,510	33,510
Under Custody at Merkezi Kayıt Kuruluşu (National Custody Institution)	32.57	130,287	130,287
Others	8.95	35,812	35,812
	<u>100.00</u>	<u>400,000</u>	<u>400,000</u>
<u>Components of Capital:</u>			
Nominal capital		400,000	400,000
Effect of inflation		730,035	730,035
		<u>1,130,035</u>	<u>1,130,035</u>

<u>31 December 2006</u>		Authorised Capital TRY'000	Paid-Up Capital TRY'000
<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>

The Bank has increased its nominal capital in the current period. The sources of the increase are, TRY 50,000 thousand incorporated from previous year's income and TRY 50,000 thousand incorporated from inflation effect of capital.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 22. EQUITY (cont'd)

#### Minority interest:

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

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Capital	26,333	31,031
Premium in excess of par	30	30
Unrealized gains/(losses) on available for sale investments, net of tax	21	111
Retained earnings / (accumulated losses)	(120)	(4,074)
Current period net income / (loss)	3,571	675
	<u>29,835</u>	<u>27,773</u>

### 23. OTHER OPERATING INCOME

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Dividend income	4,751	3,960
Gain on sale of assets	2,484	1,868
Increase in value of investment properties	1,507	1,060
Other	1,429	3,193
	<u>10,171</u>	<u>10,081</u>

### 24. OTHER OPERATING EXPENSES

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Personnel expenses	35,974	32,473
Depreciation and amortization	2,383	4,338
Taxes and dues other than on income	745	3,550
Marketing expenses	1,364	2,206
General provision for non-cash loans	165	605
Communication expenses	-	291
Other administrative expenses	12,541	9,267
Other	7,998	7,223
	<u>61,170</u>	<u>59,953</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 25. RELATED PARTY TRANSACTIONS AND BALANCES

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

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
<u>Balances with related parties</u>		
Loans and advances to customers	49,127	13,882
Non-cash loans	24,515	25,926
Due from other banks	6,990	6,600
Other assets	9,905	5,436
Other liabilities	5,013	3,714

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
<u>Transactions with related parties</u>		
Interest and similar income	6,217	1,101
Interest expenses and similar charges	(6,265)	(4,229)
Dividend income	14,288	12,237
Foreign exchange gain (loss)–net	(5,694)	1
Net fee and commission income	4,512	466
Operating expenses	(3)	(3)
Other income	710	1,515
Other expenses	472	-

#### 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 9,828 thousand (31 December 2006: TRY 8,824 thousand)

### 26. COMMITMENTS AND CONTINGENCIES

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Letters of guarantee	217,054	274,672
Letters of loan commitments	606,455	570,534
Letters of credit commitments	176,439	97,910
Swap and forward agreements	645,367	498,232
Option agreements	5,369,924	176,832
Futures agreements	411,748	87,485
Other commitments	575,044	69,834
	<u>8,002,031</u>	<u>1,775,499</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 27. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 Assets <u>TRY'000</u>	2007 Liabilities <u>TRY'000</u>	2006 Assets <u>TRY'000</u>	2006 Liabilities <u>TRY'000</u>
Currency swaps	5,960	20,771	6,185	10,962
Options	23,805	23,688	589	732
Forward foreign exchange contracts	1,700	610	549	2
Interest rate swaps	1	1	6	4
Others	-	142	-	-
	<u>31,466</u>	<u>45,212</u>	<u>7,329</u>	<u>11,700</u>

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

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

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Forward foreign exchange contracts – buy	81,032	57,736
Forward foreign exchange contracts – sell	77,140	57,327
Futures – buy	8,497	44,123
Futures – sell	403,251	43,362
Currency swaps – buy	238,746	191,588
Currency swaps – sell	247,680	190,973
Interest rate swaps – buy	396	306
Interest rate swaps – sell	373	302
Currency option – buy	2,519,659	86,166
Currency option – sell	2,850,265	90,666
Bond option – buy	-	-
Bond option – sell	-	-
Other – buy	243,789	34,315
Other – sell	240,017	35,511

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 28. DIVIDENDS

In March 2007, TRY 2,724 thousand dividends were paid to shareholders. In March 2006, the dividends paid were TRY 2,527 thousand.

### 29. 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.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. The ratio during the year was as follows;

	31 December 2007 %
Average during the period	141.19
Highest	151.46
Lowest	132.10

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Liquidity risk (cont'd)

As at 31 December 2007 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months <u>TRY'000</u>	3 to 12 Months <u>TRY'000</u>	Over 1 Year <u>TRY'000</u>	No Maturity <u>TRY'000</u>	Total <u>TRY'000</u>
<b>ASSETS</b>					
Liquid assets	-	-	-	1,088	1,088
Balances with the Central Bank	-	-	-	3,135	3,135
Balances with banks	32,389	-	-	18,502	50,891
Interbank money market placements	79	-	-	-	79
Funds lent under securities resale agreements	11,757	-	-	-	11,757
Financial assets at fair value through profit and loss	1,271	24,615	62,742	16,379	105,007
Derivative financial assets	15,697	11,038	4,731	-	31,466
Reserve deposits at the Central Bank	-	-	-	36,328	36,328
Loans and receivables (net)	122,843	381,249	2,235,022	-	2,739,114
Investment securities (net)	40,652	388,154	1,217,403	36,221	1,682,430
Investments in associates (net)	-	-	-	86,455	86,455
Goodwill (net)	-	-	-	383	383
Premises and equipment (net)	-	-	-	80,876	80,876
Investment properties (net)	-	-	-	4,945	4,945
Intangible assets (net)	-	-	-	586	586
Assets classified as held for sale	10,510	-	-	-	10,510
Other assets	44	130	-	62,349	62,523
Deferred tax asset (net)	-	-	-	10,255	10,255
<b>Total</b>	<b>235,242</b>	<b>805,186</b>	<b>3,519,898</b>	<b>346,992</b>	<b>4,917,828</b>
<b>LIABILITIES</b>					
Interbank money market borrowings	79	-	-	-	79
Obligations under repurchase agreements	844,249	-	-	-	844,249
Borrowings and subordinated loan	124,265	642,752	2,418,853	-	3,185,870
Derivative financial liabilities	13,354	14,141	17,717	-	45,212
Obligations under finance leases	-	456	24	-	480
Corporate tax	-	-	-	12,491	12,491
Provisions	-	-	-	17,565	17,565
Liabilities directly associated with assets classified as held for sale	2,252	-	-	-	2,252
Other liabilities	25,712	8,735	-	37,317	71,764
Deferred tax liability (net)	-	-	-	-	-
Equity attributable to equity holders of the parent	-	-	-	708,031	708,031
Minority interest	-	-	-	29,835	29,835
<b>Total</b>	<b>1,009,911</b>	<b>666,084</b>	<b>2,436,594</b>	<b>805,239</b>	<b>4,917,828</b>

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. 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 <u>TRY'000</u>	3 to 12 Months <u>TRY'000</u>	Over 1 Year <u>TRY'000</u>	No Maturity <u>TRY'000</u>	Total <u>TRY'000</u>
<b>ASSETS</b>					
Liquid assets	-	-	-	146	146
Balance with the Central Bank	-	-	-	948	948
Balances with banks	98,151	-	-	14,866	113,017
Funds lent under securities resale agreements	-	-	-	15,851	15,851
Interbank money market placements	12,638	-	-	-	12,638
Financial assets at fair value through profit and loss	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
<b>Total</b>	<b>369,015</b>	<b>736,198</b>	<b>2,742,965</b>	<b>300,669</b>	<b>4,148,847</b>
<b>LIABILITIES</b>					
Interbank money market borrowings	12,092	-	-	-	12,092
Obligations under repurchase agreements	463,762	-	-	-	463,762
Borrowings and subordinated loans	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
<b>Total</b>	<b>626,948</b>	<b>559,951</b>	<b>2,258,292</b>	<b>703,656</b>	<b>4,148,847</b>

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

Analysis of financial liabilities by remaining contractual maturities;

As of 31 December 2007	Up to 1 Month TRY'000	1-3 Months TRY'000	3-12 Months TRY'000	1-5 years TRY'000	Over 5 years TRY'000	Adjustments TRY'000	Total TRY'000
Liabilities							
Borrowings	84,057	85,272	748,851	1,500,607	1,633,995	(866,912)	3,185,870
Obligations under repurchase agreements	828,271	17,454	-	-	-	(1,476)	844,249
Total	912,328	102,726	748,851	1,500,607	1,633,995	(868,388)	4,030,119
As of 31 December 2006	Up to 1 Month TRY'000	1-3 Months TRY'000	3-12 Months TRY'000	1-5 years TRY'000	Over 5 years TRY'000	Adjustments TRY'000	Total TRY'000
Liabilities							
Borrowings	111,641	24,692	589,041	1,198,070	1,453,840	(430,526)	2,946,758
Obligations under repurchase agreements	443,373	22,265	-	-	-	(1,876)	463,762
Total	555,014	46,957	589,041	1,198,070	1,453,840	(432,402)	3,410,520

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

As of 31 December 2007	Up to 1 Month TRY'000	1-3 Months TRY'000	3-12 Months TRY'000	1-5 years TRY'000	Over 5 years TRY'000	Adjustments TRY'000	Total TRY'000
Net settled:							
Swap agreement	-	-	-	-	-	-	-
Forward Contracts	-	-	-	-	-	-	-
Future Contracts	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Gross settled:							
Swap agreement	215,231	4,151	82,297	252,094	-	(66,578)	487,195
Forward Contracts	60,279	13,431	47,042	37,420	-	-	158,172
Future Contracts	16,475	519	-	394,754	-	-	411,748
Options	1,490,129	1,262,180	2,557,544	-	60,071	-	5,369,924
Others	52,066	252,300	136,200	37,420	5,820	-	483,806
Total	1,834,180	1,532,581	2,823,083	721,688	65,891	(66,578)	6,910,845



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

As of 31 December 2006	Up to 1 Month TRY'000	1-3 Months TRY'000	3-12 Months TRY'000	1-5 years TRY'000	Over 5 years TRY'000	Adjustments TRY'000	Total TRY'000
Net settled:							
Swap agreement	-	-	-	-	-	-	-
Forward Contracts	-	-	-	-	-	-	-
Future Contracts	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Gross settled:	-	-	-	-	-	-	-
Swap agreement	133,416	59,121	59,619	165,871	101	(34,959)	383,169
Forward Contracts	20,787	26,379	26,787	41,110	-	-	115,063
Future Contracts	41,985	37,416	8,084	-	-	-	87,485
Options	81,940	92,002	2,890	-	-	-	176,832
Others	23,156	-	5,560	41,110	-	-	69,826
Total	301,284	214,918	102,940	248,091	101	(34,959)	832,375

#### 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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. 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. Credit risk by types of borrowers is as follows:

TRY'000	Loans to Real Persons and Legal Entities		Loans to Banks and Other Financial Institutions		Marketable Securities		Bank Balances	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Loans according to borrowers								
Private Sector	1,974,920	1,642,687	419,362	375,644	71,364	83,417	-	-
Public Sector	-	-	-	-	1,666,979	1,148,850	-	-
Banks	-	-	342,544	446,240	756	633	50,891	113,017
Retail Customers	2,288	1,885	-	-	-	-	-	-
Share Certificates	-	-	-	-	48,338	50,374	-	-
Total	<u>1,977,208</u>	<u>1,644,572</u>	<u>761,906</u>	<u>821,884</u>	<u>1,787,437</u>	<u>1,283,274</u>	<u>50,891</u>	<u>113,017</u>
Information according to geographical concentration								
Domestic	1,977,190	1,626,674	753,789	812,671	1,718,357	1,217,128	40,322	107,074
European Union Countries	-	17,898	-	-	47,192	66,146	5,649	2,337
OECD Countries	-	-	-	-	-	-	73	45
Off-Shore Banking Regions	-	-	-	-	-	-	654	245
USA, Canada	-	-	-	-	21,888	-	4,193	3,316
Other Countries	118	-	8,117	9,213	-	-	-	-
Total	<u>1,977,208</u>	<u>1,644,572</u>	<u>761,906</u>	<u>821,884</u>	<u>1,787,437</u>	<u>1,283,274</u>	<u>50,891</u>	<u>113,017</u>

The geographical concentration of asset liabilities and other credit related commitments are as follows:

	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
<u>31 December 2007</u>	<u>TRY'000</u>		<u>TRY'000</u>		<u>TRY'000</u>	
Turkey	4,829,972	98	1,932,725	39	8,002,031	100
Euro Zone	56,707	2	2,020,423	41	-	
Offshore	1,370	-	5,450	-	-	
Other	2,910	-	53	-	-	
USA	26,215	-	846,726	18	-	
OECD Countries	654	-	112,451	2	-	
	<u>4,917,828</u>		<u>4,917,828</u>		<u>8,002,031</u>	

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Credit risk (cont'd)

<u>31 December 2006</u>	<u>Total Assets</u> <u>TRY'000</u>	<u>%</u>	<u>Total</u> <u>Liabilities</u> <u>And Equity</u> <u>TRY'000</u>	<u>%</u>	<u>Other Credit</u> <u>Related</u> <u>Commitments</u> <u>TRY'000</u>	<u>%</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>	

The table below shows the maximum exposure to credit risk for the components of the balance sheet;

	<u>31 December</u> <u>2007</u> <u>TRY'000</u>	<u>31 December</u> <u>2006</u> <u>TRY'000</u>
Gross maximum exposure		
Liquid assets, balances with Central Bank and other banks	55,114	114,111
Financial assets at fair value through profit or loss (net)	105,007	43,458
Loans and receivables	2,739,114	2,466,456
Investments available for sale	1,682,430	1,239,816
Total	<u>4,581,665</u>	<u>3,863,841</u>
Derivative financial assets	89,823	14,571
Contingent liabilities	-	-
Commitments	249,020	170,887
Total	<u>338,843</u>	<u>185,458</u>
Total credit risk exposure	<u>4,920,508</u>	<u>4,049,299</u>

## TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 29. RISK MANAGEMENT (cont'd)

The sectoral analysis of the financial assets, before and after taking into account collateral (capped with the outstanding exposure) held is as follows;

	31 December 2007		31 December 2006	
	Gross	Net	Gross	Net
	Maximum	Maximum	Maximum	Maximum
	Exposure	Exposure	Exposure	Exposure
	<u>TRY'000</u>	<u>TRY'000</u>	<u>TRY'000</u>	<u>TRY'000</u>
Agriculture	15,856	-	7,050	-
Farming and livestock	15,856	-	7,050	-
Forestry	-	-	-	-
Fisheries	-	-	-	-
Industry	1,311,254	30,782	1,217,365	50,228
Mining and Quarry	3,601	96	5,004	423
Manufacturing Industry	849,513	9,025	842,146	27,336
Electricity, gas and water	458,140	21,661	370,215	22,469
Construction	88,230	1,268	42,888	1,604
Services	1,294,512	797,394	1,189,630	815,026
Wholesale and retail trade	65,213	35,170	17,771	312
Hotel and restaurant services	156,293	455	194,620	435
Transportation and				
Telecommunication	198,522	188	76,595	252
Financial Institutions	778,378	740,288	818,443	798,969
Real-estate and leasing services	21,539	15,425	7,118	6,259
Professional services	17,995	-	-	-
Education service	27,405	-	36,865	-
Health and social Services	29,167	5,868	38,218	8,799
Other	29,262	28,863	9,523	9,521
Total	<u>2,739,114</u>	<u>858,307</u>	<u>2,466,456</u>	<u>876,379</u>

## TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 29. RISK MANAGEMENT (cont'd)

Credit quality per class of financial assets as of 31 December 2007 is as follows;

	Neither past due nor impaired TRY'000	Past due or individually impaired TRY'000	Total TRY'000
Due from banks	50,891	-	50,891
Financial assets designated at fair value through profit or loss	103,303	1,704	105,007
Loans and advances to customers	2,738,978	136	2,739,114
Corporate lending	2,049,483	87	2,049,570
Small business lending	689,495	49	689,544
Total	<u>2,893,172</u>	<u>1,840</u>	<u>2,895,012</u>
Financial investments			
Quoted – Government debt securities	1,333,202	168,740	1,501,942
Quoted – Other debt securities	-	388	388
Unquoted – Debt securities	168,536	62,880	231,416
Quoted – Securities	14,407	3,516	17,923
Unquoted – Securities	28,900	1,530	30,430
Others	5,338	-	5,338
Total	<u>1,550,383</u>	<u>237,054</u>	<u>1,787,437</u>
Total	<u>4,443,555</u>	<u>238,894</u>	<u>4,682,449</u>

Credit quality in the base of financial assets as of 31 December 2006 is as follows:

	Neither past due nor impaired TRY'000	Past due or individually impaired TRY'000	Total TRY'000
Due from banks	113,017	-	113,017
Financial assets designated at fair value through profit or loss	43,458	-	43,458
Loans and advances to customers	2,466,149	307	2,466,456
Corporate lending	1,830,494	59	1,830,553
Small business lending	635,655	248	635,903
Total	<u>2,622,624</u>	<u>307</u>	<u>2,622,931</u>
Financial investments			
Quoted – Government debt securities	992,486	53,895	1,046,381
Quoted – Other debt securities	2,086	-	2,086
Unquoted – Debt securities	125,168	39,659	164,827
Quoted – Securities	13,544	1,673	15,217
Unquoted – Securities	32,340	1,530	33,870
Others	20,893	-	20,893
Total	<u>1,186,517</u>	<u>96,757</u>	<u>1,283,274</u>
Total	<u>3,809,141</u>	<u>97,064</u>	<u>3,906,205</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

Credit risk is evaluated according to the Parent Bank's internal rating. The cash and non-cash loans rated according to the possibility of being in default are classified from the highest grade to the lowest as stated below, impaired loans being at the bottom of the table.

31 December 2007

Basic Loan Quality Categories	Historical Default Rates %	Total
High Grade	0,0	207,175
Standard Grade	0,0	2,730,131
Sub-standard Grade	2,37	270,880
Impaired	_*	26,060
Total		<u>3,234,246</u>

(\*)Category of defaulted firms; default rate is not applicable.

As of the balance sheet date, the total of the Parent Bank's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the specific provisions and generic provision) is TRY 3,258,793 Thousand and TRY 24,547 Thousand of these customers have not been rated.

31 December 2006

Basic Loan Quality Categories	Historical Default Rates %	Total
High Grade	0,0	203,653
Standard Grade	0,0	1,604,846
Sub-standard Grade	1,91	166,721
Impaired	_*	29,445
Total		<u>2,004,665</u>

(\*)Category of defaulted firms; default rate is not applicable.

As of prior year, the total of the Parent Bank's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the specific provisions and generic provision) is TRY 2,883,554 Thousand and TRY 878,889 Thousand of these customers have not been rated.

Category "high" shows that the debtor has a strong financial structure, "standard" shows the debtor's financial structure is good enough while "sub-standard" category shows that debtor's financial structure is under risk in the short and medium term.

## TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 29. RISK MANAGEMENT (cont'd)

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2007 <u>TRY'000</u>	31 December 2006 <u>TRY'000</u>
Due from banks	-	-
Financial assets designated at fair value through profit or loss	-	-
Loans and advances to customers	9,699	18,517
Corporate lending	2,891	4,930
Small business lending	6,808	13,587
Consumer lending	-	-
Other	-	-
Total	<u>9,699</u>	<u>18,517</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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. 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 2007:

	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
<b>ASSETS</b>					
Liquid assets	-	-	-	1,088	1,088
Balance with the Central Bank	-	-	-	3,135	3,135
Balances with banks	32,389	-	-	18,502	50,891
Interbank money market placements	79	-	-	-	79
Funds lent under securities resale agreements	11,757	-	-	-	11,757
Financial assets at fair value through profit and loss	14,327	17,843	56,460	16,377	105,007
Derivative financial assets	15,697	11,038	4,731	-	31,466
Reserve deposits at the Central Bank	-	-	-	36,328	36,328
Loans and receivables (net)	1,859,627	722,624	156,863	-	2,739,114
Investment securities (net)	643,816	168,728	833,665	36,221	1,682,430
Investments in associates (net)	-	-	-	86,455	86,455
Goodwill (net)	-	-	-	383	383
Premises and equipment (net)	-	-	-	80,876	80,876
Investment properties (net)	-	-	-	4,945	4,945
Intangible assets (net)	-	-	-	586	586
Assets classified as held for sale	10,510	-	-	-	10,510
Other assets	44	130	-	62,349	62,523
Deferred tax asset (net)	-	-	-	10,255	10,255
<b>Total</b>	<b>2,588,246</b>	<b>920,363</b>	<b>1,051,719</b>	<b>357,500</b>	<b>4,917,828</b>
<b>LIABILITIES</b>					
Interbank money market borrowings	79	-	-	-	79
Obligations under repurchase agreements	827,210	17,039	-	-	844,249
Borrowings and subordinated loans	1,979,542	964,849	241,479	-	3,185,870
Derivative financial liabilities	13,354	14,141	17,717	-	45,212
Obligations under finance leases	-	456	24	-	480
Corporate tax	-	-	-	12,491	12,491
Provisions	-	-	-	17,565	17,565
Liabilities directly associated with assets classified as held for sale	2,252	-	-	-	2,252
Other liabilities	23,738	-	-	48,026	71,764
Deferred tax liability (net)	-	-	-	-	-
Equity attributable to equity holders of the parent	-	-	-	708,031	708,031
Minority interest	-	-	-	29,835	29,835
<b>Total</b>	<b>2,846,175</b>	<b>996,485</b>	<b>259,220</b>	<b>815,948</b>	<b>4,917,828</b>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. 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 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
<b>ASSETS</b>					
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
Financial assets at fair value through profit and loss	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
<b>Total</b>	<b>2,194,097</b>	<b>986,267</b>	<b>658,817</b>	<b>309,666</b>	<b>4,148,847</b>
<b>LIABILITIES</b>					
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
<b>Total</b>	<b>2,453,239</b>	<b>744,852</b>	<b>230,754</b>	<b>720,002</b>	<b>4,148,847</b>

As at 31 December 2007, a summary of average interest rates for different assets and liabilities are as follows:

	TRY %	Euro %	US Dollar %	JPY %
<b>Assets</b>				
Balances with banks	17.68	4.10	-	-
Loans	17.44	7.08	7.61	4.86
Investments available for sale	17.65	5.13	7.43	-
<b>Liabilities</b>				
Borrowings	11.51	4.82	5.85	1.96

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Interest Rate Sensitivity

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 of the balance sheet date, if interest rates had been 15% higher/lower for TRY and 10% for foreign currency interest rates for floating rate assets and liabilities of the Group and all other variables were held constant, the net profit of the Group would increase/decrease by TRY 33,376 Thousand (As of 31 December 2006 there would be TRY 4,169 Thousand increase/decrease).

In the current period, the Group's TRY floating rate financial assets have increased significantly compared to the prior period.

The nominal and market value of the Parent Bank's current period's portfolio available for sale is 34% and 37% higher, respectively, than those in the previous period. In addition to this, foreign exchange assets in the Parent Bank's portfolio are 19% of the portfolio in the current period while this ratio is 28% in the prior period in terms of fair value. This shows that the Parent Bank is more sensitive to changes in TRY interest rates.

#### **Other Price Risks**

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

#### Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the inputs (equity prices) to the valuation model had been 20% higher/lower while all other variables were held constant:

- Net profit would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of or impaired,
- Marketable securities value increase fund under the shareholders' equity would decrease/increase by TRY 563 Thousand (2006 decrease/increase by TRY 244 Thousand). This is the result of the changes in fair value of the equity shares included in the available-for-sale portfolio.

When calculating the equity price sensitivity of the available for sale portfolio, the Parent Bank's subsidiaries in the portfolio are excluded as they are not quoted on the stock exchange.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Fair values of financial instruments

As at 31 December 2007 and 31 December 2006, fair values of financial assets and liabilities are as follows:

	31 December 2007		31 December 2006	
	Carrying Value TRY'000	Fair Value TRY'000	Carrying Value TRY'000	Fair Value TRY'000
Balances with banks	50,891	50,891	113,017	113,017
Balances with the Central bank and reserve deposits	39,463	39,463	45,340	45,340
Interbank money market placements	79	79	15,851	15,851
Funds lent under securities resale agreements	11,757	11,757	12,638	12,638
Financial assets at fair value through profit and loss	105,007	105,007	43,458	43,458
Derivative financial assets	31,466	31,466	7,329	7,329
Loans and receivables (net)	2,739,114	2,739,270	2,466,456	2,457,406
Investment securities (net)	1,682,430	1,682,430	1,239,816	1,239,816
Financial assets	4,660,207	4,660,363	3,943,905	3,934,855
Interbank money market borrowings	79	79	12,092	12,092
Obligations under repurchase agreements	844,249	844,249	463,762	463,762
Borrowings and subordinated loans	3,185,870	3,185,870	2,946,758	2,946,758
Derivative financial liabilities	45,212	45,212	11,700	11,700
Obligations under financial leases	480	480	880	880
Financial liabilities	4,075,890	4,075,890	3,435,192	3,435,192

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Fair values of financial instruments (cont'd)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and, those where the valuation techniques involves the use of non observable inputs.

31 December 2007	Quoted market <u>TRY'000</u>	Valuation techniques – market observable <u>TRY'000</u>	Valuation techniques – non market observable <u>TRY'000</u>	Fair value not available <u>TRY'000</u>
Financial Assets				
Banks	-	50,891	-	-
Investments available for sale	1,421,554	190,504	70,372	-
Loans and receivables	-	2,739,114	-	-
Financial Liabilities				
Funds obtained from other financial institutions	-	4,030,119	-	-
Other liabilities	-	-	71,764	-
31 December 2006	Quoted market <u>TRY'000</u>	Valuation techniques – market observable <u>TRY'000</u>	Valuation techniques – non market observable <u>TRY'000</u>	Fair value not available <u>TRY'000</u>
Financial Assets				
Banks	-	113,017	-	-
Investments available for sale	1,036,035	122,806	80,975	-
Loans and receivables	-	2,446,456	-	-
Financial Liabilities				
Funds obtained from other financial institutions	-	3,410,520	-	-
Other liabilities	-	-	88,330	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. 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 2007:

	<u>TRY'000</u>				
	<u>EURO</u>	<u>USD</u>	<u>Yen</u>	<u>Other Foreign Currencies</u>	<u>Total</u>
<b>Assets</b>					
Liquid assets including Central Bank	76	3,838	-	1	3,915
Balances with banks	5,725	5,467	550	384	12,126
Derivative financial instruments	626	13,432	3	-	14,061
Financial assets at fair value through profit and loss	-	398	-	-	398
Loans and receivables (net)	1,466,149	1,200,777	61,441	-	2,728,367
Reserve deposits at the Central Bank	-	36,328	-	-	36,328
Investment securities (net)	61,920	260,201	-	-	322,121
Premises and equipment (net)	-	-	-	7	7
Other assets	2,289	9,627	108	5	12,029
<b>Total Assets</b>	<b>1,536,785</b>	<b>1,530,068</b>	<b>62102</b>	<b>397</b>	<b>3,129,352</b>
<b>Liabilities</b>					
Borrowings and subordinated loan	(1,581,065)	(1,471,777)	(74,770)	-	(3,127,612)
Obligations under repurchase agreements	(37,736)	(29,933)	-	-	(67,670)
Derivative financial instruments	(1,000)	(12,391)	(41)	-	(13,432)
Other liabilities	(3,725)	(16,421)	(194)	(6)	(20,346)
<b>Total Liabilities</b>	<b>(1,623,526)</b>	<b>(1,530,522)</b>	<b>(75,005)</b>	<b>(6)</b>	<b>(3,229,060)</b>
<b>Net Balance Sheet Position</b>	<b>(86,741)</b>	<b>(454)</b>	<b>(12,903)</b>	<b>391</b>	<b>(99,708)</b>
<b>Off Balance Sheet Position</b>					
Derivatives to sell	186,266	1,304,002	51,750	446	1,542,464
Derivatives to buy	(94,447)	(1,357,404)	(61,529)	(469)	(1,513,849)
<b>Net Off Balance Sheet position</b>	<b>91,819</b>	<b>(53,402)</b>	<b>(9,779)</b>	<b>(23)</b>	<b>28,615</b>
<b>Net Position</b>	<b>5,078</b>	<b>(53,856)</b>	<b>(22,682)</b>	<b>368</b>	<b>(71,093)</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Currency risk (cont'd)

The below table summarizes the foreign currency position of the Group as at 31 December 2006:

	TRY'000				
	<u>EURO</u>	<u>USD</u>	<u>Yen</u>	<u>Other Foreign Currencies</u>	<u>Total</u>
<b>Assets</b>					
Liquid assets including Central Bank	29	841	-	2	872
Balances with banks	2,906	86,903	187	296	90,292
Derivative financial instruments	6	1,558	1	-	1,565
Financial assets at fair value through profit and loss	-	122	-	-	122
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
<b>Total Assets</b>	<b>1,399,072</b>	<b>1,436,425</b>	<b>98,878</b>	<b>324</b>	<b>2,934,699</b>
<b>Liabilities</b>					
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)
Provisions	(1,340)	(4,706)	(9)	(12)	(6,067)
<b>Other liabilities</b>					
<b>Total Liabilities</b>	<b>(1,421,624)</b>	<b>(1,483,789)</b>	<b>(113,772)</b>	<b>(12)</b>	<b>(3,019,197)</b>
<b>Net Balance Sheet Position</b>	<b>(22,552)</b>	<b>(47,364)</b>	<b>(14,894)</b>	<b>312</b>	<b>(84,498)</b>
<b>Off Balance Sheet Position</b>					
Derivatives to sell	19,987	228,071	23,224	-	271,282
Derivatives to buy	(3,263)	(169,080)	(2,426)	-	(174,769)
<b>Net Off Balance Sheet position</b>	<b>16,724</b>	<b>58,991</b>	<b>20,798</b>	<b>-</b>	<b>96,513</b>
<b>Net Position</b>	<b>(5,828)</b>	<b>11,627</b>	<b>5,904</b>	<b>312</b>	<b>12,015</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Foreign currency sensitivity

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Parent Bank's top management.

Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

The Parent Bank has no foreign currency and net foreign investment hedging transactions through derivative instruments.

The Group is mostly exposed to EURO, US Dollars, JPY currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TRY against US Dollars, EURO and JPY.

<u>TRY'000</u>	% Decrease in foreign currency rate	Effect on profit or loss		Effect on equity	
		31 December 2007	31 December 2006	31 December 2007	31 December 2006
USD	10%	5,579	(936)	(193)	(227)
EUR	10%	(716)	503	208	81
JPY	10%	2,268	(590)	-	-
Others	10%	(37)	(31)	-	-

  

<u>TRY'000</u>	% Increase in foreign currency rate	Effect on profit or loss		Effect on equity	
		31 December 2007	31 December 2006	31 December 2007	31 December 2006
USD	10%	(5,579)	936	193	227
EUR	10%	716	(503)	(208)	(81)
JPY	10%	(2,268)	590	-	-
Others	10%	37	31	-	-

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 29. RISK MANAGEMENT (cont'd)

#### Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. The minimum ratio is 8%. This ratio measures capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of 31 December 2007, its capital adequacy ratio on an unconsolidated basis is 27.62% (31 December 2006 – 32.89%). The Group's consolidated capital adequacy ratio as of 31 December 2007 is 24.57% (2006 - 30.34%).

#### 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.

### 30. 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 2007 and 2006 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	2007	2006
Number of shares outstanding at 1 January	300,000,000	200,000,000
New shares issued		-
Conversion of existing reserves	100,000,000	200,000,000
Number of shares outstanding at the period end	400,000,000	400,000,000
Weighted average number of shares during the period	400,000,000	400,000,000
Net profit / (loss) (TRY thousand)	117,525	111,336
Basic earnings / (loss) per share (in full TRY)	0.2938	0.2783



## **TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **31. EVENTS AFTER THE BALANCE SHEET DATE**

In the meeting of the Board of Directors held on 14 February 2008; it has been resolved that, paid-in capital of the Bank will be increased from TRY 400.000 Thousand to TRY 500.000 Thousand by TRY 100.000 Thousand. In respect of the resolution of the General Assembly, TRY 84.000 Thousand of this increase will be incorporated from the profit of the year 2007 and TRY 16.000 Thousand from share capital inflation restatement adjustment. The increase in the paid-in capital was approved by BRSA on 11 April 2008; however registration procedures have not been completed as of the date of this report.

In the Board of Directors meeting held on 24 April 2008; it has been resolved that the syndicated loan which was signed on 25 April 2007 and had a maturity of 30 April 2008 would be renewed on 28 April 2008 with an international consortium that covers seven banks (Dresdner Bank AG, American Express Bank Ltd., Bayerische Hypo-und Vereinsbank AG, Citibank N.A., Commerzbank Aktiengesellschaft, Natixis and The Bank of Nova Scotia) to extend its maturity for another year with a balance of USD 105 million.