

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

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR  
ENDED DECEMBER 31, 2008

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

DRT Bağımsız Denetim ve  
Serbest Muhasebeci  
Malî Müşavirlik A.Ş.  
Sun Plaza  
No: 24  
34398 Maslak  
İstanbul, Türkiye

Tel: (212) 366 6000  
Fax: (212) 366 6010  
www.deloitte.com.tr

## 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 December 31, 2008 and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

The Group's 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 present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2008 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.



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

İstanbul, April 30, 2009

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### ASSETS

		December 31, 2008 TRY'000	As Restated (See note 31) December 31, 2007 TRY'000
	Notes		
Liquid Assets	5	297	1,088
Balances with the Central Bank	6	2,620	3,135
Balances with Banks	7	213,723	50,891
Interbank Money Market Placements		7,946	79
Funds Lent under Securities Resale Agreements		11,971	11,757
Financial Assets at Fair Value Through Profit and Loss	8	38,487	105,007
Derivative Financial Assets Held for Trading	27	21,055	31,466
Reserve Deposits at the Central Bank	6	40,735	36,328
Loans and Receivables	9	3,792,562	2,758,736
Financial Asset Available for Sale	10	1,770,288	1,682,430
Financial Asset Held to Maturity	10	6,514	-
Investments in Associates	11	110,588	86,455
Goodwill	12	383	383
Premises and Equipment	13	117,776	80,876
Investment Properties	14	5,415	4,945
Intangible Assets	15	740	586
Assets Classified as Held For Sale		-	10,510
Other Assets	16	159,090	62,523
Deferred Tax Asset	19	17,449	6,942
<b>Total Assets</b>		<b>6,317,639</b>	<b>4,934,137</b>

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### LIABILITIES

		December 31, 2008 TRY'000	As restated (See note 31) December 31, 2007 TRY'000
	Notes		
Interbank Money Market Borrowings		13,834	79
Obligations under Repurchase Agreements	17	807,988	844,249
Funds Borrowed	18	4,451,251	3,126,246
Derivative Financial Liabilities Held for Trading	27	26,936	45,212
Obligations under Finance Leases		23	480
Corporate Tax	19	14,353	12,491
Provisions	20	9,113	7,472
Subordinated Loan	21	70,629	59,624
Other Liabilities		75,197	71,764
Liabilities Directly Associated with Assets Classified as Held for Sale		-	2,252
Total Liabilities		<u>5,469,324</u>	<u>4,169,869</u>
<u>Equity</u>	22		
Share Capital			
Nominal Paid in Capital		500,000	400,000
Inflation Adjustment to Capital		714,035	730,035
Total Capital		<u>1,214,035</u>	<u>1,130,035</u>
Premium in Excess of Par		13	13
Unrealized Gains/(Losses) on Financial Assets Available for Sale, Net of Tax		(28,278)	14,086
Accumulated Losses		<u>(361,475)</u>	<u>(409,701)</u>
Equity attributable to Equity Holders of the Parent		<u>824,295</u>	<u>734,433</u>
Minority Interest		<u>24,020</u>	<u>29,835</u>
Total Equity		<u>848,315</u>	<u>764,268</u>
Total Liabilities And Shareholders' Equity		<u>6,317,639</u>	<u>4,934,137</u>

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 DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated

		January 1, – December 31, 2008 TRY'000	As Restated (See note 31) January 1, – December 31, 2007 TRY'000
	Notes		
Interest Income			
Interest on Loans		177,141	166,427
Interest on Interbank Money Market Placements		117	272
Interest on Securities		243,662	209,963
Interest Received from Banks		10,828	10,845
Interest Received from Reserve Deposits		652	1,129
Interest on Financial Leases		16,278	17,163
Other Interest Income		1,398	7,227
		<u>450,076</u>	<u>413,026</u>
Interest Expenses			
Interest on Interbank Money Market Borrowings		(105,040)	(119,319)
Interest on Funds Borrowed		(93,020)	(150,216)
Other Interest Expenses		(121)	(360)
		<u>(198,181)</u>	<u>(269,895)</u>
<b>Net Interest Income / (Expenses)</b>		<b>251,895</b>	<b>143,131</b>
Fees and Commission Income		17,541	22,540
Fees and Commission Expenses		(1,525)	(707)
<b>Net Fee and Commission Income / (Expenses)</b>		<b>16,016</b>	<b>21,833</b>
Net Foreign Currency Gains / (Losses)		(14,677)	(15,673)
Net Securities Trading Gains / (Losses)		(25,553)	27,752
<b>Total Trading Income / (Loss)</b>		<b>(24,214)</b>	<b>33,912</b>
(Provision for)/Recoveries and Releases from Impairment on Loans and Receivables		(35,790)	3,805
<b>Net Operating Income / (Loss) after Impairment Losses</b>		<b>191,891</b>	<b>180,848</b>
Other Operating Income	23	9,442	10,171
Other Operating Expenses	24	(70,727)	(61,170)
Income / (Loss) from Associates		28,402	14,046
<b>Income / (Loss) before Taxation</b>		<b>159,008</b>	<b>143,895</b>
Taxation	19	(28,722)	(24,616)
<b>Net Income / (Loss)</b>		<b>130,286</b>	<b>119,279</b>
<b>Net Income / (Loss) Attributable to:</b>			
Equity Holders of the Parent		135,041	115,708
Minority Interest		(4,755)	3,571
		<u>130,286</u>	<u>119,279</u>
Weighted Number of Shares (in Million)		500,000	500,000
<b>Earnings Per Share (In Full TRY)</b>	32	<u>0.2606</u>	<u>0.2386</u>

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

	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
<b>At December 31, 2006 (As previously reported)</b>								
Effect of restatement in accordance with IAS 8	300,000	780,035	13	(11,474)	(491,706)	576,868	27,773	604,641
<b>At December 31, 2006 (As restated)</b>								
Transfers to capital	300,000	780,035	13	(11,474)	(467,058)	601,516	27,773	629,289
Gain/(loss) on available for sale investments, net	100,000	(50,000)	-	-	(50,000)	-	-	-
Dividends paid	-	-	-	25,560	(5,627)	19,933	-	19,933
Change in minority interest	-	-	-	-	(2,724)	(2,724)	-	(2,724)
Income / (loss) for the period	-	-	-	-	-	-	(1,509)	(1,509)
<b>At December 31, 2007 (As restated)</b>								
	400,000	730,035	13	14,086	(409,701)	734,433	29,835	764,268
<b>At December 31, 2007 (As previously reported)</b>								
Effect of restatement in accordance with IAS 8 (see note 31)	400,000	730,035	13	14,086	(436,103)	708,031	29,835	737,866
<b>At December 31, 2007 (As restated)</b>								
Transfers to capital	400,000	730,035	13	14,086	(409,701)	734,433	29,835	764,268
Gain/(loss) on available for sale investments, net	100,000	(16,000)	-	-	(84,000)	-	-	-
Dividends paid	-	-	-	(42,364)	-	(42,364)	-	(42,364)
Change in minority interest	-	-	-	-	(2,815)	(2,815)	-	(2,815)
Income / (loss) for the period	-	-	-	-	-	-	(1,060)	(1,060)
<b>At December 31, 2008</b>								
	500,000	714,035	13	(28,278)	(361,475)	824,295	24,020	848,315

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 DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

		January 1, – December 31, 2008 TRY'000	As Restated (See note 31) January 1, – December 31, 2007 TRY'000
Cash Flows from Operating Activities:			
Net Profit for the Year	Notes	130,286	119,279
Adjustments to Reconcile Net Income to Net			
Cash Provided by Operating Activities:			
Depreciation of property and equipment booked in operating expenses	13	4,420	2,216
Amortization of intangible assets	15	213	167
Impairment losses on loans and receivables	9	31,609	(5,448)
Employment termination benefits / releases	20	564	270
Income from associates		(28,402)	(14,046)
Other provision expenses		1,077	(3,308)
Deferred tax (benefit) / charge	19	(2,790)	(10,896)
Accrued (income)/expense		(88,318)	35,134
Minority interest	22	4,755	(3,571)
Operating profit before changes in operating assets / liabilities		53,414	119,797
Changes in Operating Assets and Liabilities:			
(Increase) / decrease loans and leasing receivables		(1,095,966)	(668,736)
(Increase) / decrease in other assets		(113,480)	14,328
Increase / (decrease) in other creditors, taxes & liabilities		56,693	398,657
		(1,152,753)	(255,751)
Income taxes paid		(28,377)	(28,367)
Net Cash (Used in) Operating Activities		(1,181,130)	(284,118)
Cash Flows from Investing Activities:			
(Increase) in reserve requirements with the Central Bank		(3,892)	8,064
(Increase) in investments held for trading		65,249	(60,668)
(Increase) / decrease in investments		(82,709)	(459,159)
(Increase) / decrease in equity investment		4,269	(3,925)
(Purchase) / sale of premises and equipment and investment property		(31,280)	(38,922)
Purchase of intangible assets	15	(367)	(276)
Net cash (used in) / provided by investing activities		(48,730)	(554,886)
Cash Flow from Financing Activities:			
New borrowings		1,772,842	1,412,246
Repayment of borrowings		(423,077)	(759,717)
Increase in / (repayment of) obligations under finance lease		(457)	(400)
Dividends paid	28	(2,815)	(2,724)
Net cash (used in) / provided by financing activities		1,346,493	649,405
Net Increase / (Decrease) in Cash and Cash Equivalents		170,047	(69,804)
Cash and Cash Equivalents at the Beginning of the Year		51,881	121,685
Cash and Cash Equivalents at the End of the Year		221,928	51,881

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 DECEMBER 31, 2008**

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### **1. ACTIVITIES OF THE BANK AND THE GROUP**

Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB" or the "Bank") was established on May 31, 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 March 27, 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 161 Fındıklı, İstanbul, Turkey.

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 Subsidiaries**

##### **Yatırım Finansman Menkul Değerler A.Ş.:**

Yatırım Finansman Menkul Değerler A.Ş. was established and registered with İstanbul Trade Registry on October 15, 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on October 25, 1976. 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 December 29, 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 February 3, 2006.

##### **Yatırım Finansman Yatırım Ortaklığı A.Ş.:**

Yatırım Finansman Yatırım Ortaklığı A.Ş., was established and registered with İstanbul Trade Registry on December 31, 1998 and it was announced in the Turkish Trade Registry Gazette No: 4714 on January 18, 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 Law No: 3794, and the related legislation.

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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008**

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

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

##### **Yatırım Finansman Yatırım Ortaklığı A.Ş. (cont'd):**

In the Board of Directors' meetings of the Bank's associates TSKB Yatırım Ortaklığı A.Ş. and Yatırım Finansman Yatırım Ortaklığı A.Ş. held on September 24, 2008, it has been resolved that these two entities will be merged under TSKB Yatırım Ortaklığı A.Ş. according to the article 451 of Turkish Commercial Code, and 19th and 20th articles of Corporate Tax Law No: 5520. For this purpose, managements of these companies have been authorized to fulfill the required duties and transactions. In the Competition Board's meeting held on February 4, 2009 and 09/04/67-24 numbered, the merger of these two entities was permitted.

##### **TSKB Yatırım Ortaklığı A.Ş.:**

The Company was established under the name of SYB Yatırım Ortaklığı A.Ş. on November 10, 2000. The Company's name, Sınai Yatırım Bankası Yatırım Ortaklığı A.Ş., was changed into TSKB Yatırım Ortaklığı A.Ş. on April 17, 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 April 24, 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 February 8, 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 Faktoring Finansman Hizmetleri A.Ş.:**

İş Faktoring Finansman Hizmetleri A.Ş., was incorporated in Turkey on July 4, 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.

#### **Approval of Financial Statements**

The Bank's statutory financial statements for the year ended December 31, 2008 have been approved at the General Assembly Meeting held on March 25, 2009.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 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 prior year figures to comply with the current year presentation wherever required.

#### **Changes in Accounting Policies**

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (“the IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2008. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank’s accounting policies in the following areas:

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but they are not relevant to the Bank’s operations:

IFRIC 11, “IFRS 2 – Group and treasury share transactions”,

IFRIC 12, “Service concession arrangements”,

IFRIC 14, “IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction”.

Amendments to IAS 39 and IFRS 7 “Reclassification of Financial Instruments”.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

- |   |  |
|---|--|
| • IFRS 8, "Operating segments"  | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRIC 13, "Customer loyalty programs"   | Effective for annual periods beginning on or after July 1, 2008    |
| • IFRIC 15, "Agreements for the construction of real estate"  | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRIC 16, "Hedges of a net investment in a foreign operation"   | Effective for annual periods beginning on or after October 1, 2008 |
| • IFRIC 17, "Distributions of non-cash assets to owners"  | Effective for annual periods beginning on or after July 1, 2009    |
| • IFRIC 18, "Transfers of Assets from Customers"  | Effective for transfers received on or after July 1, 2009          |
| • IFRS 2, "Share-based payments"<br>- Amendment relating to vesting conditions and cancellations"   | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRS 1, "First-time Adoption of International Financial Reporting Standards"<br>- Amendment relating to cost of an investment on first-time adoption" | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRS 3, "Business Combinations"   | Effective for annual periods beginning on or after July 1, 2009    |
| • IAS 27, "Consolidated and Separate Financial Statements"  |  |
| • IAS 28, "Investments in Associates"   |  |
| • IAS 31 "Interests in Joint Ventures" Comprehensive revision on applying the acquisition method  |  |
| • IAS 23, "(Amendment) Borrowing costs"<br>Comprehensive revision to prohibit immediate expensing   | Effective for annual periods beginning on or after January 1, 2009 |
| • IAS 27, "Consolidated and Separate Financial Statements"<br>Amendment relating to cost of an investment on first-time adoption                        | Effective for annual periods beginning on or after January 1, 2009 |
| • IAS 1, "Presentation of Financial Statements"<br>Comprehensive revision including requiring a statement of comprehensive income                       | Effective for annual periods beginning on or after January 1, 2009 |
| • IAS 39, "Financial Instruments: Recognition and Measurement"<br>Amendments for eligible hedged items  | Effective for annual periods beginning on or after January 1, 2009 |

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (cont'd)

Amendments to IFRS 1 “First-time Adaptation of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements”

The amendment determines the cost of a subsidiary, jointly controlled entity or associate on transition to IFRS under IAS 27 or as a deemed cost. The amendment to IAS 27 requires the recognition of dividends from a subsidiary, jointly controlled entity or associate as income in the unconsolidated financial statements. The adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

IFRS 2 “Share-Based Payments”

The amendments clarify the definition of vesting conditions and introduce the concept of a ‘non-vesting condition’ which is a condition that is neither a service condition nor a performance condition. The standard also requires the application of similar criteria to be used in the recognition of awards cancelled by either an entity or the counterparty (employer or employee). The adoption IFRS 2 in future periods will have no material impact on the financial statements of the Group.

IFRS 8 “Operating Segments”

IFRS 8 “Operating Segments” supersedes IAS 14 ‘Segment Reporting’. The standard specifies how an entity should report information about its operating segments based on the segment criteria used in internal reporting which are prepared by the management. The Group will apply IFRS 8 for annual periods beginning from January 1, 2009.

IAS 32 and IAS 1 “Puttable Instruments and Obligations Arising On Liquidation”

Under the revised IAS 32, subject to specified criteria are being met, puttable instruments and obligations arising on liquidation will be classified as equity while, the amendment to IAS 1 requires the definition and disclosure of such instruments, which are classified as equity. The adoption of these standards in future periods will have no material impact on the financial statements of the Group.

IAS 23 (Revised) “Borrowing Costs”

The amendment requires an entity to capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The amendment will eliminate the expensing option of borrowing costs in the period in which they are incurred. The adoption of these standards in future periods will have no material impact on the financial statements of the Group.

IFRS 3 “Business Combinations”

The amendments require the recognition of an acquisition related cost of a business combination as an expense in the period in which the cost is incurred. It also requires subsequent changes in the fair value of a contingent consideration recognized in business combination to be recognized in the statement of income rather than in equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (cont'd)

**IFRIC 13 “Customer Loyalty Programmers”**

Under IFRIC 13, customer loyalty programmers should be recognized as a separately identifiable component of the sales transaction(s). A portion of the fair value of the consideration received in respect of the initial sale shall be allocated to the award credits and the consideration allocated to award credits should be recognized as revenue when awards credits are redeemed. The adoption IFRIC 13 in future periods will have no material impact on the financial statements of the Group because the interpretation is not relevant to its operations.

**IFRIC 15 “Agreements for the Construction of Real Estate”**

IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 “Construction Contracts” or IAS 18 “Revenue” and when revenue from the construction should be recognised. The adoption of the interpretation in future periods will have no material impact on the financial statements of the Group.

**IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”**

IFRIC 16 provides guidance on three main issues: The presentation currency used in the entity’s financial statements cannot be used as a basis for the application of hedge accounting. Therefore, a hedged risk can be considered as the exchange differences arising between the functional currency of the foreign operation and the presentation currency used in the financial statements of the parent entity. A hedging instrument can be held within the Company or companies. The adoption of the interpretation in future periods will have no material impact on the financial statements of the Group.

**IFRIC 17 “Distributions of Non-Cash Assets to Owners”**

IFRIC 17 applies to all reciprocal non-cash distributions of assets by an entity to its owners, including the distributions that give owners a choice of receiving either non-cash assets or a cash alternative. The adoption of the interpretation in future periods will have no material impact on the financial statements of the Group.

**IFRIC 18 “Transfers of Assets from Customers”**

The Interpretation clarifies the accounting for cash received from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services. The adoption of the interpretation in future periods will have no material impact on the financial statements of the Group.

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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008**

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (cont'd)

IAS 1 (Revised) "Presentation of Financial Statements"

IAS 1 has been revised in order to improve users' ability to analyze and compare the information given in financial statements. Changes made to the revised standard are summarized below:

- the statement of changes in equity can only include transactions with shareholders;
- in addition to statement of income, presentation of a new "Statement of Other Comprehensive Income" showing all income and expense items as profit and loss; and
- interpretation of prior financial statements in the current period, or presentation of the prior effects of the retrospective application of new accounting policies in a newly formed column in the financial statements.

IAS 39, "Financial Instruments: Recognition and Measurement" Amendments for eligible hedged items

The amendment clarifies that inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument.

The Group's management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

### **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 convention, except for those assets and liabilities measured at fair value. 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.

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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008**

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

#### **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 December 31, 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.

In accordance with Law No: 5083 "Monetary Unit of the Turkish Republic" (Law No: 5083), the name of the Turkish Republic's monetary unit and its sub-currency unit is changed to the New Turkish Lira and the New Turkish Cent, respectively. However, in accordance with the additional resolution of the Council of Ministers in regards to the order on the removal of the phrase "New" in the New Turkish Lira and the New Turkish Cent and Its Application Principles, the phrase "New" used in the Turkish Republic's monetary unit is removed both from New Turkish Lira and the New Turkish Cent as of January 1, 2009.

#### **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.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### 3.3 Basis of Consolidation (cont'd)

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 holdings:

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Share (%)</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 Share (%)</u>
İş Finansal Kiralama A.Ş.	Financial	28.56
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Financial	16.67
İş Faktoring Finansman Hizmetleri A.Ş.	Financial	21.75

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 Share (%)</u>
TSKB Gayrimenkul Değerleme A.Ş.	Real-Estate Appraiser	99.99
Gözlük Sanayi A.Ş.	Manufacturing	21.71

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008 ---

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### **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.

#### **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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### 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.

#### 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 received from cash loans, that are not an integral part of the effective interest rate 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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

#### 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 December 31, 2008 and December 31, 2007 foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and Yen. As at December 31, 2008 and December 31, 2007 exchange rates of US Dollar, Euro and Yen are as follows:

	December 31, 2008	December 31, 2007
1 US Dollar	1.5160	1.1640
1 Euro	2.1345	1.7163
1 JPY	0.0168	0.0104

Average rates are as follows:

	2008	2007
1 US Dollar	1.5361	1.1751
1 Euro	2.0737	1.7116
1 JPY	0.0169	0.0105

#### 3.9 Financial Instruments

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized.

##### Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

##### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances such as selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held to maturity securities is reflected in the income statement as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

##### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used.

##### 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.

##### Financial liabilities and equity

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

##### Bank borrowings

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

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### 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.

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FOR THE YEAR ENDED DECEMBER 31, 2008**

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

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

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.

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.



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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008**

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

#### **3.10 Investments under Resale or Repurchase Transactions**

Sales of investments under agreements of repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase (“Repos”) are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as investments held for trading, investments held to maturity or investments available for sale, and interest expense is accounted for on an accrual basis over the period of the transactions.

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

#### **3.11 Recognition and Derecognition of Financial Instruments**

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognized to the extent of the Group’s continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognizing of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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

#### 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.

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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### 3.14 Leasing (cont'd)

##### The Group as Lessor (cont'd)

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.

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 of Financial Assets

##### a) Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans or not. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obliger;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties;
- or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - (i) adverse changes in the payment status of borrowers; or
  - (ii) national or local economic conditions that correlate with defaults on the assets in the group.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### 3.15 Impairment of Financial Assets (cont'd)

##### a) Assets carried at amortized cost (cont'd)

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the carrying amount and the estimated recoverable amount of the asset, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence for impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off are included in income.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value since its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the recoverable amount of the asset.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### 3.15 Impairment of Financial Assets (cont'd)

##### c) Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

##### d) Interest – Bearing Funds Borrowed

All borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing funds borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

#### 3.16 Provisions

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

#### 3.17 Retirement Benefits

The Group has defined benefit plans as described below:

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

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

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

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

“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 November 1, 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.

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. 2008/33 dated March 22, 2007 that were published in the Official Gazette No: 26479 on March 31, 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 December 15, 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 April 17, 2008 and published in the Official Gazette No: 26870 on May 8, 2008.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR-ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

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

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Savings Deposit Insurance Fund, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9.80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from January 1, 2008.

The Main Opposition Party has appealed to the Higher Court on June 19, 2008 for cancellation of some articles, including the first paragraph of 20th temporary article of the Law, and requested them to be ineffective until the case of revocatory action is finalized. As of the date of the publication of these financial statements, there is no decision announced by the Higher Court regarding the revocatory action.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of December 31, 2008 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per February 8, 2009 dated actuarial report, the liabilities, subject to the transfer to the Social Security Institution, are financed by the assets of the Pension Fund.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after in the context expressed above, would be financed by the assets of the Pension Fund and would not result in any extra burden on the Bank.

#### 3.18 Taxation

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### 3.18 Taxation (cont'd)

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.

#### 3.19 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 DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### **3.20 Netting of Financial Assets and Liabilities**

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.

#### **3.21 Fiduciary 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.

#### **3.22 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.

#### **3.23 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 DECEMBER 31, 2008**

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**4. SEGMENT INFORMATION**

<u>STATEMENT OF INCOME</u> <u>Year ending December 31, 2008</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	441,987	10,270	452,257	(2,181)	450,076
Interest Expenses	(198,426)	(1,844)	(200,270)	2,089	(198,181)
Net Interest Income / (Expenses)	<u>243,561</u>	<u>8,426</u>	<u>251,987</u>	<u>(92)</u>	<u>251,895</u>
Net Fee and Commission Income / (Expense)	3,842	12,174	16,016	-	16,016
Net Foreign Currency Gains / (Losses)	(6,736)	(7,941)	(14,677)	-	(14,677)
Net Securities Trading Gains / (Losses)	(20,898)	(4,655)	(25,553)	-	(25,553)
Total Trading Income / (Loss)	<u>(23,792)</u>	<u>(422)</u>	<u>(24,214)</u>	<u>-</u>	<u>(24,214)</u>
(Provision for) / Recoveries from Impairment on Loans and Receivables, net	(34,986)	(804)	(35,790)	-	(35,790)
Net Operating Income / (Loss) after Impairment Losses	<u>184,783</u>	<u>7,200</u>	<u>191,983</u>	<u>(92)</u>	<u>191,891</u>
Other Operating Income	27,769	14,530	42,299	(32,857)	9,442
Other Operating Expenses	(51,748)	(23,259)	(75,007)	4,280	(70,727)
Income / (Loss) from Associates	-	-	-	28,402	28,402
Income / (Loss) before Taxation	<u>160,804</u>	<u>(1,529)</u>	<u>159,275</u>	<u>(267)</u>	<u>159,008</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**4. SEGMENT INFORMATION (cont'd)**

<u>STATEMENT OF INCOME</u> <u>Year ending December 31, 2007</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	406,678	8,018	414,696	(1,670)	413,026
Interest Expenses	(269,696)	(220)	(269,916)	21	(269,895)
Net Interest Income / (Loss)	<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	3,805	-	3,805	-	3,805
Net Operating Income / (Loss) After Impairment	<u>149,669</u>	<u>32,828</u>	<u>182,497</u>	<u>(1,649)</u>	<u>180,848</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>155,175</u>	<u>18,223</u>	<u>173,398</u>	<u>(29,503)</u>	<u>143,895</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

**BALANCE SHEET**

At December 31, 2008

Total Assets	Banking TRY'000	Securities Brokerage and other TRY'000	Combined TRY'000	Eliminations TRY'000	Total TRY'000
	6,225,214	330,640	6,555,854	(238,215)	6,317,639
Liabilities	5,394,827	151,023	5,545,850	(76,526)	5,469,324
Shareholders' Equity Before Net Income	698,051	181,400	879,451	(161,422)	718,029
Net Income / (Loss)	132,336	(1,783)	130,553	(267)	130,286
Total Shareholders' Equity	830,387	179,617	1,010,004	(161,689)	848,315
Total Liabilities and Shareholders' Equity	6,225,214	330,640	6,555,854	(238,215)	6,317,639
<u>At December 31, 2007</u>					
Total Assets	4,903,014	261,298	5,164,312	(230,175)	4,934,137
Liabilities	4,097,686	102,832	4,200,518	(30,649)	4,169,869
Shareholders' Equity Before Net Income	673,008	142,004	815,012	(170,023)	644,989
Net Income / (Loss)	132,320	16,462	148,782	(29,503)	119,279
Total Shareholders' Equity	805,328	158,466	963,794	(199,526)	764,268
Total Liabilities and Shareholders' Equity	4,903,014	261,298	5,164,312	(230,175)	4,934,137

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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### 5. LIQUID ASSETS

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Cash balances – New Turkish Lira (“TRY”)	129	210
Cash balances – Foreign currencies (“FC”)	168	878
	<u>297</u>	<u>1,088</u>

### 6. BALANCES WITH THE CENTRAL BANK

#### a) Balances with the Central Bank

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Demand deposits – TRY	483	98
Demand deposits – FC	2,137	3,037
	<u>2,620</u>	<u>3,135</u>

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

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Foreign currency reserves	40,735	36,328
	<u>40,735</u>	<u>36,328</u>

Under the regulations of the Central Bank of Turkish Republic (“Central Bank”), banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than domestic inter-bank deposits. These reserves are not available funds to finance the operations of the Bank. Such New Turkish Lira and foreign currency reserves maintained with the Central Bank earn interest at the interest rates of 12.00% for TRY deposits (December 31, 2007: 11.81% for TRY deposits, 1.95% for USD deposits and 1.80% 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 DECEMBER 31, 2008

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### 7. BALANCES WITH BANKS

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
<u>Domestic Banks</u>		
Demand deposits – TRY	2,224	7,217
Time deposits – TRY	55,944	31,548
Demand deposits – FC	946	529
Time deposits – FC	11,209	1,028
	<u>70,323</u>	<u>40,322</u>
<u>Banks Abroad</u>		
Demand deposits – FC	26,000	10,569
Time deposits – FC	117,400	-
	<u>143,400</u>	<u>10,569</u>
Total	<u>213,723</u>	<u>50,891</u>

The time deposits above mature within 1 - 84 days and earn interest at rates ranging 1.85-7.25% for foreign currency balances and 15.00 – 23.00% for TRY balances as at the balance sheet date (December 31, 2007: Maturity: 1-90 days; interest rate 4.10% for foreign currency, 16.50-18.23% for TRY balances).

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

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Government bonds and treasury bills in TRY	27,084	87,139
Investment funds	911	2,350
Equity shares	10,444	15,120
Government bonds and treasury bills in FC	48	398
Total	<u>38,487</u>	<u>105,007</u>

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 1,640 Thousand trading securities and also securities given as collateral or blocked amounting to TRY 3,823 Thousand as at the balance sheet date (December 31, 2007: TRY 10,271 Thousand and TRY 11,238 Thousand, respectively).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 9. LOANS AND RECEIVABLES

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Short-term loans	63,433	61,163
Long-term loans	3,535,023	2,462,717
Investment in direct finance leases, net	215,613	230,762
Total performing loans	3,814,069	2,754,642
Loans in arrears	25,428	19,420
Total loans	3,839,497	2,774,062
Less: Specific allowance for impairment losses on loans	(8,684)	(5,690)
Less: Portfolio allowance for impairment losses on loans	(38,251)	(9,636)
Total loans	3,792,562	2,758,736

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

	2008 TRY'000	2007 TRY'000
Specific Allowance For Cash Loans:		
As of January 1,	5,690	17,718
Charge for the year	6,530	2,350
Allowance released and write offs	(3,536)	(14,378)
As of December 31,	8,684	5,690
Portfolio Allowance For Cash Loans:		
As of January 1,	9,636	3,056
Charge for the year	28,615	6,808
Allowance released and write offs	-	(228)
As of December 31,	38,251	9,636
Total Allowance	46,935	15,326

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

Sector	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Corporate customers	2,732,303	2,080,355
Small business	1,102,483	693,707
Other	4,711	-
	3,839,497	2,774,062

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

Currency	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Euro	1,144,925	918,502
US Dollar	1,063,270	829,282
Foreign currency indexed TRY loans	1,505,898	929,532
New Turkish Lira	79,196	45,850
Other currencies	46,208	50,896
Total	3,839,497	2,774,062

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, receivables and arrears can be analyzed by sector as follows:

Sector	December 31, 2008			December 31, 2007		
	Long Term	Short Term	Arrears	Long Term	Short Term	Arrears
	TRY'000	TRY'000	TRY'000	TRY'000	TRY'000	TRY'000
Finance	1,013,193	-	5,343	747,460	12,795	-
Energy	821,723	-	-	457,630	3,229	-
Tourism	169,776	2,038	-	154,447	2,707	-
Textile	95,639	11,326	8,234	117,156	3,759	9,846
Chemical	148,700	4,558	-	98,921	-	94
Food and Beverages	148,096	-	1,609	120,875	12,608	2,550
Cement	121,708	27	-	97,120	351	-
Health Services	21,462	4,081	-	29,382	-	-
Metal	179,231	1,548	-	121,763	4,195	-
Plastics	68,216	996	3,216	61,492	1,223	4,345
Motor Vehicles	119,125	-	-	96,657	830	-
Construction	160,556	35,817	540	86,958	1,767	358
Machinery Production	27,253	608	298	26,780	-	366
Pulp and Paper	79,080	-	1,743	41,897	2,206	1,659
Ceramics	45,961	-	-	25,608	1,394	-
Lumber and Wood	44,319	140	-	24,667	-	-
Rubber & Tires	3,710	157	-	4,879	-	-
Education	36,264	-	-	27,563	-	-
Shipyard	-	10,843	-	38	-	-
Farming	27,773	-	4,256	15,945	-	-
Other	403,332	6,813	189	333,477	16,863	202
	3,735,117	78,952	25,428	2,690,715	63,927	19,420

Interest rates charged for short term loans are 14.90-24.11% for New Turkish Lira loans, 5.00-8.57% for Euro loans and 4.29-9.02% for US Dollar loans per annum during the year (December 31, 2007: 21.00-24.00% for New Turkish Lira loans, 6.11% for EURO loan and 6.05-7.36% for US Dollar loans).



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

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

	December 31, 2008	December 31, 2007
Euro	3.77-10.14%	3.77-9.37%
US Dollars	2.85-8.50%	5.00-9.94%
TRY	14.50-22.00%	14.50-22.00%
JPY	4.00-5.40%	3.65-5.40%

TRY 195,707 Thousand of the cash loans are extended to related parties. TSKB Group companies have TRY 141,990 Thousand non-cash loan risk as at the balance sheet date (December 31, 2007: TRY 156,391 Thousand and 24,740 Thousand; respectively).

The collaterals for the loans extended to the TSKB Group companies are TRY 125,070 Thousand as at the balance sheet date (December 31, 2007: TRY 34,329 Thousand).

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

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Lease payments receivable	240,031	270,695
(Less): Unearned income	(24,418)	(39,933)
Investment in direct financing leases	<u>215,613</u>	<u>230,762</u>
Current maturity – net	23,405	60,113
Long - term portion – net	<u>192,208</u>	<u>170,649</u>
Investment in direct financing leases	<u>215,613</u>	<u>230,762</u>

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

	TRY	EURO	JPY	USD
2009	910	29,823	228,772	7,490
2010	272	23,784	133,610	6,519
2011	-	15,322	28,656	6,188
2012	-	6,298	-	3,630
2013	-	2,387	-	1,328
2014	-	1,902	-	-
2015	-	-	-	-
2016	-	-	-	-
	<u>1,182</u>	<u>79,516</u>	<u>391,038</u>	<u>25,155</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

For the period ended in December 31, 2008 the details of the loans is as follows:

	Corporate TRY'000	Small Business TRY'000	Other TRY'000	Portfolio Allowance TRY'000	Total TRY'000
Neither past due nor impaired	2,707,182	1,100,159	4,711	-	3,812,052
Past due not impaired	1,482	535	-	-	2,017
Individually impaired	23,639	1,789	-	-	25,428
Total gross	<u>2,732,303</u>	<u>1,102,483</u>	<u>4,711</u>	<u>-</u>	<u>3,839,497</u>
Less: allowance for individually impaired loans	(8,404)	(280)	-	-	(8,684)
Less: allowance for collectively impaired loans	-	-	-	(38,251)	(38,251)
Total allowance for impairment	(8,404)	(280)	-	(38,251)	(46,935)
Total net	<u>2,723,899</u>	<u>1,102,203</u>	<u>4,711</u>	<u>(38,251)</u>	<u>3,792,562</u>

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

	Corporate TRY'000	Small Business TRY'000	Other TRY'000	Portfolio Allowance TRY'000	Total TRY'000
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>-</u>	<u>2,774,062</u>
Less: allowance for individually impaired loans	(5,629)	(61)	-	-	(5,690)
Less: allowance for collectively impaired loans	-	-	-	(9,636)	(9,636)
Total allowance for impairment	(5,629)	(61)	-	(9,636)	(15,326)
Total net	<u>2,074,726</u>	<u>693,646</u>	<u>-</u>	<u>(9,636)</u>	<u>2,758,736</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 9. LOANS AND RECEIVABLES (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 January 1, 2008	5,639	51	5,690
Charge for the year	6,250	280	6,530
Recoveries, releases and write offs	(3,485)	(51)	(3,536)
At December 31, 2008	<u>8,404</u>	<u>280</u>	<u>8,684</u>

	Corporate TRY'000	Small Business TRY'000	Total TRY'000
At January 1, 2007	17,680	38	17,718
Charge for the year	2,337	13	2,350
Recoveries releases and write offs	(14,378)	-	(14,378)
At December 31, 2007	<u>5,639</u>	<u>51</u>	<u>5,690</u>

For the period ended by December 31, 2008 a breakdown of the specific allowance for impairment losses;

	Corporate TRY'000	Small Business TRY'000	Total TRY'000
Individual impairment	(8,404)	(280)	(8,684)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	23,639	1,789	25,428

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

For the period ended by December 31, 2007 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	(5,639)	(51)	(5,690)
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	19,054	366	19,420

For the period ended December 31, 2008 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	657	825	-	-	1,482
Small business lending	101	237	197	-	535
Total	<u>758</u>	<u>1,062</u>	<u>197</u>	<u>-</u>	<u>2,017</u>

For the period ended December 31, 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
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 DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

Of the total aggregate amount of gross past due but not yet impaired loans and other receivables, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that the Bank held as at December 31, 2008 is TRY 124,129 Thousand (December 31, 2007: TRY 2,514 Thousand).

Loans and other receivables amounting to TRY 3,106,833 Thousand have floating interest rates (December 31, 2007 TRY 2,484,577 Thousand) and the remaining TRY 707,236 Thousand have fixed interest rates (December 31, 2007: TRY 270,065 Thousand).

### 10. FINANCIAL ASSETS AVAILABLE FOR SALE AND HELD TO MATURITY

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Financial assets available for sale	1,770,288	1,682,430
	<u>1,770,288</u>	<u>1,682,430</u>
	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Financial assets available for sale:		
Government bonds and treasury bills in TRY	1,289,072	1,327,045
Government bonds and treasury bills in FC	85,545	87,895
Eurobonds	290,649	165,294
Investment funds	54,647	68,978
Equity shares	32,864	33,218
Bonds issued by private sector	17,511	-
	<u>1,770,288</u>	<u>1,682,430</u>

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TRY 868,758 Thousand as at the balance sheet date (December 31, 2007: TRY 951,755 Thousand).

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Financial assets held to maturity	6,514	-
	<u>6,514</u>	<u>-</u>
	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Financial assets held to maturity:		
Government bonds and treasury bills in TRY	4,002	-
Government bonds and treasury bills in FC	2,512	-
	<u>6,514</u>	<u>-</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 10. FINANCIAL ASSETS AVAILABLE FOR SALE AND HELD TO MATURITY (cont'd)

The blocked securities kept in the Central Bank, the İstanbul Stock Exchange and İMKB Takas ve Saklama Bankası A.Ş. (stock exchange settlement bank) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at December 31, 2008 are as follows:

	2008 Nominal Value TRY'000	2008 Carrying Value TRY'000	2007 Nominal Value TRY'000	2007 Carrying Value TRY'000
<u>Government Bonds and Treasury Bills:</u>				
Central Bank- Interbank Market				
Guarantee	14,800	15,307	20,000	20,937
Central Bank- Open Market Operations	41,000	62,285	-	-
İstanbul Stock Exchange- Trading				
Guarantee	82,900	91,514	105,000	109,920
Central Bank – Foreign Currency				
Operations Guarantee	26,000	39,348	-	-
Clearing House – Blocked Securities	22,344	22,988	29,546	31,197
Other (International Bank) Foreign				
Currency	32,000	61,509	95,145	110,401
	<u>219,044</u>	<u>292,951</u>	<u>249,691</u>	<u>272,455</u>

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

<u>Investee</u>	<u>Ownership %</u>	December 31, 2008 Acquisition Cost TRY'000	December 31, 2007 Acquisition Cost TRY'000
İMKB Takas ve Saklama A.Ş.	6.8	14,642	14,642
Ünsa Ambalaj San. ve Tic. Ltd.Şti.	12.00	5,293	5,293
Senapa Plastik Ambalaj San. A.Ş.	6.95	2,290	2,290
Avrupa Yatırım Fonu	0.17	2,957	2,957
Cam Elyaf Sanayi A.Ş.	1.18	1,530	1,530
İş Portföy Yönetimi A.Ş.	9.90	2,043	2,043
Gözlük Sanayi A.Ş.	21.71	407	407
TSKB Gayrimenkul Değerleme A.Ş.	99.99	394	334
Terme Metal San. Ve Tic. A.Ş.	17.83	204	204
Vadeli İşlem ve Opsiyon Borsası A.Ş.	1.00	108	108
TSKB Yatırım Ortaklığı A.Ş.	29.81	2,254	2,412
İş Finansal Kiralama A.Ş.	<1.00	144	391
Gelişen İşlemler Piyasası A.Ş.	<1.00	50	50
Others	<1.00	548	557
		<u>32,864</u>	<u>33,218</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 10. FINANCIAL ASSETS AVAILABLE FOR SALE AND HELD TO MATURITY (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 December 31, 2008, in the accompanying financial statements, the following entities are accounted for under the equity method:

<u>Investee</u>	<u>Ownership %</u>	<u>Nominal TRY'000</u>	<u>December 31, 2008 TRY'000</u>	<u>December 31, 2007 TRY'000</u>
İş Finansal Kiralama A.Ş.	28.56	28,560	78,174	62,525
İş Factoring Finansman Hizm. A.Ş.	44.09	2,360	12,342	5,783
İş Girişim Serm. Yat. Ort. A.Ş.	17.06	3,750	20,072	18,147
		<u>34,670</u>	<u>110,588</u>	<u>86,455</u>

### 12. GOODWILL

<u>Cost</u>	<u>TRY'000</u>
At January 1, 2008	383
Arising on acquisition of subsidiaries	-
Eliminated on disposal of subsidiaries	-
At December 31, 2008	<u>383</u>
<u>Impairment</u>	
At January 1, 2008	-
Impairment loss recognised during the period	-
At December 31, 2008	<u>-</u>
<u>Carrying Amount</u>	
At December 31, 2008	<u>383</u>
At December 31, 2007	<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 December 31, 2008, 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 DECEMBER 31, 2008**

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**13. PREMISES AND EQUIPMENT**

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>Total</u>
Opening Balance, January 1, 2008	43,003	7,417	28,720	9,684	675	7,032	96,531
Additions	297	30,409	-	1,505	258	1,340	33,809
Disposals	(1,646)	-	(1,200)	-	-	(153)	(2,999)
Transferred from held for sale	2,390	-	8,120	-	-	-	10,510
Closing Balance, December 31, 2008	<u>44,044</u>	<u>37,826</u>	<u>35,640</u>	<u>11,189</u>	<u>933</u>	<u>8,219</u>	<u>137,851</u>
<u>Accumulated Depreciation</u>							
Opening Balance, January 1, 2008	-	(3,604)	(3,472)	(1,758)	(434)	(6,387)	(15,655)
Charge for the year	-	(205)	(1,458)	(2,317)	(69)	(371)	(4,420)
Closing Balance, December 31, 2008	<u>-</u>	<u>(3,809)</u>	<u>(4,930)</u>	<u>(4,075)</u>	<u>(503)</u>	<u>(6,758)</u>	<u>(20,075)</u>
Net Book Value at December 31, 2008	<u>44,044</u>	<u>34,017</u>	<u>30,710</u>	<u>7,114</u>	<u>430</u>	<u>1,461</u>	<u>117,776</u>



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

TRY'000

<u>Acquisition Cost</u>	<u>Land</u>	<u>Improvements</u>	<u>Land</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixture</u>	<u>Total</u>
Opening Balance, January 1, 2007	2,621	3,855		45,916	24,068	1,168	19,356	96,984
Additions	40,382	3,562		1,061	450	109	1,381	46,945
Disposals	-	-		(18,257)	(14,834)	(602)	(13,705)	(47,398)
Closing Balance, December 31, 2007	43,003	7,417		28,720	9,684	675	7,032	96,531
<u>Accumulated Depreciation</u>								
Opening Balance, January 1, 2007	-	(3,321)		(17,449)	(13,203)	(735)	(16,812)	(51,520)
Charge for the year	-	(283)		(1,012)	(323)	(126)	(472)	(2,216)
Disposals	-	-		14,989	11,768	427	10,897	38,081
Closing Balance, December 31, 2007	-	(3,604)		(3,472)	(1,758)	(434)	(6,387)	(15,655)
Net Book Value at December 31, 2007	43,003	3,813		25,248	7,926	241	645	80,876

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 14. INVESTMENT PROPERTIES

	December 31, 2008 <u>TRY'000</u>	December 31, 2007 <u>TRY'000</u>
Fair value of investment properties	5,415	4,945
Deferred initial direct costs	-	-
	<u>5,415</u>	<u>4,945</u>

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

The Bank's investment properties belongs to the Bank's subsidiary operating in the real-estate investment trust sector. The fair value of the investment property is determined as TRY 5,415 Thousand (December 31, 2007: 4,945 Thousand) based on report issued on December 26, 2008 (December 31, 2007: December 26, 2007) by a registered real-estate appraiser not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. TRY 1,764 Thousand (December 31, 2007: 1,294 Thousand) of fair value difference is recognized under the other operating income in the accompanying financial statements.

The total external rent income earned by the Group from its investment properties is TRY 178 Thousand in the current period (December 31, 2007: 66 Thousand). The management states that there is no material operating expenses arising on its investment properties for the year.

### 15. INTANGIBLE ASSETS

	<u>2008</u> <u>TRY'000</u>	<u>2007</u> <u>TRY'000</u>
<u>Acquisition cost</u>		
Opening balance, January 1,	2,507	2,231
Additions	367	276
Closing balance, December 31,	<u>2,874</u>	<u>2,507</u>
<u>Accumulated amortization</u>		
Opening balance, January 1,	(1,921)	(1,754)
Charge for the year	(213)	(167)
Disposals	-	-
Net Book Value, as of December 31,	<u>740</u>	<u>586</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 16. OTHER ASSETS

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Cash guarantees given	106,894	7,217
Receivables from brokerage customers	33,362	41,634
Receivables from banking services	-	1,038
Prepaid expenses	3,484	2,768
VAT carried forward	2,146	-
Advances given	7,578	377
Receivables from personnel	225	174
Other	5,401	9,315
	<u>159,090</u>	<u>62,523</u>

### 17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	2008 Carrying Value of Underlying Securities TRY'000	2008 Carrying Value of Corresponding Liability TRY'000	2008 Repurchase Value TRY'000
Financial assets at fair value through profit and loss	1,640	1,592	1,600
Financial assets available for sale	868,758	806,396	808,054
	<u>870,398</u>	<u>807,988</u>	<u>809,654</u>
	2007 Carrying Value of Underlying Securities TRY'000	2007 Carrying Value of Corresponding Liability TRY'000	2007 Repurchase Value TRY'000
Financial assets at fair value through profit and loss	10,271	10,161	11,843
Financial assets available for sale	951,755	834,088	835,066
	<u>962,026</u>	<u>844,249</u>	<u>846,909</u>

The repurchase agreements have maturity periods of two days to 5 months. The Group has applied interest rates of 0.75%-4.82% for foreign currency, 13.75%-16.35% for domestic currency agreements (December 31, 2007: 2.50%-4.82% for foreign currency, 14.50%-17.90% for domestic currency). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounted to TRY 598 Thousand (2007: TRY 498 Thousand).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 18. FUNDS BORROWED

	December 31, 2008 <u>TRY'000</u>	December 31, 2007 <u>TRY'000</u>
Short-term	572,002	577,671
Medium and long-term	3,879,249	2,548,575
Total	<u>4,451,251</u>	<u>3,126,246</u>
Current portion of medium and long-term borrowings	<u>373,612</u>	<u>178,961</u>

  

	December 31, 2008 <u>TRY'000</u>	December 31, 2007 <u>TRY'000</u>
Foreign currencies	4,369,038	3,067,988
New Turkish Lira	82,213	58,258
Total	<u>4,451,251</u>	<u>3,126,246</u>

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

	December 31, 2008 <u>TRY'000</u>	December 31, 2007 <u>TRY'000</u>
European Investment Bank (EIB)	169,120	121,657
Cash borrowings through promissory notes	93,134	-
Japan Bank of International Cooperation (JBIC)	40,054	24,799
Kreditanstalt Für Wiederaufbau (KfW)	37,118	31,477
Bank Austria Creditanstalt	25,893	-
Association of French Development (AFD)	6,670	-
Instituto de Credito Oficial	1,279	982
International Bank for Reconstruction and Development (IBRD)	333	-
Treasury Originated Funds	11	46
	<u>373,612</u>	<u>178,961</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 18. FUNDS BORROWED (cont'd)

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
<u>Foreign Currency Borrowings</u>		
International Bank for Reconstruction and Development (IBRD)		
-Export Finance Intermediation Loan (EFIL) II	456,404	370,245
-Export Finance Intermediation Loan (EFIL) III	477,674	303,817
-Export Finance Intermediation Loan (EFIL) IV	139,353	-
-IBRD-Renewable Energy Loan (REL)	225,293	108,924
-IBRD-Small Medium Enterprises (SME)	102,259	32,357
	<u>1,400,983</u>	<u>815,343</u>
European Investment Bank (EIB)	1,557,798	1,076,666
Syndicated Loan	221,630	229,066
Kreditanstalt Für Wiederaufbau (KFW)	144,210	130,746
Council of European Development Bank (CEB)	336,332	206,207
Japan Bank of International Cooperation (JBIC)	80,510	74,769
Association of French Development (AFD)	213,528	137,077
Instituto de Credito Oficial	5,237	5,011
Barclays Bank	54,194	88,567
RZB Austria	-	18,003
Bank Austria Creditanstalt	26,717	17,643
Cash borrowings through promissory notes	218,567	232,957
Domestic bank borrowings	87,069	9,440
Foreign bank borrowings	<u>22,263</u>	<u>26,493</u>
	<u>2,968,055</u>	<u>2,252,645</u>
Total foreign currency borrowings	<u>4,369,038</u>	<u>3,067,988</u>
	December 31, 2008 TRY'000	December 31, 2007 TRY'000
<u>Turkish Lira Borrowings</u>		
EIB-Venture Capital	4,155	4,155
Domestic bank borrowings	78,047	54,031
Treasury originated funds	11	72
Total Turkish Lira borrowings	<u>82,213</u>	<u>58,258</u>
TOTAL BORROWINGS	<u>4,451,251</u>	<u>3,126,246</u>

#### IBRD EFIL II:

- Variable interest rate 3.37% for USD (December 31, 2007: 5.64% for USD), repayable in scheduled installments up to January 15, 2020.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 18. FUNDS BORROWED (cont'd)

#### IBRD EFIL III:

- Variable interest rate 3.37% for USD (December 31, 2007: 5.64-5.89% for USD) and variable interest rate 5.41% for EUR (December 31, 2007 4.63% for EUR), repayable in scheduled installments up to January 15, 2021.

#### IBRD EFIL IV:

- Variable interest rate 3.17% for USD (December 31, 2007: N/A) and variable interest rate 5.21% for EUR (December 31, 2007 N/A), repayable in scheduled installments up to July 15, 2036.

#### IBRD REL:

- Variable interest rate 3.33% for USD (December 31, 2007: 5.76% for USD), repayable in scheduled installments up to September 15, 2019.

#### IBRD SME:

- Variable interest rate 3.13% for USD (December 31, 2007: 5.56% for USD), and variable interest rate 5.24% for EUR (December 31, 2007: 4.83% for EUR), repayable in scheduled installments up to March 15, 2021.

#### EIB:

- Fixed interest rates of 1.77-2.58% and variable interest rates of 3.48-5.27% for EUR and 2.15-3.59% for USD (December 31, 2007: Fixed interest rates of 1.77-2.58% and variable interest rates of 4.88-5.35% for EUR and 3.59-5.22% for USD), repayable in scheduled installments up to September 15, 2017.

#### Syndicated Loan:

-The Parent Bank has attended the two different syndicated agreements that are named as Syndicated V and Syndicated VI through December 31, 2008. Variable interest rate of 3.44-3.52% for Syndicated Loan V, VI USD, (December 31, 2007: 5.13% for Syndicated Loan IV USD) repayable on January 15, 2009 and May 5, 2009; respectively.

The loan is granted by the following banks for Syndicated Loan V: Mashreqbank psc, Raiffeisen Zentralbank Österreich Aktiengesellschaft, Standard Bank Plc, Wachovia Bank-National Association, WestLB AG-London Branch, WGZ Bank AG, Citibank N.A., New York. The loan is granted by the following banks for Syndicated Loan VI: American Express Bank GmbH, The Bank of Nova Scotia, Bayerische Hypo- und Vereinsbank AG (as a Member of UniCredit Group), Citibank N.A. Bahreyn Branch, Commerzbank Aktiengesellschaft, Dresdner Bank AG, Natixis France; Citibank N.A., New York.

#### KFW:

-Interest rates of 3.86% for EUR (December 31, 2007: 4.87% for EUR), repayable in scheduled installments up to May 31, 2013.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 18. FUNDS BORROWED (cont'd)

KFW SME:

- Interest rates of 2.00% for EUR (December 31, 2007: 2.00% for EUR), repayable in scheduled installments up to December 30, 2032.

KFW (Pollution Fund):

- Fixed interest rate 2.00% for EUR (December 31, 2007: 2.00% for EUR), repayable in installments up to December 30, 2032.

CEB:

- Variable interest rates of 3.44-5.68% for EUR (December 31, 2007: 4.95-5.03% for EUR), repayable in scheduled installments up to April 15, 2017.

JBIC:

- Interest rates of 1.65% - 2.40% for JPY (December 31, 2007: 1.65% - 2.40% for JPY), repayable in scheduled installments up to September 28, 2010.

AFD 1:

- Variable interest rate of 5.19% for EUR (December 31, 2007: 4.77% for EUR), repayable in scheduled installments up to January 31, 2017.

AFD 2:

Variable interest rate of 4.13% for EUR, (December 31, 2007: 4.80%) repayable in scheduled installments up to November 30, 2018.

Instituto de Credito Oficial:

- Interest rate of 4.00% for USD (December 31, 2007: 4.00% for USD), repayable in scheduled installments up to April 17, 2013.

Barclays Bank:

- Variable interest rate of 3.37% for USD, (December 31, 2007: 4,72%) for USD repayable in scheduled installments up to January 16, 2009.

Bank Austria Creditanstalt 1:

- Variable interest rate of 5.56% for EUR, (December 31, 2007: 4.99%) repayable in scheduled installments up to May 20, 2009.

Bank Austria Creditanstalt 2:

- Variable interest rate of 5.96% for EUR, (December 31, 2007: 5.13%) repayable in scheduled installments up to July 4, 2009.

Bank Austria Creditanstalt 3:

- Variable interest rate of 4.20% for EUR, (December 31, 2007: N/A) repayable in scheduled installments up to June 2, 2009.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 18. FUNDS BORROWED (cont'd)

Cash Borrowings through Promissory Notes:

- Variable interest rate of 5.83-7.35% for EUR, (December 31, 2007: 5.25-6.10%) repayable in scheduled installments up to September 18, 2009. Variable interest rate of 3.17-6.77% for USD, (December 31, 2007: 6.05-6.77%) repayable in scheduled installments up to July 27, 2009.

Treasury Originated Funds:

- Interest rate of 16.00% (December 31, 2007: 16.00%), repayable in scheduled installments up to June 1, 2009.

### 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 20% in 2008 and 2007

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was decreased to 20% for 2008 (2007: 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 April 24, 2003. This rate was changed to 15% with the code numbered 5520 article 15 commencing from June 21, 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 July 23, 2006 the income withholding tax has increased from 10% to 15%. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 19. TAXATION (cont'd)

Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to April 24, 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.

Investment incentive certificates are revoked commencing from January 1, 2006. If companies cannot use investment incentive due to inadequate profit, such outstanding investment incentive can be carried forward to following years as of December 31, 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 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:

	December 31, 2008	December 31, 2007
	TRY'000	TRY'000
Corporate tax	31,512	35,512
Advance income tax	(17,159)	(23,021)
	<u>14,353</u>	<u>12,491</u>

#### b) Income statement

	December 31, 2008	December 31, 2007
	TRY'000	TRY'000
Corporate tax charge	31,512	35,512
Deferred tax charge / (benefit)	(2,790)	(10,896)
	<u>28,722</u>	<u>24,616</u>

In addition, TRY 5,553 Thousand deferred tax, which is calculated over the fair value differences on financial assets available for sale, is offset against the "unrealized gains / losses on available for sale financial assets" item under equity (December 31, 2007: TRY 2,104 Thousand).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 19. TAXATION (cont'd)

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

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Useful life differences on premises and equipment	1,006	822
Retirement pay and unused vacation provision	765	732
Finance lease receivables	1,608	652
Accruals on derivative financial instruments	554	876
Other provisions	7,425	1,849
Loan commissions accrual adjustment	2,496	1,424
Others	3,595	587
Deferred tax asset / (liability)	17,449	6,942
Less: Valuation allowance	-	-
Net deferred tax	17,449	6,942

Reflected as:

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Deferred tax asset	17,449	6,942
Deferred tax liability	-	-

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

<u>Reconciliation of Taxation</u>	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Income / (loss) before taxation	159,008	143,895
Tax at the statutory income tax rate of 20%	(31,802)	(28,779)
Tax effect of income that is deductible in determining taxable income	6,453	6,068
Tax effect of undeductable expenses	(5,683)	(9,335)
Tax effect of reversal of provisions	32	115
Tax effect of (gains)/losses on sale of assets	-	5,836
Tax effect of dividend income	2,818	742
Tax effect of other deductions	(540)	737
Net tax (expense) / benefit	(28,722)	(24,616)

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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### 20. PROVISIONS

	2008 TRY'000	2007 TRY'000
<u>Movement of Provision for Retirement Pay</u>		
At January 1,	3,122	2,932
Provision for the year	716	838
Provision released	(152)	(568)
Indemnities paid	(544)	(80)
At December 31,	3,142	3,122
	December 31, 2008 TRY'000	December 31, 2007 TRY'000
<u>Provision for Other Liabilities</u>		
Provision for unused vacations	684	540
Provision for premium pay	-	1,288
Other provisions	5,287	2,522
	5,971	4,350
Total Provisions	9,113	7,472

#### 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 December 31, 2008, the Bank has no obligation to book any provision for the Pension Funds. For additional information, please see note 3.17 Retirement Benefits.

#### 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 TRY 2,260 Thousand effective from January 1, 2009 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:

	2008	2007
Discount rate	12.00%	11.00%
Expected rate of increase in salaries and eligible ceiling	5.40%	5.00%

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 21. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting USD 50 Million (TRY 70,629 Thousand with accrual amount) from International Finance Corporation through direct financing (December 31, 2007: TRY 59,624 Thousand).

The date of the loan contract is September 21, 2004. The interest rate of the subordinated loan is Libor + 2.5%; which corresponds to 5.212% as of the balance sheet date. In the first five years, there is no repayment of principal and the maturity date is October 15, 2016.

### 22. EQUITY

#### Share Capital

As at December 31, 2008, the authorized and issued capital consists of 500,000,000 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>December 31, 2008</u>		Authorized Capital TRY'000	Paid-Up Capital TRY'000
<u>Shareholders</u>	<u>%</u>		
T. İş Bankası A.Ş.	50.10	250,489	250,489
T. Vakıflar Bankası T.A.O.	8.38	41,888	41,888
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.52	207,612	207,612
Physically Under Custody (Other Institutions and Individuals)	0.00	11	11
Total	100.00	500,000	500,000

#### Components of Capital:

Nominal capital	500,000	500,000
Effect of inflation	714,035	714,035
	1,214,035	1,214,035

<u>December 31, 2007</u>		Authorized 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
Physically Under Custody (Other Institutions and Individuals)	8.95	35,812	35,812
Total	100.00	400,000	400,000

#### Components of Capital:

Nominal capital	400,000	400,000
Effect of inflation	730,035	730,035
	1,130,035	1,130,035

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 22. EQUITY (cont'd)

The Bank has increased its nominal capital in the current period. The sources of the increase are, TRY 84,000 Thousand incorporated from previous year's income and TRY 16,000 Thousand incorporated from inflation effect of the capital.

#### Minority interest:

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

	December 31, 2008 <u>TRY'000</u>	December 31, 2007 <u>TRY'000</u>
Capital	26,723	26,333
Premium in excess of par	30	30
Unrealized gains/(losses) on available for sale investments, net of tax	(28)	21
Retained earnings / (accumulated losses)	2,050	(120)
Current period net income / (loss)	(4,755)	3,571
	<u>24,020</u>	<u>29,835</u>

### 23. OTHER OPERATING INCOME

	January 1- December 31, 2008 <u>TRY'000</u>	January 1- December 31, 2007 <u>TRY'000</u>
Dividend income	2,263	4,751
Gain on sale of assets	3,962	2,484
Increase in value of investment properties	1,764	1,294
Other	1,453	1,642
	<u>9,442</u>	<u>10,171</u>

### 24. OTHER OPERATING EXPENSES

	January 1- December 31, 2008 <u>TRY'000</u>	January 1- December 31, 2007 <u>TRY'000</u>
Personnel expenses	41,475	35,974
Depreciation and amortization	4,420	2,383
Taxes and dues other than on income	322	745
Marketing expenses	1,046	1,364
Other administrative expenses	17,179	12,541
Other	6,285	8,163
	<u>70,727</u>	<u>61,170</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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### 25. RELATED PARTY TRANSACTIONS AND BALANCES

For the purposes 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.

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

	December 31, 2008 <u>TRY'000</u>	December 31, 2007 <u>TRY'000</u>
<u>Balances with related parties</u>		
Loans and advances to customers	195,707	156,391
Non-cash loans	141,990	24,740
Due from other banks	2,705	6,990
Other assets	9,352	9,905
Other liabilities	1,999	5,013

	January 1- December 31, 2008 <u>TRY'000</u>	January 1- December 31, 2007 <u>TRY'000</u>
<u>Transactions with related parties</u>		
Interest and similar income	6,123	- 6,217
Interest expenses and similar charges	(339)	(6,265)
Dividend income	1,540	242
Income / Loss from associates	28,402	14,046
Foreign exchange gain (loss)-net	(21,346)	(5,694)
Net fee and commission income	529	4,512
Operating expenses	-	(3)
Other income	823	710
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 11,427 Thousand (December 31, 2007: TRY 9,828 Thousand).

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 26. COMMITMENTS AND CONTINGENCIES

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Letters of guarantee	299,282	217,054
Revocable and irrevocable commitments	795,605	578,359
Letters of credit	260,512	176,439
Swap and forward agreements	433,996	645,367
Option agreements	259,433	5,369,926
Futures agreements	514,422	411,748
Other commitments	94,652	575,044
	<u>2,657,902</u>	<u>7,973,937</u>

#### Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying financial statements.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TRY 2,273,824 Thousand as at December 31, 2008 (December 31, 2007: TRY 2,782,367 Thousand). As of December 31, 2008, securities at custody with market value amounted to TRY 1,284,137 Thousand (December 31, 2007: TRY 1,707,684 Thousand).

#### Securites Blocked and Letters of Guarantee Given to Istanbul Stock Exchange (ISE) as Collateral for Trading on Markets

As of December 31, 2008, according to the general requirements of the ISE, letters of guarantee amounting to TRY 9,583 Thousand (December 31, 2007: TRY 7,190 Thousand) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Also, as of December 31, 2008 according to the general requirements, letters of guarantee amounting to TRY 902 Thousand (December 31, 2007: TRY 902 Thousand), were given to the Capital Markets Board.

The Group's trading securities given as collateral or blocked amounted to TRY 3,823 Thousand at the balance sheet date (December 31, 2007: TRY 11,238 Thousand).

#### Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

#### Other

The Group's 4 head offices and 14 branches, including branches of subsidiaries, are subject to operational leasing. The lease periods vary between 1 and 5 years and there are no restrictions placed upon the lessee by entering into these leases.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

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### 27. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 Assets TRY'000	2008 Liabilities TRY'000	2007 Assets TRY'000	2007 Liabilities TRY'000
Currency swaps	19,345	18,410	5,960	20,771
Options	1,633	8,508	23,805	23,688
Forward foreign exchange contracts	57	-	1,700	610
Interest rate swaps	20	18	1	1
Others	-	-	-	142
	<u>21,055</u>	<u>26,936</u>	<u>31,466</u>	<u>45,212</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, notional the total amounts of outstanding derivatives to which the Group is committed are as follows:

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Forward foreign exchange contracts – buy	1,708	81,032
Forward foreign exchange contracts – sell	1,765	77,140
Futures – buy	-	8,497
Futures – sell	514,422	403,251
Currency swaps – buy	216,350	238,746
Currency swaps – sell	213,762	247,680
Interest rate swaps – buy	203	396
Interest rate swaps – sell	208	373
Currency option – buy	91,996	2,630,125
Currency option – sell	98,475	2,625,890
Interest option – buy	34,481	30,036
Interest option – sell	34,481	30,036
Bond options – buy	-	53,839
Bond options – sell	-	-
Other	86,683	483,806



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### 28. DIVIDENDS

In March 2008, TRY 2,815 Thousand dividends were paid to shareholders. In March 2007, the dividends paid were TRY 2,724 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 cash flow 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;

	December 31, 2008 %	December 31, 2007 %
Average during the period	152.16	141.19
Highest	186.81	151.46
Lowest	124.14	132.10

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

#### Liquidity risk (cont'd)

As at December 31, 2008 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months TRY'000	3 to 12 Months TRY'000	Over 1 Year TRY'000	No Maturity TRY'000	Total TRY'000
<b>ASSETS</b>					
Liquid assets	-	-	-	297	297
Balances with the Central Bank	-	-	-	2,620	2,620
Balances with banks	184,398	-	-	29,325	213,723
Interbank money market placements	7,946	-	-	-	7,946
Funds lent under securities resale agreements	11,971	-	-	-	11,971
Financial assets at fair value through profit and loss	6,376	7,004	13,751	11,356	38,487
Derivative financial assets held for trading	3,886	8,501	8,668	-	21,055
Reserve deposits at the Central Bank	-	-	-	40,735	40,735
Loans and receivables	378,137	624,762	2,784,952	4,711	3,792,562
Financial asset available for sale	10,419	462,283	1,261,980	35,606	1,770,288
Financial asset held to maturity	-	614	5,900	-	6,514
Investments in associates	-	-	-	110,588	110,588
Goodwill	-	-	-	383	383
Premises and equipment	-	-	-	117,776	117,776
Investment properties	-	-	-	5,415	5,415
Intangible assets	-	-	-	740	740
Other assets	-	225	-	158,865	159,090
Deferred tax asset	-	-	-	17,449	17,449
<b>Total</b>	<b>603,133</b>	<b>1,103,389</b>	<b>4,075,251</b>	<b>535,866</b>	<b>6,317,639</b>
<b>LIABILITIES</b>					
Interbank money market borrowings	13,834	-	-	-	13,834
Obligations under repurchase agreements	807,338	650	-	-	807,988
Funds borrowed and subordinated loan	360,566	581,573	3,579,741	-	4,521,880
Derivative financial liabilities held for trading	12,142	10,354	4,440	-	26,936
Obligations under finance leases	-	23	-	-	23
Corporate tax	-	-	-	14,353	14,353
Provisions	-	-	-	9,113	9,113
Other liabilities	26,702	-	-	48,495	75,197
Equity attributable to equity holders of the parent	-	-	-	824,295	824,295
Minority interest	-	-	-	24,020	24,020
<b>Total</b>	<b>1,220,582</b>	<b>592,600</b>	<b>3,584,181</b>	<b>920,276</b>	<b>6,317,639</b>

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

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

#### Liquidity risk (cont'd)

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

	Up to 3 Months TRY'000	3 to 12 Months TRY'000	Over 1 Year TRY'000	No Maturity TRY'000	Total TRY'000
<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
Funds lent under securities resale agreements	79	-	-	-	79
Interbank money market placements	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 held for trading	15,697	11,038	4,731	-	31,466
Reserve deposits at the Central Bank	-	-	-	36,328	36,328
Loans and receivables	123,723	383,980	2,251,033	-	2,758,736
Financial asset available for sale	40,652	388,154	1,217,403	36,221	1,682,430
Investments in associates	-	-	-	86,455	86,455
Goodwill	-	-	-	383	383
Premises and equipment	-	-	-	80,876	80,876
Investment properties	-	-	-	4,945	4,945
Intangible assets	-	-	-	586	586
Assets classified as held for sale	10,510	-	-	-	10,510
Other assets	44	130	-	62,349	62,523
Deferred tax asset	-	-	-	6,942	6,942
<b>Total</b>	<b>236,122</b>	<b>807,917</b>	<b>3,535,909</b>	<b>354,189</b>	<b>4,934,137</b>
<b>LIABILITIES</b>					
Interbank money market borrowings	79	-	-	-	79
Obligations under repurchase agreements	844,249	-	-	-	844,249
Funds borrowed and subordinated loans	124,265	642,752	2,418,853	-	3,185,870
Derivative financial liabilities held for trading	13,354	14,141	17,717	-	45,212
Obligations under finance leases	-	456	24	-	480
Corporate tax	-	-	-	12,491	12,491
Provisions	-	-	-	7,472	7,472
Liabilities directly associated with assets classified as held for sale	2,252	-	-	-	2,252
Other liabilities	25,712	8,735	-	37,317	71,764
Equity attributable to equity holders of the parent	-	-	-	734,433	734,433
Minority interest	-	-	-	29,835	29,835
<b>Total</b>	<b>1,009,911</b>	<b>666,084</b>	<b>2,436,594</b>	<b>821,548</b>	<b>4,934,137</b>

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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

Analysis of financial liabilities by remaining contractual maturities;

	Up to 1 Month TRY'000	1-3 Months TRY'00	3-12 Months TRY'000	1-5 years TRY'000	Over 5 years TRY'000	Adjustments TRY'000	Total TRY'000
As of December 31, 2008							
<b>Liabilities</b>							
Interbank money market borrowings	-	13,834	-	-	-	-	13,834
Funds borrowed and subordinated loan	287,190	126,980	698,715	1,425,097	2,960,284	(976,386)	4,521,880
Obligations under repurchase agreements	807,570	1,332	654	-	-	(1,568)	807,988
Obligations under finance leases	-	-	23	-	-	-	23
<b>Total</b>	<b>1,094,760</b>	<b>142,146</b>	<b>699,392</b>	<b>1,425,097</b>	<b>2,960,284</b>	<b>(977,954)</b>	<b>5,343,725</b>

	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
As of December 31, 2007							
<b>Liabilities</b>							
Interbank money market borrowings	-	79	-	-	-	-	79
Funds borrowed and subordinated loan	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
Obligations under finance leases	-	-	456	24	-	-	480
<b>Total</b>	<b>912,328</b>	<b>102,805</b>	<b>749,307</b>	<b>1,500,631</b>	<b>1,633,995</b>	<b>(868,388)</b>	<b>4,030,678</b>

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

	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
As of December 31, 2008							
<b>Gross settled:</b>							
Swap agreements	111,612	57,211	166,931	135,409	-	(40,640)	430,523
Forward Contracts	3,473	-	-	-	-	-	3,473
Future Contracts	-	514,422	-	-	-	-	514,422
Options	91,695	15,488	83,286	-	68,964	-	259,433
Others	-	43,983	-	42,700	-	-	86,683
<b>Total</b>	<b>206,780</b>	<b>631,104</b>	<b>250,217</b>	<b>178,109</b>	<b>68,964</b>	<b>(40,640)</b>	<b>1,294,534</b>

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

As of December 31, 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
Gross settled:							
Swap agreements	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	1,490,131	1,262,180	2,557,544	-	60,071	-	5,369,926
Others	52,066	252,300	136,200	37,420	5,820	-	483,806
Total	<u>1,834,182</u>	<u>1,532,581</u>	<u>2,823,083</u>	<u>721,688</u>	<u>65,891</u>	<u>(66,578)</u>	<u>6,910,847</u>

#### 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 authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The 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, which takes into account various financial and nonfinancial indicators for the evaluation of corporate and also guarantees.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in line with Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves". Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal suretyship, mortgage, cash blockage and client checks.

The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counter parties.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole.

If exposed to a significant degree of credit risk, the Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts.

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

#### Credit risk (cont'd)

The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications.

The Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern.

The international operations are made with many correspondent banks in various countries. The counter party limits are set with operations made with the banks.

The Bank being an active participant in international banking market is not exposed to a significant degree of credit risk when evaluated with the financial operations of other financial institutions.

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		Banks	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Loans according to borrowers								
Private Sector	2,807,125	1,992,850	598,348	429,065	72,708	71,364	-	-
Public Sector	-	-	-	-	1,696,400	1,666,979	-	-
Banks	-	-	380,016	334,505	2,873	756	213,723	50,891
Retail Customers	7,073	2,316	-	-	-	-	-	-
Share Certificates	-	-	-	-	43,308	48,338	-	-
Total	<u>2,814,198</u>	<u>1,995,166</u>	<u>978,364</u>	<u>763,570</u>	<u>1,815,289</u>	<u>1,787,437</u>	<u>213,723</u>	<u>50,891</u>
Information according to geographical concentration								
Domestic	2,814,046	1,995,048	973,460	755,406	1,760,428	1,718,357	70,323	40,322
European Union Countries	152	-	-	-	29,494	47,192	140,192	5,649
OECD Countries (*)	-	-	-	-	-	-	1,547	73
Off-Shore Banking Regions	-	-	-	-	-	-	100	654
USA, Canada	-	-	-	-	25,367	21,888	1,561	4,193
Other Countries	-	118	4,904	8,164	-	-	-	-
Total	<u>2,814,198</u>	<u>1,995,166</u>	<u>978,364</u>	<u>763,570</u>	<u>1,815,289</u>	<u>1,787,437</u>	<u>213,723</u>	<u>50,891</u>

(\*) EU countries, OECD countries except USA and Canada

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

#### Credit risk (cont'd)

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>December 31, 2008</u>	<u>TRY'000</u>		<u>TRY'000</u>		<u>TRY'000</u>	
Turkey	6,104,283	97	1,831,392	30	2,657,902	100
Euro Zone	169,770	3	2,657,636	43	-	-
Offshore	5,010	-	212,200	3	-	-
USA, Canada	26,928	-	1,480,529	23	-	-
OECD Countries (*)	1,547	-	80,107	1	-	-
Other	10,101	-	55,775	-	-	-
	<u>6,317,639</u>		<u>6,317,639</u>		<u>2,657,902</u>	

	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
<u>December 31, 2007</u>	<u>TRY'000</u>		<u>TRY'000</u>		<u>TRY'000</u>	
Turkey	4,846,281	98	1,949,034	40	7,973,937	100
Euro Zone	56,707	2	2,020,423	41	-	-
Offshore	1,370	-	5,450	-	-	-
USA , Canada	26,215	-	864,186	17	-	-
OECD Countries (*)	654	-	94,991	2	-	-
Other	2,910	-	53	-	-	-
	<u>4,934,137</u>		<u>4,934,137</u>		<u>7,973,937</u>	

(\*) EU countries, OECD countries except USA and Canada

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

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

#### Credit risk (cont'd)

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

	December 31, 2008 <u>TRY'000</u>	December 31, 2007 <u>TRY'000</u>
Gross maximum exposure		
Liquid assets, balances and reserve deposit at the Central Bank and other banks	257,375	91,442
Interbank money market placement	7,946	79
Funds lent under securities resale agreements	11,971	11,757
Financial assets at fair value through profit or loss	38,487	105,007
Derivative financial assets held for trading	21,055	31,466
Loans and receivables	3,792,562	2,758,736
Financial assets held to maturity	6,514	-
Financial assets available for sale	1,770,288	1,682,430
Total	<u>5,906,198</u>	<u>4,680,917</u>
Commitments and contingencies (Note 26)	<u>2,657,902</u>	<u>7,973,937</u>
Total credit risk exposure	<u>8,564,100</u>	<u>12,654,854</u>



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

#### Credit risk (cont'd)

Credit quality per class of financial assets as of December 31, 2008 is as follows;

	Neither past due nor impaired TRY'000	Past due not impaired or individually impaired TRY'000	Specific allowance for impairment losses on loans TRY'000	Portfolio allowance for impairment losses on loans TRY'000	Total TRY'000
Due from banks	213,723	-	-	-	213,723
Loans and advances to customers	3,812,052	27,445	(8,684)	(38,251)	3,792,562
Corporate lending	2,707,182	25,121	(8,404)	(27,245)	2,696,654
Small business lending	1,100,159	2,324	(280)	(11,006)	1,091,197
Other	4,711	-	-	-	4,711
Total	<u>4,025,775</u>	<u>27,445</u>	<u>(8,684)</u>	<u>(38,251)</u>	<u>4,006,285</u>

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

	Neither past due nor impaired TRY'000	Past due not impaired or individually impaired TRY'000	Specific allowance for impairment losses on loans TRY'000	Portfolio allowance for impairment losses on loans TRY'000	Total TRY'000
Due from banks	50,891	-	-	-	50,891
Loans and advances to customers	2,754,506	19,556	(5,690)	(9,636)	2,758,736
Corporate lending	2,061,214	19,141	(5,629)	(7,224)	2,067,502
Small business lending	693,292	415	(61)	(2,412)	691,234
Total	<u>2,805,397</u>	<u>19,556</u>	<u>(5,690)</u>	<u>(9,636)</u>	<u>2,809,627</u>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

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

#### Credit risk (cont'd)

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

	December 31, 2008 TRY'000	December 31, 2007 TRY'000
Loans and advances to customers	12,621	9,699
Corporate lending	5,813	2,891
Small business lending	6,808	6,808
Total	12,621	9,699

Credit risk is evaluated according to the Bank's internal rating. In 2008, Bank initiated a new internal rating model. The loans rated according to the possibility of being in default are classified from the highest grade (top grade) to the lowest (below average) as below; at the bottom of the table there are credits in default (impaired) according to new rating model.

	December 31, 2008 TRY'000
<u>Basic Loan Quality Categories</u>	
Top Grade	89,196
High Grade	2,095,549
Average Grade	1,678,925
Below Average Grade	505,063
Impaired	20,087
Total	4,388,820

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

As of balance sheet date, the total of the Group's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the specific and portfolio allowance) is TRY 4,407,260 Thousand; and TRY 18,440 Thousand of these customers have not been rated.

Prior period figures have not been presented since the prior period credit quality categories were based on the old methodology, hence not comparable with the current period figures.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### 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.

#### 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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### Interest Rate Risk (cont'd)

The below table summarizes the Group's exposure to interest rate risks as at December 31, 2008:

	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	-	-	-	297	297
Balance with the Central Bank	-	-	-	2,620	2,620
Balances with banks	184,398	-	-	29,325	213,723
Interbank money market placements	7,946	-	-	-	7,946
Funds lent under securities resale agreements	11,971	-	-	-	11,971
Financial assets at fair value through profit and loss	6,376	7,004	13,751	11,356	38,487
Derivative financial assets held for trading	3,886	8,501	8,668	-	21,055
Reserve deposits at the Central Bank	-	-	-	40,735	40,735
Loans and receivables	2,694,144	868,416	225,291	4,711	3,792,562
Financial asset available for sale	510,393	636,653	587,634	35,608	1,770,288
Financial asset held to maturity	-	614	5,900	-	6,514
Investments in associates	-	-	-	110,588	110,588
Goodwill	-	-	-	383	383
Premises and equipment	-	-	-	117,776	117,776
Investment properties	-	-	-	5,415	5,415
Intangible assets	-	-	-	740	740
Other assets	-	225	-	158,865	159,090
Deferred tax asset	-	-	-	17,449	17,449
<b>Total</b>	<b>3,419,114</b>	<b>1,521,413</b>	<b>841,244</b>	<b>535,868</b>	<b>6,317,639</b>
<b>LIABILITIES</b>					
Interbank money market borrowings	13,834	-	-	-	13,834
Obligations under repurchase agreements	807,338	650	-	-	807,988
Funds borrowed and subordinated loans	3,297,605	1,079,251	145,024	-	4,521,880
Derivative financial liabilities held for trading	12,142	10,354	4,440	-	26,936
Obligations under finance leases	-	23	-	-	23
Corporate tax	-	-	-	14,353	14,353
Provisions	-	-	-	9,113	9,113
Other liabilities	26,702	-	-	48,495	75,197
Equity attributable to equity holders of the parent	-	-	-	824,295	824,295
Minority interest	-	-	-	24,020	24,020
<b>Total</b>	<b>4,157,621</b>	<b>1,090,278</b>	<b>149,464</b>	<b>920,276</b>	<b>6,317,639</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### Interest Rate Risk (cont'd)

The below table summarises the Group's exposure to interest rate risks as at December 31, 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 held for trading	15,697	11,038	4,731	-	31,466
Reserve deposits at the Central Bank	-	-	-	36,328	36,328
Loans and receivables	1,872,974	727,780	157,982	-	2,758,736
Investment securities	643,816	168,728	833,665	36,221	1,682,430
Financial asset available for sale	-	-	-	86,455	86,455
Goodwill	-	-	-	383	383
Premises and equipment	-	-	-	80,876	80,876
Investment properties	-	-	-	4,945	4,945
Intangible assets	-	-	-	586	586
Assets classified as held for sale	10,510	-	-	-	10,510
Other assets	44	130	-	62,349	62,523
Deferred tax asset	-	-	-	6,942	6,942
<b>Total</b>	<b>2,601,593</b>	<b>925,519</b>	<b>1,052,838</b>	<b>347,379</b>	<b>4,934,137</b>
<b>LIABILITIES</b>					
Interbank money market borrowings	79	-	-	-	79
Obligations under repurchase agreements	827,210	17,039	-	-	844,249
Funds borrowed 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	-	-	-	7,472	7,472
Liabilities directly associated with assets classified as held for sale	2,252	-	-	-	2,252
Other liabilities	23,738	-	-	48,026	71,764
Equity attributable to equity holders of the parent	-	-	-	734,433	734,433
Minority interest	-	-	-	29,835	29,835
<b>Total</b>	<b>2,846,175</b>	<b>996,485</b>	<b>259,220</b>	<b>832,257</b>	<b>4,934,137</b>

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

#### Interest Rate Sensitivity (cont'd)

As at December 31, 2008, a summary of average interest rates for different assets and liabilities are as follows:

	TRY %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with the Central Bank & banks	20.70	1.89	3.71	-
Loans	20.27	6.75	5.25	4.88
Financial assets at fair value through profit and loss	17.46	-	5.39	-
Interbank money market placements	15.09	-	2.00	-
Financial assets available for sale	18.32	5.29	7.12	-
Financial assets held to maturity	20.20	-	-	-
<u>Liabilities</u>				
Interbank money market borrowings	15.33	1.86	1.38	-
Funds borrowed	16.00	4.45	3.48	1.96

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

	TRY %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with the Central Bank & banks	17.68	4.10	-	-
Loans	17.44	7.08	7.61	4.86
Financial assets at fair value through profit and loss	15.38	-	6.96	-
Interbank money market placements	18.25	-	-	-
Financial assets available for sale	17.65	5.13	7.43	-
<u>Liabilities</u>				
Interbank money market borrowings	17.00	3.55	3.89	-
Funds borrowed	11.51	4.82	5.85	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 24,763 Thousand (As of December 31, 2007 there would be TRY 33,376 Thousand increase/decrease).

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

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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

#### Interest Rate Sensitivity (cont'd)

The nominal and market value of the Group's current period's portfolio available for sale is 5% and 5% higher, respectively, than those in the previous period. In addition to this, foreign exchange assets in the Group's portfolio are 24% of the portfolio in the current period while this ratio is 19% in the prior period in terms of fair value. This shows that the Group 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 purposes 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,
- Unrealized gains / (losses) on financial assets available for sale under the shareholders' equity would decrease/increase by TRY 480 Thousand (2007 decrease/increase by TRY 563 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 Bank's subsidiaries in the portfolio are excluded as they are not quoted on the stock exchange.

#### 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.

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

#### Currency risk (cont'd)

The below table summarizes the foreign currency position of the Group as at December 31, 2008:

	TRY'000				
	EURO	USD	Yen	Other Foreign Currencies	Total
<b>Assets</b>					
Liquid assets including Central Bank Balances with banks	2,236	65	-	4	2,305
Interbank money market placements	140,033	13,368	691	1,463	155,555
Derivative financial assets held for trading	-	7,584	-	-	7,584
Financial assets at fair value through profit and loss	1,045	1,255	-	-	2,300
Loans and receivables	-	48	-	-	48
Reserve deposits at the Central Bank	1,990,867	1,711,528	57,907	-	3,760,302
Financial assets available for sale	40,735	-	-	-	40,735
Premises and equipment	68,803	362,252	-	-	431,055
Other assets	-	-	-	5	5
<b>Total Assets</b>	<b>2,344</b>	<b>110,494</b>	<b>-</b>	<b>36</b>	<b>112,874</b>
<b>Liabilities</b>					
Funds borrowed and subordinated loan	2,246,063	2,206,594	58,598	1,508	4,512,763
Obligations under repurchase agreements	(2,274,447)	(2,090,050)	(80,510)	(1,974)	(4,446,981)
Derivative financial liabilities held for trading	(5,965)	(35,283)	-	-	(41,248)
Other liabilities	(1,043)	(7,953)	(26)	-	(9,022)
<b>Total Liabilities</b>	<b>(2,504)</b>	<b>(10,512)</b>	<b>-</b>	<b>(304)</b>	<b>(13,320)</b>
<b>Net Balance Sheet Position</b>	<b>(2,283,959)</b>	<b>(2,143,798)</b>	<b>(80,536)</b>	<b>(2,278)</b>	<b>(4,510,571)</b>
<b>Off Balance Sheet Position</b>					
Derivatives to sell	(37,896)	62,796	(21,938)	(770)	2,192
Derivatives to buy	74,701	100,179	21,878	1,708	198,466
	(45,019)	(188,802)	-	-	(233,821)
	29,682	(88,623)	21,878	1,708	(35,355)
<b>Net Position</b>	<b>(8,214)</b>	<b>(25,827)</b>	<b>(60)</b>	<b>938</b>	<b>(33,163)</b>



# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

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

#### Currency risk (cont'd)

The below table summarizes the foreign currency position of the Group as at December 31, 2007:

	TRY'000				
	EURO	USD	Yen	Other Foreign Currencies	Total
<b>Assets</b>					
Liquid assets including Central Bank Balances with banks	76	3,838	-	1	3,915
Derivative financial assets held for trading	5,725	5,467	550	384	12,126
Financial assets at fair value through profit and loss	626	13,432	3	-	14,061
Loans and receivables	-	398	-	-	398
Reserve deposits at the Central Bank	1,466,149	1,200,777	61,441	-	2,728,367
Financial assets available for sale	-	36,328	-	-	36,328
Premises and equipment	61,920	260,201	-	-	322,121
Other assets	-	-	-	7	7
<b>Total Assets</b>	2,289	9,627	108	5	12,029
<b>Liabilities</b>					
Funds borrowed and subordinated loan	1,536,785	1,530,068	62,102	397	3,129,352
Obligations under repurchase agreements	(1,581,065)	(1,471,777)	(74,770)	-	(3,127,612)
Derivative financial liabilities held for trading	(37,736)	(29,934)	-	-	(67,670)
Other liabilities	(1,000)	(12,391)	(41)	-	(13,432)
<b>Total Liabilities</b>	(3,725)	(16,421)	(194)	(6)	(20,346)
<b>Net Balance Sheet Position</b>	(1,623,526)	(1,530,523)	(75,005)	(6)	(3,229,060)
<b>Off Balance Sheet Position</b>					
Derivatives to sell	(86,741)	(455)	(12,903)	391	(99,708)
Derivatives to buy	186,266	1,304,002	51,750	446	1,542,464
	(94,447)	(1,357,404)	(61,529)	(469)	(1,513,849)
	91,819	(53,402)	(9,779)	(23)	28,615
<b>Net Position</b>	5,078	(53,857)	(22,682)	368	(71,093)

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### 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 Group'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 Group 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.

TRY'000	% Increase in foreign currency rate	Effect on profit or loss		Effect on equity	
		December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
USD	10%	(2,583)	(5,386)	(2,388)	193
EUR	10%	(821)	508	(616)	(208)
JPY	10%	(6)	(2,268)	-	-
Others	10%	94	37	-	-

  

TRY'000	% Decrease in foreign currency rate	Effect on profit or loss		Effect on equity	
		December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
USD	10%	2,583	5,386	2,388	(193)
EUR	10%	821	(508)	616	208
JPY	10%	6	2,268	-	-
Others	10%	(94)	(37)	-	-

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

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### 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 December 31, 2008, its capital adequacy ratio on an unconsolidated basis is 21.11% (December 31, 2007 – 27.44%). The Group's consolidated capital adequacy ratio as of December 31, 2008 is 19.70% (2007 – 24.57%).

#### 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.

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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### 30. FAIR VALUES OF FINANCIAL INSTRUMENTS

As at December 31, 2008 and December 31, 2007, fair values of financial assets and liabilities are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Value TRY'000	Fair Value TRY'000	Carrying Value TRY'000	Fair Value TRY'000
Balances with banks	213,723	213,723	50,891	50,891
Balances with the Central bank and reserve deposits	43,355	43,355	39,463	39,463
Interbank money market placements	7,946	7,946	79	79
Funds lent under securities resale agreements	11,971	11,971	11,757	11,757
Financial assets at fair value through profit and loss	38,487	38,487	105,007	105,007
Derivative financial assets held for trading	21,055	21,055	31,466	31,466
Loans and receivables	3,792,562	3,863,664	2,758,736	2,758,892
Financial assets available for sale	1,770,288	1,770,288	1,682,430	1,682,430
Financial assets held to maturity	6,514	6,592	-	-
Other assets	159,090	159,090	62,523	62,523
Financial assets	6,064,991	6,136,171	4,742,352	4,742,508
Interbank money market borrowings	13,834	13,834	79	79
Obligations under repurchase agreements	807,988	807,988	844,249	844,249
Funds borrowed and subordinated loans	4,521,880	4,521,880	3,185,870	3,185,870
Derivative financial liabilities held for trading	26,936	26,936	45,212	45,212
Obligations under financial leases	23	23	480	480
Other liabilities	75,197	75,197	71,764	71,764
Financial liabilities	5,445,858	5,445,858	4,147,654	4,147,654

#### Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

#### Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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### 30. FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

#### Funds Borrowed

The estimated fair value of fixed interest bearing funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central banks and other banks and other financial institutions, other money market placements are considered to approximate their respective carrying values due to their short-term nature.

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.

December 31, 2008	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>
<b>Financial Assets</b>				
Balances with banks	-	213,723	-	-
Balances with the Central bank and reserve deposits	-	43,355	-	-
Interbank money market placements	-	7,946	-	-
Funds lent under securities resale agreements	-	11,971	-	-
Financial assets at fair value through profit and loss	-	38,487	-	-
Derivative financial assets held for trading	-	21,055	-	-
Financial assets available for sale	1,388,326	290,726	91,236	-
Financial assets held to maturity	-	6,592	-	-
Loans and receivables	-	3,863,664	-	-
Other assets	-	-	159,090	-
<b>Financial Liabilities</b>				
Interbank money market borrowings	-	13,834	-	-
Obligations under repurchase agreements	-	807,988	-	-
Funds borrowed and subordinated loan	-	4,521,880	-	-
Derivative financial liabilities held for trading	-	26,936	-	-
Obligations under financial leases	-	23	-	-
Other liabilities	-	-	75,197	-

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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### 30. FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

December 31, 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>
<b>Financial Assets</b>				
Balances with banks	-	50,891	-	-
Balances with the Central bank and reserve deposits	-	39,463	-	-
Interbank money market placements	-	79	-	-
Funds lent under securities resale agreements	-	11,757	-	-
Financial assets at fair value through profit and loss	-	105,007	-	-
Derivative financial assets held for trading	-	31,466	-	-
Financial assets available for sale	1,421,554	190,504	70,372	-
Loans and receivables	-	2,758,892	-	-
Other assets	-	-	62,523	-
<b>Financial Liabilities</b>				
Interbank money market borrowings	-	79	-	-
Obligations under repurchase agreements	-	844,249	-	-
Funds borrowed and subordinated loan	-	3,185,870	-	-
Derivative financial liabilities held for trading	-	45,212	-	-
Obligations under financial leases	-	480	-	-
Other liabilities	-	-	71,764	-

### 31. RESTATEMENT AND RECLASSIFICATIONS

Subsequent to the issuance of the Bank's consolidated financial statements for the years ended December 31, 2007 the Bank's management determined that portfolio and specific allowance for impairment losses on loans in accordance with IAS 39 would require restatement of such financial statements. As a result, the December 31, 2007 consolidated financial statements and related disclosures have been restated to reflect the following changes:

# TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

### 31. RESTATEMENT AND RECLASSIFICATIONS (cont'd)

The effect of the major restatements is shown in the table below:

	December 31, 2007 TRY'000		
	As previously reported	As restated	Change
Loans	2,739,114	2,765,544	26,430
Portfolio allowance for impairment losses on loans	(15,528)	(2,828)	12,700
Specific allowance for impairment losses on loans	(19,420)	(5,690)	13,730
Deferred tax asset	10,255	6,942	(3,313)
Provisions	(17,565)	(14,280)	3,285
Provision (charge)/reversals	946	3,805	2,859
Taxation	(23,511)	(24,616)	(1,105)
Accumulated Losses	(436,103)	(409,701)	26,402

### 32. 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 December 31, 2008 and 2007 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	2008	2007
Number of shares outstanding at January 1,	400,000,000	300,000,000
New shares issued		
Conversion of existing reserves	100,000,000	200,000,000
Number of shares outstanding at the period end	500,000,000	500,000,000
Weighted average number of shares during the period	500,000,000	500,000,000
Net profit / (loss) (TRY Thousand)	130,286	119,279
Basic earnings / (loss) per share (in full TRY)	0.2606	0.2386

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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008**

Amounts expressed in Thousands of New Turkish Lira (TRY) unless otherwise stated.

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

In respect of the resolution of the General Assembly on March 25, 2009, within the limits of the registered share capital, the Bank has resolved to increase its capital from TRY 500,000 Thousand to TRY 600,000 Thousand. TRY 96,000 Thousand of this increase would be incorporated from the profit of the year 2008 and TRY 4,000 Thousand from the extraordinary reserves.