



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

Consolidated Financial Statements
As at and For the Year Ended
31 December 2010
With Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

22 April 2011

This report contains 2 pages of independent auditors' report on consolidated financial information and 88 pages of consolidated financial statements and notes to the consolidated financial statements.



**Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik A.Ş.**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Sınai Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2010.

KPMG Ahis Bağımsız Denetim ve SMMM A.Ş.

Istanbul,
22 April 2011

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TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

ASSETS	Notes	31 December 2010	31 December 2009
Cash and cash equivalents	5	383	297
Balances with central bank	6	7,137	2,873
Reserve deposits at central bank	6	57,030	17,966
Loans and advances to banks	7	555,894	356,120
Interbank money market placements		843	168
Funds lent under repurchase agreements		6,987	6,003
Financial assets at fair value through profit or loss		120,118	87,754
- <i>Trading investment securities</i>	8	108,857	76,471
- <i>Derivative financial instruments</i>	29	11,261	11,283
Loans and advances to customers	9	4,660,365	3,772,528
Investment securities	10	2,440,994	2,449,040
- <i>Available for sale investment securities</i>		2,130,707	2,159,934
- <i>Held to maturity investment securities</i>		310,287	289,106
Equity-accounted investees	11	172,446	151,252
Goodwill	12	383	383
Property and equipment	13	24,917	31,915
Investment property	14	213,281	205,291
Intangible assets	15	857	907
Other assets	16	46,202	114,112
Deferred tax assets	20	19,572	26,907
Total assets		8,327,409	7,223,516

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

LIABILITIES	Notes	31 December 2010	31 December 2009
Obligations under repurchase agreements	17	1,186,064	1,284,693
Derivative financial instruments	29	10,354	11,978
Funds borrowed	18	5,052,850	4,399,100
Debt securities issued	19	194,282	-
Payables to stock exchange money market		247,669	98,949
Taxes and dues payable		4,033	4,066
Employee benefits	21	5,292	4,437
Corporate tax liability	20	12,588	11,374
Provisions		551	4,073
Other liabilities		87,514	147,349
Subordinated loan	22	77,947	75,343
Total liabilities		6,879,144	6,041,362
EQUITY			
Share capital			
Nominal paid in capital	23	700,000	600,000
Inflation adjustment to capital	23	13,563	13,563
Total capital		713,563	613,563
Share premium		413	23
Legal reserves	23	76,134	57,971
Fair value reserve	23	71,443	57,990
Retained earnings	23	485,460	423,960
Equity attributable to equity holders of the Bank		1,347,013	1,153,507
Non-controlling interests	23	101,252	28,647
Total equity		1,448,265	1,182,154
Total equity and liabilities		8,327,409	7,223,516
Commitment and contingencies	28	5,917,038	4,054,361

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

	Notes	1 January – 31 December 2010	1 January – 31 December 2009
Interest income			
Interest income on loans		187,823	220,609
Interest on interbank money market placements		1,601	98
Interest income on securities		225,312	261,190
Interest income on deposits at banks		36,657	10,749
Interest income on reserve deposit at central banks		59	152
Interest income on finance leases		3,472	8,667
Other interest income		581	468
Total interest income	4	455,505	501,933
Interest expenses			
Interest expense on interbank borrowings		(94,110)	(98,206)
Interest expense on borrowings		(54,797)	(146,471)
Interest expense on debt securities issued		(5,667)	-
Other interest expenses		(13)	(404)
Total interest expense	4	(154,587)	(245,081)
Net interest income		300,918	256,852
Fee and commission income		42,951	25,997
Fee and commission expense		(7,403)	(1,627)
Net fee and commission income	4	35,548	24,370
Securities trading income, net		3,311	15,031
Derivative trading income, net		1,926	1,123
Foreign exchange gain / (losses), net		439	(253)
Net trading income	4	5,676	15,901
Impairment losses on loans and advances to customers, net		(11,334)	(25,276)
Net operating income after impairment losses		330,808	271,847
Other operating income	24	37,209	56,410
Other operating expenses	26	(93,272)	(73,512)
Dividend income	25	2,503	5,084
Share of profit of equity-accounted investees		20,509	33,762
Profit before income tax		297,757	293,591
Income tax expense	20	(58,457)	(36,628)
Profit for the year		239,300	256,963
Profit attributable to:			
Owners of the Bank		234,185	247,185
Non-controlling interests		5,115	9,778
Weighted number of shares	33	700,000,000	600,000,000
Earnings per share	33	0.3419	0.4283

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

	1 January – 31 December 2010	1 January – 31 December 2009
Profit for the year	239,300	256,963
Other comprehensive income		
Change in unrealized gain / (losses) on available for sale investments	16,395	95,724
Net loss on available for sale investment securities transferred to profit or loss	373	3,770
Income tax on other comprehensive income	(3,315)	(13,226)
Other comprehensive income for the year, net of tax	13,453	86,268
Total comprehensive income for the year	252,753	343,231
Attributable to		
Owners of the Bank	247,638	333,453
Non-controlling interests	5,115	9,778

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

	Notes	Attributable to equity holders of the Bank							Non-controlling interests	Total equity
		Share capital	Inflation adjustment to capital	Share premium	Fair value reserve	Legal reserves	Retained earnings	Total		
Balance at 1 January 2009	23	500,000	13,563	13	(28,278)	44,554	294,443	824,295	24,020	848,315
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	247,185	247,185	9,778	256,963
Other comprehensive income										
Change in unrealized gain / (losses) on available for sale investments		-	-	-	95,724	-	-	95,724	-	95,724
Net loss on available for sale investment securities transferred to profit or loss		-	-	-	3,770	-	-	3,770	-	3,770
Income tax on other comprehensive income		-	-	-	(13,226)	-	-	(13,226)	-	(13,226)
Total other comprehensive income		-	-	-	86,268	-	-	86,268	-	86,268
Total comprehensive income for the year		-	-	-	86,268	-	247,185	333,453	9,778	343,231
Transactions with owners, recorded directly in equity										
Capital increase	23	100,000	-	-	-	-	(100,000)	-	-	-
Dividend distribution	23	-	-	-	-	-	(2,700)	(2,700)	-	(2,700)
Total contributions by and distributions to owners		100,000	-	-	-	-	(102,700)	(2,700)	-	(2,700)
Transfer to legal reserves	23	-	-	-	-	13,398	(13,398)	-	-	-
Increase / decrease related to merger		-	-	2	-	19	(1,570)	(1,549)	2,258	709
Change in non-controlling interests		-	-	8	-	-	-	8	(7,409)	(7,401)
Balance at 31 December 2009	23	600,000	13,563	23	57,990	57,971	423,960	1,153,507	28,647	1,182,154

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

Attributable to equity holders of the Bank										
	Notes	Share capital	Inflation adjustment to capital	Share premium	Fair value reserve	Legal reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2010	23	600,000	13,563	23	57,990	57,971	423,960	1,153,507	28,647	1,182,154
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	234,185	234,185	5,115	239,300
Other comprehensive income										
Change in unrealized gain / (losses) on available for sale investments		-	-	-	16,395	-	-	16,395	-	16,395
Net gain on available for sale investment securities transferred to profit or loss		-	-	-	373	-	-	373	-	373
Income tax on other comprehensive income		-	-	-	(3,315)	-	-	(3,315)	-	(3,315)
Total other comprehensive income		-	-	-	13,453	-	-	13,453	-	13,453
Total comprehensive income for the year		-	-	-	13,453	-	234,185	247,638	5,115	252,753
Transactions with owners, recorded directly in equity										
Capital increase	23	100,000	-	-	-	-	(100,000)	-	-	-
Dividend distribution	23	-	-	-	-	-	(34,152)	(34,152)	(1,258)	(35,410)
Total contributions by and distributions to owners		100,000	-	-	-	-	(134,152)	(34,152)	(1,258)	(35,410)
Transfer to legal reserves	23	-	-	-	-	18,139	(18,139)	-	-	-
Change in non-controlling interests		-	-	390	-	24	(20,394)	(19,980)	68,748	48,768
Balance at 31 December 2010	23	700,000	13,563	413	71,443	76,134	485,460	1,347,013	101,252	1,448,265

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

	Notes	1 January – 31 December 2010	1 January – 31 December 2009
Cash flows from operating activities:			
Profit for the year		239,300	256,963
<i>Adjustments</i>			
Depreciation of property and equipment	13	3,467	9,432
Amortization of intangible assets	15	327	309
Net impairment losses on loans and advances	9	(9,485)	25,276
Reserve for employee severance indemnity	21	855	611
Income from associates		(20,509)	(33,762)
Other provision expenses		(3,522)	(1,214)
Deferred tax expense / (benefit)	20	6,636	(27,110)
Gain on sale of property and equipment		-	(161)
Unrealized gains		(15,968)	(23,690)
Income taxes paid		(50,579)	(66,717)
Non-controlling interests	23	(5,115)	(9,778)
Operating profit before changes in operating assets / liabilities		145,407	130,159
Changes in operating assets and liabilities:			
Change in loans and leasing receivables		(908,782)	(148,418)
Change in other assets		60,825	68,383
Change in other creditors, taxes and liabilities		26,268	104,929
Net cash (used in) / provided from operating activities		(821,689)	24,894
Cash flows from investing activities:			
Reserve requirements with the Central Bank		(39,064)	22,516
Change in trading securities		(32,246)	(37,654)
Change in available for sale investment securities		52,116	(577,711)
Change in equity participations		(685)	(6,902)
Purchases of property and equipment and investment property		(6,771)	(74,769)
Purchase of intangible assets	15	(277)	(476)
Net cash used in investing activities		(26,927)	(674,996)
Cash flows from financing activities:			
Proceeds from funds borrowed		1,180,836	1,473,009
Repayment of funds borrowed		(442,884)	(813,797)
Proceeds from debt securities issued		198,315	-
Repayment of obligations under finance lease		-	(23)
Dividends paid	30	(34,152)	(2,700)
Net cash provided from financing activities		902,115	656,489
Net increase in cash and cash equivalents		198,906	136,546
Cash and cash equivalents at the 1 January		358,221	221,928
Effect of exchange rate fluctuations on cash and cash equivalents		7,700	(253)
Cash and cash equivalents at 31 December		564,827	358,221

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

1. ACTIVITIES OF THE BANK AND THE GROUP

Türkiye Sınai Kalkınma Bankası AŞ (“TSKB” or the “Bank”) was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ (“SYB”), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (“BRSA”) decision no: 659 dated 27 March 2002, in accordance with Article 18 of the 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 50.06% and 8.38%, respectively (31 December 2009: 50.12% and 8.38%, respectively).

The consolidated financial statements of the Bank as at and for the year ended 31 December 2010 are available upon request from the Bank’s registered office.

Information about the consolidated subsidiaries and associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with İstanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company’s objective 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 AŞ on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company’s shares are traded on the İstanbul Stock Exchange since April 2010.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

1. ACTIVITIES OF THE BANK AND THE GROUP (continued)

Information about the consolidated subsidiaries and associates (continued)

TSKB Yatırım Ortaklığı AŞ

The company was established under the name of SYB Yatırım Ortaklığı AŞ on 10 November 2000. The company's name, Sınai Yatırım Bankası Yatırım Ortaklığı AŞ, was changed into TSKB Yatırım Ortaklığı AŞ on 17 April 2003 since Sınai Yatırım Bankası AŞ ceased to operate and it was transferred to TSKB. The company's headquarters is in Istanbul.

The objective of TSKB Yatırım Ortaklığı AŞ 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.

In the Board of Directors' meetings of the Bank's subsidiaries, TSKB Yatırım Ortaklığı AŞ and Yatırım Finansman Yatırım Ortaklığı AŞ held on 24 September 2008, it has been resolved to merge these two entities under TSKB Yatırım Ortaklığı AŞ according to the article 451 of the Turkish Commercial Code, and 19th and 20th articles of the Corporate Tax Law No: 5520. For this purpose, managements of these companies have been authorized to fulfil the required duties and transactions. In the Competition Board's meeting held on 4 February 2009 and numbered 09/04/67-24, it has been permitted that these two entities could merge. TSKB Yatırım Ortaklığı AŞ and Yatırım Finansman Yatırım Ortaklığı AŞ, merged under TSKB Yatırım Ortaklığı AŞ on 25 June 2009 according to prior approval of the CMB on 13 May 2009 and resolution of the Extraordinary General Assembly, by ceasing all rights, receivables, liabilities and legal jurisdiction of Yatırım Finansman Yatırım Ortaklığı AŞ.

İş Finansal Kiralama AŞ

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

İş Factoring Finansman Hizmetleri AŞ

İş Factoring Finansman Hizmetleri AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993. The company's main operation is domestic and export factoring transactions. Its parent is İş Finansal Kiralama AŞ with 78.23% shareholding.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ 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, Istanbul.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

2. BASIS OF PREPARATION

Approval of Consolidated Financial Statements

The Bank's statutory consolidated financial statements as at and for the year ended 31 December 2010 have been approved at the Board of Directors Meeting held on 9 February 2011.

Basis of Presentation of Consolidated Financial Statements

The Bank maintains its books of account and prepares its consolidated financial statements in 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 consolidated financial statements in accordance with regulations prevailing in their area of specialization, commercial practice and tax legislation.

The accompanying consolidated 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.

Reclassification of Comparative Information

If the presentation or classification of the financial statements is changed during the year, in order to maintain consistency, financial statements of prior years are also reclassified in line with the related changes.

Changes in accounting policies

Starting as of 1 January 2010, the Group has changed its accounting policies in the following areas:

- Accounting for business combinations
- Accounting for increases in non-controlling interests

i) Accounting for business combinations

From 1 January 2010, the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy is applied prospectively and had no material impact on earnings per share ("EPS").

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquire; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

2. BASIS OF PREPARATION (continued)

Changes in accounting policies

i) Accounting for business combinations

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

Acquisitions before 1 January 2010

For acquisitions before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquire. When the excess was negative, a bargain purchase gain was recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalized as part of the cost of the acquisition.

ii) Accounting for increases in non-controlling interests

From 1 January 2010, the Group has applied IAS 27 Consolidated Financial Statements (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no material impact on Earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognized on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 2 *Changes in accounting policies*, which addresses changes in accounting policies.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with IFRS. The consolidated 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 consolidated financial statements to adjustments and reclassifications which have not been entered in the general books of account of the Bank and its subsidiaries maintained in conformity with accounting practices prevailing in Turkey as set out in Note 2.

3.2 Summary of Significant Accounting Policies, Use of Estimates and Judgments

Use of Estimates and Judgments

The preparation of the consolidated 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 or loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the consolidated financial statements. The Bank management do exercise judgment and make use of information available at the date of the preparation of the consolidated financial statements in making these estimates. The actual results may differ from these estimates.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of Significant Accounting Policies, Use of Estimates and Judgments (continued)

Use of Estimates and Judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements is included in the following notes:

Note 7 - Loans and advances to customers

Note 11 - Equity-accounted investees

Notes 13, 14 and 15 - Measurement of property and equipment, investment property and intangible assets

Note 18 - Funds borrowed

Note 20 - Taxation

Notes 21 and 28 - Provisions and contingencies.

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 Turkish Lira (TL). Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the consolidated financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms.

3.3 Basis of Consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Basis of Consolidation (continued)

The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated 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 AŞ	Financial	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Financial	64.18
TSKB Yatırım Ortaklığı AŞ	Financial	44.89

The consolidated 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 AŞ	Financial	28.71
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Financial	16.67
İş Factoring Finansman Hizmetleri AŞ	Financial	21.75

The following equity investments have been accounted at cost; they have not been 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 AŞ	Real-Estate Appraiser	99.99
TSKB Gayrimenkul Aracılık Hiz. AŞ	Real-Estate Appraiser	96.00
TSKB Gayrimenkul Danışmanlık Hiz. AŞ	Real-Estate Appraiser	1.00
Gözlük Sanayi AŞ	Manufacturing	21.71
Terme Metal Sanayi ve Ticaret AŞ	Manufacturing	17.83

3.4 Business Combinations

The Group has changed its accounting policy with respect to accounting for business combinations. See Note 2 *Changes in accounting policies (i)* for further details.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Investments in Associates (Equity-accounted Investees) and Subsidiaries

Investments in Associates (Equity-accounted Investees)

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 reporting 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.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fee 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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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

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

As at 31 December 2010 and 31 December 2009, foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and Yen. As at 31 December 2010 and 31 December 2009, exchange rates of US Dollar, Euro and Yen are as follows:

	31 December 2010	31 December 2009
1 US Dollar	1.5500	1.4970
1 Euro	2.0672	2.1599
1 JPY	0.0190	0.0163

Average rates are as follows:

	2010	2009
1 US Dollar	1.5155	1.5031
1 Euro	2.0039	2.1965
1 JPY	0.0182	0.0168

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

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 judgment. 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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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

Available-for-sale financial assets

Quoted equity investments and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The Group also has investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

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.

Funds borrowed

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.

Debt securities issued and subordinated loans

Debt securities issued and subordinated loans are initially measured at fair value less transaction costs, and subsequently measured at their amortized cost using the effective interest method.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

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 statement of financial position from a variety of activities including placements, lending and investment securities. 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, funds borrowed, subordinated loans and debt securities issued.

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 income statement.

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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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

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 arm's 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 amortized 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 Internal Rate of Return 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 loans and advances to banks: The carrying amount is a reasonable estimate of fair value.

Investment securities: 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position 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 repurchase 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 statement of financial position 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value. Property and equipment, except for 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 property and equipment 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 income statement.

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 reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year 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 statement of financial position.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Leasing (continued)

The Group as Lessor (continued)

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 statement of financial position 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Impairment of Financial Assets (continued)

a) Assets carried at amortized cost (continued)

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Impairment of Financial Assets (continued)

c) Available-for-sale investment securities

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.

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 management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

3.17 Employee Benefits

Defined benefit plans

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.

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

“T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “T.Sınai Kalkınma Bankası AŞ 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Employee Benefits (continued)

The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting 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 recognized in the accompanying statement of financial position 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 Turkish Lira.

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution (SSI) within 3 years as at 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 instalments 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. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as at the release of the related decision, the execution of this article was suspended as at the publication of the decision and the underlying reasoning of the decision for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

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

Present value for the liabilities of the transferees as at 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 1 January 2008.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Employee Benefits (continued)

The Main Opposition Party has appealed to the Higher Court on 19 June 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 at the date of the publication of these consolidated 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 at 31 December 2010 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per the actuarial report dated 2 February 2011, 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.

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 20) in the calculation of the reserve for employee severance indemnity.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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 reporting date.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Taxation (continued)

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

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting 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 Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group is currently organized into two operating divisions – banking and stock brokerage 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 brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.21 Fiduciary Assets

Customer assets, held under custody, in fiduciary, agency or intermediary capacity are not recognized in the accompanying consolidated 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.

3.24 Earnings Per Share

Earnings per share disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.25 Events after the Reporting Date

Events after the reporting date that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Adoption of new and revised IFRSs

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group, with the exception of:

IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

IFRS 7 *Financial Instruments* is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments. The amendment is effective for annual periods beginning on or after 1 January 2011.

IFRIC 13 *Customer Loyalty Programmes - Fair Value of Award Credit* amended to state that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is effective for annual periods beginning on or after 1 January 2011.

IAS 34 *Interim Financial Reporting - Significant Events and Transactions*; a number of examples have been added to the list of events or transactions that require disclosure under IAS 34. The amendment is effective for annual periods beginning on or after 1 January 2011.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Adoption of new and revised IFRSs (continued)

IAS 27 *Consolidated and Separate Financial Statements* – Transition requirements for amendments made as a result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31; consequential amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* (as a result of prior amendments to IAS 27) to be applied prospectively, except for the amendments to IAS 28 and IAS 31 that solely are the result of renumbering in IAS 27 (2008). The amendment is effective for annual periods beginning on or after 1 January 2011.

IASB issued interpretations about prepayments of a minimum funding (interpretations for IFRIC 14) on 26 November 2009. The amendments to IFRIC 14, which is itself an interpretation of IAS 19 applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment, *Prepayments of a Minimum Funding Requirement*, has an effective date for mandatory adoption of 1 January 2011, with early adoption permitted.

The revised IAS 24 *Related Party Disclosures* amends the definition of a related party and modifies certain related party disclosure requirements government-related entities. The main changes to IAS 24 are:

- A partial exemption from the disclosure requirements for transactions between a government-controlled reporting entity and that government or other entities controlled by that government; and
- Amendments to the definition of a related party.

IASB agreed that the partial exemption from the disclosure requirements should be required to be made retrospectively, because this should result in a reduction of “clutter” in the footnotes and an identification of better information about the nature and extent of significant transactions with the government.

In addition, IASB agreed that the definition of a related party should also be applied retrospectively from the effective date.

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4. OPERATING SEGMENTS

CONSOLIDATED INCOME STATEMENT (1 January – 31 December 2010)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	429,496	35,862	465,358	(9,853)	455,505
Interest expenses	(135,232)	(29,208)	(164,440)	9,853	(154,587)
Net interest income	294,264	6,654	300,918	-	300,918
Net fee and commission income	13,521	22,027	35,548	-	35,548
Net securities trading income	(3,325)	6,636	3,311	-	3,311
Net derivative trading income	1,943	(17)	1,926	-	1,926
Net foreign currency income	(2,415)	2,854	439	-	439
Impairment losses on loans and advances to customers, net	(10,358)	(976)	(11,334)	-	(11,334)
Net operating income after impairment losses	293,630	37,178	330,808	-	330,808
Other operating income	25,743	21,311	47,054	(9,845)	37,209
Other operating expenses	(62,387)	(35,973)	(98,360)	5,088	(93,272)
Dividend income	22,683	834	23,517	(21,014)	2,503
Share of loss of equity-accounted investees	20,509	-	20,509	-	20,509
Profit before income tax	300,178	23,350	323,528	(25,771)	297,757

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4. OPERATING SEGMENTS (continued)

CONSOLIDATED INCOME STATEMENT (1 January – 31 December 2009)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	497,945	11,541	509,486	(7,553)	501,933
Interest expenses	(243,938)	(3,240)	(247,178)	2,097	(245,081)
Net interest income	254,007	8,301	262,308	(5,456)	256,852
Net fee and commission income	6,972	17,398	24,370	-	24,370
Net securities trading income	1,937	13,094	15,031	-	15,031
Net derivative trading income	1,376	(253)	1,123	-	1,123
Net foreign currency income	(1,079)	826	(253)	-	(253)
Impairment losses on loans and advances to customers, net	(25,276)	-	(25,276)	-	(25,276)
Net operating income after impairment	237,937	39,366	277,303	(5,456)	271,847
Other operating income	5,660	57,775	63,435	(7,025)	56,410
Other operating expenses	(54,889)	(21,537)	(76,426)	2,914	(73,512)
Dividend income	18,969	1,500	20,469	(15,385)	5,084
Share of loss of equity-accounted investees	33,762	-	33,762	-	33,762
Profit before income tax	241,439	77,104	318,543	(24,952)	293,591

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4. OPERATING SEGMENTS (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 31 December 2010</u>					
Total assets	7,883,013	811,513	8,694,526	(367,117)	8,327,409
Total liabilities	6,561,421	488,328	7,049,749	(170,605)	6,879,144
Equity before net profit & non-controlling interests	1,097,856	302,359	1,400,215	(287,387)	1,112,828
Net profit attributable to equity holders of the Bank	223,736	20,826	244,562	(10,377)	234,185
Non-controlling interests	-	-	-	101,252	101,252
Total equity	1,321,592	323,185	1,644,777	(196,512)	1,448,265
Total liabilities and equity	7,883,013	811,513	8,694,526	(367,117)	8,327,409
<u>At 31 December 2009</u>					
Total assets	6,892,062	671,822	7,563,884	(340,368)	7,223,516
Total liabilities	5,773,994	416,075	6,190,069	(148,707)	6,041,362
Equity before net profit & non-controlling interests	945,740	179,922	1,125,662	(219,340)	906,322
Net profit attributable to equity holders of the Bank	172,328	75,825	248,153	(968)	247,185
Non-controlling interests	-	-	-	28,647	28,647
Total equity	1,118,068	255,747	1,373,815	(191,661)	1,182,154
Total liabilities and equity	6,892,062	671,822	7,563,884	(340,368)	7,223,516

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5. CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
Cash on hand – Turkish Lira (“TL”)	196	180
Cash on hand – Foreign currencies (“FC”)	187	117
Total cash and cash equivalents	383	297

There is no blockage or restriction on the use of cash and cash equivalents as at 31 December 2010 and 31 December 2009.

	31 December 2010	31 December 2009
Cash and cash equivalents	383	297
Loans and advances to banks (with original maturity of less than 6 months)	549,881	349,282
Unrestricted balances with the central bank	7,137	2,873
Funds lent under repurchase agreements	6,583	5,601
Interbank money market placements	843	168
Cash and cash equivalents in the statement of cash flows	564,827	358,221

6. BALANCES WITH CENTRAL BANK

a) Unrestricted balances with central bank

	31 December 2010	31 December 2009
Demand deposits – TL	4,948	452
Demand deposits – FC	2,189	2,421
Total	7,137	2,873

b) Reserve Deposits at central bank

	31 December 2010	31 December 2009
Foreign currency reserves	57,030	17,966
Total	57,030	17,966

Under the regulations of the Central Bank of Turkish Republic (“Central Bank”), banks are required to deposit with the Central Bank a proportion borrowings, other than domestic inter-bank deposits. These reserves are not available funds to finance the operations of the Bank. 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.

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7. LOANS AND ADVANCES TO BANKS

	31 December 2010	31 December 2009
<u>Domestic Banks</u>		
Demand deposits – TL	4,531	3,501
Time deposits – TL	540,998	318,871
Demand deposits – FC	3,673	1,536
Time deposits – FC	-	4,320
	549,202	328,228
<u>Foreign Banks</u>		
Demand deposits – FC	6,692	8,453
Time deposits – FC	-	19,439
	6,692	27,892
Total	555,894	356,120

The time deposits above mature within 1 - 180 days and earn interest at rates ranging 8.00-9.21% for TL balances as at the reporting date (31 December 2009: Maturity: 1 - 90 days; interest rate 0.18-0.40% for foreign currency, 5.95-10.75% for TL balances).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2010	31 December 2009
<u>Trading investment securities</u>		
Government bonds and treasury bills in TL	83,019	55,894
Investment funds	1,830	1,251
Equity shares	24,008	19,292
Government bonds and treasury bills in FC	-	34
Total	108,857	76,471

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 441 and also securities given as collateral or blocked amounting to TL 4,909 as at the reporting date (31 December 2009: TL 4,493 and TL 2,099, respectively).

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9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2010	31 December 2009
Short-term loans	375,513	111,363
Long-term loans	4,251,005	3,576,625
Finance lease receivables, net	70,088	135,076
Total performing loans	4,696,606	3,823,064
Non-performing loans	26,485	21,675
Total loans	4,723,091	3,844,739
Less: Specific reserve for impairment losses on loans	(9,837)	(8,844)
Less: Portfolio reserve for impairment losses on loans	(52,889)	(63,367)
Total loans	4,660,365	3,772,528

Movements in the reserve for impairment losses on loans for the year ended 31 December are as follows:

	1 January – 31 December 2010	1 January – 31 December 2009
Specific reserve for cash loans:		
As at 1 January	8,844	8,684
Charge for the year	1,818	800
Reserve released and write offs	(825)	(640)
As at 31 December	9,837	8,844
Portfolio reserve for cash loans:		
As at 1 January	63,367	38,251
Charge for the year	-	25,116
Reserve released and write offs	(10,478)	-
As at 31 December	52,889	63,367
Total reserve for impairment losses on loans	62,726	72,211

Loans can be further analyzed by customer groups as follows:

	31 December 2010	31 December 2009
Sector		
Corporate customers	3,302,396	2,705,260
Small business	1,377,031	1,123,140
Other	43,664	16,339
	4,723,091	3,844,739

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

	31 December 2010	31 December 2009
<u>Currency</u>		
Euro	1,450,505	1,036,062
US Dollar	1,670,582	1,124,557
Foreign currency indexed TL loans	1,413,206	1,468,183
Turkish Lira	186,492	201,037
Other currencies	2,306	14,900
Total	4,723,091	3,844,739

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

Performing loans, receivables and non-performing loans can be analyzed by sector as follows:

<u>Sector</u>	31 December 2010			31 December 2009		
	Long Term	Short Term	Non- performing	Long Term	Short Term	Non- performing
Energy	1,591,814	13,192	-	1,085,733	587	-
Finance	891,979	191,065	5,531	966,155	60,367	5,904
Tourism	203,616	-	-	150,244	2,967	-
Construction	185,987	8,821	485	140,319	10,932	-
Metal	181,519	-	593	178,192	2,694	546
Cement	117,965	-	-	136,737	836	-
Pulp and Paper	114,722	-	862	70,157	-	859
Chemical	106,332	5,051	-	126,423	239	-
Food and Beverages	84,028	76,796	1,106	137,469	-	1,316
Plastics	67,303	2,385	-	59,180	503	1,850
Textile	50,910	-	3,903	60,709	9,862	6,557
Motor Vehicles	50,101	-	-	68,042	1,282	-
Ceramics	36,082	2,090	-	6,186	393	-
Health Services	33,602	-	8,778	40,408	340	-
Lumber and Wood	26,782	-	-	37,250	335	-
Education	17,399	-	-	25,138	-	-
Machinery Production	7,932	-	301	19,472	-	298
Farming	3,472	-	3,950	938	-	4,158
Rubber & Tires	-	-	-	-	1,553	-
Other	549,131	76,530	976	396,325	25,097	187
Total	4,320,676	375,930	26,485	3,705,077	117,987	21,675

Interest rates charged for short-term loans are 7.40-9.75% for Turkish Lira loans, 1.55-5.00% for Euro loans and 2.70-4.30% for US Dollar loans per annum during the year (31 December 2009: 7.75-9.75% for Turkish Lira loans, 1.97-7.45% for Euro loans and 2.03-5.71% for US Dollar loans).

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2010	31 December 2009
Euro	2.03-7.75%	1.71-8.00%
US Dollar	1.48-9.31%	1.72-8.25%
TL	10.40-18.50%	7.75-22.00%
JPY	4.96%	4.00-5.40%

TL 198,369 of the cash loans are extended to related parties. TSKB Group companies have TL 117,758 non-cash loan risk as at the reporting date (31 December 2009: TL 135,802 and 117,748; respectively).

The collaterals for the loans extended to the TSKB Group companies are TL 23,250 as at the reporting date (31 December 2009: TL 24,500).

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

	31 December 2010	31 December 2009
Lease payments receivable	72,344	141,853
(Less): Unearned income	(2,256)	(6,777)
Finance lease receivables	70,088	135,076
Current maturity – net	26,768	15,929
Long - term portion – net	43,320	119,147
Finance lease receivables	70,088	135,076

For the year ended 31 December 2010, currency components of financial lease receivables are as follows (amounts in thousands and original currencies):

	TL	Euro	JPY	US Dollar
2011	-	7,704	28,675	1,956
2012	-	7,727	-	5,222
2013	-	2,776	-	5,506
2014	-	5,924	-	-
	-	24,131	28,675	12,684

For the year ended 31 December 2009, currency components of financial lease receivables are as follows (amounts in thousands and original currencies):

	TL	Euro	JPY	US Dollar
2010	271	6,058	131,150	293
2011	-	17,667	55,779	4,794
2012	-	11,705	-	7,898
2013	-	3,670	-	1,122
2014	-	8,802	-	4,798
	271	47,902	186,929	18,905

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

Set out below is an analysis of loans as at 31 December 2010 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	3,236,907	1,359,661	42,688	-	4,639,256
Past due not impaired	50,629	6,721	-	-	57,350
Individually impaired	14,860	10,649	976	-	26,485
Total gross	3,302,396	1,377,031	43,664	-	4,723,091
Less: reserve for individually impaired loans	(7,714)	(1,147)	(976)	-	(9,837)
Less: reserve for collectively impaired loans	-	-	-	(52,889)	(52,889)
Total reserve for impairment	(7,714)	(1,147)	(976)	(52,889)	(62,726)
Total net	3,294,682	1,375,884	42,688	(52,889)	4,660,365

Set out below is an analysis of loans as at 31 December 2009 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	2,681,924	1,118,422	16,339	-	3,816,685
Past due not impaired	3,722	2,657	-	-	6,379
Individually impaired	19,609	2,066	-	-	21,675
Total gross	2,705,255	1,123,145	16,339	-	3,844,739
Less: reserve for individually impaired loans	(8,529)	(315)	-	-	(8,844)
Less: reserve for collectively impaired loans	-	-	-	(63,367)	(63,367)
Total reserve for impairment	(8,529)	(315)	-	(63,367)	(72,211)
Total net	2,696,726	1,122,830	16,339	(63,367)	3,772,528

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

A reconciliation of the specific reserve for impairment losses by customer groups is as follows:

	Corporate	Small Business	Other	Total
At 1 January 2010	8,529	315	-	8,844
Charge for the year	-	842	976	1,818
Recoveries, releases and write offs	(815)	(10)	-	(825)
At 31 December 2010	7,714	1,147	976	9,837

	Corporate	Small Business	Other	Total
At 1 January 2009	8,404	280	-	8,684
Charge for the year	665	135	-	800
Recoveries, releases and write offs	(540)	(100)	-	(640)
At 31 December 2009	8,529	315	-	8,844

As at 31 December 2010, the aging analysis of past due but not impaired loans per customer groups is as follows:

	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	50,629	-	-	-	50,629
Small business lending	-	6,721	-	-	6,721
Total	50,629	6,721	-	-	57,350

As at 31 December 2009, the aging analysis of past due but not impaired loans per customer groups is as follows:

	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	2,502	1,220	-	-	3,722
Small business lending	15	2,642	-	-	2,657
Total	2,517	3,862	-	-	6,379

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that the Bank held as at 31 December 2010 is TL 50,292 (31 December 2009: TL 44,109).

Loans and advances to customers amounting to TL 4,262,882 have floating interest rates (31 December 2009: TL 3,522,626) and the remaining TL 433,724 have fixed interest rates (31 December 2009: TL 300,438).

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10. INVESTMENT SECURITIES

Available for sale investment securities

	31 December 2010	31 December 2009
<u>Available for sale investment securities</u>		
Government bonds and treasury bills in TL	1,553,671	1,614,947
Government bonds and treasury bills in FC	47,295	72,862
Eurobonds	312,320	278,085
Equity shares	37,058	33,112
Other	180,363	160,928
Total	2,130,707	2,159,934

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 1,026,587 as at the reporting date (31 December 2009: TL 1,075,796).

Held to maturity investment securities

	31 December 2010	31 December 2009
<u>Held to maturity investment securities</u>		
Government bonds and treasury bills in TL	310,287	286,599
Bonds issued by private sector in TL	-	2,507
Total	310,287	289,106

In the prior period, the Bank reclassified a portion of its marketable securities in the available-for-sale and fair value through profit or loss portfolios with a total notional amount of TL 283,050 and TL 4,900 respectively to its Held-to-Maturity portfolio due to the change in the intention. The reclassification has been accounted for in accordance with the relevant transitional provisions and took effect only from the date of reclassification. The fair value of these securities was TL 273,582 as at the transfer date. For the securities transferred from available-for-sale portfolio, the positive valuation differences amounting to TL 1,679, recognized in other comprehensive income, will be amortized until the transfer date of these securities and transferred to profit or loss till the maturity of these securities. As at the reporting date, the positive valuation difference that remains in other comprehensive is TL 662.

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10. INVESTMENT SECURITIES (continued)

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and IMKB Takas ve Saklama Bankası AŞ (stock exchange settlement bank) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2010 and 31 December 2009 are as follows:

	2010	2010	2009	2009
	Nominal	Carrying	Nominal	Carrying
	Value	Value	Value	Value
Government Bonds and Treasury Bills:				
Central Bank- Interbank Market Guarantee	39,982	48,520	38,982	45,024
Central Bank- Open Market Operations	78,524	89,075	86,108	98,128
İstanbul Stock Exchange- Trading Guarantee	55,000	60,582	82,900	92,759
Central Bank – Foreign Currency Operations				
Guarantee	55,714	59,367	14,126	15,783
Clearing House – Blocked Securities	9,051	8,999	2,240	2,216
Other (International Bank) Foreign Currency	63,860	75,682	55,389	80,791
	302,131	342,225	279,745	334,701

The Group's equity shares in available for sale investment securities are as follows:

	Ownership	31 December	31 December
	%	2010	2009
		Acquisition	Acquisition
		Cost	Cost
Investee			
İMKB Takas ve Saklama AŞ	6.80	14,642	14,642
European Investment Fund	0.17	2,957	2,957
İş Portföy Yönetimi AŞ	9.90	2,043	2,043
Gözlük Sanayi AŞ (*)	21.71	407	407
TSKB Gayrimenkul Değerleme AŞ (*)	99.99	394	394
Cam Elyaf Sanayi AŞ	1.18	268	1,530
TSKB Gayrimenkul Aracılık Hiz. AŞ (*)	96.00	230	-
Terme Metal San. Ve Tic. AŞ (*)	17.83	204	204
Vadeli İşlem ve Opsiyon Borsası AŞ	1.00	108	108
TSKB Gayrimenkul Danışmanlık Hiz. AŞ (*)	1.00	2	-
Ünsa Ambalaj San. ve Tic. Ltd.Şti.	-	-	5,293
Senapa Plastik Ambalaj San. AŞ	-	-	2,290
Gelişen İşlemler Piyasası AŞ	<1.00	50	50
Aksa Enerji Üretim AŞ	<1.00	7,643	-
Emlak Konut Gayrimenkul Yatırım Ortaklığı AŞ	<1.00	5,455	-
Others	<1.00	2,655	3,194
		37,058	33,112

(*) The investments in TSKB Gayrimenkul Değerleme AŞ, Gözlük Sanayi AŞ, TSKB Gayrimenkul Aracılık Hiz. AŞ and TSKB Gayrimenkul Danışmanlık Hiz. AŞ, Terme Metal San. ve Tic. AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

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11. EQUITY-ACCOUNTED INVESTEEES

As at 31 December 2010, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2010	31 December 2009
<u>Investee</u>				
İş Finansal Kiralama AŞ	28.71	14,307	127,090	109,339
İş Factoring Finansman Hizm. AŞ	21.75	2,360	20,829	18,067
İş Girişim Serm. Yat. Ort. AŞ	16.67	3,750	24,527	23,846
		20,417	172,446	151,252

12. GOODWILL

Cost

At 1 January 2010	383
At 31 December 2010	383

Impairment

At 1 January 2010	-
At 31 December 2010	-

Carrying Amount

At 31 December 2010	383
At 31 December 2009	383

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ

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. The Bank's 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.

As at 31 December 2010, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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13. PROPERTY AND EQUIPMENT

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	Total
<u>Acquisition Cost</u>							
Balance at 1 January 2010	3,560	4,426	48,863	15,592	1,188	8,341	81,970
Additions	-	121	34	492	402	527	1,576
Disposals	(481)	-	(4,929)	(45)	(176)	(2)	(5,633)
Balance at 31 December 2010	<u>3,079</u>	<u>4,547</u>	<u>43,968</u>	<u>16,039</u>	<u>1,414</u>	<u>8,866</u>	<u>77,913</u>
<u>Accumulated Depreciation</u>							
Balance at 1 January 2010	(916)	(3,985)	(26,282)	(11,131)	(592)	(7,149)	(50,055)
Charge for the year	-	(162)	(1,185)	(1,725)	(223)	(377)	(3,672)
Impairment during the year	205	-	-	-	-	-	205
Disposal	-	-	311	36	168	11	526
Balance at 31 December 2010	<u>(711)</u>	<u>(4,147)</u>	<u>(27,156)</u>	<u>(12,820)</u>	<u>(647)</u>	<u>(7,515)</u>	<u>(52,996)</u>
Net Book Value at 31 December 2010	<u>2,368</u>	<u>400</u>	<u>16,812</u>	<u>3,219</u>	<u>767</u>	<u>1,351</u>	<u>24,917</u>

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13. PROPERTY AND EQUIPMENT (continued)

	Land	Leasehold Improvements	Buildings	Equipment	Vehicles	Fixture	Total
<u>Acquisition Cost</u>							
Balance at 1 January 2009	44,044	37,826	35,640	11,189	933	8,219	137,851
Transfer	1,756	2,344	12,947	3,857	-	(271)	20,633
Additions	-	281	2,606	561	355	407	4,210
Disposals	(1,850)	-	(2,330)	(15)	(100)	(14)	(4,309)
Transferred to Investment property	(40,390)	(36,025)	-	-	-	-	(76,415)
Balance at 31 December 2009	<u>3,560</u>	<u>4,426</u>	<u>48,863</u>	<u>15,592</u>	<u>1,188</u>	<u>8,341</u>	<u>81,970</u>
<u>Accumulated Depreciation</u>							
Balance at 1 January 2009	-	(3,809)	(4,930)	(4,075)	(503)	(6,758)	(20,075)
Transfer	(756)	-	(15,046)	(4,822)	11	(20)	(20,633)
Charge for the year	-	(176)	(5,978)	(2,249)	(156)	(385)	(8,944)
Impairment during the year	(160)	-	(328)	-	-	-	(488)
Disposal	-	-	-	15	56	14	85
Balance at 31 December 2009	<u>(916)</u>	<u>(3,985)</u>	<u>(26,282)</u>	<u>(11,131)</u>	<u>(592)</u>	<u>(7,149)</u>	<u>(50,055)</u>
Net Book Value at 31 December 2009	<u>2,644</u>	<u>441</u>	<u>22,581</u>	<u>4,461</u>	<u>596</u>	<u>1,192</u>	<u>31,915</u>

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14. INVESTMENT PROPERTY

	31 December 2010	31 December 2009
Fair value of investment properties	213,281	205,291
	213,281	205,291

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

The Group's investment properties belong to the Bank's subsidiary operating in the real-estate investment trust sector. The fair values of the investment properties are determined in reports issued on 15 December 2010, 9 December 2010 and 29 December 2010 by companies listed on CMB's List of Real Estate Appraisal Companies as TL 11,726, TL 6,265 and TL 195,290, respectively. TL 2,312 of fair value difference is recognized under other operating income in the accompanying consolidated financial statements (31 December 2009: TL 205,291 net book value, TL 48,529 fair value difference).

The total external rent income earned by the Group from its investment properties is TL 7,560 in the current period (31 December 2009: TL 302). The management states that there is no material operating expenses arising on its investment properties for the year.

The movement of investment properties as at 31 December 2010 and 31 December 2009 are as follows:

<u>Current Period</u>	Closing Balance of Prior Period	Transfer from Tangible Assets	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	5,885	-	-	-	380	6,265
Pendorya AVM	187,770	-	5,806	(102)	1,816	195,290
Adana Land Project Development	11,636	-	420	(446)	116	11,726
Total	205,291	-	6,645	(967)	2,312	213,281

<u>Prior Period</u>	Closing Balance of Prior Period	Transfer from Tangible Assets	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	5,415	-	-	-	470	5,885
Pendorya AVM	-	65,030	76,439	(2,514)	48,815	187,770
Adana Land Project Development	-	11,695	697	-	(756)	11,636
Total	5,415	76,725	77,136	(2,514)	48,529	205,291

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15. INTANGIBLE ASSETS

The intangible fixed assets include software that are amortized principally on straight line basis which amortize the assets over their expected useful lives.

	31 December 2010	31 December 2009
<u>Acquisition cost</u>		
Balance at 1 January	3,350	2,874
Additions	277	476
Balance at 31 December	3,627	3,350
<u>Accumulated amortization</u>		
Balance at 1 January	(2,443)	(2,134)
Charge for the year	(327)	(309)
Balance at 31 December	2,770	(2,443)
Net Book Value, as at 31 December	857	907

16. OTHER ASSETS

	31 December 2010	31 December 2009
VAT carried forward	14,597	13,900
Receivables from brokerage customers	8,248	79,905
Cash guarantees given	5,518	1,765
Prepaid expenses	5,209	5,406
Receivables from prepaid Treasury guaranteed commissions	3,041	3,041
Receivables from personnel	301	394
Advances given	143	259
Other	9,145	9,442
Total	46,202	114,112

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	2010 Carrying Value of Underlying Securities	2010 Carrying Value of Corresponding Liability	2010 Repurchase Value
Financial assets at fair value through profit or loss	441	441	441
Available for sale investment securities	1,026,587	964,590	964,075
Held to maturity investment securities	202,925	221,033	223,581
	1,229,953	1,186,064	1,188,097

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17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS (continued)

	2009	2009	2009
	Carrying	Carrying	Repurchase
	Value of	Value of	Value
	Underlying	Corresponding	
	Securities	Liability	
Financial assets at fair value through profit or loss	4,493	4,000	4,003
Financial assets available for sale	1,075,796	1,054,693	1,059,719
Financial assets held to maturity	275,934	226,000	226,175
	1,356,223	1,284,693	1,289,897

The repurchase agreements have maturity periods between four days to one year. The Group has applied interest rates of 0.35%-1.5% for foreign currency, 5.5%-17.6% for Turkish Lira agreements (31 December 2009: of 0.75%-4.82% for foreign currency, 13.75%-16.35% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 3,934 (2009: TL 598).

18. FUNDS BORROWED

	31 December	31 December
	2010	2009
Short-term	449,148	351,068
Medium and long-term	4,603,702	4,048,032
Total	5,052,850	4,399,100
Short-term portion of medium and long-term funds borrowed	354,089	327,040
	31 December	31 December
	2010	2009
Foreign currencies	4,993,833	4,311,434
Turkish Lira	59,017	87,666
Total	5,052,850	4,399,100

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18. FUNDS BORROWED (continued)

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

	31 December 2010	31 December 2009
European Investment Bank (EIB)	172,413	187,346
Export Finance Intermediation Loan (EFIL) II	49,540	25,751
Council of European Development Bank (CEB)	28,171	21,541
Export Finance Intermediation Loan (EFIL) III	26,919	3,444
Kreditanstalt Für Wiederaufbau (KFW)	26,709	29,346
Association of French Development (AFD)	26,652	14,276
Export Finance Intermediation Loan (EFIL) IV	1,704	1,856
Instituto de Credito Oficial	1,330	1,295
Development (IBRD)	20,651	3,187
Japan Bank of International Cooperation (JBIC)	-	38,998
	354,089	327,040
	31 December 2010	31 December 2009
<u>Foreign Currency Borrowings</u>		
International Bank for Reconstruction and Development (IBRD)		
-Export Finance Intermediation Loan (EFIL) II	448,757	456,676
-Export Finance Intermediation Loan (EFIL) III	480,799	478,007
-Export Finance Intermediation Loan (EFIL) IV	442,044	386,289
-IBRD-Renewable Energy Loan (REL)	493,432	358,978
-IBRD-Small Medium Enterprises (SME)	184,707	149,806
	2,049,739	1,829,756
European Investment Bank (EIB)	1,656,794	1,397,165
Council of European Development Bank (CEB)	424,496	355,367
Association of French Development (AFD)	250,258	210,015
Kreditanstalt Für Wiederaufbau (KFW)	213,705	201,300
Syndicated Loan	170,632	-
Foreign bank borrowings	149,866	120,219
Barclays Bank	55,211	54,432
Cash borrowings through promissory notes	14,423	85,421
Domestic bank borrowings	5,992	14,863
Instituto de Credito Oficial	2,717	3,898
Japan Bank of International Cooperation (JBIC)	-	38,998
	2,944,094	2,481,678
Total foreign currency borrowings	4,993,833	4,311,434

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18. FUNDS BORROWED (continued)

	31 December 2010	31 December 2009
<u>Turkish Lira Borrowings</u>		
Domestic bank borrowings	59,017	83,511
EIB-Venture Capital	-	4,155
Total Turkish Lira borrowings	59,017	87,666
Total	5,052,850	4,399,100

IBRD EFIL II:

-Variable interest rate 1.23% for US Dollar (31 December 2009: 1.22% for US Dollar), repayable in scheduled instalments up to 15 January 2020.

IBRD EFIL III:

-Variable interest rate 1.23% for US Dollar (31 December 2009: 1.22% for US Dollar) and variable interest rate 1.58% for Euro (31 December 2009: 1.49% for Euro), repayable in scheduled instalments up to 15 January 2021.

IBRD EFIL IV:

-Variable interest rate 0.78% for US Dollar (31 December 2009: 1.02%) and variable interest rate 1.13% for Euro (31 December 2009: 1.29%), repayable in scheduled instalments up to 15 July 2036.

IBRD REL:

-Variable interest rate 0.99% for US Dollar (31 December 2009: 1.18% for US Dollar), repayable in scheduled instalments up to 15 September 2020.

IBRD REL 2:

-Variable interest rate 0.57% for US Dollar (31 December 2009: N/A) and variable interest rate 1.19%, for Euro (31 December 2009: 1.00) repayable in scheduled instalments up to 15 March 2039.

IBRD CTF REL 2:

-Variable interest rate 0.75% for US Dollar (31 December 2009: 0.75), repayable in scheduled instalments up to 15 March 2029.

IBRD SME:

-Variable interest rate 0.54% for US Dollar (31 December 2009: 0.73% for US Dollar), and variable interest rate 1.18% for Euro (31 December 2009: 1.10% for Euro), repayable in scheduled instalments up to 15 March 2021.

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18. FUNDS BORROWED (continued)

EIB APEX GLOBAL LOAN:

-Variable interest rates of 1.28-1.43% for Euro (31 December 2009: 0.97-1.12% for Euro), repayable in scheduled instalments up to 31 May 2016.

EIB (Pollution Fund):

-Interest rates of 1.77-2.44% for Euro (31 December 2009: 1.77-2.56% for Euro), repayable in scheduled instalments up to 15 April 2013.

EIB REL 2:

-Variable interest rates of 1.51% for Euro (31 December 2009: N/A) and variable interest rate 1.13% for US Dollar (31 December 2009: N/A), repayable in scheduled instalments up to 23 August 2025.

EIB SME 1.2:

-Interest rates of 1.43% for Euro (31 December 2009: 1.11-1.13% for Euro), and variable interest rate 0.70% for US Dollar (31 December 2009: %0.65 for US Dollar) repayable in scheduled instalments up to 15 June 2012.

EIB SME DEVELOPMENT GLOBAL LOAN:

-Variable interest rates of 1.21-1.22% for Euro (31 December 2009: 1.11-1.13% for Euro) and variable interest rate 0.59-0.66% for US Dollar (31 December 2009: 0.78-0.85% for US Dollar), repayable in scheduled instalments up to 15 September 2019.

EIB TURKEY TERRA 2B INDUSTRY GLOBAL LOAN:

-Variable interest rates of 1.43% for Euro (31 December 2009: 1.17% for Euro), repayable in scheduled instalments up to 15 September 2011.

EIB INDUSTRIAL SECTOR GLOBAL LOAN II

-Variable interest rates of 1.33% for Euro (31 December 2009: 1.01% for Euro) and variable interest rate 0.60% for US Dollar (31 December 2009: 0.55% for US Dollar), repayable in scheduled instalments up to 15 June 2013.

EIB INDUSTRIAL SECTOR GLOBAL LOAN III

-Variable interest rates of 1.43% for Euro (31 December 2009: 1.11% for Euro) and variable interest rate 0.70% for US Dollar (31 December 2009: 0.65% for US Dollar), repayable in scheduled instalments up to 15 March 2015.

EIB INDUSTRIAL SECTOR GLOBAL LOAN IV

-Variable interest rates of 1.28-1.43% for Euro (31 December 2009: 1.11% for Euro) and variable interest rate 0.70% for US Dollar (31 December 2009: 0.65% for US Dollar), repayable in scheduled instalments up to 15 December 2015.

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18. FUNDS BORROWED (continued)

EIB INDUSTRIAL SECTOR GLOBAL LOAN V

-Variable interest rates of 1.28% for Euro (31 December 2009: 0.96% for Euro) and variable interest rate 0.55% for US Dollar (31 December 2009: 0.50% for US Dollar), repayable in scheduled instalments up to 15 September 2017.

EIB INDUSTRIAL HEAT AND POWER AUTOPRODUCTION GLOBAL LOAN PROJECT

-Variable interest rates of 1.18% for Euro and 0.45% for US Dollar (31 December 2009: 0.86% for Euro; 0.40% for US Dollar), repayable in scheduled instalments up to 15 September 2017 and 15 September 2016 respectively.

EIB REL

-Variable Interest rates of 1.39-1.65 % for Euro (31 December 2009: 1.10-1.20% for Euro), and variable interest rate 0.63-0.99% for US Dollar (31 December 2009: 0.70-0.97% for US Dollar), repayable in scheduled instalments up to 15 November 2023.

EIB SME DEVELOPMENT LOAN II

-Variable interest rates of 1.34-1.56% for Euro; 0.89-1.02% for US Dollar (31 December 2009:N/A), repayable in scheduled instalments up to 30 November 2022.

Syndicated Loan:

-The Bank had attended the two different syndicated agreements that were named as Syndicated VII and Syndicated VIII through 31 December 2010. Variable interest rate 1.46% for US Dollar Syndicated Loan VII and variable interest rate of 2.25% for Euro Syndicated Loan VIII; both repayable on 21 June 2011. The Bank had attended the two different syndicated agreements that were named as Syndicated V and Syndicated VI through 31 December 2009. Variable interest rate of 3.44-3.52% for Syndicated Loan V, VI US Dollar, repayable on 15 January 2009 and 5 May 2009; respectively.

KFW:

-Variable interest rates of 1.26% for Euro (31 December 2009: 0.98% for Euro), repayable in scheduled instalments up to 31 May 2018.

KFW SME:

-Interest rate 2.00% for Euro (31 December 2009: 2.00% for Euro), repayable in scheduled instalments up to 30 December 2032.

KFW (Pollution Fund):

-Interest rate 2.00% for Euro (31 December 2009: 2.00% for Euro), repayable in instalments up to 30 December 2032.

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18. FUNDS BORROWED (continued)

KFW (1st Tranche):

-Variable interest rates of 0.66% for US Dollar (31 December 2009: 0.35% for US Dollar), repayable in scheduled instalments up to 30 June 2020.

KFW (2nd Tranche):

-Variable interest rates of 1.00% for US Dollar (31 December 2009: 0.69% for US Dollar), repayable in scheduled instalments up to 30 June 2020.

CEB:

-Variable interest rates of 1.46-1.96% for Euro and variable interest rates of 0.77-1.38% for US Dollar (31 December 2009: 1.27-1.68% for Euro, 0.91-1.43 for US Dollar), repayable in scheduled instalments up to 14 May 2020.

AFD 1:

-Variable interest rate of 1.55% for Euro (31 December 2009: 1.55% for Euro), repayable in scheduled instalments up to 31 January 2017.

AFD 2:

-Variable interest rate of 1.46% for Euro, (31 December 2009: 1.19%) repayable in scheduled instalments up to 30 November 2018.

AFD 3:

-Variable interest rate of 0.50% for Euro, (31 December 2009: N/A) repayable in scheduled instalments up to 31 July 2021.

Instituto de Credito Oficial:

-Variable interest rate of 4.00% for US Dollar (31 December 2009: 4.00% for US Dollar), repayable in scheduled instalments up to 17 April 2013.

Barclays Bank:

-Variable interest rate of 1.71% for US Dollar, (31 December 2009: 4.00%) for US Dollar repayable in scheduled instalments up to 14 January 2011 (31 December 2009: 15 January 2010).

Cash Borrowings through Promissory Notes:

-Variable interest rate of 3.07% for Euro, (31 December 2009: 5.87-6.09%) repayable in scheduled instalments up to 8 February 2011 (31 December 2009: 16 March 2010).

19. DEBT SECURITIES ISSUED

	31 December 2010	31 December 2009
Debt securities issued	195,954	-
Total	195,954	-

Debt securities have a maturity of February 2011 and August 2011 with 8.20 % and 8.80 % of fixed interest rate, respectively. Securities are issued in accordance with the regulation of Capital Markets Board of Turkey and TL 200,000 nominal bond is being traded at Bond and Bill Markets of Istanbul Stock Exchange.

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20. TAXATION

Corporate Tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2010 (31 December 2009: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2010 is 20% (31 December 2009: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April 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 and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Investment Incentives

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The effective tax rate has been taken as 20% in 2010 (31 December 2009: 20%).

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20. TAXATION (continued)

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Deferred Tax

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2009: 20%) is used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

a) Statement of financial position:

	31 December 2010	31 December 2009
Corporate tax provision	51,821	63,738
Corporate tax paid in advance	(39,233)	(52,364)
Corporate tax liability	12,588	11,374

b) Income statement:

	31 December 2010	31 December 2009
Corporate tax charge	51,821	63,738
Deferred tax expense/ (benefit)	6,636	(27,110)
	58,457	36,628

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20. TAXATION (continued)

In addition, TL 14,758 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 investment securities” item under equity (31 December 2009: TL 11,443).

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	31 December 2010	31 December 2009
Useful life differences on property and equipment	896	1,056
Reserve for employee severance indemnity and unused vacation provision	1,058	887
Finance lease receivables	-	4,262
Accruals on derivative financial instruments	(203)	(257)
Other provisions	8,386	12,167
Loan commissions accrual adjustment	8,194	5,336
Others	1,241	3,456
Deferred tax asset, net	19,572	26,907

Less: Valuation allowance	-	-
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Net deferred tax	19,572	26,907
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Reflected as:

	31 December 2010	31 December 2009
Deferred tax assets	19,572	26,907
Deferred tax liabilities	-	-

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

	31 December 2010	31 December 2009
<u>Reconciliation of Taxation</u>		
Income / (loss) before taxation	297,757	293,591
Tax at the statutory income tax rate of 20%	(59,551)	(58,718)
Tax effect of income that is deductible in determining taxable income	20,559	23,958
Tax effect of undeductable expenses	(23,667)	(5,327)
Tax effect of dividend income	4,202	3,588
Tax effect of other deductions	-	(129)
Net tax (expense) / benefit	(58,457)	(36,628)

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21. EMPLOYEE BENEFITS

	2010	2009
<u>Movement of reserve for employee severance indemnity</u>		
Balance at 1 January	3,498	3,142
Provision for the year	1,070	1,016
Indemnities paid	(422)	(660)
Balance at 31 December	4,146	3,498

	2010	2009
Provision for unused vacations	1,146	939

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 at 31 December 2010, the Bank has no obligation to book any provision for the Pension Funds. For additional information, please see note 3.17 Employee Benefits.

b) Reserve for employee severance indemnity

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days' pay maximum full TL 2,517 as at 31 December 2010 (31 December 2009: full TL 2,365) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

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

	2010	2009
Interest rate	10.00%	11.00%
Expected rate of increase in salaries and eligible ceiling	5.10%	4.80%
Discount rate	4.66%	5.92%

22. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting to US Dollar 50,000,000 (TL 77,947 with accrual amount) from International Finance Corporation through direct financing (31 December 2009: TL 75,343).

The date of the loan contract is 21 September 2004 and the first usage date was 5 November 2004. The interest rate of the subordinated loan is Libor + 2.25%; which corresponds to 2.71% as at the reporting date. Total repayment of principal of the subordinated loan will be paid on 15 October 2016 as a whole.

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23. EQUITY

Share Capital

As at 31 December 2010, the authorized and issued capital consists of 700,000,000 shares of 1 Turkish Lira each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

31 December 2010	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ	50.06	350,451	350,451
T. Vakıflar Bankası T.A.O.	8.38	58,642	58,642
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.56	290,894	290,894
Physically Under Custody (Other Institutions and Individuals)	-	13	13
	100.00	700,000	700,000
<u>Components of Capital:</u>			
Nominal capital		700,000	700,000
Effect of inflation		13,563	13,563
		713,563	713,563
<hr/>			
31 December 2009	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ	50.12	300,720	300,720
T. Vakıflar Bankası T.A.O.	8.38	50,265	50,265
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.50	249,002	249,002
Physically Under Custody (Other Institutions and Individuals)	-	13	13
	100.00	600,000	600,000
<u>Components of Capital:</u>			
Nominal capital		600,000	600,000
Effect of inflation		13,563	13,563
		613,563	613,563

In the current period, the Bank's share capital has increased by TL 100,000. In the meeting of the General Assembly held on 25 March 2010; it has been resolved that, paid-in capital of the Bank will be increased from TL 600,000 to TL 700,000 by TL 100,000. In respect of the resolution of the General Assembly, TL 85,000 of this increase will be incorporated from the profit of the year 2009 and TL 15,000 from extraordinary reserves. The increase in paid-in capital was approved by the BRSA on 27 April 2010 and has been published in the Turkish Trade Registry Gazette No: 7576 on 2 June 2010.

In the prior period, the Bank's share capital has increased by TL 100,000. In the meeting of the General Assembly held on 25 March 2009, it has been resolved that, paid-in capital of the Bank will be increased from TL 500,000 to TL 600,000 by TL 100,000. In respect of the resolution of the General Assembly, TL 96,000 of this increase will be incorporated from the profit of the year 2008 and TL 4,000 from extraordinary reserves. The increase in paid-in capital was approved by the BRSA on 29 April 2009 and has been published in the Turkish Trade Registry Gazette No: 7335 on 18 June 2009.

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23. EQUITY (continued)

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognized.

Dividends

At the Ordinary General Assembly of the Bank held on 25 March 2010, it was decided to distribute a dividend of TL 30,000 to shareholders and TL 4,152 to personnel, members of Board of Directors and to allocate TL 52,940 to legal reserves from retained earnings.

Non-controlling interests

In accordance with the revised standards of IFRS, non-controlling interests are a separate component of the equity. As at the reporting date the non-controlling interests are as follows:

	31 December 2010	31 December 2009
Capital	78,448	29,589
Share premium	228	25
Fair value reserve	2	60
Retained earnings / (accumulated losses)	17,459	(5,654)
Current period net income	5,115	9,778
Increase related to merger	-	(5,151)
	101,252	28,647

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24. OTHER OPERATING INCOME

	1 January- 31 December 2010	1 January- 31 December 2009
Provisions released	23,688	-
Increase in value of investment properties	2,312	48,529
Gain on sale of assets	776	3,956
Other	10,433	3,925
	37,209	56,410

25. DIVIDEND INCOME

	1 January- 31 December 2010	1 January- 31 December 2009
Trading Securities	307	488
Available-for-Sale Securities	916	2,097
Other	1,280	2,499
	2,503	5,084

26. OTHER OPERATING EXPENSES

	1 January- 31 December 2010	1 January- 31 December 2009
Personnel expenses	48,850	44,075
Depreciation and amortization	3,999	9,253
Taxes and dues other than on income	25	14
Marketing expenses	2,438	1,280
Other administrative expenses	20,663	14,799
Other	17,297	4,091
	93,272	73,512

27. RELATED PARTIES

For the purposes of the accompanying consolidated 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.

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27. RELATED PARTIES (continued)

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

	31 December 2010	31 December 2009
<u>Balances with related parties</u>		
Loans and advances to customers	198,369	135,802
Non-cash loans	117,758	117,748
Due from other banks	4,800	1,053
Other assets	6,934	6,682
Other liabilities	3,070	337

	1 January- 31 December 2010	1 January- 31 December 2009
<u>Transactions with related parties</u>		
Interest and similar income	4,923	2,647
Interest expenses and similar charges	(443)	-
Dividend income	2,503	2,924
Income from associates	20,508	33,762
Foreign exchange gain (loss), net	(265)	2,223
Net fee and commission income / (expense), net	(477)	390
Other income	183	152

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amounting to TL 7,803 (31 December 2009: TL 6,980).

28. COMMITMENTS AND CONTINGENCIES

	31 December 2010	31 December 2009
Letters of guarantee	801,325	357,761
Revocable and irrevocable commitments	1,569,098	991,313
Letters of credit	259,695	180,321
Swap and forward agreements	767,558	254,193
Option agreements	796,314	380,556
Futures agreements	1,573,170	1,643,661
Other commitments	149,878	246,556
	5,917,038	4,054,361

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28. COMMITMENTS AND CONTINGENCIES (continued)

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 consolidated 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 TL 3,099,283 as at 31 December 2010 (31 December 2009: TL 6,225,246). As at 31 December 2010, securities at custody with market value amounted to TL 2,119,178 (31 December 2009: TL 1,762,730).

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

As at 31 December 2010, according to the general requirements of the ISE, letters of guarantee amounting to TL 4,353 (31 December 2009: TL 9,373) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Also, as at 31 December 2010, according to the general requirements, letters of guarantee amounting to TL 1,236 (31 December 2009: TRY 1,270) were given to the Capital Markets Board.

The Group's trading securities given as collateral or blocked amounted to TL 4,909 at the reporting date (31 December 2009: TL 2,099).

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 1 head office and 13 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 (31 December 2009: 1 head office and 13 branches).

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29. DERIVATIVE FINANCIAL INSTRUMENTS

	2010	2010	2009	2009
	Assets	Liabilities	Assets	Liabilities
Currency swaps	1,861	2,251	6,708	7,492
Options	4,892	4,899	1,521	1,521
Forward foreign exchange contracts	373	200	-	-
Interest rate swaps	3,659	2,571	2,756	2,667
Other	476	433	298	298
	11,261	10,354	11,283	11,978

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 reporting date, notional the total amounts of outstanding derivatives to which the Group is committed are as follows:

	31 December	31 December
	2010	2009
Forward foreign exchange contracts – buy	18,170	-
Forward foreign exchange contracts – sell	17,846	-
Futures – sell	1,573,170	1,643,661
Currency swaps – buy	127,479	125,829
Currency swaps – sell	122,465	123,815
Interest rate swaps – buy	240,799	2,238
Interest rate swaps – sell	240,799	2,311
Currency option – buy	372,061	161,203
Currency option – sell	367,589	161,203
Interest option – buy	28,332	29,075
Interest option – sell	28,332	29,075
Other	116,980	68,255

30. DIVIDENDS

In March 2010, TL 34,152 dividends were paid to shareholders. In March 2009, the dividends paid were TL 2,700.

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31. 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:

	31 December 2010 %	31 December 2009 %
Average during the period	176.10	157.21
Highest	237.57	182.29
Lowest	139.43	135.88

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31. RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2010 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	383	383
Balances with central bank	-	-	-	7,137	7,137
Reserve deposits at central bank	57,030	-	-	-	57,030
Loans and advances to banks	390,865	150,133	-	14,896	555,894
Interbank money market placements	843	-	-	-	843
Funds lent under repurchase agreements	1,326	-	-	5,661	6,987
Trading investment securities	1,140	3,155	79,105	25,457	108,857
Derivative financial instruments	2,693	4,259	4,309	-	11,261
Loans and advances to customers	398,017	823,195	3,417,049	22,104	4,660,365
Available for sale investment securities	319,534	29,470	1,740,643	41,060	2,130,707
Held to maturity investment securities	2,120	195,150	113,017	-	310,287
Equity-accounted investees	-	-	-	172,446	172,446
Goodwill	-	-	-	383	383
Property and equipment	-	-	-	24,917	24,917
Investment properties	-	-	-	213,281	213,281
Intangible assets	-	-	-	857	857
Other assets	-	-	-	46,202	46,202
Deferred tax asset	-	-	-	19,572	19,572
Total	1,173,568	1,205,362	5,354,123	594,356	8,327,409
LIABILITIES					
Obligations under repurchase agreements	1,183,304	2,760	-	-	1,186,064
Derivative financial instruments	915	6,311	3,128	-	10,354
Funds borrowed and subordinated loan	378,997	412,425	4,339,375	-	5,130,797
Debt securities issued	149,447	44,835	-	-	194,282
Payables to stock exchange money market	247,669	-	-	-	247,669
Taxes and dues payable	-	-	-	4,033	4,033
Employee benefits	-	-	-	5,292	5,292
Corporate tax liability	-	-	-	12,588	12,588
Provisions	-	-	-	551	551
Other liabilities	-	-	-	87,514	87,514
Equity attributable to equity holders of the Bank	-	-	-	1,347,013	1,347,013
Non-controlling interests	-	-	-	101,252	101,252
Total	1,960,332	466,331	4,342,503	1,558,243	8,327,409

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

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31. RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2009 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	297	297
Balances with central bank	-	-	-	2,873	2,873
Reserve deposits at central bank	-	-	-	17,966	17,966
Loans and advances to banks	342,629	-	-	13,491	356,120
Interbank money market placements	168	-	-	-	168
Funds lent under repurchase agreements	6,003	-	-	-	6,003
Trading investment securities	943	39,172	15,813	20,543	76,471
Derivative financial instruments	2,259	3,675	5,349	-	11,283
Loans and advances to customers	415,898	587,453	2,752,838	16,339	3,772,528
Available for sale investment securities	270,706	356,664	1,496,001	36,563	2,159,934
Held to maturity investment securities	284	2,878	285,944	-	289,106
Equity-accounted investees	-	-	-	151,252	151,252
Goodwill	-	-	-	383	383
Property and equipment	-	-	-	31,915	31,915
Investment properties	-	-	-	205,291	205,291
Intangible assets	-	-	-	907	907
Other assets	87,395	249	-	26,468	114,112
Deferred tax asset	-	-	-	26,907	26,907
Total	1,126,285	990,091	4,555,945	551,195	7,223,516
LIABILITIES					
Obligations under repurchase agreements	1,226,353	58,340	-	-	1,284,693
Derivative financial instruments	3,030	2,347	6,601	-	11,978
Funds borrowed and subordinated loan	434,115	225,848	3,814,480	-	4,474,443
Payables to stock exchange money market	98,949	-	-	-	98,949
Taxes and dues payable	-	-	-	4,066	4,066
Employee benefits	-	-	-	4,437	4,437
Corporate tax liability	-	-	-	11,374	11,374
Provisions	-	-	-	4,073	4,073
Other liabilities	72,091	-	-	75,258	147,349
Equity attributable to equity holders of the Bank	-	-	-	1,153,507	1,153,507
Non-controlling interests	-	-	-	28,647	28,647
Total	1,834,538	286,535	3,821,081	1,281,362	7,223,516

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

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31. RISK MANAGEMENT (continued)

Analysis of financial liabilities by remaining contractual maturities;

As at 31 December 2010	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<u>Liabilities</u>							
Payables to stock exchange money market	247,669	-	-	-	-	-	247,669
Funds borrowed and subordinated loan	235,519	97,834	234,505	2,152,598	2,687,831	(277,490)	5,130,797
Obligations under repurchase agreements	1,079,950	109,124	7,685	-	-	(10,695)	1,186,064
Debt securities issued	-	151,001	47,256	-	-	(3,975)	194,282
Total	1,563,138	357,959	289,446	2,152,598	2,687,831	(292,160)	6,758,812

As at 31 December 2009	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<u>Liabilities</u>							
Payables to stock exchange money market	98,949	-	-	-	-	-	98,949
Funds borrowed and subordinated loan	219,400	182,387	255,742	1,741,980	2,329,542	(254,608)	4,474,443
Obligations under repurchase agreements	1,223,887	2,591	63,515	-	-	(5,300)	1,284,693
Debt securities issued	-	-	-	-	-	-	-
Total	1,542,236	184,978	319,257	1,741,980	2,329,542	(259,908)	5,858,085

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

As at 31 December 2010	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	62,476	(2,224)	135,223	438,408	90,452	7,207	731,542
Forward Contracts	24,461	-	-	11,555	-	-	36,016
Future Contracts	-	498,205	1,074,965	-	-	-	1,573,170
Options	127,313	86,321	510,212	72,468	-	-	796,314
Others	-	34,441	-	-	82,539	-	116,980
Total	214,250	616,743	1,720,400	522,431	172,991	7,207	3,254,022

As at 31 December 2009	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	59,584	2,837	132,047	125,266	-	(65,541)	254,193
Future Contracts	-	-	1,123,134	520,527	-	-	1,643,661
Options	43,679	40,761	237,967	58,149	-	-	380,556
Others	-	25,840	-	42,415	-	-	68,255
Total	103,263	69,438	1,493,148	746,357	-	(65,541)	2,346,665

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31. RISK MANAGEMENT (continued)

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". 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 surety ship, 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.

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.

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31. RISK MANAGEMENT (continued)

Credit risk (continued)

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:

	Loans to Individuals 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	3,556,640	2,735,190	503,446	542,170	108,280	140,366	172,446	151,252
Public Sector	-	-	-	-	2,306,593	2,308,420	-	-
Banks	-	-	565,102	470,745	73,913	24,319	555,894	356,120
Retail Customers	35,177	24,453	-	-	-	-	-	-
Share Certificates	-	-	-	-	61,065	52,406	-	-
Total	3,591,817	2,759,643	1,068,548	1,012,915	2,549,851	2,525,511	728,340	507,372

Loans according to
geographical concentration

Domestic	3,591,817	2,759,313	987,557	949,949	2,441,046	2,382,622	721,649	479,480
European Union Countries	-	330	39,963	10,687	88,921	92,855	640	22,930
OECD Countries (*)	-	-	-	-	-	-	1,222	1,847
Off-Shore Banking Regions	-	-	41,028	52,279	19,884	25,452	50	101
USA, Canada	-	-	-	-	-	24,582	4,779	3,014
Other Countries	-	-	-	-	-	-	-	-
Total	3,591,848	2,759,643	1,068,548	1,012,915	2,549,851	2,525,511	728,339	507,372

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

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

31 December 2010	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	8,129,943	97	3,301,935	40	5,917,038	100
Euro Zone	130,204	2	2,808,819	33	-	-
Offshore	61,282	1	59,429	1	-	-
USA, Canada	4,780	-	2,157,226	26	-	-
OECD Countries (*)	1,200	-	-	-	-	-
	8,327,409		8,327,409		5,917,038	

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31. RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2009	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	6,988,662	97	2,966,271	41	4,054,361	100
Euro Zone	127,371	2	2,229,164	31	-	-
Offshore	78,470	1	94,019	1	-	-
USA , Canada	27,380	-	1,895,245	26	-	-
OECD Countries (*)	1,633	-	38,811	1	-	-
Other	-	-	6	-	-	-
	7,223,516		7,223,516		4,054,361	

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position;

	31 December 2010	31 December 2009
<u>Gross maximum exposure</u>		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	620,444	377,256
Interbank money market placement	843	168
Funds lent under repurchase agreements	6,987	6,003
Trading investment securities	108,857	76,471
Derivative financial assets held for trading	11,261	11,283
Loans and advances to customers	4,660,365	3,772,528
Held to maturity investment securities	310,287	289,106
Available for sale investment securities	2,130,707	2,159,934
Total	7,849,751	6,692,749
Commitments and contingencies	2,663,016	1,707,696
Total credit risk exposure	13,766,789	10,747,110

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31. RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets as at 31 December 2010 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	555,894	-	-	-	555,894
Loans and advances to customers	4,639,259	83,832	(9,837)	(52,889)	4,660,365
Corporate lending	3,236,791	65,488	(7,714)	(37,324)	3,257,238
Small business lending	1,359,780	17,368	(1,147)	(15,565)	1,360,436
Other	42,688	976	(976)	-	42,688
Total	5,195,153	83,832	(9,837)	(52,889)	5,216,259

Credit quality per class of financial assets as at 31 December 2009 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	356,120	-	-	-	356,120
Loans and advances to customers	3,822,579	22,160	(8,844)	(63,367)	3,772,528
Corporate lending	2,685,317	19,939	(8,529)	(44,777)	2,651,950
Small business lending	1,120,923	2,221	(315)	(18,590)	1,104,239
Other	16,339	-	-	-	16,339
Total	4,178,699	22,160	(8,844)	(63,367)	4,128,648

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31. RISK MANAGEMENT (continued)

Credit risk (continued)

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

	31 December 2010	31 December 2009
Loans and advances to customers		
Corporate lending	35,917	46,024
Small business lending	7,265	44,844
Total	43,182	90,868

Credit risk is evaluated according to the Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to Bank's internal rating and ratings of the financial services customers, which are rated by external rating firms, are matched to the Bank's internal ratings. 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 rating model.

	31 December 2010	31 December 2009
<u>Basic Loan Quality Categories</u>		
Top Grade	528,085	230,593
High Grade	2,271,426	1,874,840
Average Grade	2,282,012	1,709,338
Below Average Grade	618,810	697,303
Impaired	20,166	16,330
Total	5,720,499	4,528,404

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 at reporting 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 provisions) is TL 5,817,009; and TL 96,510 of these customers have not been rated. (31 December 2009: TL 4,561,122; TL 32,718).

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31. RISK MANAGEMENT (continued)

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 statement of financial position is denominated in currencies other than the 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 statement of financial position 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.

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31. RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2010:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	383	383
Balance with the Central Bank	-	-	-	7,137	7,137
Reserve deposits at central bank	-	-	-	57,030	57,030
Loans and advances to banks	390,865	150,133	-	14,896	555,894
Interbank money market placements	843	-	-	-	843
Funds lent under repurchase agreements	6,987	-	-	-	6,987
Trading investment securities	6,825	12,480	64,095	25,457	108,857
Derivative financial instruments	2,693	4,259	4,309	-	11,261
Loans and advances to customers	3,103,355	1,289,967	244,939	22,104	4,660,365
Available for sale investment securities	1,305,095	184,116	600,436	41,060	2,130,707
Held to maturity investment securities	115,137	195,150	-	-	310,287
Equity-accounted investees	-	-	-	172,446	172,446
Goodwill	-	-	-	383	383
Property and equipment	-	-	-	24,917	24,917
Investment properties	-	-	-	213,281	213,281
Intangible assets	-	-	-	857	857
Other assets	-	-	-	46,202	46,202
Deferred tax asset	-	-	-	19,572	19,572
Total	4,931,800	1,836,105	913,779	645,725	8,327,409
LIABILITIES					
Obligations under repurchase agreements	1,183,304	2,760	-	-	1,186,064
Derivative financial instruments	2,155	7,351	848	-	10,354
Funds borrowed and subordinated loan	4,066,389	976,918	87,490	-	5,130,797
Debt securities issued	149,447	44,835	-	-	194,282
Payables to stock exchange money market	247,669	-	-	-	247,669
Taxes and dues payable	-	-	-	4,033	4,033
Employee benefits	-	-	-	5,292	5,292
Corporate tax liability	-	-	-	12,588	12,588
Provisions	-	-	-	551	551
Other liabilities	-	-	-	87,514	87,514
Equity attributable to equity holders of the Bank	-	-	-	1,347,013	1,347,013
Non-controlling interests	-	-	-	101,252	101,252
Total	5,648,964	1,031,864	88,338	1,558,243	8,327,409

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31. RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2009:

	Up to 3 Months	3 to 12 Month	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	297	297
Balances with central bank	-	-	-	2,873	2,873
Reserve deposits at central bank	-	-	-	17,966	17,966
Loans and advances to banks	342,630	-	-	13,490	356,120
Interbank money market placements	168	-	-	-	168
Funds lent under repurchase agreements	6,003	-	-	-	6,003
Trading investment securities	943	39,172	15,814	20,542	76,471
Derivative financial instruments	2,259	3,675	5,349	-	11,283
Loans and advances to customers	2,776,227	786,115	193,847	16,339	3,772,528
Available for sale investment securities	1,049,191	392,751	681,429	36,563	2,159,934
Held to maturity investment securities	104,289	2,508	182,309	-	289,106
Equity-accounted investees	-	-	-	151,252	151,252
Goodwill	-	-	-	383	383
Property and equipment	-	-	-	31,915	31,915
Investment properties	-	-	-	205,291	205,291
Intangible assets	-	-	-	907	907
Other assets	87,394	249	-	26,469	114,112
Deferred tax asset	-	-	-	26,907	26,907
Total	4,369,104	1,224,470	1,078,748	551,194	7,223,516
LIABILITIES					
Obligations under repurchase agreements	1,226,353	58,340	-	-	1,284,693
Derivative financial instruments	3,030	2,347	6,601	-	11,978
Funds borrowed and subordinated loans	3,614,520	758,174	101,749	-	4,474,443
Payables to stock exchange money market	98,949	-	-	-	98,949
Taxes and dues payable	-	-	-	4,066	4,066
Employee benefits	-	-	-	4,437	4,437
Corporate tax liability	-	-	-	11,374	11,374
Provisions	-	-	-	4,073	4,073
Other liabilities	72,091	-	-	75,258	147,349
Equity attributable to equity holders of the Bank	-	-	-	1,153,507	1,153,507
Non-controlling interests	-	-	-	28,647	28,647
Total	5,014,943	818,861	108,350	1,281,362	7,223,516

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31. RISK MANAGEMENT (continued)

Interest Rate Sensitivity (continued)

As at 31 December 2010, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with central bank & banks	8.74	-	-	-
Interbank money market placements	6.13	-	-	-
Funds lent under repurchase agreements	6.98	-	-	-
Trading investment securities	7.97	-	-	-
Loans	9.72	3.93	3.41	4.96
Leasing receivables	-	4.06	6.94	4.96
Available for sale investment securities	9.49	5.49	5.83	-
Held to maturity investment securities	13.59	-	-	-
<u>Liabilities</u>				
Obligations under repurchase agreements	6.70	1.00	1.03	-
Funds borrowed and subordinated loan	6.10	1.40	1.03	-
Debt securities issued	8.34	-	-	-
Payables to stock exchange money market	7.10	-	-	-

As at 31 December 2009, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with central bank & banks	6.43	0.22	-	-
Interbank money market placements	6.36	-	-	-
Funds lent under repurchase agreements	3.68	-	-	-
Trading investment securities	10.16	-	4.81	-
Loans	14.94	3.97	3.45	4.88
Leasing receivables	16.29	3.76	5.67	5.06
Available for sale investment securities	11.79	4.01	5.89	-
Held to maturity investment securities	11.61	-	-	-
<u>Liabilities</u>				
Obligations under repurchase agreements	7.34	1.10	1.02	-
Funds borrowed and subordinated loan	11.06	1.89	1.37	1.96
Debt securities issued	-	-	-	-
Payables to stock exchange money market	7.04	-	-	-

The Group's interest rate sensitivity is calculated according to the market risk related to assets and liabilities. In this context, at the reporting date, if interest rates had been 1 bp higher for TL and foreign currency and all other variables were held constant, the net decrease on the profit and shareholders' equity would have been TL (54,827) and if interest rates had been 1 bp lower for TL and foreign currencies, the net increase on the profit and shareholders' equity change would have been TL 56,308.

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31. RISK MANAGEMENT (continued)

Interest Rate Sensitivity (continued)

The nominal and market value of the Group's current period's available for sale portfolio are 5% and 2% lower, respectively, than those in the previous period. In addition to this, foreign exchange assets in the Group's portfolio are 22% of the portfolio in the current period while this ratio was 23% in the prior period in terms of fair value.

Other Price Risks

Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to stock 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:

- Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.
- As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.
- According to the analysis results under these assumptions; profit/loss will increase/decrease by TL 2,939 (31 December 2009: None), marketable securities classified as financial assets held for trading would decrease/increase by TL 4,485 (31 December 2009: TL 3,861 marketable securities value increase fund increase/decrease).

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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31. RISK MANAGEMENT (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2010:

	Euro	US Dollar	Yen	Other Foreign Currencies	Total
Assets					
Cash and cash equivalents including Central Bank	2,245	68	-	64	2,377
Reserve deposits at central bank	57,030	-	-	-	57,030
Loans and advances to banks	1,273	7,563	226	1,303	10,365
Derivative financial instruments	4,745	3,928	-	-	8,673
Loans and advances customers	2,237,835	2,281,316	2,954	-	4,522,105
Available for sale investment securities	67,063	401,358	-	-	468,421
Property and equipment	-	-	-	1	1
Other assets	3,269	6,936	-	5	10,210
Total Assets	2,373,460	2,701,169	3,180	1,373	5,079,182
Liabilities					
Obligations under repurchase agreements	33,768	108,289	-	242	142,299
Derivative financial instruments	3,418	4,131	-	-	7,549
Funds borrowed and subordinated loan	2,413,648	2,657,533	-	599	5,071,780
Other liabilities	2,808	19,536	-	171	22,515
Total Liabilities	2,453,642	2,789,489	-	1,012	5,244,143
Net Statement of Financial Position	(80,182)	(88,320)	3,180	361	(164,961)
Off Balance Sheet Position					
Derivatives to sell	125,430	265,787	8,749	-	399,966
Derivatives to buy	(134,939)	(176,048)	(12,360)	-	(323,347)
	(9,509)	89,739	(3,611)	-	76,619
Net Position	(89,691)	1,419	(431)	361	(88,342)

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31. RISK MANAGEMENT (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2009:

	Euro	US Dollar	Yen	Other Foreign Currencies	Total
Assets					
Cash and cash equivalents including Central Bank	2,350	185		3	2,538
Reserve deposits at central bank	17,966	-	-	-	17,966
Loans and advances to banks	27,186	4,506	757	1,299	33,748
Trading investment securities	-	34	-	-	34
Derivative financial instruments	1,420	2,842	-	-	4,262
Loans and advances to customers	1,982,572	1,766,016	24,235	-	3,772,823
Available for sale investment securities	100,659	393,176	-	-	493,835
Property and equipment	-	-	-	1	1
Other assets	5,240	3,522	-	8	8,770
Total Assets	2,137,393	2,170,281	24,992	1,311	4,333,977
Liabilities					
Obligations under repurchase agreements	19,150	27,259	-	-	46,409
Derivative financial liabilities held for trading	1,249	2,735	2	-	3,986
Funds borrowed and subordinated loan	2,230,490	2,116,806	38,998	483	4,386,777
Other liabilities	4,363	14,118	-	17	18,498
Total Liabilities	2,255,252	2,160,918	39,000	500	4,455,670
Net Statement of Financial Position	(117,859)	9,363	(14,008)	811	(121,693)
Off Balance Sheet Position					
Derivatives to sell	136,332	94,404	24,487	-	255,223
Derivatives to buy	(100,682)	(132,989)	(10,986)	-	(244,657)
	35,650	(38,585)	13,501	-	10,566
Net Position	(82,209)	(29,222)	(507)	811	(111,127)

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31. RISK MANAGEMENT (continued)

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 Dollar and JPY currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and JPY.

	% Increase	Effect on profit or loss		Effect on equity	
		31 December 2010	31 December 2009	31 December 2010	31 December 2009
US Dollar	10%	(2,681)	(4,071)	3,003	1.149
Euro	10%	(9,195)	(8,408)	226	187
JPY	10%	(43)	(51)	-	-
Others	10%	36	81	-	-

	% Decrease	Effect on profit or loss		Effect on equity	
		31 December 2010	31 December 2009	31 December 2010	31 December 2009
US Dollar	10%	2,681	4,071	(3,003)	1.149
Euro	10%	9,195	8,408	(226)	187
JPY	10%	43	51	-	-
Others	10%	(36)	81	-	-

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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31. RISK MANAGEMENT (continued)

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 statement of financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As at 31 December 2010, its capital adequacy ratio on an unconsolidated basis is 22.73% (31 December 2009 – 24.91%). The Group's consolidated capital adequacy ratio as at 31 December 2010 is 21.62% (31 December 2009 – 23.22%).

Operational risk

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

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32. FAIR VALUES OF FINANCIAL INSTRUMENTS

As at 31 December 2010 and 31 December 2009, fair values of financial assets and liabilities are as follows:

	31 December 2010		31 December 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interbank money market placements	843	843	168	168
Funds lent under repurchase agreements	6,987	6,987	6,003	6,003
Trading investment securities	108,857	108,857	76,471	76,471
Derivative financial instruments	11,261	11,261	11,283	11,283
Loans and advances to customers	4,660,365	4,669,798	3,772,528	3,773,497
Available for sale investment securities	2,130,707	2,130,707	2,159,934	2,159,934
Held to maturity investment securities	310,287	336,412	289,106	314,320
Other assets	46,177	46,177	114,112	114,112
Obligations under repurchase agreements	1,186,064	1,186,064	1,284,693	1,284,693
Derivative financial instruments	10,354	10,354	11,978	11,978
Funds borrowed and subordinated loans	5,130,797	5,130,797	4,474,443	4,474,443
Debt securities issued	194,282	194,282	-	-
Payables to stock exchange money market	247,669	247,669	98,949	98,949
Other liabilities	87,514	87,514	147,349	147,349

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.

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.

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32. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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 fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The consolidated financial statements include holdings in unlisted shares which are measured at its historical costs as fair values could not be determined reliably.

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32. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

31 December 2010		Level 1	Level 2	Level 3
Financial Assets				
Trading investment securities	108,857	108,857	-	-
<i>Government bond and Treasury bills</i>	83,019	83,019	-	-
<i>Equity shares</i>	24,008	24,008	-	-
<i>Investment fund</i>	1,830	1,830	-	-
Derivative Financial Instruments	11,261	-	11,261	-
Available for sale investment securities	2,130,707	1,953,202	-	177,505
<i>Government bond and Treasury bills</i>	1,600,966	1,600,966	-	-
<i>Eurobonds</i>	312,320	312,320	-	-
<i>Equity shares</i>	37,058	-	-	37,058
<i>Other</i>	180,363	39,916	-	140,447
Financial Liabilities				
Derivative Financial Instruments	10,354	-	10,354	-
31 December 2009				
Financial Assets				
Trading investment securities	76,471	76,471	-	-
<i>Government bond and treasury bills</i>	55,928	55,928	-	-
<i>Equity shares</i>	19,292	19,292	-	-
<i>Investment fund</i>	1,251	1,251	-	-
Derivative Financial Instruments	11,283	-	11,283	-
Available for sale investment securities	2,159,934	1,992,946	-	166,988
<i>Government bond and Treasury bills</i>	1,687,809	1,687,809	-	-
<i>Eurobonds</i>	278,085	278,085	-	-
<i>Equity shares</i>	33,112	-	-	33,112
<i>Other</i>	160,928	27,052	-	133,876
Financial Liabilities				
Derivative Financial Instruments	11,978	-	11,978	-

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33. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated income statement are calculated by dividing the net earnings attributable 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 year ended 31 December 2010 and 31 December 2009 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 31 December 2010	1 January – 31 December 2009
Number of shares outstanding at 1 January	600,000,000	600,000,000
<i>New shares issued</i>		
Conversion of existing reserves	100,000,000	100,000,000
Number of shares outstanding at the period end	700,000,000	700,000,000
Weighted average number of shares during the period	700,000,000	700,000,000
Net profit (TL)	239,300	256,963
Basic earnings per share (in full TL)	0.3419	0.3671

34. EVENTS AFTER THE REPORTING DATE

The Bank's share capital has been increased by TL 100,000. In the meeting of the General Assembly held on 25 March 2011; it has been resolved that, paid-in capital of the Bank will be increased from TL 700,000 to TL 800,000. In respect of the resolution of the General Assembly, TL 100,000 of this increase will be incorporated from the profit of the year 2010.

In respect of the resolution of the General Assembly held on 25 March 2011, gross TL 42,000 of the profit of the year 2010 will be distributed to the shareholders:

Yatırım Finansman Menkul Değerler AŞ's share capital has increased by TL 8,000. In the meeting of the General Assembly held on 23 March 2011; it has been resolved that, paid-in capital of the Bank will be increased from TL 45,500 to TL 53,500. In respect of the resolution of the General Assembly, TL 8,000 of this increase will be incorporated from the profit of the year 2010. The Bank obtained TL 7,662 bonus shares through the capital increase of Yatırım Finansman Menkul Değerler AŞ amounting to TL 8,000.

In the meeting of the General Assembly held on 31 March 2011; it has been resolved that, TL 2,035 of profit of TSKB Yatırım Ortaklığı AŞ for the year ended 31 December 2010 is decided to be distributed in cash from the date of 13 April 2011.

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34. EVENTS AFTER THE REPORTING DATE

Changes in required reserves ratio

1. Published in the Official Gazette No. 27913 dated 22 April 2011 and No. 2011/6 on the Amendment of the Communiqué on the Required Provisions Scale obligation dated 29 April 2011, to be effective with the Turkish lira Turkish lira liabilities required reserve ratio for deposits / participation were differentiated according to the maturity structure of funds.

These ratios are below:

a) Turkish lira required reserve ratio

TL	Required Reserve Ratio (%)
Demand deposits, notice deposits, private current accounts	16
Deposits/participation accounts up to 1-month maturity	16
Deposits/participation accounts up to 3 month maturity	13
Deposits/participation accounts up to 6 month maturity	9
Deposits/participation accounts up to 1-year maturity	6
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	5
Special funds	Ratios correspond to maturities
Other than deposits/participation accounts	13

b) FX required reserve ratio is 11%

2. Published in the Official Gazette No. 27913 dated 22 April 2011 and 2011/6 Required Provisions of the Amendment to the Communiqué on the Scale to be valid obligation dated 29 April 2011, the Turkish lira demand required reserve ratios, and special notice deposits current accounts, term deposits up to 1 month / sharing accounts, time deposits up to 3 months / participate in special fund accounts and deposit pools / other liabilities to non-participation fund was set.

The ratios are below:

TL	Required Reserve Ratio (%)
Demand deposits, notice deposits, private current accounts	12
Deposits/participation accounts up to 1-month maturity	11
Deposits/participation accounts up to 3 month maturity	11
Deposits/participation accounts up to 6 month maturity	11
Deposits/participation accounts up to 1-year maturity	12
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	11.5
Special funds	Ratios correspond to maturities
Other than deposits/participation accounts	11