Çalık Yatırım Bankası Anonim Şirketi

Financial Statements As of and For the Year Ended 31 December 2007 with Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

20 February 2008

This report contains 2 pages of independent auditors' report and 41 pages of financial statements and notes to the financial statements.

Çalık Yatırım Bankası Anonim Şirketi

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Çalık Yatırım Bankası Anonim Şirketi:

We have audited the accompanying financial statements of Çalık Yatırım Bankası Anonim Şirketi (the "Bank"), which comprise the balance sheet as of 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as at and for the year ended 31 December 2006 prior to the restatements described in Note 28 to these financial statements, were audited by another auditor whose report dated 16 February 2007 expressed a qualified opinion due to the fact that the Bank had not complied with the rule of the International Accounting Standard No: 29 ("IAS 29") "Financial Reporting in Hyperinflationary Economies" by discontinuing the inflation accounting as of 1 January 2005.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the 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 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

a) We draw attention to Note 28 to the financial statements. The independent auditors' report on the financial statements as of and for the year ended 31 December 2006 dated 16 February 2007 included a qualified opinion because the Bank had ceased to apply inflation accounting effective from 1 January 2005, contrary to IAS 29. The Bank has restated its financial statements as of and for the year ended 31 December 2006 and recorded such effect of inflation accounting and related income tax effects.

   Additionally, as described in Note 28, during 2007, an error was discovered in the financial statements of the Bank as of and for the year ended 31 December 2006. The related corresponding figures for 31 December 2006 have been restated accordingly.

b) The Bank has given the significant portion of non-cash loans to its related parties (Çalık Group Companies) as of balance sheet date.

20 February 2008
Istanbul, Turkey

KPMG Akis Bagimsiz Denetim ve
Serbest Muhasebeci Mali Musavirlik AS

ÇALIK YATIRIM BANKASI ANONİM ŞİRKETİ

Balance Sheet
As of 31 December 2007
(Currency - In thousands of New Turkish Lira)

	Note	31 December 2007	Restated[1] 31 December 2006
ASSETS			
Cash and cash equivalents	*13*	22,996	10,100
Reserve deposits at Central Bank	*14*	619	257
Trading assets	*15*	505	746
Loans and advances to customers	*16*	75,796	45,290
Investment in associate	*17*	10,028	9,020
Property and equipment	*18*	593	821
Intangible assets	*19*	371	84
Deferred tax assets	*12*	-	31
Other assets	*20*	2,334	470
Total assets		**113,242**	**66,819**
LIABILITIES			
Obligations under repurchase agreements	*21*	35	190
Funds borrowed	*22*	34,961	3,090
Provisions	*23*	82	58
Current tax liabilities	*12*	-	121
Deferred tax liabilities	*12*	38	-
Other liabilities	*24*	12,780	2,126
Total liabilities		**47,896**	**5,585**
EQUITY			
Share capital	*25*	44,663	44,663
Retained earnings		20,683	16,571
Total equity		**65,346**	**61,234**
Total equity and liabilities		**113,242**	**66,819**
Commitments and contingencies	*27*		

(1) See Note 28 for the restatement of prior year's financial statements.

The accompanying notes are an integral part of these financial statements.

ÇALIK YATIRIM BANKASI ANONİM ŞİRKETİ

Income Statement

For the year ended 31 December 2007

(Currency - In thousands of New Turkish Lira)

	Note	2007	Restated[1] 2006
Interest income	*6*	11,207	10,232
Interest expense	*6*	(238)	(304)
Net interest income		**10,969**	**9,928**
Fees and commission income	*7*	2,298	2,154
Fees and commission expense	*7*	(24)	(25)
Net fee and commission income		**2,274**	**2,129**
Net trading income	*8*	92	376
Other operating income	*9*	72	396
Operating income		**13,407**	**12,829**
Personnel expenses	*10*	(5,704)	(3,380)
Depreciation and amortisation	*18, 19*	(375)	(431)
Administrative expenses	*11*	(3,203)	(2,867)
Total operating expenses		**(9,282)**	**(6,678)**
Share of profit of equity accounted investee	*17*	1,008	499
Profit before income tax		**5,133**	**6,650**
Income tax expense	*12*	(1,021)	(1,421)
Net profit for the year		**4,112**	**5,229**

(1) See Note 28 for the restatement of prior year's financial statements.

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2007
(Currency - In thousands of New Turkish Lira)

	Note	Share capital	Inflation adjustment to share capital	Retained earnings	Total
Balance at 1 January 2006		**13,500**	**26,113**	**16,066**	**55,679**
Impact of restatement on opening financial statements	*28*	-	1,800	(1,474)	326
Balance at 1 January 2006, restated[1]		**13,500**	**27,913**	**14,592**	**56,005**
Share capital increase		6,500	(3,250)	(3,250)	-
Net profit for the year		-	-	5,229	5,229
Balance at 31 December 2006		**20,000**	**24,663**	**16,571**	**61,234**
Net profit for the year		-	-	4,112	4,112
Balance at 31 December 2007		**20,000**	**24,663**	**20,683**	**65,346**

(1) See Note 28 for the restatement of prior year's financial statements.

The accompanying notes are an integral part of these financial statements.

ÇALIK YATIRIM BANKASI ANONİM ŞİRKETİ

Cash Flow Statement
For the year ended 31 December 2007
(Currency - In thousands of New Turkish Lira)

	Note	2007	Restated[1] 2006
Cash flows from operating activities			
Profit for the year		4,112	5,229
Adjustments for:			
Depreciation and amortisation	*18, 19*	375	431
Net interest accrual on financial assets and liabilities		205	(89)
Share of profit of equity investee	*17*	(1,008)	(499)
Gain on sale on property and equipment	*9*	(23)	-
Income tax expense	*12*	1,021	1,421
Operating profit before changes in operating assets / liabilities		**4,682**	**6,493**
Change in reserve deposit at Central Bank		(362)	136
Change in trading assets		247	2,000
Change in loans and advances to customers		(30,744)	3,359
Change in other assets		(1,933)	247
Change in deferred tax assets and liabilities		69	(2)
Change in obligations under repurchase agreements		(155)	(674)
Change in other liabilities and provisions		10,678	(388)
Income tax paid		(1,073)	(2,054)
Net cash provided from / (used in) operating activities		**(18,591)**	**9,117**
Cash flows from investing activities			
Purchase of investments		-	(4,145)
Purchase of property and equipment	*18*	(186)	(104)
Proceeds from the sale of property and equipment		116	-
Purchase of intangible assets	*19*	(341)	(24)
Net cash used in investing activities		**(411)**	**(4,273)**
Cash flows from financing activities			
Proceeds from funds borrowed		284,481	138,927
Repayment of borrowings		(252,583)	(140,154)
Net cash provided from / (used in) financing activities		**31,898**	**(1,227)**
Net increase in cash and cash equivalents		**12,896**	**3,617**
Cash and cash equivalents on 1 January	*13*	10,100	6,483
Cash and cash equivalents on 31 December	*13*	**22,996**	**10,100**
Interest received		11,439	10,062
Interest paid		(265)	(223)

(1) See Note 28 for the restatement of prior year's financial statements.

The accompanying notes are an integral part of these financial statements.

(Currency - In thousands of New Turkish Lira)

1. Corporate information

General

Çalık Yatırım Bankası Anonim Şirketi (the "Bank") was incorporated in Turkey in July 1999.

The Bank operates as an "investment bank" and is mainly involved in corporate services such as cash or non-cash, financial leasing, factoring, corporate lending. As an investment bank, the Bank borrows funds from other banks, financial markets, partners and credit customers, but is not entitled to receive deposits from customers.

The head office of the Bank is located at Tekfen Tower Levent / Istanbul, and the Bank has also one branch in Merter / Istanbul.

The Bank has cooperation with Şekerbank T.A.Ş. and Çalık Holding A.Ş. in their project of investing a foreign oriented bank in Çalık-Şeker Konsorsiyum Yatırım A.Ş. The share of the Bank in this company is 24%.

	Place of incorporation	Effective shareholding and voting rights (%)	
		2007	2006
Çalık-Şeker Konsorsiyum Yatırım A.Ş.	Turkey	24	24

The main establishment purpose of Çalık-Şeker Konsorsiyum Yatırım A.Ş. is the transactions related with purchase of Bank Kombatare Tregtare in Albania.

The Bank employs 76 people as of 31 December 2007 (2006 – 30).

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank which is incorporated in Turkey maintain its books of account and prepare their statutory financial statements in accordance with the Turkish Banking Law, based on the regulations on accounting and reporting framework and accounting standards regulated by the Banking Regulation and Supervision Agency ("BRSA") and regulations of Turkish Commercial Code and Tax Legislation.

The financial statements have been prepared from statutory financial statements of the Bank and its subsidiary and presented in accordance with IFRS in New Turkish Lira ("YTL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The financial statements as of 31 December 2007 of the Bank are authorised for issue by the management on 20 February 2008. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in YTL, which is the Bank's functional currency. Except as indicated, financial information presented in YTL has been rounded to the nearest thousand.

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are as follows;

Key sources of estimation uncertainty

Allowances for credit losses

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

Determining fair values

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. To the extent practical, models use only observable data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Critical accounting judgements in applying the Bank’s accounting policies

Critical accounting judgements made in applying the Bank’s accounting policies include:

Financial asset and liability classification

The Bank’s accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets and liabilities as “trading”, the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.12.

3. Significant accounting policies

Except as described in Note 28, the accounting policies set out below, have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the subsidiary.

The following comparative amounts have been reclassified to conform with the current year's presentation:

- YTL 564 of cash and cash equivalents, YTL 161 of balances with Central Bank and YTL 9,375 of balances with other banks were grouped under the balance sheet item "Cash and cash equivalents",
- YTL 199 of funds lent under securities resale agreements and YTL 547 of financial assets at fair value through profit and loss (net) were grouped under the balance sheet item "Trading assets",
- YTL 267 of fees of commission income on loans which were an integral part of the effective interest rate was reclassified to "Interest income on loans".
- YTL 301 of interest on trading securities which was presented in interest income was reclassified to "Net trading income",
- YTL 19 of foreign exchange gain/loss (net) and YTL 56 of trading income on securities were grouped under the income statement item "Net trading income".

3.1 Accounting in hyperinflationary economies

The financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on International Accounting Standard ("IAS") No. 29 "Financial Reporting in Hyperinflationary Economies" as of 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current on the balance sheet date, and that corresponding figures for prior periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 35.61% as of 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). By taking this into consideration, together with the sustained positive trend in quantitative factors, such as the stabilisation in financial and monetary markets, decrease in interest rates and the appreciation of YTL against USD and other hard currencies, it was declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 from 1 January 2006 as stated in International Standards Alert No. 2006/17 issued on 8 March 2006. Therefore, IAS 29 has not been applied to the accompanying financial statements for the year ended 31 December 2006.

(Currency - In thousands of New Turkish Lira)

3. Significant accounting policies *(continued)*

3.2 Basis of consolidation

The Bank's investment in associate is subsidiary for under the equity method of accounting. This is entity in which the Bank has significant influence but not control and which are neither affiliate nor joint ventures of the Bank. The investment in subsidiary is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the subsidiary, less any impairment in value. The income statement reflects the Bank's share of the results of operations of the subsidiary. Where there has been a change recognised directly in the equity of a subsidiary, the Bank recognises its share of any changes and discloses this when applicable, in the statement of changes in equity.

The financial statements of the subsidiary as of and for the period ended 30 September 2007 are used for equity accounting. There is not any a significant transaction or event in the three months period to 31 December 2007.

The subsidiary's accounting policies conform to those by the Bank for like transactions and events.

3.3 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign currency translation rates used by the Bank are as follows:

	EUR / YTL (full)	USD / YTL (full)
31 December 2006	1.8848	1.4279
31 December 2007	1.7227	1.1685

3.4 Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense presented in the income statement include the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.

3. Significant accounting policies *(continued)*

3.5 Fees and commission

Fees and commissions income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.6 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.7 Dividends

Dividend income is recognised when the right to receive income is established.

3.8 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.9 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed on each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities

Recognition

The Bank initially recognises loans and advances, funds borrowed and customer accounts on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank 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 Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Identification and measurement of impairment

On each balance sheet date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Since the Bank's loan portfolio does not consist of many transactions, the Bank considers evidence of impairment at only specific asset level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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 Bank, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

3. Significant accounting policies *(continued)*

3.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

3.12 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to income statement. All changes in fair value are recognised as part of net trading income in income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

3.13 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.14 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

▪ machinery and equipment	4-8 years
▪ furniture and fixtures	4-8 years
▪ motor vehicles	5 years
▪ other fixed assets	4-50 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

3.15 Intangible assets

Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is 3 to 14 years.

3. Significant accounting policies *(continued)*

3.16 Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised on the Bank's balance sheet.

3.17 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Significant accounting policies *(continued)*

3.18 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3.19 Employee benefits

The Bank has both defined benefit and defined contribution plans as described below:

i) Defined benefit plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognised in the income statement.

ii) Defined contribution plans

For defined contribution plans the Bank pays contributions to publicly administered Social Security Funds on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Bank does not have any internally set defined contribution plan.

3. Significant accounting policies *(continued)*

3.20 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as of and for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank Management in order to assess each segment's performance and to allocate resources to them. The Bank is not required to apply this standard since it is out of scope.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional provisions the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. It is not expected to have any impact on the financial statements.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.
- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any effect on the financial statements.
- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements ("MFR") on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. Since post-retirement benefit plans are not funded in Turkey, as there is no funding requirement, it is not expected to have any impact on the financial statements.

4. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit Committee and Risk Management Department, which are responsible for developing and monitoring Bank risk management policies in their specified areas. The Audit Committee has non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

4. Financial risk management *(continued)*

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank’s loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Bank’s credit risk management strategy is based on a three-part methodology that embraces the customer selection, credit allocation, and credit pricing stages. Since it was founded, the Bank has always managed its credit risks by taking a portfolio-logic approach. This sums up the Bank's basic risk management strategy.

In the first stage of the lending process, sectoral weightings are determined and firms that are seeking credit are given a preliminary screening. This initial check is followed by the credit allocation stage in which firms are individually rated and the bank's guarantee strategy is determined according to the results of this rating. In the final stage of the lending process, prices are determined by taking a risk-premium approach.

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Credit risk *(continued)*

Exposure to credit risk

		Loans and advances to customers	
	Note	**2007**	**2006**
Carrying amount	*16*	75,796	45,290
Individually impaired			
Non-performing loans		310	310
Allowance for impairment		(310)	(310)
Carrying amount		-	-
Neither past due nor impaired			
Low risk		36,272	20,735
Medium risk		23,668	21,834
Non graded		15,856	2,721
Total carrying amount		**75,796**	**45,290**

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Sectoral analysis

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	2007		2006	
Sector	**Carrying amount**	**%**	**Carrying amount**	**%**
Manufacturing	29,881	40	5,246	11
Financial institutions	19,034	25	24,557	54
Trade	13,108	17	6,179	14
Construction	11,666	16	5,136	11
Other	1,024	1	1,264	3
Energy	952	1	1,628	4
Transportation and communication	131	-	1,280	3
	75,796	**100**	**45,290**	**100**

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Credit risk *(continued)*

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

Cash loans	**2007**	**2006**
Against non-performing loans		
Property	-	-
Debt securities	-	-
Equities	-	-
Cheques and notes	-	-
Against neither past due nor impaired		
Property	135	165
Debt securities	-	-
Equities	-	-
Cheques and notes	23,295	3,678
Total	**23,430**	**3,843**

The Bank also holds collateral against non-cash loans as stated below:

Non-cash loans	**2007**	**2006**
Cheques and notes	12,040	15,314
	12,040	**15,314**

In addition to collateral stated above, the Bank holds customer sureties amounting to YTL 50,105 (2006 – YTL 19,370) against its cash loans and advances to customers and YTL 119,056 (2006 – YTL 87,552) against its non-cash loans.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank funds its short-term liquidity with interbank. In the case of long-term liquidity need, the Bank utilises capital market instruments. Additionally, the Bank also funds itself from the domestic market when it needs additional funds.

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Liquidity risk *(continued)*

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to short-term funds borrowed. For this purpose net liquid assets are considered as including cash and cash equivalents and trading debt securities for which there is an active and liquid market less any short-term funds borrowed and commitments. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the BRSA.

	2007
On 31 December	241%
Average for the period	604%
Maximum for the period	1,470%
Minimum for the period	241%

Residual contractual maturities of financial liabilities

	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2007								
Non-derivative liabilities								
Obligations under repurchase agr.	*21*	35	35	35	-	-	-	-
Funds borrowed	*22*	34,961	35,364	25,669	-	9,695	-	-
		34,996	**35,399**	**25,704**	**-**	**9,695**	**-**	**-**

	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2006								
Non-derivative liabilities								
Obligations under repurchase agr.	*21*	190	190	190	-	-	-	-
Funds borrowed	*22*	3,090	3,118	191	-	2,927	-	-
		3,280	**3,308**	**381**	**-**	**2,927**	**-**	**-**

The table above shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity.

The gross nominal inflow / (outflow) disclosed in the table above is the contractual, undiscounted cash flow on the financial liability or commitment.

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Market risk

Market risk is the risk that, measured by changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) which will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in ALCO.

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Standard Method.

A summary of the Standard Method position of the Bank's trading portfolios on 31 December and during the period is as follows:

	On 31 December	Average	Maximum	Minimum
2007				
Foreign currency risk	300	8,850	16,250	175
Interest rate risk	200	38	50	25
	500	**8,888**	**16,300**	**200**
2006				
Foreign currency risk	11,850	8,225	14,263	1,100
Interest rate risk	50	100	225	13
	11,900	**8,325**	**14,488**	**1,113**

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2007									
Cash and cash equivalents	*13*	22,996	-	939	22,057	-	-	-	-
Reserve deposits at Central Bank	*14*	619	619	-	-	-	-	-	-
Loans and advances to customers	*16*	75,796	-	-	65,657	9,662	134	343	-
		99,411	**619**	**939**	**87,714**	**9,662**	**134**	**343**	**-**
Obligations under repurchase agr.	*21*	35	-	-	35	-	-	-	-
Funds borrowed	*22*	34,961	-	-	25,582	9,379	-	-	-
		34,996	**-**	**-**	**25,617**	**9,379**	**-**	**-**	**-**
Interest rate gap		**64,415**	**619**	**939**	**62,097**	**283**	**134**	**343**	**-**

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2006									
Cash and cash equivalents	*13*	10,100	-	954	9,146	-	-	-	-
Reserve deposits at Central Bank	*14*	257	257	-	-	-	-	-	-
Loans and advances to customers	*16*	45,290	-	-	43,911	93	688	598	-
		55,647	**257**	**954**	**53,057**	**93**	**688**	**598**	**-**
Obligations under repurchase agr.	*21*	190	-	-	190	-	-	-	-
Funds borrowed	*22*	3,090	-	-	3,090	-	-	-	-
		3,280	**-**	**-**	**3,280**	**-**	**-**	**-**	**-**
Interest rate gap		**52,367**	**257**	**954**	**49,777**	**93**	**688**	**598**	**-**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bp parallel increase	100 bp parallel decrease
At 31 December 2007	(2)	2
At 31 December 2006	-	-

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Market risk *(continued)*

Summary of average interest rates

As of 31 December 2007 and 31 December 2006, the summary of average interest rates for different assets and liabilities are as follows:

	2007			2006		
	Euro	**USD**	**YTL**	**Euro**	**USD**	**YTL**
Assets						
Cash and cash equivalents	3.00	4.33	16.41	-	5.19	18.68
Reserve deposits at Central Bank	-	1.95	11.81	-	2.52	13.12
Trading assets	-	-	16.23	-	-	18.91
Loans and advances to customers	6.85	7.32	19.60	8.55	13.59	21.32
Liabilities						
Obligations under repurchase agreements	-	-	14.71	-	-	14.71
Funds borrowed	4.72	6.53	16.56	5.00	-	-

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of audit.

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Foreign currency risk

	Euro	USD	JPY	Other	Total
31 December 2007					
Cash and cash equivalents	4,644	8,634	4	125	13,407
Reserve deposits at Central Bank	-	619	-	-	619
Loans and advances to customers	4,317	13,314	-	-	17,631
Other assets	-	23	-	-	23
Funds borrowed	(8,626)	(10,547)	-	-	(19,173)
Other liabilities	(368)	(8,806)	-	(7)	(9,181)
Gross balance sheet exposure	**(33)**	**3,237**	**4**	**118**	**3,326**
Forward exchange contracts	-	(3,506)	-	-	(3,506)
Net exposure	**(33)**	**(269)**	**4**	**118**	**(180)**

	Euro	USD	JPY	Other	Total
31 December 2006					
Cash and cash equivalents	75	1,977	43	102	2,197
Reserve deposits at Central Bank	-	257	-	-	257
Loans and advances to customers	2,623	1,031	-	-	3,654
Other assets	191	118	-	379	688
Funds borrowed	(2,713)	-	-	(377)	(3,090)
Other liabilities	(2)	(836)	-	(5)	(843)
Gross balance sheet exposure	**174**	**2,547**	**43**	**99**	**2,863**
Forward exchange contracts	-	-	-	-	-
Net exposure	**174**	**2,547**	**43**	**99**	**2,863**

(Currency - In thousands of New Turkish Lira)

4. Financial risk management *(continued)*

Foreign currency risk *(continued)*

The following significant exchange rates applied during the year ended 31 December 2007 and the year ended 31 December 2006:

	Average rate		Balance sheet date	
YTL	**2007**	**2006**	**31 December 2007**	**31 December 2006**
USD	1.2930	1.4313	1.1685	1.4279
Euro	1.7768	1.7974	1.7227	1.8848

Sensitivity analysis

A 10 percent weakening of YTL against the foreign currencies on 31 December 2007 and 31 December 2006 would have decreased (increased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

31 December 2007	**Equity**	**Profit or loss**
Euro	(3)	(3)
USD	(27)	(27)
Other currencies	12	12
	(18)	**(18)**

31 December 2006	**Equity**	**Profit or loss**
Euro	17	17
USD	255	255
Other currencies	14	14
	286	**286**

A 10 percent strengthening of the YTL against the foreign currencies on 31 December 2007 and 31 December 2006 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Capital management

The Bank's lead regulator, BRSA sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by its local regulator.

In implementing current capital requirements of BRSA requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

As of 31 December 2007, the Bank's capital adequacy ratio is 42.19% (2006 – 61.40%).

(Currency - In thousands of New Turkish Lira)

5. Financial assets and liabilities

Accounting classification and fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Bank's classification of each class of financial assets and liabilities and their fair values.

	Note	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2007							
Cash and cash equivalents	*13*	-	22,996	-	-	22,996	22,996
Reserve deposits at Central Bank	*14*	-	619	-	-	619	619
Trading assets	*15*	505	-	-	-	505	505
Loans and advances to customers	*16*	-	75,796	-	-	75,796	75,796
		505	**99,411**	**-**	**-**	**99,916**	**99,916**
Obligations under rep. agr.	*21*	-	-	-	35	35	35
Funds borrowed	*22*	-	-	-	34,961	34,961	34,961
		-	**-**	**-**	**34,996**	**34,996**	**34,996**

	Note	Trading	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2006							
Cash and cash equivalents	*13*	-	10,100	-	-	10,100	10,100
Reserve deposits at Central Bank	*14*	-	257	-	-	257	257
Trading assets	*15*	746	-	-	-	746	746
Loans and advances to customers	*16*	-	45,290	-	-	45,290	45,290
		746	**55,647**	**-**	**-**	**56,393**	**56,393**
Obligations under rep. agr.	*21*	-	-	-	190	190	190
Funds borrowed	*22*	-	-	-	3,090	3,090	3,090
		-	**-**	**-**	**3,280**	**3,280**	**3,280**

(Currency - In thousands of New Turkish Lira)

6. Net interest income

	2007	2006
Interest income		
Cash and cash equivalents	2,451	2,117
Loans and advances to customers	8,718	8,096
Other	38	19
Total interest income	**11,207**	**10,232**
Interest expense		
Funds borrowed	193	255
Other	45	49
Total interest expense	**238**	**304**
Net interest income	**10,969**	**9,928**

7. Net fee and commission income

	2007	2006
Fee and commission income		
Financial guarantee contracts issued	1,933	1,513
Other	365	641
Total fee and commission income	**2,298**	**2,154**
Fee and commission expense		
Other	24	25
Total fee and commission expense	**24**	**25**
Net fee and commission income	**2,274**	**2,129**

8. Net trading income

	2007	2006
Fixed income	128	357
Foreign exchange	(36)	19
Total	**92**	**376**

(Currency - In thousands of New Turkish Lira)

9. Other operating income

	2007	2006
Consultancy gain	33	84
Gain on sale on property and equipment	23	-
Prior year's expenses	-	228
Reversal of unused vacation provision	-	84
Other	16	-
Total	**72**	**396**

10. Personnel expenses

	2007	2006
Wages and salaries	5,193	3,044
Bonuses	359	239
Compulsory social security obligations	128	80
Increase in employee termination indemnity and vacation pay liability	24	17
Total	**5,704**	**3,380**

11. Administrative expenses

	2007	2006
Subscription expenses	450	16
Rent expenses	437	426
Expenses on vehicles	350	141
Communication expenses	254	260
Maintenance expenses	229	193
Taxes and dues other than on income	214	198
Consultancy expenses	211	717
Software maintenance expenses	191	146
Reuters expenses	185	201
Donations	176	17
Representation expenses	92	74
Publicity expenses	85	93
Travelling expenses	45	49
Insurance expense	33	31
Others	251	305
Total	**3,203**	**2,867**

(Currency - In thousands of New Turkish Lira)

12. Taxation

General information

The Bank is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, effective from 1 January 2006 corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to 24 April 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from 24 April 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to 24 April 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. With the new law enacted, effective from 1 January 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to 31 December 2005 will be able to deduct such amounts from corporate income until the end of 31 December 2008; however, the corporate tax rate will be 30% for them. As of 31 December 2007, the Bank has chosen not to deduct such amounts from corporate income. Furthermore, qualifying capital investments to be made until the end of 31 December 2008 within the scope of the investment projects started before 31 December 2005 will be subject to investment incentive until the end of 31 December 2008.

As of 31 December 2007 and 2006, prepaid income taxes are netted off with the current tax liability as stated below:

	2007	2006
Income tax liability	952	1,423
Prepaid income tax	(1,010)	(1,302)
(Prepaid taxes) / Income taxes payable	**(58)**	**121**

(Currency - In thousands of New Turkish Lira)

12. Taxation *(continued)*

Income tax recognised in the income statement

The components of income tax expense for the years ended 31 December 2007 and 2006 are:

	2007	2006
Current tax		
Current income tax	952	1,423
Deferred income tax		
Relating to origination and reversal of temporary differences	69	(2)
Income tax expense reported in the income statement	**1,021**	**1,421**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
Profit before income tax	5,133	6,650
Income tax using the domestic corporation tax rate 20% (2006 – 20%)	1,027	1,330
Non-deductible expenses	196	191
Tax exempt income	(202)	(100)
Total income tax expense in the income statement	**1,021**	**1,421**

Tax expense recognised directly in equity

As of 31 December 2007 and 2006, there is not any tax expense recognised in equity.

(Currency - In thousands of New Turkish Lira)

12. Taxation *(continued)*

Deferred tax

The deferred tax included in the balance sheet and changes recorded in the income tax expense are as follows:

	Deferred tax asset 2007	Deferred tax liability 2007	Income statement 2007	Deferred tax asset 2006	Deferred tax liability 2006	Income statement 2006
Retirement pay liability	6	-	(1)	7	-	1
Unused vacation liability	10	-	5	5	-	(27)
Unearned income	12	-	(3)	15	-	15
Property, equipment and intangible assets	-	(66)	(70)	4	-	13
Deferred tax asset / (liability)	**28**	**(66)**		**31**	**-**	
Deferred tax income / (expense)			**(69)**			**2**

Reflected as:

	2007	2006
Deferred tax assets	-	31
Deferred tax liabilities	38	-

Movement of net deferred tax assets can be presented as follows:

	2007	2006
Deferred tax assets, net on 1 January	31	29
Deferred tax recognised in the income statement	(69)	2
Deferred tax assets / (liabilities), net on 31 December	**(38)**	**31**

13. Cash and cash equivalents

	2007	2006
Cash and balances with Central Bank	650	725
- *Cash on hand*	*214*	*564*
- *Balances with Central Bank*	*436*	*161*
Placements with other banks	21,046	9,375
Other money market placements	1,300	-
Total	**22,996**	**10,100**

(Currency - In thousands of New Turkish Lira)

14. Reserve deposits at Central Bank

	2007	**2006**
Foreign currency	619	257
	619	**257**

According to the regulations of the Central Bank of Turkish Republic (the "Central Bank"). The banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Bank's day to day operations.

As of 31 December 2007 and 2006, reserve deposit rates applicable for YTL and foreign currency liability accounts with the Central Bank are 11% and 6%, respectively.

As of 31 December 2007, the interest rates applied for YTL and USD reserve deposits by the Central Bank are 12.52% and 2.40% (2006 – 13.12% and 2.52%), respectively.

15. Trading assets

	2007	**2006**
Trading securities		
- Government bonds and treasury bills	467	746
Derivative transactions		
- Derivative assets (foreign exchange)	38	-
	505	**746**

As of 31 December 2007, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

YTL 39 of trading debt securities pledged under repurchase agreements as of 31 December 2007 (2006 – YTL 199).

As of 31 December 2007 and 2006, all trading debt securities have fixed interest rates.

On the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the Bank is committed are as follows:

	2007	**2006**
Forward foreign exchange contracts - buy	-	2,701
Forward foreign exchange contracts - sell	-	2,722
Swap foreign exchange contracts – buy	3,579	5,445
Swap foreign exchange contracts – sell	3,506	5,415

(Currency - In thousands of New Turkish Lira)

16. Loans and advances to customers

As of 31 December 2007 and 2006, all the loans and advances to customers are at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	2007			2006		
Corporate customers:						
- Finance leases	608	-	608	1,539	-	1,539
- Other lending	75,498	(310)	75,188	44,061	(310)	43,751
	76,106	**(310)**	**75,796**	**45,600**	**(310)**	**45,290**

Allowance for impairment

	2007	2006
Balance on 1 January	310	515
Impairment loss for the year		
- Charge for the year	-	-
- Recoveries	-	(205)
Balance on 31 December	**310**	**310**

Finance lease receivables

Loans and advances to customers include the following finance lease receivables.

	2007	2006
Gross investment in finance leases, receivable:		
- Less than one year	366	1,110
- Between one and five years	387	744
	753	**1,854**
Unearned future income on finance leases	(145)	(315)
Net investment in finance leases	**608**	**1,539**
The net investment in finance leases comprises:		
- Less than one year	265	941
- Between one and five years	343	598
	608	**1,539**

(Currency - In thousands of New Turkish Lira)

17. Investment in associate

The Bank has 24% interest in Çalık-Şeker Konsorsiyum Yatırım A.Ş. (2006 – 24%).

	2007	2006
Çalık-Şeker Konsorsiyum Yatırım A.Ş.	10,028	9,020
	10,028	**9,020**

The share of the associate's profit for the year is YTL 1,008 (2006 – YTL 499).

The main establishment purpose of Çalık-Şeker Konsorsiyum Yatırım A.Ş. is the transactions related with purchase of Bank Kombatare Tregtare in Albania. The share transfer has been settled on 9 June 2006.

18. Property and equipment

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Other fixed assets	Total
Cost						
Balance on 1 January 2006	713	649	757	260	11	2,390
Additions	94	8	-	-	2	104
Disposals	-	-	-	-	-	-
Balance on 31 December 2006	**807**	**657**	**757**	**260**	**13**	**2,494**
Balance on 1 January 2007	807	657	757	260	13	2,494
Additions	126	42	18	-	-	186
Disposals	(5)	(2)	-	(260)	-	(267)
Balance on 31 December 2007	**928**	**697**	**775**	**-**	**13**	**2,413**
Depreciation and impairment						
Balance on 1 January 2006	544	299	396	88	11	1,338
Depreciation for the year	74	102	107	52	-	335
Disposals	-	-	-	-	-	-
Balance on 31 December 2006	**618**	**401**	**503**	**140**	**11**	**1,673**
Balance on 1 January 2007	618	401	503	140	11	1,673
Depreciation for the year	86	104	102	29	-	321
Disposals	(3)	(2)	-	(169)	-	(174)
Balance on 31 December 2007	**701**	**503**	**605**	**-**	**11**	**1,820**
Carrying amounts						
Balance on 1 January 2006	169	350	361	172	-	1,052
Balance on 31 December 2006	189	256	254	120	2	821
Balance on 31 December 2007	227	194	170	-	2	593

(Currency - In thousands of New Turkish Lira)

19. Intangible assets

	Software
Cost	
Balance on 1 January 2006	1,756
Additions	24
Disposals	-
Balance on 31 December 2006	**1,780**
Balance on 1 January 2007	1,780
Additions	341
Disposals	-
Balance on 31 December 2007	**2,121**
Amortisation and impairment	
Balance on 1 January 2006	1,600
Amortisation for the year	96
Disposals	-
Balance on 31 December 2006	**1,696**
Balance on 1 January 2007	1,696
Amortisation for the year	54
Disposals	-
Balance on 31 December 2007	**1,750**
Carrying amounts	
Balance on 1 January 2006	156
Balance on 31 December 2006	84
Balance on 31 December 2007	371

20. Other assets

	2007	2006
Receivables from Clearing House	1,717	166
Prepaid expenses	340	267
Transitory accounts	189	9
Prepaid taxes (Note 12)	58	-
Others	30	28
	2,334	**470**

(Currency - In thousands of New Turkish Lira)

21. Obligations under repurchase agreements

	2007	2006
Obligations under repurchase agreements	35	190
	35	**190**

YTL 39 of trading debt securities pledged under repurchase agreements as of 31 December 2007 (2006 – YTL 199).

22. Funds borrowed

	2007	2006
Domestic banks – YTL	15,788	-
Domestic banks – Foreign currency	2,348	-
Foreign banks – Foreign currency	16,825	3,090
	34,961	**3,090**

23. Provisions

	2007	2006
Employee termination benefits	33	35
Vacation pay liability	49	23
	82	**58**

The movement in provision for employee termination benefits is as follows:

	2007	2006
On 1 January	35	18
Increase / (decrease) during the year	(2)	17
Paid	-	-
On 31 December	**33**	**35**

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of YTL 2,030 and YTL 1,857 on 31 December 2007 and 2006, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the financial statements as of 31 December 2007 and 2006, the Bank reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the balance sheet date.

(Currency - In thousands of New Turkish Lira)

23. Provisions *(continued)*

The principal actuarial assumptions used on the balance sheet dates are as follows:

	2007	2006
Discount rate	11%	11%
Expected rates of salary/limit increases	5.71%	5.71%
Estimated rate of obtaining right for employee termination indemnity	85%	86%

The movement in provision for vacation pay liability is as follows:

	2007	2006
On 1 January	23	107
Increase / (decrease) during the year	26	(84)
Paid	-	-
On 31 December	**49**	**23**

24. Other liabilities

	2007	2006
Customer accounts	9,449	1,059
Payables to Clearing House	1,757	241
Transitory accounts	694	485
Taxes and due payable	423	212
Payables to compulsory government funds	12	86
Other	445	43
	12,780	**2,126**

(Currency - In thousands of New Turkish Lira)

25. Capital and reserves

	2007	2006
Number of common shares, YTL 1,000 (in full YTL), par value (Authorised and issued)	20,000	20,000

Share capital and share premium

As of 31 December 2007 and 2006, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2007		2006	
	Amount	%	Amount	%
Çalık Holding A.Ş.	18,300	91.5	18,300	91.5
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	900	4.5	900	4.5
Ahmet Çalık	400	2.0	400	2.0
Mahmut Çalık	200	1.0	200	1.0
Ali Akbulut	200	1.0	200	1.0
Total paid-in-capital	**20,000**	**100.0**	**20,000**	**100.0**
Restatement effect	24,663		24,663	
Total share capital	**44,663**		**44,663**	

There are no right, preference and restriction on the distribution of dividends and the repayment of capital.

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.

As of 31 December 2007, the Bank has YTL 1,996 of legal reserves in its statutory financial statements (2006 – YTL 1,761).

(Currency - In thousands of New Turkish Lira)

26. Related parties

Parent and ultimate controlling party

The Bank is controlled by Çalık Holding A.Ş. which owns 91.5% of ordinary shares (2006 – 91.5%).

Compensation of key management personnel of the Bank

Total salaries and other benefits paid to the Board of Members and top management during the year is YTL 2,041 (2006 – YTL 1,534).

Balances with related parties

	2007	**2006**
Loans and advances to customers	19,820	9,672
Other liabilities (Customer accounts)	8,412	787

Off balance sheet balances with related parties

	2007	**2006**
Non-cash loans	75,255	41,766

Transactions with related parties

	2007	**2006**
Interest income on loans	1,577	3,105
Fee and commission income	1,278	1,350
Consultancy gain	33	84
Rent expenses	24	19
Other expenses	48	4

27. Commitments and contingencies

	2007	**2006**
Letters of guarantee	134,842	82,642
Letters of credit	16,823	19,090
Other guarantees	3,626	3,986
	155,291	**105,718**

(Currency - In thousands of New Turkish Lira)

28. Restatement of prior year's financial statements

Correction of errors

In 2007, the Bank discovered an error with respect to allowance method for impairment in financial assets that was not in compliance with IAS 39 "Financial Instruments: Recognition and Measurement" which requires that a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Bank had provided a general provision of 0.5% on certain balance sheet accounts and 0.1% on guarantees and commitments in accordance with the statutory provisioning legislation. However it should be reversed during the preparation of financial statements in accordance with IFRS, since the general provision has no basis, which IAS 39 requires. The Bank has not reversed the general provision amount by mistake in prior periods.

Application of inflation accounting

Contrary to the International Standards Alert No. 2006/17 issued on 8 March 2006 as discussed in note 3.1 "Accounting in hyperinflationary economies", the Banking Regulation and Supervision Agency ("BRSA"), the accounting standard setting body for Turkish banks, has announced on 28 April 2005 in the BRSA's Circular No. 2005/5 that the indicators of hyperinflation are no longer valid for similar reasons outlined above and required banks to discontinue the use of hyperinflationary accounting in their statutory reporting effective from 1 January 2005. The Turkish Capital Markets Board ("CMB"), the accounting standard setting body for publicly quoted Turkish companies, has also terminated the use of inflation accounting by the CMB's resolution dated 17 March 2005 and numbered 11/367. The Ministry of Finance has also announced the termination of inflation accounting per the Tax Procedural Law Circular/No. 18, dated 19 April 2005.

Based on all of the above factors, the management of the Bank discontinued the inflation accounting applicable effective from 1 January 2005. However the Bank has decided to apply the inflation accounting in accordance with the International Standards Alert No. 2006/17 by restating its financial statements as of and for the year ended 31 December 2006.

As a result the matters described above have been accounted by restating the following comparative balance sheet amounts for the prior period presented in the accompanying balance sheet:

	2006	
	As previously reported	**As restated**
Restatements		
Loans and advances to customers	44,936	45,290
Provisions	165	58
Property and equipment	791	821
Intangible assets	86	84
Deferred tax assets	123	31
Share capital	42,863	44,663
Retained earnings	17,976	16,571
Net profit for the year ended 31 December 2006	5,160	5,229

29. Subsequent events

None.