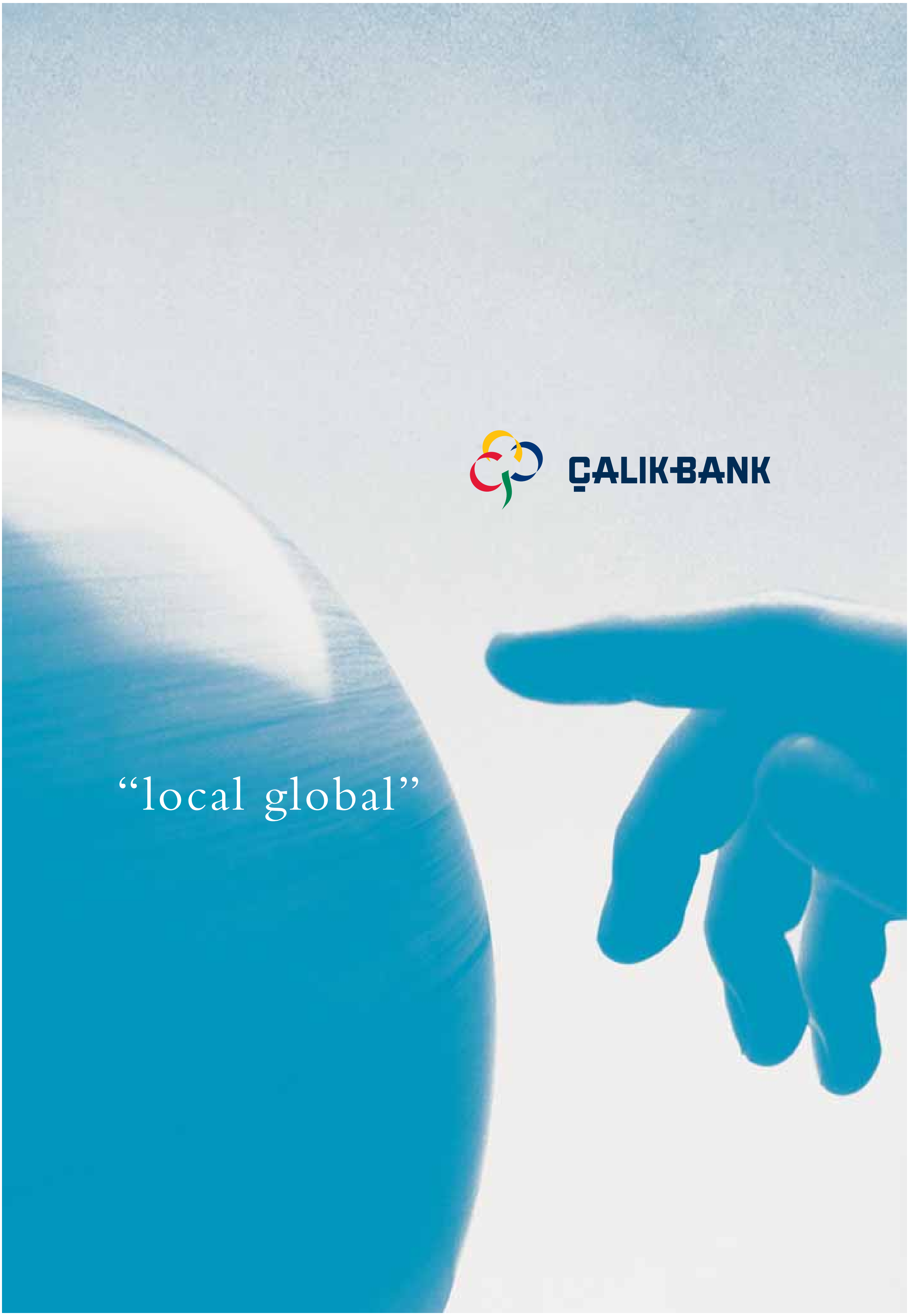
ÇALIKBANK

2007
ANNUAL REPORT


ÇALIKBANK
“local global”

Contents

Introduction

1.1 Profile

"stability
dynamism
performance"

Çalıkbank was established in 1999 as the Çalık Group's first subsidiary in the financial services sector and since then has demonstrated strong and consistent performance.

In line with the identification of the financial services sector as one of the Çalık Group's key strategic business lines, Çalıkbank underwent a sweeping restructuring in 2007. Since then, its management team has been completely overhauled with top executives recruited from Turkey's leading banks. Having significantly improved the quality of its most important asset, human capital, Çalıkbank, following its restructuring, has developed a concrete strategy which clearly defines the Bank's scope of activity. This strategy rests on three main pillars:

Acquiring new subsidiaries in the region

Çalıkbank is focused on acquiring and efficiently managing new financial services subsidiaries in the region, directly or through its Albanian subsidiary, Banka Kombetare Tregtare (BKT). It was for this purpose that the Subsidiary Management Group was established, and efforts are currently underway to begin operating in at least one additional country by the end of 2008. Our Bank's primary strategy is to generate scale by building an extensive physical distribution network in the Balkans and Caucasus, in order to contribute to the development of trade between these countries and Turkey and among these countries.

Becoming the first "Direct Bank" in Turkey

Çalıkbank has formed a strong retail banking team consisting of award-winning professionals and has adopted a strategy that calls for making alternative distribution channels the Bank's main retail banking vehicle. This banking model calls for Çalıkbank to offer its products and services at the point of sale where the purchase is made. The aim is to offer technologically sophisticated products which are efficient and attractively priced by taking advantage of the costs savings generated by not investing in a branch network. "Direct Banking" services will be launched in the second half of 2008 and are expected to change the playing field in Turkey.

Becoming the most efficient bank in its areas of concentration in Corporate Banking

The main focus in Corporate Banking is to generate maximum benefit from the strong synergies offered by the subsidiaries of Çalık Group which are leading companies in their fields operating nationwide in the areas of construction, energy, textiles, commerce, telecommunications and media. Being integrated into the economic environment in which Group companies operate and leveraging their long-standing business relationships are more important to us than simply working with the Group companies. Another area of concentration is becoming the leading bank facilitating trade between Turkey, Albania and Kosovo. In line with our strategy to acquire new subsidiaries in the region, our concentration on foreign trade will increase. Our corporate banking activities will also focus on meeting the corporate needs of the dealers we interact with as part of our retail banking operations. In corporate banking, we also aim to open branches in the cities of Istanbul, Ankara, Kayseri and Bursa, which are the economic hubs in which Group companies conduct the majority of their transactions, looking to reap maximum benefit from the potential of these cities within the framework of the principles outlined above, while contributing to the overall development of commerce. The corporate banking strategies outlined above call for leveraging synergies to be created through Group companies during the early years of the Bank's restructuring, with the objective of playing a greater role in the Turkish economy in subsequent years.

1.2 Our Vision

"local global
smart
different"

"Local Global"

Our vision is to become a leading financial services group not only in Turkey but also in the region. Our products and services, management structure and work flow are all based around this global vision and our organizational structure embraces opportunities and risks in different geographic locations.

1.3 Our Mission

Our mission is to become a pioneering, smart and outstanding service organization, which is a sought-after partner in the environment in which it operates.

1.4 Our Values

- We are a dynamic bank committed to growth and we are sensitive to our environment and community.
- We respect banking principles and all national and international rules and regulations.
- Our priority is to develop and strengthen our relationships with our customers by focusing on customer satisfaction.
- We are dependable, fair and honest in our work.
- We focus on benefits and results, not on costs.
- We offer innovative solutions with high added value.
- We believe in goodwill and open communication.
- Maintaining and spreading a positive attitude is important to us.
- We encourage teamwork and participation.

1.5 Chairman's Message

Çalıkbank, the Çalık Group's first financial services company, has successfully completed its 8th year of operations and is making rapid progress toward its goal of becoming a strong and well-established brand. Its sound financial structure and consistent performance have made it a financial institution that is not only profitable but also creates significant value for both its customers and shareholders, consistently building on its successes and setting higher standards for itself all the time.

Çalıkbank is a rising star whose success and dynamism contribute to the overall reputation and standing of the Çalık Group.

Since its first day of operations, Çalıkbank has devoted itself to generating maximum added value through investment banking products and services that differentiate it from its competitors. In line with the Çalık Group's corporate values, as a positive, proactive and innovative company, Çalıkbank has brought a new vision and energy to the banking sector. As it makes steady progress toward achieving its objectives in the sector, Çalıkbank, like the rest of the Çalık Group's companies, remains focused on ensuring customer satisfaction.

Çalıkbank, leveraging its corporate competencies and effective strategies, took the first step in realizing its international expansion plan by adding Banka Kombetare Tregtare (BKT), which numbers among the strongest financial institutions in the Balkans, to its subsidiaries. The acquisition of BKT, the second largest bank in Albania, is in line with Çalıkbank's strategy to play a more active and instrumental role in banking, not just in Turkey but also in the region. With the added advantage of being a member of the Çalık Group, we are confident that BKT will build on the performance that led The Banker magazine, in 2006, to name it "The Best Bank in Albania".

The surest guarantor of Çalıkbank's profitability, efficiency and sustainable growth is its superior intellectual capital. This crucial resource is further strengthened by a commitment to coordinated action and teamwork and is the clearest proof of the potential that makes finance one of the Çalık Group's most promising business lines. To augment Çalıkbank's capital base, we have put in place a five-year commitment plan approved by the Board of Directors entailing periodic equity injections, starting with US$ 50,000,000 in 2008.

We are proud of Çalıkbank, which has become our Group's youngest and most dynamic company. The achievements of Çalıkbank encourage our Group to implement new projects and to undertake new investments. In the coming years, we look forward to the Çalıkbank name being associated with many successful projects.

Ahmet Çalık

1.6 CEO's Message

The political and economic agendas in Turkey were closely intertwined in 2007, at times putting the economy on an unsteady and fluctuating course. Despite these developments, 2007 was a strong year for the Turkish economy and the banking sector. While problems and anxieties resulting from the sub-prime mortgage crisis in the US brought sharp decreases in some foreign markets, their effects on the Turkish economy have been short-term and relatively minor. In order to limit the negative impact in the long-term and ensure sustainable growth, it is important to continue improving the country's structural framework and maintain the stability of the economy.

We have simultaneously restructured our Bank and grown our balance sheet...

Remaining on its steady and robust path, Çalıkbank is quickly becoming a remarkable player in its areas of focus with the restructuring it initiated in 2007. We worked hard during the past year, planning the next five years and taking the necessary steps to begin implementing that vision. Our investments in human capital, our most valuable asset, have increased three-fold in both quality and quantity. We have better defined our activities with 1,800 pages of documentation designed to strengthen our corporate structure. Before entering new areas of activity, we made sure to establish a sound business case. In the end, we have established a structure that is ethical, positive, efficient and rigorous. In implementing this policy, our balance sheet has doubled in just the first eight months of restructuring. In other words, even during the planning stage of our future, we did not neglect the present. Despite our relatively small current balance sheet and the major investments made as part of our restructuring effort, we have succeeded in earning a profit of US$ 3.5 million for the year. Our human asset, which represent a wealth of intellectual capital, have made this success possible, showing us what can be achieved with a proactive team.

2008 will be a year of continued restructuring and new initiatives...

2008 will be a year in which we continue our restructuring efforts while we also begin to enjoy their benefits. We will move into our new 6,000 square meter headquarters in 2008 which we look forward to with enthusiasm. With our move to our new premises in Zincirlikuyu, where the pulse of the finance sector can be felt, our staff will reach 200. Also this year, we will open new branches in Bursa, Kayseri and Ankara. Our retail banking products and distribution channels will become available to our customers this year. Our proprietary core banking package and its peripheral modules which are developed internally using the latest technology will go into operation during the course of the year as well. A very busy 2008 awaits us. We look forward with excitement to sharing all these developments and our positive energy with our business partners and our customers.

Turkey's first "Direct Bank" is being born...

We are creating Turkey's first "Direct Bank" brand in retail banking. Our model which emphasizes being wherever our customers are making purchases, rather than requiring them to visit our branches, will bring a breath of fresh air to the industry. We also place a great deal of importance on sharing the cost advantages of not having to invest in physical channels with our customers. We are building a "Super Operation Center" on top of a powerful and flexible information technology architecture as well as integrating this infrastructure with business units that have the know-how and skill set to make this revolutionary vision become a reality.

We will become a "Regional Power"...

One important goal of Çalıkbank's restructuring agenda is to acquire new financial subsidiaries in neighboring countries and generate advantages of scale on a local and regional level. With an asset size of over US$ 1 billion, our subsidiary in Albania, Banka Kombetare Tregtare (BKT), is an important element of our growth strategy in the Balkans. In addition to Kosovo, where we began operations in November 2007, we are aiming to commence operations in one additional country in the Balkans this year. We place a great deal of importance both on providing an efficient and ethical banking practice in the countries where we have a presence and on contributing to the relevant country's economy while strengthening its commercial relations with Turkey. With this goal in mind, we have developed new commercial banking products and will continue to do so. Our teams are working with the goal of adapting Turkey's internationally recognized expertise in retail banking products and services to those countries with high retail banking potential, introducing new modifications to suit local needs and contributing to local communities by bringing them state-of-the-art financial products.

We will ensure "Real Focus" in Corporate Banking...

In the Corporate Banking sector, we will be focusing on benefiting from the synergies created by Çalık Group's extensive presence in Turkey's real economy and its business experience in a range of other sectors. We believe that, with the branches we are opening to meet corporate customer needs and our central marketing organization, we will become a valuable partner for our corporate customers. With our prompt and results-oriented business culture, we will have a meaningful impact on our selected business partners and clearly-defined environment. Despite our intensive restructuring agenda in 2007, we have grown our customer rolls and cross-sales ratio, and doubled the size of our bank in balance sheet terms. With more momentum, staff reinforcements and the burden of the restructuring agenda easing, our team will perform even better in 2008.

What allows us to move forward is Turkey's strategic location and its developing and growing economy...

The developments that have created tension in the global economy in 2007 had repercussions in Turkey as well, leading us to move forward more cautiously. The increasing volatility in the world economy inherited from the previous year is expected to continue. From Çalıkbank's perspective, 2008 will be a year in which we will approach opportunities with circumspection, measuring risks accurately. The business strategies the Bank is focusing on are already immunizing us against major risks. On the other hand, Turkey has taken significant steps to create stability in recent years and has been resolute in implementing structural reforms. Along with areas that require careful management like the current account deficit, positive factors such as Central Bank reserves reaching their highest level in history, strict budgetary discipline, significant acceleration in exports, continuing interest in Turkey on the part of major international investors, and the floating exchange rate regime make Turkey's risks manageable for 2008. Turkey's strategic location and its growing economy allow us to move forward decisively, measuring risks effectively and monitoring developments in the world and in Turkey. I strongly believe that Turkey, by using its potential to the fullest, will join the major global economies and become part of a future that is brighter in every way. With this faith and inspiration, we will continue to do our best as a prudent, innovative and exceptional service organization, contributing to Turkey's future. I would like to thank our staff who accompany us on this journey and all of our stakeholders whose strong, long-term relationships with us are the clearest proof of their support and confidence.

Dr. Önder Halisdemir

1.7 Standing in the Sector

“restructuring
strategy
superiority”

Çalık Investment Bank was established in 1999. In 2007, the Bank underwent a management restructuring and recruited a new management team consisting of experienced professionals who rank among the top managers in the Turkish financial industry. Operating with a staff of 76, in 2007, Çalıkbank doubled its balance sheet while maintaining a capital adequacy ratio which is among the highest in the industry.

1.8 Research and Development

Established in 2007, the Business Development Group is responsible for research and development activities, including establishing the Bank’s retail and corporate banking vision and strategies, conducting market research inside and outside of Turkey, keeping pace with the latest technologies, analyzing partnership and investment opportunities and developing projects which will create synergies with other Çalık Group subsidiaries.

Çalıkbank continued its research and business development activities in 2007 in order to provide better service to its customers within the framework of its new vision. To that end, new target customer segments have been defined and suitable products for each of these segments have been designed. In order to provide the knowledge infrastructure for the sound growth of both corporate and retail loans the Bank has become a member of the Credit Bureau of Turkey (Kredi Kayıt Bürosu – KKB). Work continues on the development of new products that will be launched within the next year.

1.9 Activities in 2007, Development Strategy and Goals

Corporate and Commercial Banking

Corporate and Commercial Marketing

The Corporate and Commercial Marketing Group is responsible for the Bank’s sales activities (daily activities and budget responsibility regarding geographical area/segment) in the relevant markets and managing the corporate sales network with the goal of maximizing the long-term value of the corporate and commercial segment.

The primary organizational units of the Corporate and Commercial Marketing Group are: Corporate and Commercial Marketing, Corporate and Commercial Sales, Project Finance and Insurance.

As part of its corporate and commercial banking practices, Çalıkbank offers corporate banking, foreign trade financing, leasing, factoring and project finance services tailored to specific sector and customer requirements.

In 2007, Corporate and Commercial Marketing Group:

- Initiated a growth trend and increased its cash loan volume by an impressive 83 percent, from TRY 41 million in 2006 to TRY 75 million.
- Worked towards building greater inter-group synergies by providing receivables financing to group company suppliers.
- Focused on foreign trade financing and increased foreign trade transaction volumes.
- Organized foreign trade training programs to improve customer relations services and help staff increase their competitiveness in foreign markets.

In 2008, Çalıkbank will continue to strive to become a corporate and commercial marketing organization that emphasizes depth and expertise rather than superficial expansion, which specializes in niche products, and markets those products to its targeted customer groups and develops new credit and cash management products tailored to the needs of its customers.

The restructuring program, designed to maximize the Bank's ability to take advantage of business opportunities in the international markets, was initiated in 2007 and will be accelerated in 2008, serving as a model for Çalıkbank's subsidiaries.

Çalıkbank will strive to become the financial services supplier of choice for its target customer groups in 2008.

Corporate and Commercial Credits

The Corporate and Commercial Credits Group is responsible for the efficient origination and management of the overall loan process for corporate and commercial customers which comprises loan allocation, monitoring, collection and liquidation.

The Corporate and Commercial Credits Group was established in 2007. Over the course of the year, Çalıkbank began building the infrastructure of a corporate lending culture. The documentation pertaining to corporate lending procedures was completed and a new internal credit rating system was implemented.

During 2008, the Corporate and Commercial Credits Group, in line with the newly implemented credit rating system, aims to attain an asset quality that is measured and monitored on the basis of a risk-based provision system. To this end, it will establish a structure that allows the loan portfolio to be evaluated and managed on a holistic basis including pricing mechanisms.

“flexible
first-ever
direct banking
synergies”

Retail Banking

Retail Marketing

The Retail Marketing Department is responsible for the Bank’s sales and marketing activities in retail banking markets and manages the retail sales network as part of Çalıkbank’s objective of increasing the long-term value of the retail segment.

In 2007, the creation of the infrastructure necessary to implement the Bank’s strategy of entering the retail-banking arena began. The Retail Marketing Department was established with a strong team of individuals who have worked on award-winning projects in this field.

Çalıkbank has adopted the “Direct Banking” business model in retail banking and began developing the first “Direct Banking” model in Turkey. This model, which bases its network on Alternative Distribution Channels rather than the branches, requires an efficient and flexible structure which is centered around customer needs by being present at the points of purchase. The principle on which this model is based dictates being proactively on the spot wherever purchases are made, rather than waiting for customers to come to a branch.

Payment and cash management systems are also among the areas that will see greater development.

In 2007, we first defined the high synergy areas offered by other Çalık Group Companies, then focused on the Group Companies’ consumer-facing gas distribution companies, real estate development projects and media holdings.

Çalıkbank aims to create one of the most extensive retail banking networks in Turkey by becoming a vital driving force integrated into nationwide retail chains and distribution channels.

This project, the foundations of which were laid in 2007 and which will gain accelerating momentum in 2008, calls for Çalıkbank to focus on creating customized products in areas requiring specialization, something which, to date, the Turkish banking industry has been unable to achieve.

Retail Credits

The Retail Credits Department is responsible for the efficient creation and management of the overall lending process consisting of loan allocation, monitoring and collection activities for the Bank’s retail customers.

Established in 2007, the Retail Credits Department has begun building the infrastructure of a retail lending system that is efficient, fast and requires minimum manual intervention. To this end, based on an analysis of the most effective programs available from third parties that will accelerate the development process, strategies have been identified to install and develop a Retail Credits Module based on alternative distribution systems using the latest technologies. Analysis regarding installation and development has been completed and work has begun on creating documentation in conformity with the Bank’s retail marketing strategies and projects.

Adjusting credit limits, collateral requirements and documentation depending on applicant profile, generating alternative solutions rather than simply rejecting applications, and handling all of these in a matter of milliseconds with system-integrated parameters, the on-line credit application evaluation and decision-making system will be our key competitive advantage. Our loan machine, “credit factory” which will be ready in 2008, will be able to communicate with all the external on-line query databases and have formatted parameters included in the decision-making processes. It is currently being built by a team that has an award-winning track record for their previous installation of this machine.

Treasury

The Treasury Group is responsible for the management of the Bank's securities portfolio, conducting currency market transactions, marketing cash management products, and monitoring market policies. All activities are conducted within the framework of the Bank's strategies and policies and in compliance with both the Bank's internal and external regulations.

The main organizational units of the group are the Treasury Department, Treasury Marketing and Liquidity Management.

In 2007, Çalıkbank continued to be a successful player in money and capital market transactions, offering financial solutions which increase customer satisfaction and help build an understanding of manageable risks. Transaction volumes increased and risk management instruments were used effectively.

In 2008, the main goal of the Çalıkbank Treasury Group will again be to cooperate with all the units of the Bank on the basis of a sound approach to treasury operations, and to contribute to increased profitability. The group will offer customers competitive pricing as it conducts transactions as an active player in the Turkish and international markets.

Financial Institutions

Çalıkbank Financial Institutions Group is responsible for conducting the Bank's correspondent banking business locally and internationally as well as sourcing medium to long term funding for the Bank.

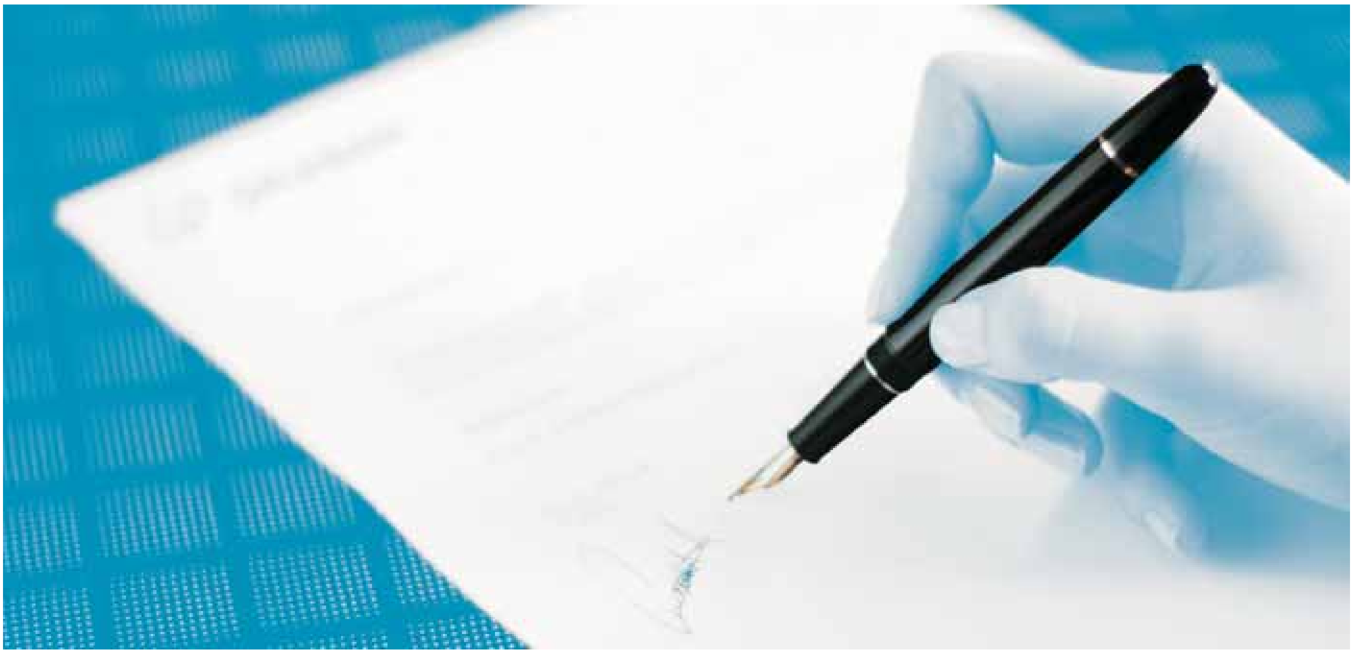
In line with the Bank's strategy and needs, significant steps were taken in 2007 to extend the Bank's correspondent bank network, build long-term relationships with correspondents on terms favorable to the Bank, establish new nostro account relationships as needed and activate new foreign trade limits in order to mediate transactions in every corner of the globe.

During 2007, the Bank increased the number of its correspondents from 37 to 107 enhancing its correspondent network in Europe, America, the Middle East and Far East significantly.

The volume of foreign trade transactions handled by the Bank increased from US$ 68.8 million to US$ 109.6 million.

Çalıkbank will continue to provide competitive pricing and a full spectrum of services to its customers in 2008 backed by growing correspondent network and strong business relations to become the financial partner of choice for its corporate customers' foreign trade transactions. By securing funding on competitive terms in both the foreign and Turkish markets, the Bank will continue to generate funding sources for itself and its customers.

In 2008, the Çalıkbank Financial Institutions Group aims to increase its market share in foreign trade financing by managing the foreign trade and funding activities of the Bank and of Çalık Group companies.



Operation

The Operation Group is responsible for managing operation activities at the branch, head office and regional levels.

Its vision is to become a highly efficient operations center which provides quality service combined with the flexibility necessary to meet the needs of all distribution channels and service points, supplying high level information to all the units it interacts with.

An efficient, soundly designed and managed operational structure able to match the pace of change not only in technology but also in the development of increasingly sophisticated financial instruments, is crucial to any bank's ability to maintain competitiveness.

In achieving its goals, Çalıkbank will draw on the strength of its professional operations team, effective business processes and solid infrastructure. Significant investments were made in operational human resources and technological infrastructure in 2007.

The initial phase of the change and restructuring process that began in the second half of 2007 was the definition of operational segmentation on the basis of service and distribution channels. There was a move from a system in which job descriptions were not clearly defined to a structure based on segmentation and specialization. The most important effect is the separation of the production and service line. Based on this separation, the main areas of responsibility are grouped under four divisions: Alternative Distribution Channels, Foreign Trade, Domestic Payment Systems and Treasury Operations.

While a technology-driven industrialized approach has been adopted on the operational side to ensure speed, quality and maximum efficiency in transactions involving standard products, customer focus is emphasized at the service level for both Turkish and international customers. Stressing adding value and high levels of customization, boutique services are offered to both corporate and commercial customers. Customers are provided with technical consulting services in areas that require specialization and are kept informed about changing procedures and regulations with regular customer visits, training programs and seminars.

In order to provide customers with superior quality service and further enhance the value of our organization, Çalıkbank in 2007 began building the infrastructure necessary for the establishment of alternative distribution channels. The aim is to create a Communications Center and Card Payment Systems and to develop Internet Banking offering a suite of new functions. To ensure the most efficient utilization of Bank resources, areas of service that can be handled through outsourcing have been identified and work has been undertaken in this regard.

The Çalıkbank Operation Group's priority is to provide high quality service, putting customer satisfaction first. To realize this goal, the operational strategy of Çalıkbank is to:

- Always maintain a service approach focused on customer and sales support;
- Create a structure that is completely based on centralization by establishing extensive and strong alternative service and distribution channels;
- Establish simple, standard and manageable processes based on specialization;
- Achieve "industrial production" at maximum efficiency, supported with a robust IT framework and backed by high levels of automation;
- Create added value by generating synergies with subsidiaries;
- Become a profit center by providing operational services to other financial institutions.

Organization and Process Management

The Organization and Process Management Department is responsible, within the framework of the standards set by the Bank, for planning, coordinating and monitoring all structural and functional changes, designing the processes that constitute the general service model, managing the norm staff and tracking service quality.

Business processes (job descriptions, organizational structure, management and measurement systems, automation systems, etc.) account for the majority of the overall management system. All business processes were thoroughly evaluated in 2007 to ensure rational management of resources, projects, processes and organizational structure. Business processes have been redefined from beginning to end in an easy to understand, up-to-date and dynamic format. The redesign of the Bank's organizational structure will play a key role in allowing Çalıkbank to reach its mid- to long-term goals. We have created a business model that is compatible with the Bank's strategic goals and promotes continuous improvement and development of the organization's structure and capabilities in the light of evolving market conditions.

With the active participation of staff members, work will continue in 2008 on developing and improving all of Çalıkbank's activities, creating suitable infrastructure for other re-engineering projects and implementing and monitoring the related reporting systems.

Information Technology

The Information Technology Group is responsible for creating an IT mission and strategy in accordance with the Bank's overall vision and business plans and for maintaining, upgrading and expanding the Bank's technological infrastructure in order to provide efficient and effective service to customers and other Bank units.

In 2007, significant steps were taken to establish a strong information technology infrastructure. Based on the Bank's belief that the surest way to grow in the banking sector is to eliminate technological obstacles, the Bank decided to invest in its own core banking system. After evaluating a range of options, the Bank opted to design its own package based on an open source and standard architecture. Built using N-tier architecture and the latest technology, the package will meet the operational needs of the bank as well as a variety of marketing, sales, reporting and other functions.

In line with the Bank's business objectives, the necessary steps have been taken to ensure that the same infrastructure can be used in Alternative Distribution Channels. The result is a structure in which interfaces for different distribution channels are implemented on top of a single, centrally controlled set of core functions. Due to this feature, designed specifically for Çalıkbank, adding a new function to all of the Bank's distribution channels can be accomplished in half the time normally required.

Çalıkbank's strong, flexible infrastructure will be a crucial advantage as we begin establishing distribution channels like internet banking, the soon-to-be-opened call center and other similar channels. The Bank's technological infrastructure, network infrastructure and server architecture are being updated and overhauled in order to ensure that they support the new system.

In regards to human resources, one of the most important elements of information technologies, an expert and experienced team of specialist professionals has been created. Our software and analyst teams are producing at the CMMI-2 level while our support team is operating at Cobit standards.

Superior levels of efficiency have been achieved through the strategy of building added value systems and modules internally and outsourcing lower priority items. This allows IT staff to concentrate exclusively on new technologies for use in banking transactions and banking systems.

All systems are being developed with both current and potential future subsidiaries in mind. All systems can easily be updated with multi-language and multi-currency parameters, as well as being adaptable to different countries and regulatory frameworks.

In 2008, the Çalıkbank IT Group aims to provide and develop expandable, uninterrupted, high-performance information management systems with specifications that can meet the full range of needs of a bank with financial subsidiaries operating in Turkey and regionally.

Subsidiary Management

The Subsidiary Management Group is responsible for the maintenance of efficient and effective coordination between the Bank, bank subsidiaries and branches and for information flow within the group. These activities are conducted within the framework of the strategies and policies defined by Çalıkbank and in accordance with both the Bank's own procedures and regulatory requirements.

The Subsidiary Management Group was established in 2007 and has begun creating the infrastructure necessary to maximize synergies with Banka Kombetare Tregtare, which will provide cost advantages in funding as well as greater access to international capital markets.

By concentrating on areas like product development and project finance the necessary steps have been taken to create an environment in which global best practices can be continuously passed on to subsidiaries.

The aim for 2008 is to ensure that the Bank enjoys a privileged position among its competitors in the regions and markets where it operates.

To this end, we will expand and strengthen our new market entry activities and create a greater degree of market coverage.

1.10 Financial Highlights

	2007 (USD ,000)	2006 (USD ,000)	Change (%)
BALANCES WITH BANKS & INTERBANK MONEY MARKET PLACEMENTS	19,124	6,633	188.32
TRADING SECURITIES (Net)	432	529	-18.34
LOANS & FACTORING RECEIVABLES	64,346	30,957	107.86
FINANCE LEASE RECEIVABLES (NET)	520	1,089	-52.25
SHAREHOLDERS' EQUITY	55,923	43,327	29.07
TOTAL ASSETS	96,912	47,279	104.98
GUARANTEES AND INDEMNITIES	132,898	74,803	77.66
NET INTEREST INCOME	9,387	7,025	33.62
NET FEES AND COMMISSIONS INCOME	1,946	1,506	29.22
OPERATING PROFIT	4,393	4,705	-6.63
PROFIT BEFORE TAX	4,393	4,705	-6.63
PROVISION FOR TAXES ON INCOME	-874	-1,005	13.03
NET PROFIT / LOSSES	3,519	3,700	-4.89
USD/TRY	1,68550	1,41329	

Performance Ratios

Performance Ratios	2007
CAPITAL ADEQUACY (STANDARD RATIO)	77.47 %
RETURN ON EQUITY	10.06 %
AVERAGE RETURN ON ASSETS (NET PROFIT BASIS)	8.26 %
AVERAGE RETURN ON ASSETS (PRE-TAX PROFIT BASIS)	12.32 %
NET FEE AND COMMISSION INCOME/OPERATING COSTS	48.14 %
FIXED ASSETS (NET)/ EQUITY	11.90 %
INTEREST-BEARING ASSETS/TOTAL ASSETS	89.44 %

1.11 Changes to the Articles of Incorporation and the Reasons Therefore

There were no changes made to the Articles of Incorporation during 2007.

1.12 Capital and Shareholding Structure

As of December 31, 2007, the main shareholders and capital structure are shown in the table below:

Shareholders	Share Value (TRY ,000)	(%) Shareholding	Paid Shares (TRY ,000)	Unpaid shares
Çalık Holding A.Ş.	18,300	91.50	18,300	—
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	900	4.50	900	—
Ahmet Çalık	400	2.00	400	—
Mahmut Çalık	200	1.00	200	—
Ali Akbulut	200	1.00	200	—
Total	20,000	100.00	20,000	—

No changes were made to the Bank's shareholding structure during the period.

1.13 Çalık Group

"leading in energy textiles & construction"

Headquartered in Istanbul, Çalık Holding is a diversified group of companies operating in energy, communication and information systems, finance, construction, textiles and trade. Çalık Holding is highly competitive in the international arena and respectful of the individual, the community and the environment. Motivated by an entrepreneurial spirit, Çalık, with a dynamic structure and a record of consistent growth since the day it was established, provides employment for almost 15,000 people both in Turkey and internationally.

The Çalık Group has built solid and long-standing business relationships with international industry leaders such as General Electric, Mitsubishi, Krupp Uhde, Voith, Parker Drilling, Kawasaki, Siemens, Indian Oil, ENI, the EBRD, the IFC, the EWE, Türk Telekom and many other prominent global companies. In addition, the Çalık Group provides products and services in the textile industry for global brands including Lee, Tommy Hilfiger, Diesel, Lucky Brand, Miss Sixty, Levi's, Ikea, Levi's, H&M, Ecko Red, Replay, Wrangler, G Star, Benetton, Banana Republic, Dolce & Gabbana, Esprit, Hugo Boss and Mavi Jeans.

Çalık Energy was established in 1998 to manage the Çalık Group's operations in the energy sector. Çalık Energy is active in two main areas – "power systems" and "oil and natural gas." The projects that it has completed in the decade since its establishment have made Çalık Energy a respected player and a sought-after business partner in the international arena. Energy production and distribution, nuclear energy, oil and natural gas exploration, natural gas distribution, oil transportation, refining and petrochemical processing are all activities that fall within the scope of Çalık Energy's mandate. Among Çalık Energy's most important investments are companies acquired through privatizations such as Bursa Doğalgaz Dağıtım Ticaret ve Taahhüt A.Ş. (Bursa Natural Gas Distribution Company), Kayserigaz Doğal Gaz Dağıtım Pazarlama ve Ticaret A.Ş. (Kayserigaz Natural Gas Distribution and Marketing Company) and the "Trans Anadolu Petrol Boru Hattı Projesi - TAPCO" (Trans-Anatolian Petroleum Pipeline Project) that will transport Black Sea oil to the Mediterranean.

Çalık Energy is developing projects in a geographical region that extends from the Balkans, Eastern Europe and the CIS to the Middle East and North Africa.

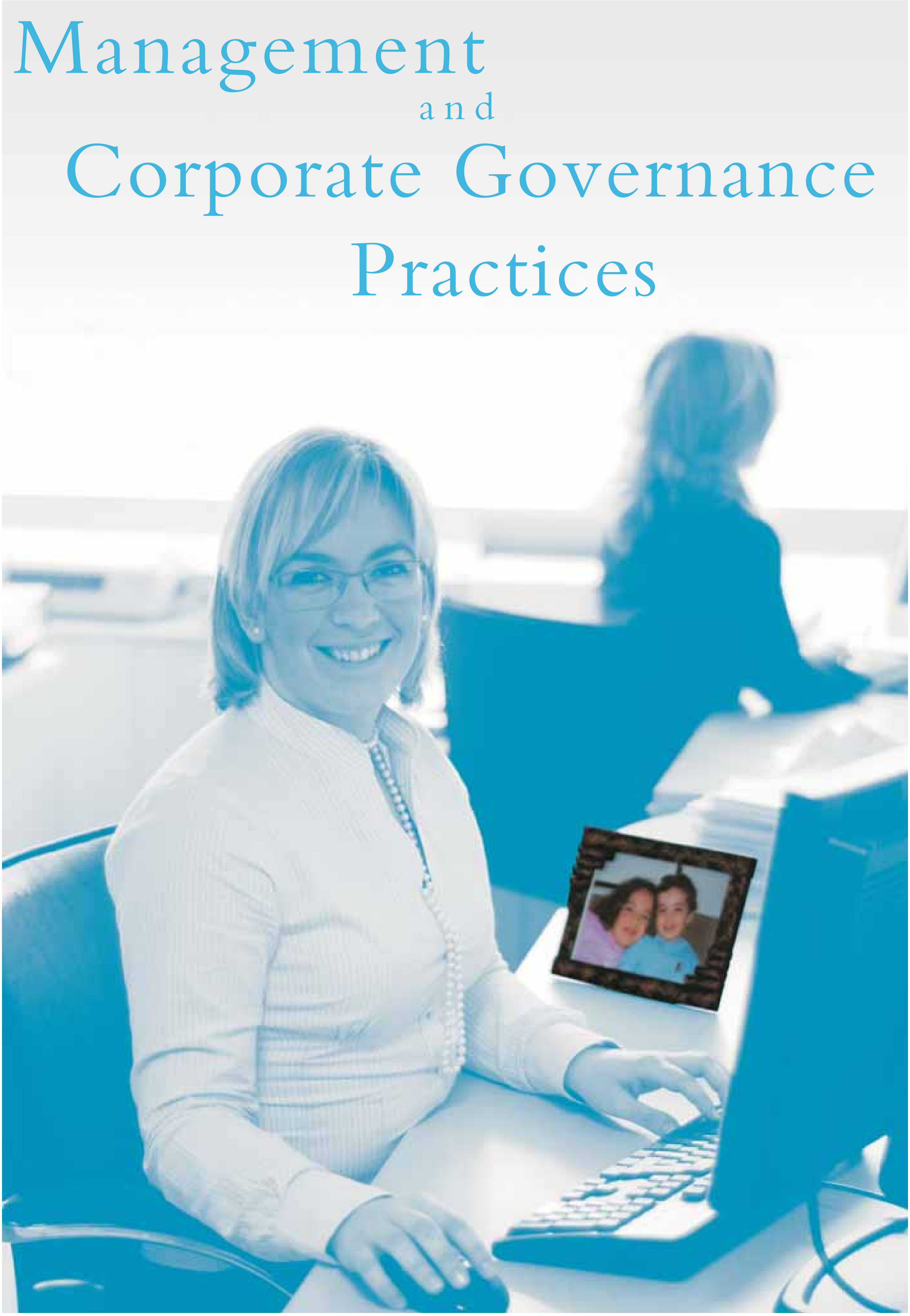
Another of Çalık Holding's areas of activity is the communication and information systems sector. Operating its projects in the sector under the roof of CETEL, Çalık Holding aims to become a strong player with proprietary infrastructure in both Turkey and the region. Albtelecom, one of Albania's most important telecommunication companies and the owner of GSM operator Eagle Mobile, ranks among CETEL's investments.

The Çalık Group is active in the construction sector with its subsidiary Gap İnşaat, a world-class construction company. Established in 1996, Gap İnşaat specializes in infrastructure, superstructure and housing projects and especially the construction of industrial complexes. Gap İnşaat has successfully completed numerous international projects, including manufacturing facilities, business centers, community centers, roads and urban renewal projects. Gap İnşaat operates in Turkey, Turkmenistan, the United Arab Emirates, Saudi Arabia, Libya, Kazakhstan and Sudan. In 2006, Gap İnşaat ranked 121st in Engineering News-Record's (ENR) list of the top 225 International Contractors.

Çalıkbank is the Çalık Group's first subsidiary in the finance sector. Focused on growth, performance and profitability since its establishment, Çalıkbank continues to improve the efficiency of its banking activities. In 2006, in partnership with Şekerbank, it acquired Banka Kombetare Tregtare (BKT), one of Albania's leading banks, marking the Group's first foray into the international finance sector. In line with its objective of taking BKT to new levels in the region, Çalık Group opened the BKT Kosovo Branch in November 2007.

Çalık Group is represented in the textile sector by Gap Güneydoğu. With fully integrated production facilities in Malatya and Turkmenistan, Gap Güneydoğu Textiles is a global player that competes with the best in the world in a range of categories of textile products from cotton fiber to ready-to-wear garments. The Group's largest markets in the textile sector are Turkey, the USA and the European Union, as well as Russia, Japan and the countries of Eastern Europe. The Çalık Group is continuing investments in its Egyptian Apparel Factory, which were begun in 2006. An important business expansion that offers significant geographical advantages including access to raw materials, a competitive workforce and new market opportunities, the facility is expected to commence operations during 2008.

Management and Corporate Governance Practices



2.1 Board of Directors

"experience
decisiveness
confidence"

Ahmet Çalık
Chairman of the Board of Directors

Ayhan Bolay
Vice Chairman
of the Board of Directors

Ertuğrul Gürler
Member of the Board of Directors

İlhan Nebioğlu
Member of the Board of Directors

Dr. Önder Halisdemir
CEO and Member
of the Board of Directors

Ahmet Çalık
Chairman of the Board of Directors

Born in 1958, Ahmet Çalık is a graduate of Istanbul's Sağmacılar High School. His family has been active in the textile industry since the 1930s and, in 1981, he expanded their operations in the textile industry with the establishment of Orta Doğu Textiles, Incorporated and GAP Güneydoğu Textiles, Incorporated. In 1992, he began his investments in Turkmenistan, helping to establish close ties between Turkey and Turkmenistan. The President of Turkmenistan appointed Mr. Çalık Assistant Minister of State responsible for conducting negotiations between Turkey and Turkmenistan in areas including natural gas, petroleum and electricity. Mr. Ahmet Çalık received the Medal of State of Turkmenistan in 1997, as well as many other awards. In 1999 he was awarded the Republic of Turkey's State Distinguished Service Medal; in 2002 he received the Turkish Foreign Ministry's Distinguished Service Medal; and again in 2006 he was the recipient of the Turkish Grand National Assembly's Distinguished Service Medal.

Ayhan Bolay
Vice Chairman of the Board of Directors

Born in 1942, he is a graduate of the Ankara University Faculty of Economics. From 1970 until 1982, Bolay held a variety of positions at the State Planning Organization and served as General Secretary of the State Planning Organization from 1984 - 1986. From 1986 through 1993, he served as Assistant Undersecretary of Transportation and since 1998 has been the Vice Chairman of Çalık Holding, a Member of the Executive Committee and a Member of the Board of Çalıkbank.

Ertuğrul Gürler
Member of the Board of Directors

Born in 1958, he is a graduate of the Marmara University Faculty of Economics and has 20 years of professional experience. From 1987 – 1994, he served in various capacities at Dow Turkey, Inc., including serving as Financial Auditor and Member of the Board of Directors. From 1994 – 1998, he served as Acting General Manager and Secretary to the Board of Directors at Total Oil Turkey before joining Çalık Holding in 1998. Gürler is currently a member of the Executive Committee of Çalık Holding and a Member of the Board of Directors of Çalıkbank.

İlhan Nebioğlu
Member of the Board of Directors

Born in 1946, he holds a degree in economics from Germany's Freiburg University and has over 20 years of international banking experience. He currently serves as an advisor to both Standard Bank PLC and Banka Kombetare Tregtare. He sits on the boards of Turcas Petroleum, Inc. and Man Ajans/JWThompson Istanbul. He has been a Member of the Board of Directors at Çalıkbank since 2006.

Önder Halisdemir
CEO and Member of the Board of Directors

Born in 1972, Halisdemir was educated at Marmara University, New York University (NYU) and the University of Pennsylvania. He began his banking career as a management trainee and has worked in several departments including Audit, Corporate Banking, Branch Banking and Retail Banking at a variety of banks. He has played an instrumental role in introducing a range of innovations to the Turkish banking industry and has won numerous Turkish and international awards for the banks where he worked. In addition to his banking experience, he has also served on the Board of Directors of two top ranking insurance companies. He holds a Doctorate in Banking. He chaired the Banks Association of Turkey's Mortgage Working Group and served as the Association's representative in the legislative process. He continues to serve on the boards of the Financial Managers Foundation and the Real Estate Investment Trusts Association. Halisdemir, who lectures on banking at Bahçeşehir University, was appointed Chief Executive Officer of Çalıkbank in March of 2007 and also serves as Vice Chairman of the Bank's Albanian subsidiary, Banka Kombetare Tregtare (BKT). He has 12 years of firsthand banking experience.

“informed

expert

forward-looking”

Serdar Sümer, Doğan Akay, Turgay Geçer, Özlem Özün, Önder Halisdemir, Ferda Önen, Aydın Argın, Raci Kaya, Mutlu Özdemir, Murat Emre Duman

2.2 Senior Management

Dr. Önder Halisdemir
CEO

Born in 1972, Halisdemir was educated at Marmara University, New York University (NYU) and the University of Pennsylvania. He began his banking career as a management trainee and has worked in several departments including Audit, Corporate Banking, Branch Banking and Retail Banking at a variety of banks. He has played an instrumental role in introducing a range of innovations to the Turkish banking industry and has won numerous Turkish and international awards for the banks where he worked. In addition to his banking experience, he has also served on the Board of Directors of two top ranking insurance companies. He holds a Doctorate in Banking. He chaired the Banks Association of Turkey's Mortgage Working Group and served as the Association's representative in the legislative process. He continues to serve on the boards of the Financial Managers Foundation and the Real Estate Investment Trusts Association. Halisdemir, who lectures on banking at Bahçeşehir University, was appointed Chief Executive Officer of Çalıkbank in March of 2007 and also serves as Vice Chairman of the Bank's Albanian subsidiary, Banka Kombetare Tregtare (BKT). He has 12 years of firsthand banking experience.

Doğan Akay
Executive Vice President, Corporate and Commercial Credits

Born in 1968. A graduate of the Istanbul University Faculty of Business Administration, Akay has 15 years of banking experience. He joined Çalıkbank in 2007.

Dr. Aydın Argın
Executive Vice President, Corporate and Commercial Banking

Born in 1966. A graduate of the Uludağ University School of Business who has received a master's degree in business administration from the same university and a doctoral degree from the Marmara University School of Banking and Insurance, Argın has 19 years of banking experience. He joined Çalıkbank in 2007.

Murat Emre Duman
Executive Vice President, Business Development

Born in 1970. A graduate of the Bilkent University Computer Engineering Department who holds a master's degree from the University of Indiana, Kelley School of Business, he has 16 years of business experience, of which 10 years were in banking. He has served as manager of various award-winning projects at the banks where he has worked. He joined Çalıkbank in 2007.

Dr. Turgay Geçer
Executive Vice President, Internal Systems

Born in 1970. A graduate of Istanbul University Faculty of Business Administration, holding masters and doctoral degrees from the Marmara University School of Banking and Insurance, Geçer has 17 years of banking experience. He joined Çalıkbank in 2007.

Raci Kaya
Executive Vice President, Treasury

Born in 1967. A graduate of the Middle East Technical University Faculty of Economics and Administrative Sciences, who holds a master's degree from Hacettepe University, Kaya is earning his doctorate in banking and insurance at Marmara University. He has 18 years of banking experience and joined Çalıkbank in 2007.

Ferda Önen
Executive Vice President, Operation

Born in 1969. A graduate of the Istanbul University Faculty of Economics, Department of Economics in English, Önen has 15 years of banking experience. She joined Çalıkbank in 2007.

Mutlu Özdemir
Executive Vice President, Information Technology

Born in 1970. A graduate of Bosphorus University's Department of Computer Engineering, Özdemir has 15 years of work experience, 12 of which have been spent in the banking industry. He joined Çalıkbank in 2007.

Özlem Özün
Coordinator, Financial Institutions

Born in 1979. A graduate of The Wharton School Finance Department, Özün has also completed the Executive MBA program at Bosphorus University. She has nine years of banking experience and joined Çalıkbank in 2007.

Serdar Sümer
Executive Vice President, Subsidiary Management

Born in 1973. A graduate of the Ankara University Faculty of Political Science Business Administration Department, he holds a masters degree from the College of William & Mary in Virginia, USA, as well as a Financial Risk Manager (FRM) certificate. He is also a certified accountant. Sümer joined Çalıkbank in 2008 following a 12-year career at the Undersecretariat of the Treasury and the Banking Regulation and Supervision Agency spent auditing banks operating in Turkey.

2.3 Auditors

Fikri Erem
Auditor

Born in 1968, Erem is a graduate of the Istanbul University School of Business Administration. With 17 years of work experience, Erem has served as an auditor since 2001.

Bülent Aksu
Auditor

Born in 1974, Aksu is a graduate of the English-language track of the Istanbul University School of Business Administration. Employed in the public and private sectors since 1996, Aksu has 12 years of working experience.

2.4 Executives Responsible for Internal Systems

Murat Barlas
Risk Management Department, Vice President

Born in 1968, Barlas is a graduate of the Istanbul University Faculty of Science Mathematics Department and has 13 years of banking experience. He has worked at Çalıkbank since 2007.

İbrahim Yaşar
Internal Audit Department, Vice President

Born in 1973, he is a graduate of the Istanbul University Faculty of Economics Department of Economics in English and has 14 years of working experience, nine of which have been spent in the banking industry. He has been employed at Çalıkbank since 2007.

Yusuf A. Karadağ
Internal Control Department, Vice President

Born in 1974, he is a graduate of the Bosphorus University Faculty of Economic and Administrative Sciences Department of Political Science and International Relations. He has 10 years of banking experience and joined Çalıkbank in 2007.

2.5 Committees

Credit Committee

The Credit Committee consists of the CEO and two persons elected from among those Members of the Board who meet all the criteria, professionally and educationally, required of the CEO, who, in their role as committee members, will use authority delegated by the Board of Directors to open credit lines.

Full Members of the Credit Committee

Ayhan Bolay	(Chairman of the Credit Committee)
Ertuğrul Gürler	(Vice Chairman of the Credit Committee)
Dr. Önder Halisdemir	(Member of the Credit Committee-CEO)

Alternate Members of the Credit Committee

İlhan Nebioğlu	(1st Alternate Member)
Ahmet Çalık	(2nd Alternate Member)

Asset/Liability Committee

The Asset/Liability Committee is an advisory board that establishes the financial policies and strategies required for the management of the Bank's assets and liabilities in relation to liquidity shortages, exchange rate risk and capital adequacy.

Committee Members
Dr. Önder Halisdemir (CEO, Chairman of the Committee)
Yıldırım Ulusoy (Vice President, Human Resources Department, Vice Chairman of the Committee)
Dr. Aydın Argın (Executive Vice President, Corporate and Commercial Marketing Group)
Doğan Akay (Executive Vice President, Corporate and Commercial Credits Group)
Ferda Önen (Executive Vice President, Operation Group)
Murat Emre Duman (Executive Vice President, Business Development Group)
Mutlu Özdemir (Executive Vice President, Information Technology Group)
Özlem Özün (Coordinator, Financial Institutions Group)
Raci Kaya (Executive Vice President, Treasury Group)
Turgay Geçer (Executive Vice President, Internal Systems Group)
Serdar Sümer (Executive Vice President, Subsidiary Management Group)
Gürol Güngör (Senior Vice President, Retail Marketing Department)
Nilay Kibaroğulları (Senior Vice President, Retail Credits Department)
Savas Çoban (Senior Vice President, Organization and Process Management Department)

Audit Committee

The Board of Directors: In order to assist with the audit and supervision activities that fall under its responsibility, the Board of Directors has appointed an Audit Committee consisting of at least two of its members who meet the qualifications specified by the Banking Regulation and Supervision Agency and are given the title of Internal Systems Auditor, to jointly conduct the administration, management and operation of the divisions within the Bank's Internal Systems.

Audit Committee: The Audit Committee monitors the efficiency and adequacy of the Bank's Internal Systems, the implementation of these systems, as well as its accounting and reporting systems, within the framework of the Banking Law, other legal provisions and the Bank's internal regulations, and the integrity of the information produced; it also conducts the necessary preliminary evaluations for the selection of independent auditors and ranking, rating and support service organizations by the Board of Directors; regularly monitors the activities of the organizations that have been appointed by and signed an agreement with the Board and Directors, and ensures the coordination and the consolidated implementation of internal audit activities covering all divisions, units and branches, on behalf of the Board of Directors.

Committee Members

Ayhan Bolay	(Audit Committee Member)
Ertuğrul Gürler	(Audit Committee Member)

Promotion Committee

The Bank's Promotion Committee is responsible for:

- Promoting staff members who meet the promotion criteria
- Determining promotion-related salary increases that will be valid during the time periods the promotions are made as part of the management of the promotion process in accordance with the regulations and principles established by Human Resources in order to meet the needs that arise in the organization of the Bank.

The Bank's Promotion Committee meets once a year in June on the invitation of the Division Head responsible for Human Resources, under the chairmanship of the CEO.

Committee Members

Dr. Önder Halisdemir (CEO, Chairman of the Committee)
Yıldırım Ulusoy (Human Resources Division Head, Vice Chairman of the Committee)
Dr. Aydın Argın (Executive Vice President, Corporate and Commercial Marketing Group)
Doğan Akay (Executive Vice President, Corporate and Commercial Credits Group)
Ferda Önen (Executive Vice President, Operation Group)
Murat Emre Duman (Executive Vice President, Business Development Group)
Mutlu Özdemir (Executive Vice President, Information Technology Group)
Özlem Özün (Coordinator, Financial Institutions Group)
Raci Kaya (Executive Vice President, Treasury Group)
Turgay Geçer (Assistant General Manager, Internal Systems Group)
Gürol Güngör (Senior Vice President, Retail Marketing Department)
Nilay Kibaroğulları (Senior Vice President, Retail Credits Department)
Savaş Çoban (Senior Vice President, Organization and Process Management Department)

2.6 2007 Board of Directors Summary Report Submitted to the Shareholders' General Assembly

Dear Shareholders,

Through the successful efforts of its management staff, the Bank had a very active year in 2007, achieving many of the goals outlined in the roadmap for the year. As a result of the work conducted during this activity period:

1. We have realized a net profit of 2,670,000 TRY and increased our assets by 69 percent to 111,680,000 TRY.

2. Our capital adequacy ratio stood at 42.17 percent, while return on equity was 4.24 percent.

3. One of the ratios to which we pay special attention, Net Fee and Commission Incomes/Operating Costs, was 25.95 percent. We are particularly focused on increasing this ratio.

4. During 2007, we achieved significant increases in the volumes of commercial loans and foreign trade transactions. The Bank increased its income in 2007 in particular by providing tailor-made services to its customers.

We present for your examination and approval the Bank's Financial Statements showing the operating results regarding the balance sheet period of January 1, 2007 - December 31, 2007, the related explanations and notes, the Independent Auditors Report, the Annual Report and the Audit Report.

With your General Assembly's consent, we would like to request your commendation and approval for the release of our Board of Directors from liability with the acceptance of this report and others we have submitted to you, we convey our respects and wish you an even more profitable and productive year in 2008.

Respectfully,

ON BEHALF OF THE BOARD OF DIRECTORS OF ÇALIK INVESTMENT BANK, INCORPORATED

Ayhan Bolay

Mehmet Ertuğrul Gürler

2.7 Human Resources Procedures

Our Employees are Our Most Important Resource

Recognizing our human resources as the Bank's most important resource and adopting practices that will increase their value, providing a career-oriented environment that encourages personal development for all employees without discrimination and building a working environment that promotes creativity is our fundamental policy.

Our goal is to create an organization that is open to new technologies, keeps abreast of the latest global developments, and creates new career opportunities for its employees.

Entering a restructuring period in 2007, Çalıkbank's areas of activity have expanded, making it necessary to create new business lines. As part of the continuing restructuring process, personnel numbers doubled in 2007.

Number of Personnel

	2007	2006
Number of Personnel	76	30
Female	%33	%40
Male	%67	%60

Education	2007	2006
Doctorate or Master's	16	6
University Graduate	52	18
High School Graduate	6	5
Primary School Graduate	2	1

A quarter of Çalıkbank employees hold doctoral or master's degrees and virtually all of the remaining staff are university graduates. The average banking experience of Çalıkbank employees is 9 years and average age is 33.

Hiring
Driven by the belief that it is our employees who make the difference, the Bank places great importance on the candidate recruitment and selection processes. The senior management is directly involved in the selection process. Çalıkbank continues to grow with a young and successful team of professionals with advanced specialist knowledge.

Remuneration
During the restructuring process, the remuneration offered has been aligned to be both competitive and fair in order to attract the brightest young talents and specialists in their fields. Our main principle in remuneration is to encourage success. Salary packages are supported by social benefits.

Career Management and Training
The career development of our employees constitutes the foundation of our Human Resources policy. To this end, a career plan has been prepared to encourage career development. Within this plan, our employees are evaluated on a personal basis and their development is supported with the requisite training. As an organization that learns and develops continuously, the Bank provides continuous education as well.

2.8 Transactions Conducted by the Bank within Its Own Risk Group

The volume of transactions conducted within the risk group of which the Bank is a member, loan and deposit transactions that remained outstanding at the end of the period, and income and expenditures related to the period.

(TRY ,000)

The Risk Group of which the Bank is a Member	Participations, subsidiaries and jointly controlled partnerships		Direct and indirect shareholders of the Bank		Real and legal persons included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Credits and Other Receivables[1]						
Opening balance	–	–	9,672	41,766	–	–
Closing balance	–	–	19,820	75,255	–	–
Interest and commission income earned	–	–	1,577	1,273	–	–

[1] Financial leasing receivables have been included in cash amounts.

2.9 Persons and Organizations Providing Support Services

The services outsourced by the Bank within the provisions of "Regulations Regarding the Support Services Received by Banks and the Authorization of Support Service Organizations" are as follows:

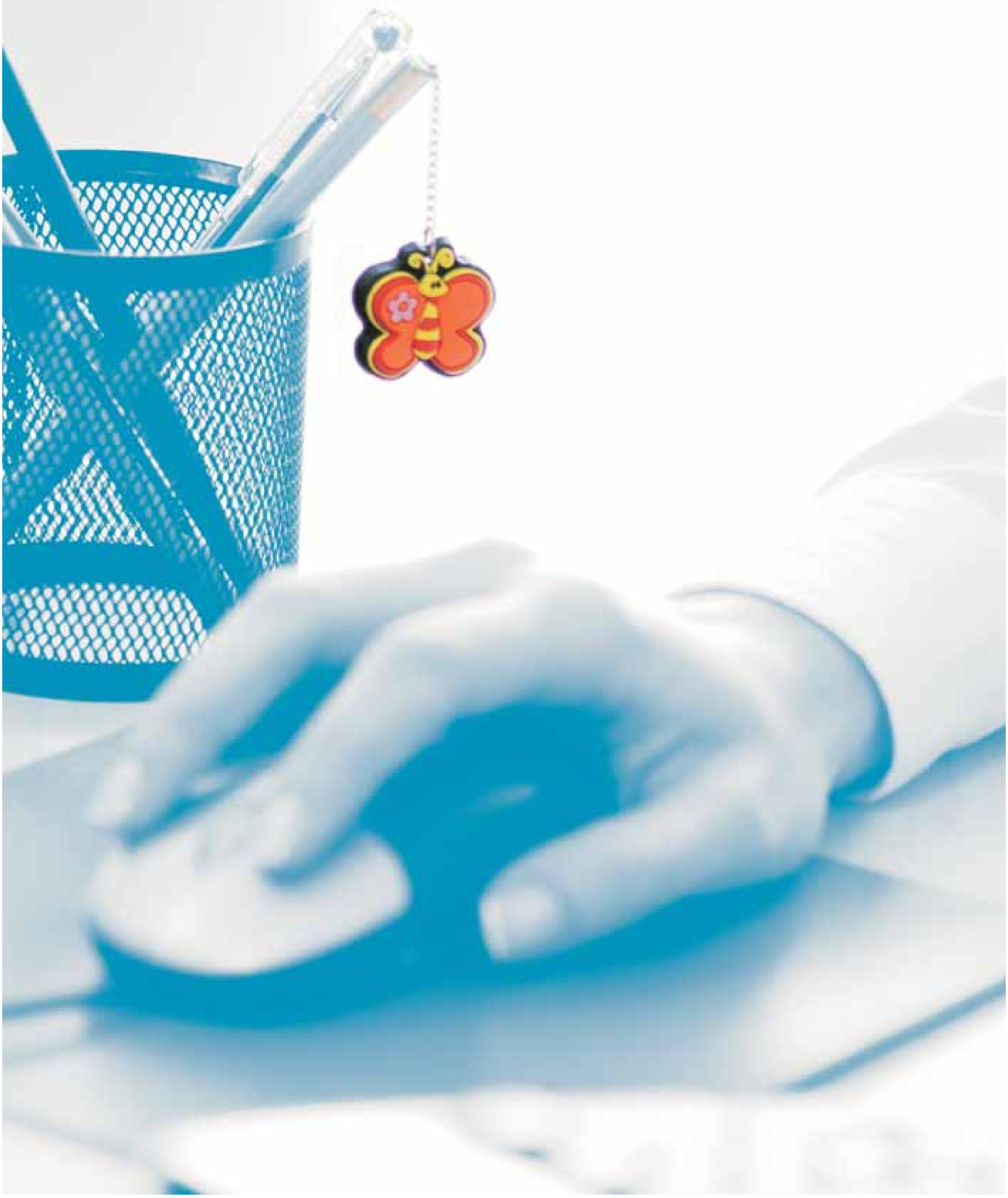
- Cash transportation services are provided by SecurVerdi Güvenlik Hizmetleri A.Ş. The company was established in 1994 with international know-how and provides the following services:
    - Security and Surveillance
    - Cash and Valuables Transportation
    - Cash Safekeeping and Processing
    - ATM/EDM Support and Monitoring
    - Security Consulting and System Operation

- Archiving services are provided by RM Arşiv Yönetim Hizmetleri Ticaret A.Ş. The company was established in 2003 in partnership with OSG Records Management and provides the following solutions and services:
    - Archive management
    - Archive storage
    - Digital archiving
    - Data processing
    - Data security
    - Rapid-access data storage

Support and maintenance for corporate banking software is provided by Bis Solution and Integration Services Ltd. The company was founded in 1994 and provides the following services:
- Winbank (Corporate Core Banking Software)
- Webbank (Corporate Internet Banking Software)

Service for the EFT Banking System user interface is provided by Global Technology Ltd. The company was founded in 2000 and provides the following products:
- EFT, Online Gateway

Financial Information and Risk Management



3.1 Auditors' Report

AUDITORS' REPORT

TO THE SHAREHOLDERS' GENERAL ASSEMBLY OF ÇALIK INVESTMENT BANK, INCORPORATED HELD ON 18.04.2008

Çalık Investment Bank Inc.'s, 2007 transactions and accounts have been regularly examined during 2007 in accordance with its articles of incorporation and the provisions of the Turkish Commercial Code. It was observed that transactions during the year have been conducted and recorded in accordance with regulations and the provisions of the articles of incorporation.

It has been confirmed that the annual financial statements and the income statement prepared by the Board of Directors at the end of the year are in accordance with the company's legal accounts and records.

We therefore present the annual financial statements and the income statement for your approval and ratification.

Bülent Aksu
Auditor

Fikri Erem
Auditor

3.2 Audit Committee Report

INFORMATION ON THE AUDIT COMMITTEE'S EVALUATIONS OF THE OPERATIONS OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS AND THEIR ACTIVITIES DURING THE ACCOUNTING PERIOD

Operating in the Banking sector in the areas of Corporate and Commercial Banking, Treasury, and Capital Markets, Çalık Investment Bank Inc., has created, within its Internal Systems Group, internal control, internal audit and risk management systems suitable and adequate for its activities and business lines. The principles of independence, objectivity and distribution of authority have been adopted in the establishment of the Internal Systems Group, and local regulations as well as international standards have been taken as a model for monitoring and managing operations and integrated risks. 2007 was a year in which important organizational changes were made and new procedures brought into effect in the internal control, internal audit and risk management systems.

Operating under the Audit Committee, the Internal Systems Group consists of the Internal Control, Internal Audit and Risk Management divisions. With a series of decisions made by our Board of Directors during the year, in accordance with the regulatory provisions of the Banking Regulation and Supervision Agency, dated November 1, 2006, experienced professionals were appointed to the positions of Head of Internal Audit, Director of Risk Management and Executive Vice President Responsible for Internal Systems; their job descriptions have been clearly defined and internal regulations detailing the duties, responsibilities and operating principles of the divisions have been updated and ratified by the Board of Directors.

In their inspections and investigations, the Internal Audit and Internal Control Divisions base their operations on the current regulations, internal audit program, internal control processes and implementation principles. Risk focused audits conducted at the Bank's Head Office and Main Branch are in accordance with international standards and based on the principle of risk-weighting of operations. The findings are reported to the operating division responsible for conducting or initiating the transaction. The audit results and the development of issues identified in those reports are also monitored. Operational risks are monitored as part of the activities of the Internal Control and Internal Audit Divisions and monitored using proactive methods. All the procedures and work flows of the Bank have been reviewed; automatic controls embedded in all business processes have been strengthened and their efficiency increased.

Intensive and effective use of technology is envisaged as a central part of the Bank's growth strategy and Internal Systems carries out all the controls regarding the core banking software being developed for this purpose. The authorization infrastructure of the core banking system is designed with a checkpoint for each transaction, with transactions only being executed after successful completion of the verification process. In the event of errors or violations of regulations identified during the execution of transactions, the authority to halt transactions resides with the Internal Control Division.

The Risk Management Division of the Bank is responsible for defining risks, collecting, measuring and analyzing data regarding risks, identifying and reporting the risk profile, taking the necessary precautions for optimizing risks and implementing those precautions. Risk management policies and risk limits have been established within the Bank and approved by the Board of Directors. The Bank's risk monitoring practices and reports include all significant risks and regular reports and management information systems support Bank policies and limits regarding risk management.

Risk exposure at the Bank has been significantly reduced as a result of the controls implemented by the Internal Systems Group in 2007, on a value at risk basis, taking into account the Bank's growing and developing organizational structure, balance sheet size, transaction volume and variety of transactions.

3.3 Evaluation of Financial Status

The Bank's total assets reached US$ 96.9 million by the end of 2007, increasing almost 100 percent compared to the previous year, and profit for the period was US$ 3.5 million. In 2007, average before-tax return on assets on profit basis was 4.84 percent, average return on assets based on net profit was 3.50 percent and return on equity was 4.24 percent.

Çalıkbank is a bank with strong equity. According to 2007 end-of-year financial statements, the Bank's total shareholder equity was 65 million TRY. Çalıkbank's capital adequacy ratio for the same period was 42.19 percent.

In 2007, the Bank again managed its credit portfolio with an approach designed to optimize the risk-return balance, meeting customers' financing needs at different maturities with the most suitable tenors. Continuing to show an exemplary lending performance in its sector, Çalıkbank's total credits in 2007 stood at 75 million TRY, an increase of 83 percent over the previous year.

3.4 Risk Management Policies

Çalıkbank's activities are primarily classified as Commercial and Corporate Banking or Treasury and Capital Market Transactions. The income from these activities accounted for 98 percent of total income in 2007.

Treasury and Capital Market activities are interbank money market transactions, credits, repurchase and reverse repurchase transactions, variable and fixed income instruments, foreign currency transactions, derivative instruments and trading. In 2007, the income generated from these activities was equivalent to 19 percent of total income.

Commercial and Corporate Banking activities include commercial lending, project finance, export finance, factoring, financial leasing, letters of guarantee, letters of credit, and foreign trade finance. In 2007, 79 percent of total income was realized in transactions conducted in this area of activity.

Commercial banking activities relatively bear the most significant share of risk due to their volume and ratio to total income. The objective of the Bank's credit risk management strategy is to manage the risk that the Bank's own portfolio may assume in line with its strategy and goals and to maximize the risk-adjusted return. It has adopted a dynamic credit portfolio management system that also takes into account the early warning signals in credit analysis, allocation and approval. In credit placements, the Bank's policy is to observe four main principles – safety, liquidity, productivity and appropriate diversification of credits.

The required documentation, responsibilities and limits regarding credit risk management are specified. Clear rules have been established for scoring, loan approval processes, evaluation of customer creditworthiness and credit allocation conditions implemented within the Bank. One of the main reasons for the Bank's low credit risk is the conservative approach of the Bank's senior management and Board of Directors. Credit risk related findings are reported directly to the Board of Directors and senior management.

Income from Treasury and Capital Markets transactions accounted for 19 percent of the Bank's total income, and assets resulting from these transactions were equivalent to 12 percent of total assets; the importance of these transactions are clearly defined in our risk evaluation. Notwithstanding the primary goal of providing products that will meet the needs of our customer portfolio, the Bank's Treasury operations aim to contribute to profitability with trading transactions conducted within the framework of the market risk limits established by the Board of Directors. As of the reporting period, assets resulting from Çalıkbank's treasury transactions were short-term placements. The average maturity of these assets is seven days and five percent consists of government debt instruments. Ninety-five percent of placements are with banks holding high credit ratings. For this reason, credit risk related to the institutions where placements have been made is rated as low.

As placements are short-term, the market risk that may arise from fluctuations in the financial markets is also low.

Having a liquid balance sheet structure, Çalıkbank also has low liquidity risk, that is the risk of not being able to meet the demand for cash whether from customers or counterparties fully and in a timely fashion.

The Bank's interest rate risk due to possible fluctuations in interest rates has also been rated as low.

Çalıkbank's HotSite Center located in the Balmumcu neighborhood of Istanbul enables key management and staff to continue their work in the event of local disasters (such as hardware malfunctions, fires, prolonged power failures, terrorist attacks, Turkish Telecom or telephone line failures). The Disaster Recovery Center in Ankara will allow the Bank to continue its operations in the event of major disasters such as earthquake, fire or flood. Copies of all corporate accesses and critical servers are backed up in real-time at the center in Ankara. An office environment has been created in both centers to meet all the needs of the key staff. For these reasons, the Bank's operational risk is also rated as low.

Reputational risk, strategic risk and other risks that may arise from various transactions are low.

Çalıkbank's capital adequacy ratio, which was 42.19 percent as of December 2007, is much higher than sector averages and indicative of its strong capital structure.

3.5 Credit Ratings Issued by Rating Agencies

The Bank does not have any ratings or credit notes issued by credit rating agencies in accordance with the "Regulation on Authorization and Operations of Rating Agencies".

3.6 Five-Year Financial Highlights

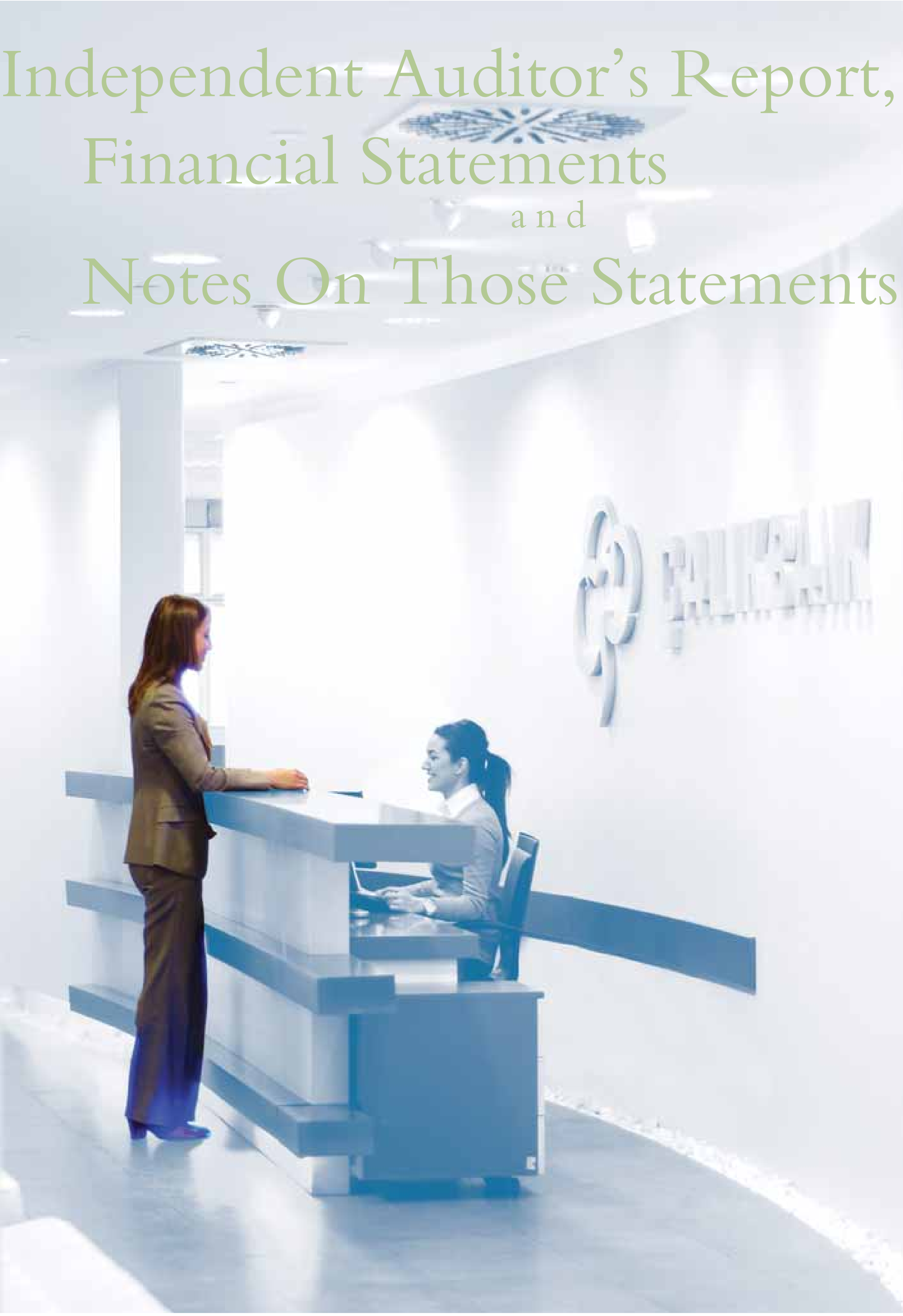
5-YEAR FINANCIAL HIGHLIGHTS – IN INDEXED VALUES - ,000 TRY

	2007	2006	2005	2004	2003
BALANCES WITH BANKS & INTERBANK MONEY MARKET PLACEMENTS	22,346	9,375	6,153	6,490	10,119
TRADING SECURITIES (Net)	505	747	2,707	6,921	13,326
LOANS & FACTORING RECEIVABLES	75,188	43,751	44,497	39,972	30,417
FINANCE LEASE RECEIVABLES (Net)	608	1,539	3,638	8,998	15,573
SHAREHOLDERS' EQUITY	65,346	61,234	64,177	71,321	45,985
TOTAL ASSETS	113,242	66,819	64,177	71,321	75,355
GUARANTEES AND WARRANTIES	155,291	105,718	94,781	74,143	66,066
NET INTEREST INCOME	10,969	9,928	10,850	12,172	14,520
NET FEE AND COMMISSION INCOME	2,274	2,129	2,514	2,595	965
OPERATING PROFIT	5,133	6,650	8,349	10,382	15,525
NET MONETARY POSITION GAIN / LOSS	0	0	0	-5,833	-5,538
PROFIT BEFORE TAXES	5,133	6,650	8,349	4,549	10,078
PROVISION FOR TAXES ON INCOME	-1,021	-1,421	-2,753	-520	-2,045
NET PROFIT / LOSS	4,112	5,229	5,596	4,029	8,033
Inflation Index	8,403.80	8,403.80	8,403.80	8,403.80	7,382.10
Coefficient Used	1	1	1	1	1.1384

5-YEAR FINANCIAL HIGHLIGHTS – INDEXED VALUES - ,000 USD

	2007	2006	2005	2004	2003
BALANCES WITH BANKS & INTERBANK MONEY MARKET PLACEMENTS	19,124	6,633	4,566	4,833	7,217
TRADING SECURITIES (NET)	432	529	2,009	5,154	9,504
LOANS & FACTORING RECEIVABLES	64,346	30,957	33,023	29,766	21,693
FINANCIAL LEASE RECEIVABLES (NET)	520	1,089	2,700	6,701	11,107
SHAREHOLDERS' EQUITY	55,923	43,327	47,628	53,111	32,796
TOTAL ASSETS	96,912	47,279	47,628	53,111	53,742
GUARANTEES AND WARRANTIES	132,898	74,803	70,340	55,212	47,118
NET INTEREST INCOME	9,387	7,025	8,052	9,064	10,356
NET FEE AND COMMISSION INCOME	1,946	1,506	1,866	1,932	688
OPERATING PROFIT	4,393	4,705	6,196	7,731	11,072
MONETARY GAIN / LOSS	0	0	0	-4,344	-3,950
PROFIT BEFORE TAXES	4,393	4,705	5,231	3,388	7,188
PROVISION FOR TAXES ON INCOME	-874	-1,005	-2,043	-387	-1,458
NET PROFIT / LOSS	3,519	3,700	3,188	3,000	5,729
USD Exchange Rate	1.1685	1.41329	1.34746	1.34287	1.40215

Independent Auditor's Report, Financial Statements and Notes On Those Statements



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

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Akis Bağımsız Denetim ve Serbest
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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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

Erdal Tıkmak
Sorumlu Ortak, Baş denetçi

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.

(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.

(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.

(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	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	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	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.