**ÇALIK YATIRIM BANKASI A.Ş.**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2005

Deloitte.

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**ÇALIK YATIRIM BANKASI A.Ş.**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of
Çalık Yatırım Bankası A.Ş.

1. We have audited the accompanying balance sheet of Çalık Yatırım Bankası A.Ş. ("the Bank") as at 31 December 2005 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, all expressed in New Turkish Lira as at 31 December 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Financial Reporting Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As explained in note 3.b in detail, the Bank ceased the application of restatement pursuant to IAS 29 (Financial Reporting in Hyperinflationary Economies) effective from 1 January 2005. If the Bank had applied IAS 29, the total assets, total equity and net income would be thousand NTL 64,319, NTL 55,719 and NTL 4,407.

4. In our opinion, except for the effects on the financial statements and corresponding figures of not applying restatement effect of IAS 29 effective from 1 January 2005 as described above paragraph, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, and the results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards ("IFRS").

Denetim Serbest Mali Müşavirlik A.Ş.

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU**

İstanbul, 9 February 2006

**ÇALIK YATIRIM BANKASI A.Ş.**

BALANCE SHEET
AS AT 31 DECEMBER 2005

(Amounts expressed in New Turkish Lira (NTL '000) unless otherwise stated.)

| ASSETS | Note | 31 December 2005 NTL'000 | 31 December 2005(*) USD'000 | 31 December 2004 NTL'000 | 31 December 2004(*) USD'000 |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | 5 | 93 | 69 | 314 | 234 |
| Balances With The Central Bank | 6 | 212 | 157 | 311 | 232 |
| Balances With Banks | 7 | 6,178 | 4,585 | 3,991 | 2,972 |
| Interbank Money Market Placements | | - | - | 2,502 | 1,863 |
| Funds Lent Under Securities Resale Agreements | 9 | 871 | 646 | 5,023 | 3,740 |
| Investments Held For Trading | 8 | 1,869 | 1,387 | 2,182 | 1,625 |
| Derivative Financial Instruments | 26 | 6 | 4 | 1 | 1 |
| Reserve Deposits At The Central Bank | 6 | 393 | 292 | 920 | 685 |
| Loans and Advances (Net) | 10 | 48,479 | 35,978 | 49,368 | 36,763 |
| Investments in Associates (Net) | 11 | 4,376 | 3,248 | 4,358 | 3,245 |
| Premises and Equipment (Net) | 12 | 1,009 | 749 | 1,161 | 865 |
| Intangible Assets (Net) | 13 | 125 | 93 | 187 | 139 |
| Other Assets | 14 | 566 | 420 | 1,003 | 747 |
| Deferred Tax Assets | 18 | - | - | - | - |
| **Total Assets** | | **64,177** | **47,628** | **71,321** | **53,111** |

31 12 2005 Exchange Rate: 1 USD = 1,34746 NTL
31 12 2004 Exchange Rate: 1 USD = 1,34287 NTL

(*)The amounts translated into US Dollar in these financial statements as at and for the year ended is presented for information purposes only and have been computed on the basis set forth in Note 3 to the accompanying financial statements.

**ÇALIK YATIRIM BANKASI A.Ş.**

BALANCE SHEET
AS AT 31 DECEMBER 2005

(Amounts expressed in New Turkish Lira (NTL '000) unless otherwise stated.)

| | | 31 December | | 31 December | |
|---|---|---|---|---|---|
| **LIABILITIES** | Note | 2005 NTL'000 | 2005(*) USD'000 | 2004 NTL'000 | 2004(*) USD'000 |
| Obligations Under Repurchase Agreements | 15 | 864 | 641 | 4,760 | 3,545 |
| Borrowings | 16 | 4,236 | 3,143 | 7,049 | 5,249 |
| Provisions | 19 | 413 | 307 | 407 | 303 |
| Current Tax Liabilities | 18 | 602 | 447 | 1,299 | 967 |
| Sundry Creditors | 17 | 1,226 | 910 | 3,274 | 2,438 |
| Other Liabilities | 20 | 1,219 | 905 | 4,518 | 3,365 |
| Total Liabilities | | 8,560 | 6,353 | 21,307 | 15,867 |
| **Equity** | | | | | |
| Share Capital | 21 | | | | |
| Nominal Capital | | 13,500 | 10,019 | 13,500 | 10,053 |
| Inflation Adjustment To Capital | | 26,113 | 19,379 | 26,106 | 19,440 |
| Total Paid-In Capital | | 39,613 | 29,398 | 39,606 | 29,493 |
| Legal Reserves | 21 | 1,610 | 1,195 | 1,610 | 1,199 |
| Retained Earnings | | 14,394 | 10,682 | 8,798 | 6,552 |
| Total Equity | | 55,617 | 41,275 | 50,014 | 37,244 |
| **Total Liabilities And Shareholders' Equity** | | **64,177** | **47,628** | **71,321** | **53,111** |
| **COMMITMENTS AND CONTINGENCIES** | 25 | **94,781** | **70,340** | **74,143** | **55,212** |

31 12 2005 Exchange Rate: 1 USD =1,34746 NTL
31 12 2004 Exchange Rate: 1 USD =1,34287 NTL

(*)The amounts translated into US Dollar in these financial statements as at and for the year ended is presented for information purposes only and have been computed on the basis set forth in Note 3 to the accompanying financial statements.

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

**ÇALIK YATIRIM BANKASI A.Ş.**

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2005
(Amounts expressed in New Turkish Lira (NTL '000 ) unless otherwise stated.)

| | Note | 2005 NTL'000 | 2005(*) USD'000 | 2004 NTL'000 | 2004(*) USD'000 |
|---|---|---|---|---|---|
| Interest Income | | | | | |
| Interest On Loans | | 10,166 | 7,545 | 9,729 | 7,245 |
| Interest On Securities | | 443 | 329 | 1,427 | 1,063 |
| Interest Received From Banks | | 226 | 168 | 538 | 401 |
| Interest on Interbank Money Market | | 92 | 68 | 790 | 588 |
| Interest On Financial Leasing | | 245 | 182 | 328 | 244 |
| Other Interest Income | | 15 | 10 | - | - |
| | | **11,187** | **8,302** | **12,812** | **9,541** |
| Interest Expenses | | | | | |
| Interest On Interbank Money Market Borrowings | | - | - | (32) | (24) |
| Interest On Borrowings | | (337) | (250) | (608) | (453) |
| | | **(337)** | **(250)** | **(640)** | **(477)** |
| **Net Interest Income** | | **10,850** | **8,052** | **12,172** | **9,064** |
| Fees And Commission Income | | 2,539 | 1,884 | 2,628 | 1,957 |
| Fees And Commission Expenses | | (25) | (18) | (33) | (24) |
| **Net Fee Income** | | **2,514** | **1,866** | **2,595** | **1,933** |
| Net Foreign Currency Gains | | 515 | 382 | 113 | 84 |
| Net Securities Trading Gains | | 158 | 117 | 544 | 405 |
| **Net Banking Income** | | **14,037** | **10,417** | **15,424** | **11,486** |
| Operating Income | 22 | 28 | 21 | 230 | 171 |
| Operating Expenses | 23 | (5,716) | (4,242) | (5,214) | (3,883) |
| **Net Operating Income** | | **8,349** | **6,196** | **10,440** | **7,774** |
| Share of Loss of Associated Company | | - | - | (58) | (43) |
| Monetary Loss | | - | - | (5,833) | (4,344) |
| **Profit from Operating Activities Before Income Tax** | | **8,349** | **6,196** | **4,549** | **3,387** |
| Income Tax Expense | 18 | (2,753) | (2,043) | (520) | (387) |
| **Net Profit** | | **5,596** | **4,153** | **4,029** | **3,000** |

31 12 2005 Exchange Rate :1 USD =1,34746 NTL
31 12 2004 Exchange Rate :1 USD =1,34287 NTL
(*)The amounts translated into US Dollar in these financial statements as at and for the year ended is presented for information purposes only and have been computed on the basis set forth in Note 3 to the accompanying financial statements.

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

**ÇALIK YATIRIM BANKASI A.Ş.**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in New Turkish Lira (NTL '000) unless otherwise stated.)

| | Share Capital NTL'000 | Inflation Adjustment To Capital NTL'000 | Legal Reserves NTL'000 | Retained Earnings NTL'000 | Total NTL'000 |
|---|---|---|---|---|---|
| Balance as of 1 January 2004 | 13,500 | 26,106 | 1,235 | 5,144 | 45,985 |
| Capital increase | - | - | - | - | - |
| Legal reserves | - | - | 375 | (375) | - |
| Net period profit | - | - | - | 4,029 | 4,029 |
| Balance as of 31 December 2004 | 13,500 | 26,106 | 1,610 | 8,798 | 50,014 |
| Balance as of 1 January 2005 | 13,500 | 26,106 | 1,610 | 8,798 | 50,014 |
| Restatement of capital | - | 7 | - | - | 7 |
| Restated balance as of 1 January 2005 | 13,500 | 26,113 | 1,610 | 8,798 | 50,021 |
| Capital increase | - | - | - | - | - |
| Legal reserves | - | - | - | - | - |
| Net period profit | - | - | - | 5,596 | 5,596 |
| Balance as of 31 December 2005 | 13,500 | 26,113 | 1,610 | 14,394 | 55,617 |

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

**ÇALIK YATIRIM BANKASI A.Ş.**

# STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in New Turkish Lira (NTL)'000 unless otherwise stated )

| | | 2005 NTL'000 | 2004 NTL'000 |
|---|---|---|---|
| Cash Flows From Operating Activities: | | | |
| Net Profit For The Year | | 5,596 | 4,029 |
| Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities: | | | |
| Depreciation of property and equipment booked in operating expenses | 12 | 170 | 286 |
| Amortization of intangible assets | 13 | 92 | 278 |
| Provision for losses on loan, leasing receivables and advances to customers | 10 | 500 | - |
| Employment termination benefits | 19 | 4 | 15 |
| Other provision expenses | 19 | 1 | 168 |
| Gains on sale of property, plant & equipment | | 28 | - |
| Accrued income, net | | 345 | 681 |
| Share of loss of associated company | | - | (58) |
| Inflation and unrealized gains/losses effect on non-operating activities | | 26 | 43 |
| Operating profits before changes in operating assets/liabilities | | 1,166 | 1,413 |
| Changes in operating assets and liabilities: | | | |
| (Increase)/decrease loans, leasing receivables and advances to customers | | 14 | (3,565) |
| (Increase)/decrease in resale agreements | | 4,152 | (760) |
| (Increase)/decrease in securities | | 280 | 7,412 |
| (Increase)/decrease in other assets | | 432 | (425) |
| Increase/(decrease) in obligations under repurchase agreements | | (3,896) | 895 |
| Increase/(decrease) in borrowings | | (6,075) | (1,788) |
| Increase/(decrease) in provisions | | (698) | (1,885) |
| Increase/(decrease) in other creditors, taxes & liabilities | | 187 | 2,408 |
| | | (5,604) | 2,292 |
| Income taxes paid | | (3,450) | (2,765) |
| Net Cash (Used In) Operating Activities | | (7,888) | 940 |
| Cash Flows From Investing Activities: | | | |
| (Increase) in reserve requirements with the CBRT | 6 | 527 | 1,046 |
| (Increase) in available for sale investments | 11 | (18) | (4,306) |
| Purchase of premises and equipment | 12 | (163) | (970) |
| Sale of premises and equipment | | 117 | - |
| Purchase of intangible assets | 13 | (30) | (36) |
| Net cash (used in)/provided by investing activities | | 433 | (4,266) |
| Cash flow from financing activities: | | | |
| Increase in capital | | - | - |
| New borrowings | | 354,738 | 411,309 |
| Repayment of borrowings | | (348,718) | (411,108) |
| Repayment of obligations under finance lease | | (4,779) | (5,140) |
| Net cash (used in)/provided by financing activities | | 1,241 | (4,939) |
| Net Increase In Cash And Cash Equivalents | | (618) | (4,236) |
| Effect on Inflation Adjustment | | 7 | - |
| Effect of fx rates changes on cash and cash equivalents | | (24) | (43) |
| Cash And Cash Equivalents At The Beginning Of The Year | | 7,118 | 11,397 |
| Cash And Cash Equivalents At The End Of The Year | | 6,483 | 7,118 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 1. GENERAL INFORMATION

Çalık Yatırım Bankası A.Ş. (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 granting any sort of loan, either cash or non-cash, financial leasing, factoring, corporate lending and project finance. As an investment bank, the Bank borrows funds from banks, financial markets, its counterparties, 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 Gap Pazarlama and Tariş in their project of e-commerce in Agromarket. The established company, which is 44.27% owned by the Bank, engages in e-sales of cotton.

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

| | Place of Incorporation | Effective Shareholding | | Voting rights(%) | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| Agromarket (*) | Turkey | 44.27 | 44.27 | 44.27 | 44.27 |
| Çalık Şeker Konsorsiyum A.Ş. (*) | Turkey | 24 | 24 | 24 | 24 |

(*) These associates have not been accounted under equity pick up method at the attached financial statements. Please refer to note 11 for detailed information.

During the conduct of its business the Bank had various significant transactions and balances with related parties during the year. Balances and transactions with related parties as at the balance sheet date are set out in note 24.

The Bank employs 28 people as of 31 December 2005 (31 as of 31 December 2004).

## 2. ADOPTION OF NEW AND REVISED IFRSs

In the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for periods beginning 1 January 2005.

At the date of authorization of these financial statements, additional Standards and Interpretations were in issue but not yet effective. The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank.

| | |
|---|---|
| IFRS 6 | Explorations for and Evaluation of Mineral Resources |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRIC 3 | Emission Rights |
| IFRIC 4 | Determining whether an Arrangement contains a Lease |
| IFRIC 5 | Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| IFRIC 6 | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies |
| IFRIC 8 | Scope of IFRS 2 |

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of Presentation of Financial Statements:

The Bank maintains its books of account and prepares its financial statements in accordance with the Turkish Banking Law, based on accounting principles regulated by the Banking Regulation and Supervision Agency ("BRSA") and regulations regulated by the Turkish Commercial Code and Turkish tax legislation and relevant accounting rules and regulations.

The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention, except for those items measured at fair value, with adjustments and reclassifications for the purposes of fair presentation in accordance with IFRS. These financial statements are presented in New Turkish Lira since that is the currency in which the majority of the Bank's transactions are denominated.

The accompanying IFRS financial statements adopt the accounting principles and policies applied by the BRSA in the Bank's statutory financial statements wherever those do not conflict with IFRS.

The effects of the differences between IFRS and generally accepted accounting principles in other countries than Turkey have not been quantified in the accompanying notes to the financial statements. In the opinion of the Bank's management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the period have been made in the accompanying financial statements.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

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

b) Financial Reporting in Hyperinflationary Economies:

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods to 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%. Such cumulative rate in Turkey is 33.2% for the three years ended 31 December 2005 based upon the producer price index announced by the Turkish State Institute of Statistics ("SIS").

Due to BRSA as of 28 April 2005 circular No:5 details for indicators of hyperinflation periods are observed and concluded that, the most of the indicators of hyperinflation period no longer exist. For this reason, due to BRSA as of 21 April 2005 circular No:1623, inflation accounting for banking regulations are quitted by 1 January 2005.

Main indicators of hyperinflation period are as follows;

a) As of January 2005, data of banking sector verify that Turkish Lira deposits constitutes the majority of total deposits and foreign currency deposits are following a decreasing trend;

b) As of January 2005, data of banking sector verify that Turkish Lira loans constitutes the majority of total loans and foreign currency deposits are following a decreasing trend;

c) For the short term transactions prices are generally determined without interest cost;

d) Government bonds and treasury bills did not issue in respect of price index;

e) Wholesale price index ("WPI") announced by Turkish State Institute of Statistics as of March 2005, last three years' cumulative inflation ratio is %57.83 and for last twelve months ratio is %8.16

Based on all of the above factors, management of the Bank believes that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 were not applicable in Turkey in 2005 and therefore decided to discontinue the inflation accounting application effective from 1 January 2005.

The restatement was calculated by means of conversion factors derived from the wholesale price index announced by SIS (1994 index: 100). Such index and the conversion factors used to restate the accompanying financial statements as of the end of each year to 31 December 2004 are given below:

| | Index | Conversion Factor |
|---|---|---|
| 31 December 2002 | 6,478.8 | 1.2971 |
| 31 December 2003 | 7,382.1 | 1.1384 |
| 31 December 2004 | 8,403.8 | 1.0000 |

(Amounts expressed in New Turkish Lira (NTL ‘000’) unless otherwise stated)

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

b) Financial Reporting in Hyperinflationary Economies: (cont’d)

The annual change in the NTL exchange rate against the US Dollar and Euro can be compared with the rates of general price inflation in Turkey according to the PPI as set out below:

| Years | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| Currency devaluation | | | | |
| US Dollar -% | (0.02%) | (3.85%) | (14.6%) | 13.5% |
| PPI inflation -% | 2.7% | 13.8% | 13.9% | 30.8% |

The main guidelines for the IAS 29 restatement are as follows:

- All balance sheet amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (SSI). Corresponding figures for previous periods are similarly restated.

- Monetary assets and liabilities are not restated because they are already expressed in terms of the measuring unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.

- Non-monetary assets and liabilities are restated by applying, to the initial acquisition cost and any accumulated depreciation, the change in the general price index from the date of acquisition or initial recording to the balance sheet date. Hence, property, plant and equipment, investments and similar assets are restated from the date of their purchase, not to exceed their market value.

- Depreciation is similarly restated. The components of shareholders’ equity are restated by applying the applicable general price index from the dates the components were contributed or otherwise arose.

- All items in the statement of income, except non-monetary balance sheet items that have effect on statement of income, are restated by applying the relevant conversion factors from the dates when the income and expense items were initially recorded in the financial statements.

- The gain or loss on the net monetary position is the result of the effect of general inflation and is the difference resulting from the restatement of non-monetary assets, shareholders’ equity and income statement items. The gain or loss on the net monetary position is included in net income

c) New Turkish Lira

A new law number 5083 was enacted with effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish republic, the Turkish Lira (“TL”), to form a new currency the New Turkish Lira (“NTL” or “YTL”). Thus 1 NTL = 1,000,000 TL. The New Turkish Lira is divided into 100 New Turkish cents (“YKr”). The accompanying financial statements including comparatives are presented in New Turkish Lira (“NTL”) since it is the official currency as at the balance sheet date.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

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

d) Accounting Convention

The accompanying financial statements have been prepared in accordance with IFRS. The financial statements have been prepared on the historical cost basis except for those items measured at fair value. Effect has been given in the financial statements to adjustments and reclassifications, which have not been entered in the general books of account of the Bank, and its subsidiary maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

e) Income and Expense Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered which are recognized as income when received. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income on overdue loans is recognized on a cash basis when collected. Income and expenses are recognized at fair value or amortized cost basis. For the purpose of convenience, certain income and expenses are recognized on a straight-line basis wherever does not materially differ from fair value or amortized cost method.

f) Foreign Currencies

In preparing the financial statements of the individual entities, transactions in currencies other than NTL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, are included in profit or loss for the period.

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

As at 31 December 2005 foreign currency assets and liabilities of the Bank are mainly in US Dollar and Euro. As at 31 December 2005 exchange rates of US Dollar and Euro are as follows:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| 1 US Dollar | 1.34746 | 1.34287 |
| 1 Euro | 1.60133 | 1.83140 |

Average rates are as follows :

| | 1 January-<br>31 December 2005 | 1 January-<br>31 December 2004 |
|---|---|---|
| 1 US Dollar | 1.34701 | 1.42916 |
| 1 Euro | 1.67616 | 1.77641 |

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

### g) Financial Instruments

The term financial instruments include both financial assets and financial liabilities, and also derivatives. Financial assets and financial liabilities are recognised on the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are fundamental to the Bank's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Bank. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Bank's balance sheet. The Bank trades in financial instruments for customer facilitation and as principal.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Bank has the expressed intention and ability hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognized.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

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

g) Financial Instruments (cont'd)

Investments (cont'd)

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Loans and other receivables

Loans and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Bank are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The Bank does not have equity instruments. The accounting policies adopted for specific financial liabilities are set out below.

Bank borrowings

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

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

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

Off balance sheet commitments and contingencies

The Bank deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Bank's exposure to losses arising from these instruments is represented by the contractual amount of those instruments.

Derivative financial instruments and hedge accounting

The Bank's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. In the normal course of business, the Bank enters into a variety of derivative transactions principally in the foreign exchange and interest rate markets. These are used to provide financial services to customers and to actively take, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the balance sheet from a variety of activities including placements, lending and securities investment. The majority of the counterparties in the Bank's derivative transactions are banks and other financial institutions.

The Bank uses derivative financial instruments (primarily foreign currency forward and swap contracts) to hedge its risks associated with foreign currency fluctuations relating to forecasted transactions. The significant interest rate risk arises from placements, securities invested, loans extended, deposits and bank borrowings.

The use of financial derivatives is governed by the Bank's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Bank's risk management strategy.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting date. All unrealised gains and losses on these instruments are included in the statement of income. Unrealised gains and losses on these instruments are not deductible for tax purposes.

Fair value considerations

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted at amortized cost but disclosure is required of fair value for comparison purposes, wherever practicable.

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

g) Financial Instruments (cont'd)

Fair value considerations (cont'd)

Due to economic conditions and volatility or low trading volumes in markets, the Bank may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets, and calculation of present values on an IRR basis. Where no reliable estimate of fair value is available, amortized cost is used as the carrying value. As there is a wide range of valuation techniques, it may be inappropriate to compare the Bank's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would never differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.

Securities investments: Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

Loans: The major portion of the loans are short-term and have interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

Purchases or sales of investments under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities.

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

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

Investments under resale or repurchase transactions (cont'd)

The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as financial assets at fair value through profit or loss, investments held to maturity or investments available for sale, and interest expense is accounted for on an accrual basis over the period of the transactions.

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

Loans and loan loss provisions

Loans are financial instruments extended by the Bank and accounted for at amortized cost using the effective interest rate method, except for certain loans wherever straight-line accrual basis does not materially differ from amortized cost method.

Based on its evaluation of the current status of the loans granted, the Bank makes specific loan loss provisions, which it considers are adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known.

The Bank classifies any loan, which is not adequately collateralized, or the management believing borrowers lost their creditworthiness into overdue loans. The Bank ceases to recognize income on overdue loans and receivables.

The loan loss provisions and the general loan provision follow the requirements as specified by Turkish Banking regulations. In accordance with the prevailing provisioning legislation, banks in Turkey should appropriate 0.5% general provision for cash loans and other receivables and 0.1% general provision for non-cash loans.

### h) Premises and Equipment

Premises and equipment are carried at inflation adjusted cost less inflation adjusted accumulated depreciation at the equivalent purchasing power as at the reporting date. Premises and equipment, except land that is deemed to have indefinite life, are depreciated on a straight-line basis using the following main rates, which write off the assets over their expected useful lives:

| | Useful lives |
|---|---|
| Vehicles, Furniture and Fittings | 3 - 8 |
| Leasehold Improvements | 4 - 5 |

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

h) Premises and Equipment (cont'd)

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

The costs of a major inspection or overhaul that are accounted as a separate asset component are capitalized. Subsequent expenditures incurred on the premises and equipments are added to the carrying amount of the asset when it is probable that the future economic benefits in excess of the originally assessed standard of performance of the asset will flow to the entity. All other subsequent expenditures and major inspection or overhaul costs that are embodied in the item of property and equipment are recognized as an expense when it is incurred.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of income.

ı) Computer Software Development Costs

The Bank generally recognizes computer software development costs as expenses when incurred. However, if it is probable that future economic benefits will flow to the Bank, to the extent that expenditures can reliably be measured and attributable to the asset, development costs incurred are incorporated into the initial cost of computer software. All other subsequent expenditure associated with the maintenance of the existing computer software is recognized as expense in the period in which it is incurred.

Computer software development costs capitalized as assets are amortized on a straight-line basis over their expected useful lives:

| | Useful lives |
|---|---|
| Intangibles | 3-15 |

j) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases. Lease receivables are classified under loans

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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

k) Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

l) Provisions

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

m) Retirement Benefits

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

International Accounting Standard No. 19 "Employee Benefits" ("IAS 19") has been applied in the accompanying financial statements. A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the balance sheet date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

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

n) Related Parties

For the purpose of the accompanying financial statements shareholders of the Bank and related companies, and non-equity participations and related companies, directors and key management personnel together with their families and related companies and other companies in the Çalık Group Companies are referred to as "Related Parties" in this report.

o) Taxation and Deferred Income Taxes

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

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

p) Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

q) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## 4. CHANGE IN ACOUNTING POLICIES

The Bank adopted to change the prior year financial statements wherever applicable and required based on the revised standards of IFRS, where there were no significant changes as compared to prior year financial statements.

**In summary:**

IAS1 "Presentation of Financial Statements", IAS 21 "The effects of Changes in Foreign Exchange Rates" , IAS 24 "Related Party Disclosures" , IFRS 3 " Business Combinations", IAS 36 "Impairment of Assets" , IAS 38 " Intangible Assets" , IAS 8 " Accounting Policies, Changes in Accounting Estimates and Errors", IAS 10 "Events After the Balance Sheet Date", IAs 16 " Property Plant and Equipment", IAS 17 "Leases", IAS 27 " Consolidated and Separate Financial Statements", IAS 28 " Investments in Associates", IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39" Financial Instruments: Recognition and Measurement" (all revised) and IFRS 4 "Insurance Contracts" and IFRS 5 " Non-current Assets Held for Sale and Discontinued Operations" had no material effect on the Bank's accounting policies.

## 5. CASH AND CASH EQUIVALENTS

| | 2005 | 2004 |
|---|---|---|
| Cash balances – New Turkish Lira ("NTL") | 33 | 84 |
| Cash balances – Foreign currencies ("FC") | 60 | 230 |
| | 93 | 314 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 6. BALANCES WITH THE CENTRAL BANK

### a) Balances with the Central Bank

| | 2005 | 2004 |
|---|---|---|
| Demand deposits – NTL | 51 | - |
| Time deposits – FC | 161 | 311 |
| | 212 | 311 |

### b) Reserve Deposits at the Central Bank

| | 2005 | 2004 |
|---|---|---|
| New Turkish Lira reserves | - | 74 |
| Foreign currency reserves | 393 | 846 |
| | 393 | 920 |

The liquidity requirements are to be maintained as cash in special New Turkish Lira accounts for New Turkish Lira liabilities and in special US Dollar and Euro accounts for respective foreign currency liabilities with the Central Bank of Turkey. Such New Turkish Lira and foreign currency reserves maintained with the Central Bank earn interest at the interest rates determined by the Central Bank. Reserve deposits earn interest at 10.25 % for NTL deposits and 2.03 % for foreign currency deposits (2004: 13% and 1%, respectively).

Banks have to maintain minimum amounts of cash-on-hand, deposits with the Central Bank and government bonds in their portfolio against their liabilities, computed on the basis of certain rates that are prescribed in the related regulation, as follows:

| Liabilities | Liquidity Ratio |
|---|---|
| New Turkish Lira | 6 |
| Foreign Currency | 11 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 7. BALANCES WITH BANKS

| | 2005 | 2004 |
|---|---|---|
| Domestic Banks | | |
| Demand deposits – New Turkish Lira | 1 | - |
| Time deposits – New Turkish Lira | 3,825 | 2,001 |
| Time deposits – Foreign currency | 1,887 | - |
| | 5,713 | 2,001 |
| Banks Abroad | | |
| Demand deposits – Foreign currency | 61 | 244 |
| Time deposits – Foreign currency | 404 | 1,746 |
| | 465 | 1,990 |
| Total | 6,178 | 3,991 |

The time deposits above mature within 1 month and earn average interest at rate of 4.2% (2004: 2%) for foreign currency and 14.73% for NTL per annum. (31 December 2004: 19% for NTL )

## 8. INVESTMENTS

| Investments held for trading: | 2005 | 2004 |
|---|---|---|
| Financial assets at fair value through profit and loss | - | - |
| Held for trading | 1,869 | 2,182 |
| | 1,869 | 2,182 |

| Held for trading: | 2005 | 2004 |
|---|---|---|
| Government bonds & Treasury bills | 1,869 | 2,182 |
| | 1,869 | 2,182 |

Income on debt instruments at fair value is included in the statement of income as interest income. Gains and losses on investments held for trading are included in the trading income.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 9. FUNDS LENT UNDER SECURITIES RESALE AGREEMENTS

| | 2005 | 2004 |
|---|---|---|
| Government bonds & Treasury bills | 871 | 5,023 |
| | 871 | 5,023 |

## 10. LOANS AND ADVANCES (NET)

| | 2005 | 2004 |
|---|---|---|
| Short term loans | 47,505 | 45,645 |
| Medium and long term loans | 567 | 4,042 |
| Overdue loans | 1,056 | 15 |
| Less: Provision for loan losses | (515) | (15) |
| Unearned income (Leasing) | (134) | (319) |
| | 48,479 | 49,368 |

**Movements in the provision for loan losses are as follows:**

| | 2005 | 2004 |
|---|---|---|
| Provision For Cash Loans: | | |
| As at 1 January | 15 | 15 |
| Charge for the period | 500 | - |
| As at 31 December | 515 | 15 |

**Loans can be further analysed by customer, currency and sector as follows:**

| Customer | 2005 | 2004 |
|---|---|---|
| Commercial customers | 48,479 | 49,368 |
| | 48,479 | 49,368 |

| Currency | 2005 | 2004 |
|---|---|---|
| New Turkish Lira | 45,020 | 40,235 |
| US Dollar | - | 69 |
| Euro | 1,735 | 5,465 |
| CHF | 1,724 | 3,599 |
| | 48,479 | 49,368 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 10. LOANS AND ADVANCES (NET) (cont'd)

**Sectoral analysis shown as below as 31 December 2005 and 31 December 2004:**

| Sector | 2005 | 2005 (%) | 2004 | 2004 (%) |
|---|---|---|---|---|
| Trade | 15,039 | 31.02 | 14,043 | 28.45 |
| Production | 10,275 | 21.19 | 12,587 | 25.50 |
| Transportation and communication | 764 | 1.58 | 1,266 | 2.56 |
| Health | 541 | 1.12 | - | - |
| Construction | 11,576 | 23.88 | 9,216 | 18.67 |
| Real estate | 130 | 0.27 | - | - |
| Financial institutions | 8,985 | 18.53 | 12,190 | 24.69 |
| Other | 1,169 | 2.41 | 66 | 0.13 |
| | 48,479 | 100.00 | 49,368 | 100.00 |

| Classification | 2005 | 2004 |
|---|---|---|
| Loans | 39,931 | 37,926 |
| Leasing | 3,668 | 9,066 |
| Factoring | 4,880 | 2,376 |
| | 48,479 | 49,368 |

**Included in the loans above, finance lease receivables are as follows:**

| | 2005 | 2004 |
|---|---|---|
| Within one year | 3,234 | 5,343 |
| One year and above | 568 | 4,042 |
| | 3,802 | 9,385 |
| Less: Unearned interest income | (134) | (319) |
| | 3,668 | 9,066 |

Interest rates charged for short-term loans varied between 14.55 % and 28 % for New Turkish Lira loans (2004: 20 %-45.96 %) and 11.19 % and 11.74 % (2004: 9.44 %-10.57 % ) for foreign currency loans per annum during the period.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 11. INVESTMENTS IN ASSOCIATES

| Investee | Ownership % | 2005 | 2004 |
|---|---|---|---|
| Çalık Şeker Konsorsiyum A.Ş. | 24 | 4,376 | 4,358 |
| | | 4,376 | 4,358 |

The main establishment purpose of Çalık Şeker Konsorsiyum A.Ş., (associate) is the transactions related with purchase of Bank Kombatare Tregtare in Albania. Even though, sales transactions with Saving Deposits and Insurance Fund has been completed as at balance sheet date, the share transfer has not been settled.

Due to this fact, and taking one of the basic principles of accounting "materiality" into consideration, the associate is accounted at cost instead of accounted under equity method, in the accompanying financial statements.

The Bank has cooperation with Gap Pazarlama and Tariş in their project of e-commerce in Agromarket. The established company, which is 44.27% owned by the Bank, engages in e-sales of cotton. In the accompanying financial statements, the Bank set 100% impairment provision for this associate.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 12. PREMISES and EQUIPMENT (NET)

| | Leasehold Improvements | Machinery and Equipment | Vehicles | Furniture and Fixture | Other Fixed Assets | Total |
|---|---|---|---|---|---|---|
| Acquisition Cost | | | | | | |
| Opening balance, 1 January 2005 | 700 | 659 | 290 | 614 | 11 | 2,274 |
| Additions | 26 | 41 | 89 | 7 | | 163 |
| Disposals | - | (16) | (129) | - | - | (145) |
| Closing balance, 31 December 2005 | 726 | 684 | 250 | 621 | 11 | 2,292 |
| Accumulated Depreciation | | | | | | |
| Opening balance, 1 January 2005 | 277 | 464 | 170 | 191 | 11 | 1,113 |
| Charge for the period | 101 | 61 | 44 | 96 | - | 302 |
| Disposals | - | (3) | (129) | - | - | (132) |
| Closing balance, 31 December 2005 | 378 | 522 | 85 | 287 | 11 | 1,283 |
| Net book value at 31 December 2005 | 348 | 162 | 165 | 334 | - | 1,009 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

**12. PREMISES and EQUIPMENT (NET) (cont'd)**

| | Leasehold Improvements | Machinery and Equipment | Vehicles | Furniture and Fixture | Other Fixed Assets | Total |
|---|---|---|---|---|---|---|
| Acquisition Cost | | | | | | |
| Opening balance, 1 January 2004 | 288 | 540 | 290 | 175 | 11 | 1,304 |
| Additions | 412 | 119 | - | 439 | - | 970 |
| Disposals | - | - | - | - | - | - |
| Closing balance, 31 December 2004 | 700 | 659 | 290 | 614 | 11 | 2,274 |
| Accumulated Depreciation | | | | | | |
| Opening balance, 1 January 2004 | 206 | 357 | 121 | 134 | 9 | 827 |
| Charge for the period | 71 | 107 | 49 | 57 | 2 | 286 |
| Disposals | - | - | - | - | - | - |
| Closing balance, 31 December 2004 | 277 | 464 | 170 | 191 | 11 | 1,113 |
| Net book value at 31 December 2004 | 423 | 195 | 120 | 423 | - | 1,161 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 13. INTANGIBLE ASSETS (NET)

| | Intangible Assets Total |
|---|---|
| Acquisition cost | |
| Opening balance, 1 January 2005 | 1,648 |
| Additions | 30 |
| Closing balance, 31 December 2005 | 1,678 |
| | |
| Accumulated depreciation | |
| Opening balance, 1 January 2005 | 1,461 |
| Charge for the period | 92 |
| Closing balance, 31 December 2005 | 1,553 |
| | |
| Net Book Value, as of 31 December 2005 | 125 |

| | Intangible Assets Total |
|---|---|
| Acquisition cost | |
| Opening balance, 1 January 2004 | 1,612 |
| Additions | 36 |
| Closing balance, 31 December 2004 | 1,648 |
| | |
| Accumulated depreciation | |
| Opening balance, 1 January 2004 | 1,183 |
| Charge for the period | 278 |
| Closing balance, 31 December 2004 | 1,461 |
| | |
| Net Book Value, as of 31 December 2004 | 187 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 14. OTHER ASSETS

| | 2005 | 2004 |
|---|---|---|
| Prepaid Expenses | 226 | 257 |
| Transitory Accounts | 315 | 608 |
| Advances Given | - | 5 |
| Premium Income Accruals | - | 110 |
| Others | 25 | 23 |
| | 566 | 1,003 |

## 15. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

| | 2005 Carrying Value of Underlying Securities | 2005 Carrying Value of Corresponding Liability |
|---|---|---|
| Investments held for trading | 871 | 864 |
| | 871 | 864 |

| | 2005 Carrying Value of Underlying Securities | 2004 Carrying Value of Corresponding Liability |
|---|---|---|
| Investments held for trading | 5,023 | 4,760 |
| | 5,023 | 4,760 |

The repurchase agreements have maturity periods of one day. The Bank has applied interest rates of 8.24 -10.56 %. (2004: 11.54-17.80 %)

## 16. BORROWINGS

| | 2005 | 2004 |
|---|---|---|
| Domestic Banks – NTL | 1,002 | - |
| Domestic Banks – Foreign currency | - | 1,343 |
| Banks Abroad – Foreign currency | 3,234 | 5,706 |
| | 4,236 | 7,049 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 16. BORROWINGS (cont'd)

2005:

| Maturity | Currency | Effective Interest Rate(%) | Amount |
|---|---|---|---|
| 26/01/2006 | NTL | 13.95 | 1,002 |
| 30/01/2007 | EUR | 4.05 | 492 |
| 22/12/2011 | USD | 5.75 | 1,028 |
| 18/10/2006 – 26/03/2007 | CHF | 3.40 – 4.05 | 1,714 |
| | | | 4,236 |

2004:

| Maturity | Currency | Effective Interest Rate(%) | Amount |
|---|---|---|---|
| 03/01/2005 | USD | 2.35 | 1,343 |
| 16/06/2005 – 30/01/2007 | EUR | 4.01 – 6.00 | 2,138 |
| 18/10/2006 – 26/03/2007 | CHF | 3.40 – 4.05 | 3,568 |
| | | | 7,049 |

## 17. SUNDRY CREDITORS

| | 2005 | 2004 |
|---|---|---|
| Payable to suppliers | 1,226 | 3,274 |
| | 1,226 | 3,274 |

## 18. TAXATION ON INCOME

Corporate Tax

The Bank is subject to Turkish corporation taxes. Provision is made in the accompanying financial statements based on the Bank's results for the year. Tax legislation in Turkey does not allow companies to file their tax returns on a consolidated basis but on a stand-alone basis.

Corporation tax is applied on taxable corporate income, which is calculated from the BRSA accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rates of tax are as follows:

- In 2003: 30%
- In 2004: 33%
- In 2005: 30%

## 18. TAXATION ON INCOME (cont'd)

Corporate Tax (cont'd)

In Turkey, advance tax returns are filed on a quarterly basis at 30%.

Losses can be carried forward for offset against future taxable income for up to 5 years. Losses cannot be carried back for offset against profits from previous periods.

In Turkey there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns by 15 April in the next year following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends that are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2004. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Income withholding tax was also calculated in 2003 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not. Such withholding tax has been removed in general. However, 19.8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2004. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years.

Inflation Adjusted Tax Calculation

For 2004 and previous years, taxable profits were calculated without any inflation adjustment to the statutory records, except that fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2004 requires the application of inflation accounting in Turkey in 2004 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in IAS 29 "Financial Reporting in Hyperinflationary Economies". Since the actual rate of inflation as at the balance sheet date did not exceed the thresholds specified in the taxation legislation, the statutory financial statements have not been inflation adjusted.

Deferred Tax

The Bank recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 18. TAXATION ON INCOME (cont'd)

Deferred Tax (cont'd)

In the accompanying financial statements corporate tax and deferred tax asset/liability are comprised of the following:

a)

Balance sheet:

| | 2005 | 2004 |
|---|---|---|
| Corporate tax | 602 | 1,299 |
| Advance taxes | - | - |
| | 602 | 1,299 |

b)

Income statement :

| | 2005 | 2004 |
|---|---|---|
| Corporate tax charge | 2,753 | 1,299 |
| Deferred tax charge | - | (779) |
| | 2,753 | 520 |

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

| | 2005 | 2004 |
|---|---|---|
| Useful life difference on fixed assets | 32 | (61) |
| Retirement pay provision | (52) | (48) |
| General loan loss provision | (360) | (358) |
| Deferred tax (asset)/liability | (380) | (467) |
| Less: Valuation allowance | 380 | 467 |
| Net deferred taxes | - | - |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 19. PROVISIONS

| | 2005 | 2004 |
|---|---|---|
| General loan loss provision | 360 | 359 |
| Retirement pay provision | 52 | 48 |
| Other Provisions | 1 | - |
| | 413 | 407 |

| | 2005 | 2004 |
|---|---|---|
| Provision For Retirement Pay | | |
| Provision at 1 January | 48 | 38 |
| Provision for the period | 4 | 15 |
| Net effect of indexation | - | (5) |
| Provision at 31 December | 52 | 48 |
| | | |
| General Loan Loss Provision | | |
| Provision at 1 January | 359 | 222 |
| Provision for the period | 1 | 164 |
| Net effect of indexation | - | (27) |
| Provision at 31 December | 360 | 359 |

Retirement Pay Provision:

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

The amount payable consists of one month's salary limited to a maximum of NTL 1,727.15 (2004: NTL 1,547.74 ) for each period of service at 31 December 2005.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2005, the provision has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6.175% and a discount rate of 12%, resulting in a real discount rate of approximately 5.49%.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 20. OTHER LIABILITIES

| | 2005 | 2004 |
|---|---|---|
| Payables to Compulsory Government Funds | 44 | 19 |
| Customer Accounts (*) | 533 | 3,473 |
| Payment Orders | - | 22 |
| Transitory Accounts | 394 | 737 |
| Taxes and Due Payable | 212 | 219 |
| Others | 36 | 48 |
| | 1,219 | 4,518 |

(*) As at 31 December 2005, NTL 174 Thousand comprised of the Customer Accounts to the Group companies (31 December 2004 : NTL 1,527 Thousand).

## 21. EQUITY

**Share Capital**

| Shareholders | % | 2005 Paid-In Capital | % | 2004 Paid-In Capital |
|---|---|---|---|---|
| Çalık Holding A.Ş. | 91.5 | 12,352 | 91.5 | 12,352 |
| Gap Güneydoğu Tekstil San.ve Tic.A.Ş. | 4.5 | 608 | 4.5 | 608 |
| Ahmet Çalık | 2.0 | 270 | 2.0 | 270 |
| Mahmut Çalık | 1.0 | 135 | 1.0 | 135 |
| Ali Akbulut | 1.0 | 135 | 1.0 | 135 |
| | 100 | 13,500 | 100 | 13,500 |
| Components of Capital: | | | | |
| Nominal capital | | 13,500 | | 13,500 |
| Unpaid portion | | - | | - |
| Effect of inflation | | 26,113 | | 26,106 |
| | | 39,613 | | 39,606 |

**Legal reserves:**

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 22. OPERATING INCOME

| | 2005 | 2004 |
|---|---|---|
| Other | 28 | 230 |
| | 28 | 230 |

## 23. OPERATING EXPENSES

| | 2005 | 2004 |
|---|---|---|
| Personnel expenses | 2,588 | 2,241 |
| Taxes and dues other than on income | 213 | 312 |
| Depreciation and amortization | 394 | 564 |
| Donations paid | 188 | 16 |
| Rent expenses | 416 | 282 |
| Communication expense | 438 | 442 |
| Provision expenses | 502 | 177 |
| Other administrative expenses | 977 | 1,180 |
| | 5,716 | 5,214 |

## 24. RELATED PARTY TRANSACTIONS AND BALANCES

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

| | 2005 | 2004 |
|---|---|---|
| Balances with related parties : | | |
| Balances due from related parties | | |
| Loans and Advances (Net) | 24,856 | 28,959 |
| Balances to related parties | | |
| Other liabilities (customer accounts) | 174 | 1,527 |
| Balances related off balance sheet transactions | | |
| Non-cash loans | 42,922 | 53,295 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 24. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd)

Total salaries and other benefits paid to the board of members and upper management during the year is NTL 1,172 (2004: NTL 887).

| Transactions with related parties : | 2005 | 2004 |
|---|---|---|
| Interest income on loans | 5,842 | 6,017 |
| Commission income | 1,291 | 1,508 |
| Rent expenses | (18) | (89) |
| Other administrative expenses | (83) | (54) |

## 25. COMMITMENTS AND CONTINGENCIES

| | 2005 | 2004 |
|---|---|---|
| Letters of guarantee | 78,702 | 49,897 |
| Letters of credit and other commitments | 16,079 | 24,246 |
| | 94,781 | 74,143 |

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2005 Assets | 2005 Liabilities | 2004 Assets | 2004 Liabilities |
|---|---|---|---|---|
| Forward transactions | - | - | 1 | - |
| Currency swaps | 6 | - | - | - |
| | 6 | - | 1 | - |

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

| | 2005 | 2004 |
|---|---|---|
| Forward foreign exchange contracts - buy | 2,701 | 130 |
| Forward foreign exchange contracts - sell | 2,722 | 129 |
| Swap foreign exchange contracts – buy | 5,445 | - |
| Swap foreign exchange contracts – sell | 5,415 | - |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 27. DIVIDENDS

During the year 2005, no dividend was paid to shareholders. (2004: None)

## 28. RISK MANAGEMENT

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. Risk management department exercises its functions according to the Internal Risk Management Policies of the Bank, and directly reports to Board of Directors.

### Liquidity risk

Liquidity risk is a substantial risk that is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

If any, in order to manage this risk, the Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments.

The Bank uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

### Liquidity risk (cont'd)

As at 31 December 2005 the estimated maturity analysis for certain assets and liabilities;
The maturity analysis for certain asset and liability items is estimated;

| | On Demand | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | Over 1 Year | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | |
| Cash and cash equivalents | 93 | - | - | - | - | - | - | 93 |
| Balance with the Central Bank | 51 | 161 | - | - | - | - | - | 212 |
| Balances with banks | 62 | 6,116 | - | - | - | - | - | 6,178 |
| Funds lent under securities resale agreements | - | - | - | - | 871 | - | - | 871 |
| Investments held for trading | - | - | - | 289 | 1,580 | - | - | 1,869 |
| Derivative financial assets | - | 6 | - | - | - | - | - | 6 |
| Reserve deposits at the Central Bank | - | 393 | - | - | - | - | - | 393 |
| Loans and advances (net) | - | 38,092 | 6,204 | 1,198 | 1,889 | 555 | 541 | 48,479 |
| Investment in associates | - | - | - | - | - | - | 4,376 | 4,376 |
| Premises and equipment (net) | - | - | - | - | - | - | 1,009 | 1,009 |
| Intangible assets (net) | - | - | - | - | - | - | 125 | 125 |
| Other assets | 315 | - | - | - | - | - | 251 | 566 |
| Deferred Tax Assets | - | - | - | - | - | - | - | - |
| Total | 521 | 44,768 | 6,204 | 1,487 | 4,340 | 555 | 6,302 | 64,177 |
| | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Obligations under repurchase agreements | - | 864 | - | - | - | - | - | 864 |
| Borrowings | - | 1,163 | 350 | 445 | 930 | 1,348 | - | 4,236 |
| Provisions | - | | - | - | - | - | 413 | 413 |
| Current tax liability | - | - | - | 602 | - | - | - | 602 |
| Sundry Creditors | - | 147 | 304 | 335 | 440 | - | - | 1,226 |
| Other liabilities | 789 | 430 | - | - | - | - | - | 1,219 |
| Share capital | - | - | - | - | - | - | 39,613 | 39,613 |
| Legal reserves | - | - | - | - | - | - | 1,610 | 1,610 |
| Retained earnings | - | - | - | - | - | - | 14,394 | 14,394 |
| Total | 789 | 2,604 | 654 | 1,382 | 1,370 | 1,348 | 56,030 | 64,177 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

### Liquidity risk (cont'd)

As at 31 December 2004 the estimated maturity analysis for certain assets and liabilities;
The maturity analysis for certain asset and liability items is estimated;

| | On Demand | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | Over 1 Year | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | |
| Cash and cash equivalents | 314 | - | - | - | - | - | - | 314 |
| Balance with the Central Bank | - | 311 | - | - | - | - | - | 311 |
| Balances with banks | 244 | 3,747 | - | - | - | - | - | 3,991 |
| Interbank Money Market Placements | - | 2,502 | - | - | - | - | - | 2,502 |
| Funds lent under securities resale agreements | - | - | - | - | 4,941 | 82 | - | 5,023 |
| Investments held for trading | - | - | - | - | 1,871 | 311 | - | 2,182 |
| Derivative financial assets | - | 1 | - | - | - | - | - | 1 |
| Reserve deposits at the Central Bank | - | 920 | - | - | - | - | - | 920 |
| Loans and advances (net) | - | 9,017 | 13,953 | 16,562 | 5,484 | 4,352 | - | 49,368 |
| Investment in associates | - | - | - | - | - | - | 4,358 | 4,358 |
| Premises and equipment (net) | - | - | - | - | - | - | 1,161 | 1,161 |
| Intangible assets (net) | - | - | - | - | - | - | 187 | 187 |
| Other assets | 640 | - | - | - | - | - | 363 | 1,003 |
| Deferred Tax Assets | - | - | - | - | - | - | - | - |
| Total | 1,198 | 16,498 | 13,953 | 16,562 | 12,296 | 4,745 | 6,069 | 71,321 |
| LIABILITIES | | | | | | | | |
| Obligations under repurchase agreements | - | 4,760 | - | - | - | - | - | 4,760 |
| Borrowings | - | 1,591 | 402 | 1,034 | 1,512 | 2,510 | - | 7,049 |
| Provisions | - | | - | - | - | - | 407 | 407 |
| Current tax liability | - | - | - | 1,299 | - | - | - | 1,299 |
| Sundry Creditors | - | 178 | 367 | 404 | 924 | 1,401 | - | 3,274 |
| Other liabilities | 3,716 | 802 | - | - | - | - | - | 4,518 |
| Share capital | - | - | - | - | - | - | 39,606 | 39,606 |
| Legal reserves | - | - | - | - | - | - | 1,610 | 1,610 |
| Retained earnings | - | - | - | - | - | - | 8,798 | 8,798 |
| Total | 3,716 | 7,331 | 769 | 2,737 | 2,436 | 3,911 | 50,421 | 71,321 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

### Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Bank places strong emphasis on obtaining sufficient collateral from borrowers.

The day-to day management of credit risk is devolved to individual business units, which perform regular appraisals of counterparty credit quantitative information.

The credit portfolio is monitored according to various criteria including and risk categories. The geographical concentration of asset liabilities and other credit related commitments are as follows:

| 31 December 2005 | Total Assets | % | Total Liabilities | % | Other Credit Related Commitments | % |
|---|---|---|---|---|---|---|
| Turkey | 63,712 | 99 | 59,717 | 93 | 74,165 | 78 |
| Euro Zone | 22 | - | 1,717 | 3 | - | - |
| USA and Canada | 420 | 1 | - | - | - | - |
| OECD Countries | 23 | - | 1,714 | 3 | - | - |
| Other | - | - | 1,029 | 1 | 20,616 | 22 |
| | 64,177 | 100 | 64,177 | 100 | 94,781 | 100 |

| 31 December 2004 | Total Assets | % | Total Liabilities | % | Other Credit Related Commitments | % |
|---|---|---|---|---|---|---|
| Turkey | 69,331 | 97 | 62,431 | 87 | 74,143 | 100 |
| Euro Zone | 133 | - | 8,980 | 13 | - | - |
| USA and Canada | 1,846 | 3 | - | - | - | - |
| OECD Countries | 11 | - | - | - | - | - |
| | 71,321 | 100 | 71,321 | 100 | 74,143 | 100 |

## 28. RISK MANAGEMENT (cont'd)

### Market risk

The Bank takes on exposure to market risks. Market risk arises from open positions in interest rate and currency, which are exposed to general and specific market movements. The interest rate and exchange rate risks of the financial positions taken by the Bank related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to Value at Risk (VAR) is taken into consideration by the standard method.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. The Bank aims to balance the foreign currency position, collateralize the loans and manage liquidity.

The Bank's management of its exposure to market risk is performed through the Asset and Liability Committee comprising members of senior management, and through limits on the positions which can be taken by the Bank's treasury and financial assets trading divisions.

### Interest Rate Risk

The Bank is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. The Bank funds its NTL assets through its shareholders' equity. (as of 31 December 2005, total shareholders' equity comprises of 87 % of the total assets) The Bank manages interest rate sensitivity of the assets, liabilities and off-balance sheet items. Progressive forecasting is determined with reports, interest rate fluctuations effect are identified with reports and analysis. The cash need in the terms is determined with Gap analysis

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

### Interest Rate Risk (cont'd)

The below table summarizes the Bank's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the reprising date:

31 December 2005:

| | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | Over 1 Year | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | 93 | 93 |
| Balance with the Central Bank | 161 | - | - | - | - | 51 | 212 |
| Balances with banks | 6,116 | - | - | - | - | 62 | 6,178 |
| Funds lent under securities resale agreements | - | - | - | 871 | - | - | 871 |
| Investments held for trading | - | - | 289 | 1,580 | - | - | 1,869 |
| Derivative financial assets | 6 | - | - | - | - | - | 6 |
| Reserve deposits at the Central Bank | 393 | - | - | - | - | - | 393 |
| Loans and Advances (net) | 38,076 | 6,204 | 1,198 | 1,889 | 555 | 557 | 48,479 |
| Investment in associates | - | - | - | - | - | 4,376 | 4,376 |
| Premises and equipment (net) | - | - | - | - | - | 1,009 | 1,009 |
| Intangible assets (net) | - | - | - | - | - | 125 | 125 |
| Other assets | - | - | - | - | - | 566 | 566 |
| Deferred Tax Assets | - | - | - | - | - | - | - |
| Total | 44,752 | 6,204 | 1,487 | 4,340 | 555 | 6,839 | 64,177 |
| LIABILITIES | | | | | | | |
| Obligations under repurchase agreements | 864 | - | - | - | - | - | 864 |
| Borrowings | 1,163 | 350 | 445 | 930 | 1,348 | - | 4,236 |
| Provisions | | - | - | - | - | 413 | 413 |
| Current tax liability | - | - | 602 | - | - | - | 602 |
| Sundry Creditors | 147 | 304 | 335 | 440 | - | - | 1,226 |
| Other liabilities | 36 | - | - | - | - | 1,183 | 1,219 |
| Share capital | - | - | - | - | - | 39,613 | 39,613 |
| Legal reserves | - | - | - | - | - | 1,610 | 1,610 |
| Retained earnings | - | - | - | - | - | 14,394 | 14,394 |
| Total | 2,210 | 654 | 1,382 | 1,370 | 1,348 | 57,213 | 64,177 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

### Interest Rate Risk (cont'd)

The below table summarizes the Bank's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the reprising date:

31 December 2004:

| | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | Over 1 Year | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and cash equivalents | - | - | - | - | - | 314 | 314 |
| Balance with the Central Bank | 311 | - | - | - | - | - | 311 |
| Balances with banks | 3,747 | - | - | - | - | 244 | 3,991 |
| Interbank Money Market Placements | 2,502 | - | - | - | - | - | 2,502 |
| Funds lent under securities resale agreements | - | - | - | 4,941 | 82 | - | 5,023 |
| Investments held for trading | - | - | - | 1,871 | 311 | - | 2,182 |
| Derivative financial assets | 1 | - | - | - | - | - | 1 |
| Reserve deposits at the Central Bank | 920 | - | - | - | - | - | 920 |
| Loans and advances (net) | 9,001 | 13,953 | 16,562 | 5,484 | 4,352 | 16 | 49,368 |
| Investment in associates | - | - | - | - | - | 4,358 | 4,358 |
| Premises and equipment (net) | - | - | - | - | - | 1,161 | 1,161 |
| Intangible assets (net) | - | - | - | - | - | 187 | 187 |
| Other assets | - | - | - | - | - | 1,003 | 1,003 |
| Deferred Tax Assets | - | - | - | - | - | - | - |
| Total | 16,482 | 13,953 | 16,562 | 12,296 | 4,745 | 7,283 | 71,321 |
| LIABILITIES | | | | | | | |
| Obligations under repurchase agreements | 4,760 | - | - | - | - | - | 4,760 |
| Borrowings | 1,591 | 402 | 1,034 | 1,512 | 2,510 | - | 7,049 |
| Provisions | | - | - | - | - | 407 | 407 |
| Current tax liability | - | - | 1,299 | - | - | - | 1,299 |
| Sundry Creditors | 178 | 367 | 404 | 924 | 1,401 | - | 3,274 |
| Other liabilities | 44 | - | - | - | - | 4,474 | 4,518 |
| Share capital | - | - | - | - | - | 39,606 | 39,606 |
| Legal reserves | - | - | - | - | - | 1,610 | 1,610 |
| Retained earnings | - | - | - | - | - | 8,798 | 8,798 |
| Total | 6,573 | 769 | 2,737 | 2,436 | 3,911 | 54,895 | 71,321 |

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

### Interest Rate Risk (cont'd)

As at 31 December 2005, a summary of average interest rates for different assets and liabilities are as follows:

| | Euro<br>% | US Dollar<br>% | CHF<br>% | NTL<br>% |
|---|---|---|---|---|
| Assets | | | | |
| Balances with banks | - | 4.20 | - | 14.73 |
| Funds lent under securities resale agreements | - | - | - | 14.19 |
| Investments held for trading | - | - | - | 14.13 |
| Loans and Advances (net) | - | 11.39 | - | 21.25 |
| Liabilities | | | | |
| Obligations under repurchase agreements | - | - | - | 8.27 |
| Borrowings | 4.05 | 5.75 | 3.74 | 13.95 |

### Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Bank is subject due to the exchange rate movements in the market.

The Bank's management of its exposure to foreign currency risk is performed through the Asset and Liability Committee comprising members of senior management, and through limits on the positions, which can be taken by the Bank's treasury, and financial assets trading divisions.

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

**Currency risk (cont'd)**

The below tables summarize the foreign currency position of the Bank as at 31 December 2005:

| | EURO | USD | Other Foreign Currencies | Total |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents & Central Bank | 5 | 194 | 22 | 221 |
| Balances with banks | 14 | 2,310 | 28 | 2,352 |
| Loans and advances (net) * | 1,735 | 425 | 1,724 | 3,884 |
| Reserve deposits | - | 393 | - | 393 |
| Other assets | - | 31 | - | 31 |
| Total Assets | 1,754 | 3,353 | 1,774 | 6,881 |
| Liabilities | | | | |
| Borrowings | (492) | (1,028) | (1,714) | (3,234) |
| Sundry Creditors | (1,226) | - | - | (1,226) |
| Other liabilities | (1) | (276) | (5) | (282) |
| Total Liabilities | (1,719) | (1,304) | (1,719) | (4,742) |
| Net Balance Sheet Position | 35 | 2,049 | 55 | 2,139 |
| Off Balance Sheet Position | | | | |
| Forwards and swaps to sell agreements | (2,722) | (5,415) | - | (8,137) |
| Forwards and swaps to buy agreements | 5,445 | 2,701 | - | 8,146 |
| Net Off Balance Sheet position | 2,723 | (2,714) | - | 9 |
| Net Position | 2,758 | (665) | 55 | 2,148 |

* USD column includes foreign currency indexed loans (NTL 425 Thousand)

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

**Currency risk (cont'd)**

The below tables summarize the foreign currency position of the Bank as at 31 December 2004:

| | EURO | USD | Other Foreign Currencies | Total |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents & Central Bank | 109 | 432 | - | 541 |
| Balances with banks | 85 | 1,845 | 60 | 1,990 |
| Loans and advances (net)* | 5,465 | 738 | 3,599 | 9,802 |
| Reserve deposits | - | 846 | - | 846 |
| Other assets | - | 32 | - | 32 |
| Total Assets | 5,659 | 3,893 | 3,659 | 13,211 |
| Liabilities | | | | |
| Borrowings | 2,138 | 1,343 | 3,568 | 7,049 |
| Sundry Creditors | 3,274 | - | - | 3,274 |
| Other liabilities | 172 | 2,706 | 108 | 2,986 |
| Total Liabilities | 5,584 | 4,049 | 3,676 | 13,309 |
| Net Balance Sheet Position | 75 | (156) | (17) | (98) |
| Off Balance Sheet Position | | | | |
| Forwards and swaps to sell agreements | - | (129) | - | (129) |
| Forwards and swaps to buy agreements | - | - | 130 | 130 |
| Net Off Balance Sheet Position | - | (129) | 130 | 1 |
| Net Position | 75 | (285) | 113 | (97) |

* USD column includes foreign currency indexed loans ( NTL 669 Thousand)

**Operational risk**

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

(Amounts expressed in New Turkish Lira (NTL '000') unless otherwise stated)

## 28. RISK MANAGEMENT (cont'd)

**Fair values of financial instruments**

As at 31 December 2005 and 31 December 2004, fair values of financial assets and liabilities are as follows:

| | 31 December 2005 | | 31 December 2004 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Balances with banks | 6,178 | 6,178 | 3,991 | 3,991 |
| Investments held for trading | 1,869 | 1,869 | 2,182 | 2,182 |
| Loans and advances | 48,479 | 48,479 | 49,368 | 49,368 |
| Financial assets | 56,526 | 56,526 | 55,541 | 55,541 |
| Borrowings | 4,236 | 4,236 | 7,049 | 7,049 |
| Financial liabilities | 4,236 | 4,236 | 7,049 | 7,049 |

## 29. APPROVAL OF FINANCIAL STATEMENTS

The statutory financial statements (Banking Regulation Supervision Agency (BRSA)) were approved by the Board of Directors and authorized for issue on 2 February 2006.