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A n n u a l R e p o r t 2 0 0 3

*Financial Highlights (*)*

TL Billion

	2003	2002
Paid in Capital	807,915	807,915
Valuation Reserves	11,635	8,202
Accumulated Loss	(594,882)	(612,162)
Net Income/Loss for the Year	47,801	17,280
Minority Interest	1,914	7,978
Total Liabilities	1,362,451	1,615,559
Loans and Financial Lease Receivables	971,212	1,050,830
Financial Investments	521,138	668,828
Equity Investments	75,075	66,615
Venture Capital	14,089	13,405
Other Participations	60,986	53,210
Fixed Assets	20,391	22,996
Other Assets	49,018	35,503
Gross Income	216,941	229,727
Interest Expenses	55,059	83,459
Administrative Expenses	24,069	25,019
Depreciation and Other Expenses	52,258	78,395
Provisions	37,754	25,574

(*) The totals for the years 2002 and 2003 are expressed in terms of TL purchasing power as of 31/12/2003.



TSKB, on the Verge of a New Era

TSKB, on the Verge of a New Era...

The first years of the new millennium have been a period where effects of globalization on the Turkish economy were witnessed, clues of macroeconomic stabilization appeared and efforts towards European Union membership were intensified. The new era, which is being witnessed, has critical importance in increasing the international competitiveness of the country, increasing exports of goods and services and filling the gaps in the field of technology. The process of change brings with itself the need to continuously improve and differentiate products and services and to lead new initiatives.

TSKB which in its 54 years of existence has provided services with value added to the national economy and accomplished to create an internationally accepted brand name, has undertaken a service oriented role through utilizing its superior human resources and technology capital.

On the verge of such an era and conscious of the duty falling upon itself TSKB, which is the most experienced investment and development bank in the country, is intensifying its activities with its deeply rooted past and its expert staff. The Bank aims to reach a larger number of entrepreneurs and investors directly or through cooperating banks and financial leasing companies with a wider palette of financial products and services. TSKB, with its well-rooted past and expert staff will continue to aim at the best.



*D*ear Shareholders,

Developments in the Turkish economy during 2003 reflected the positive impacts of the programme implemented after the crisis of February 2001. After growing by 7.8 percent in 2002 the Turkish economy continued to grow during 2003. Increases in exports and domestic demand have resulted in overall GNP growth of 5.9 percent during 2003. The private sector has been the source of the growth in the economy. During the period private sector consumer spending and investments increased in real terms while those of the state declined.

In 2003 the Central Bank continued to set its short-term interest rates, which were its primary policy instrument, by analyzing the possible future movements of variables that would affect inflation. The positive impact of an inflation-focused monetary policy and budgetary discipline on economic stability was seen very clearly in 2003. The pursuit of a monetary and incomes policy consistent with the target for inflation gave strong signals as regards the struggle against inflation, and this helped drive downwards overall expectations regarding inflation. The monetary and financial policies that were applied in parallel to the program targets reduced concerns about the sustainability of debt serving and risk premiums fell. In addition, financial and monetary discipline contributed to ensuring that domestic demand increased in a controlled manner and had a positive impact in terms of reducing the pressure of domestic demand on price increases.

Inflation continued to fall in 2003 and declined to below the program's targets. The absence of pressure from domestic demand on prices, positive developments in terms of the prices of foodstuffs and agricultural products and the appreciation of the Turkish Lira against foreign currencies were important factors in the decline in inflation. At the end of 2003 the 12-month inflation rates fell to 13.9 percent for wholesale inflation and 18.4 percent for consumer inflation.

Rises in production, consumer expenditure and fixed capital investment in 2003 meant that the growth in imports was greater than the increase in exports, which resulted in a widening of the foreign trade deficit compared with 2002. Turkey's imports rose by 33 percent in 2003 compared with the previous year to US\$ 68.7 billion, while imports of investment goods increased by 32.1 percent, those of semi-finished goods by 32.3 percent and those of consumer products by 50 percent. Turkey's exports grew by 30 percent over the same period to US\$ 46.9 billion.

There was a real increase in private sector investments in manufacturing industry during 2003 and the Bank provided support totaling TL 399.4 trillion to industry in the form of credits, financial leasing and participations.

With my respects,

Cahit Kocaömer
Chairman of the Board of Directors

Board of Directors



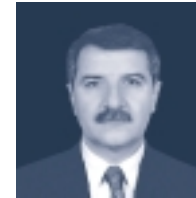
Cahit Kocaömer
Chairman



Murat Akpınar
Vice President



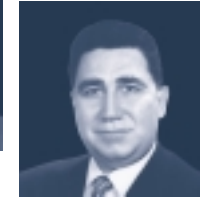
Nuri Kavaklıoğlu
Member



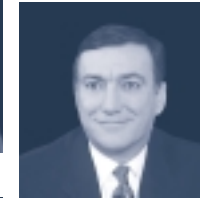
Ahmet Kaçar
Member



Turgay Atalay
Member



Halil Eroğlu
Member, CEO



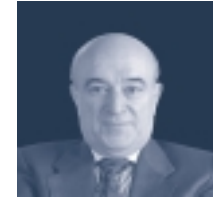
Sait Ergun Özen
Member



Onur Ökten
Member



İshak Şengül
Auditor



Erol Sabancı
Member



Yavuz Canevi
Member



Hasan Candan
Member



Ömer Karakuş
Auditor

*M*essage of the Chief Executive Officer



*D*ear Shareholders,

2003 was our fifty-fourth year of operations and witnessed positive developments in terms of both the country's economy and in the Bank. After the crises of 2000 and 2001, the economy began to grow in 2002 and this growth continued in 2003, while inflation was reduced in line with targets. At this favorable juncture the Bank increased its development and investment banking activities.

Ever since the date that it was founded, the Industrial Development Bank of Turkey (TSKB) has applied the principle of contributing to the development of the Turkish private sector, particularly industry, and it successfully continued this mission in 2003, realizing medium and long-term foreign currency credit and leasing utilization of US\$ 260 million during the year. In this way the Bank supported approximately half a billion US dollars worth of fixed capital investment that was being realized by the Turkish private sector. In 2003 TSKB continued its close relationships with international financial institutions such as the European Investment Bank, the World Bank, the Council of Europe Development Bank and KfW. TSKB will continue to utilize the funds that have been and will be secured from these institutions to provide financing to the Turkish private sector.

In 2003 the Bank took significant steps in its investment banking activities. Together with Ernst and Young it provided Pre-Privatization Consulting Services for Halk Bankası. In addition to this, it provided a large number of investment banking services on subjects such as restructuring of firms, which faced problems, company valuations and venture capital consulting.

The adoption and implementation of the Corporate Management Principles, which were published by the Capital Markets Board (CMB) in July 2003, are particularly important in terms of the quality and creditworthiness of companies, which are open to the public and are active in the financial sector. Our bank did not only adopt the above-mentioned principles but a large proportion of them have already been applied. As regards those exceptional cases which have not yet been put into practice and which, since there has been no clash of interest of any kind, have not to date needed to be implemented, work is continuing on administrative and organizational procedures and the company's founding charter to complete the harmonization process.

With the legislative amendment of 24 April 2003, investment and development banks, which do not accept deposits, have also been enabled to list special provisions that are set aside as an expense in their corporate tax assessments.

TSKB, which was established as a development bank and later also entered investment banking, will continue to support the Turkish private sector while continually developing itself.

With my respects,

Halil Eroğlu
President and Chief Executive Officer



Senior Management

TSKB

Şemseddin Arat
Executive Vice President

Yamaç Berki
Executive Vice President

Orhan Beşkök
Executive Vice President



Lale Gökman
Executive Vice President

Halil Eroğlu
President and Chief Executive Officer

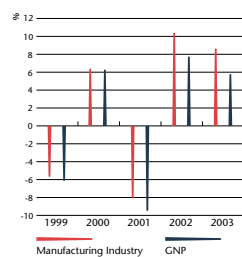
Ahmet Demirel
Senior Executive Vice President

Economic Indicators

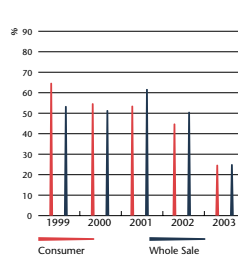
(Percentage Change over the Previous Year)

	1999	2000	2001	2002	2003
GNP (1987 purchasers' prices)	-6,1	6,3	-9,5	7,8	5,9
Manufacturing Industry (1987 purchasers' prices)	-5,7	6,4	-8,1	10,4	8,6
Wholesale Prices (annual average)	53,1	51,4	61,6	50,1	25,6
Consumer Prices (annual average)	64,9	54,9	54,4	45,0	25,3
Exports	-1,4	4,5	12,8	15,1	30,0
Imports	-11,4	34,0	-24,0	24,5	33,3

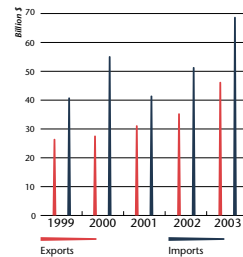
Growth Rates



Price Increases
(Annual Average)



Foreign Trade



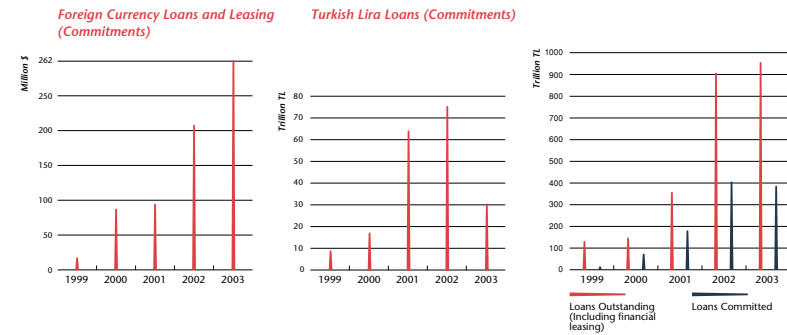
Activities of the Bank in 2003

Loans

After declining in 1999, private sector fixed investments grew by 16 percent in 2000. The unfavorable economic conditions of 2001 produced a fall of 35 percent in private sector fixed investments in the said year. In 2002 private sector fixed investments decreased considerably during the first quarter of the year before beginning to rise, albeit slowly, from the second quarter of the year. The increase in private sector fixed capital investments continued throughout 2003.

In 2003 TSKB continued to put at the service of industry the medium and long-term funds it had secured from international financial institutions. The Bank continued to utilize the Industrial Sector III and the Terra II and Industrial Pollution Abatement loans from the European Investment Bank. The utilization of Japan Bank for International Cooperation's Small and Medium-Sized Enterprises Credit, which had begun to be utilized in 2000, came to an end in the first half of the year.

In 2003 the Bank's medium to long-term foreign exchange contracts increased by 26 percent on a US dollar basis compared with 2002 to US\$ 262 million. Financial leasing accounted for US\$ 54.6 million of this total amount. The primary factors behind this increase were the positive investment environment and the availability of suitable resources.



2003 was a year in which there were positive results in the Turkish economy and an improvement in previously negative expectations. Within this framework, the capital markets rallied and the ISE-100 index, which is regarded as an important indicator, rose to 17,000 points. But as this development took place in stages over the year as a whole it did not create a suitable environment for public offerings and the rally on the market was limited to the companies on the ISE 30, while foreign investors remained reluctant to purchases of stocks in Turkey. As there was no market for public offerings in 2003, the Bank's investment banking revenues were in the form fees generated from the provision of a broad range of consultancy services.

TSKB's investment banking activities in 2003 can be divided into five main categories.

Within the framework of the **restructuring of companies**, which were in difficulties, TSKB provided consulting services to the Savings Deposit Insurance Fund (SDIF) and creditor banks on the financial restructuring of major industrial concerns and large groups in difficulties both within and outside the scope of the Istanbul Approach.

In terms of **company valuation** activities, the Bank conducted studies for a large number of firms in various sectors on issues such as feasibility studies, company mergers or transfers of shares between shareholders.

In the field of **privatization consulting**, TSKB's accumulated expertise, which began with its Privatization Master Plan, was used during consulting services provided to Halk Bankası, an important state-owned bank, in preparation for its privatization and the evaluation of the Kütahya Gübre company.

In **venture capital consultancy**, TSKB provided know-how support to companies, which wished to be active in an entrepreneurial status in the capital markets, but did not possess the technical infrastructure. In this regard, it began a long-term project to provide, within the framework of CMB regulations, long-term services on issues such as converting enterprise capital into investment partnerships and portfolio management to KOBİ Yatırımlarına Ortaklık A.Ş., which was established by the Turkish Union of Chambers (TOBB), Halkbank and KOSGEB.

On subjects such as an **asset management company and the valuation of overdue receivables**, areas which require considerable expertise, TSKB provided valuation and strategic consulting services to a foreign financial company participating in the tender for the 'sale of SDIF's problem receivables'. In this regard, its performance was part of a long-term projection, which included the establishment of the necessary strong infrastructure for the possible founding of an asset company.

The Turkish Treasury entered 2003 with a domestic debt stock of US\$ 91.7 billion and a consolidated budgetary debt stock of US\$ 56.8 billion, and at the end of November these figures had risen to US\$ 125.8 billion and US\$ 61.6 billion respectively. When one looks at the year as a whole, it was one in which there was considerable liquidity in the market in terms of both Turkish Lira and foreign exchange and the Treasury successfully realized both domestic and foreign borrowing. The excess liquidity on the market varied between TL 5 quadrillion and TL 14 quadrillion during 2003 and stood at TL 8.3 quadrillion at the end of the year. The Central Bank bought US\$ 9.9 billion of the excessive supply of foreign exchange. In addition to the additional US\$ 1 billion as a result of the second review completed with the IMF, a total of US\$ 5.3 billion was borrowed from the international markets through the launch of Eurobonds at terms of 5 and 10 years. The Treasury succeeded in securing a considerable improvement in terms of the costs of its borrowing from abroad and the yield on the benchmark 10 year bond fell from 11 percent at the beginning of the year to 7 percent by year end.

In 2003, signs that the government's relations with the IMF would continue created a confident atmosphere on the markets but this was shaken by the parliament's decision not to pass the motion to send troops to Iraq. As a consequence of the motion not getting the required majority an increase in compound interest rates was observed and the cost of the Treasury's TL borrowing climbed to 75 percent, while the US dollar exchange rate rose to TL 1,765,000. With the contributions of the decisiveness with which the IMF programme continued to be applied, the rapprochement in relations with the USA and the signing on 22 September of a US\$ 8.5 billion loan agreement both interest rates and the exchange rate fell and finished the year at 26 percent and TL 1,400,000 respectively.

The Turkish Central Bank's basic target is price stability and it pursued monetary policies to this end through 2003; and the fact that inflation was less than its 20 percent year-end target increased market confidence. Throughout 2003 the Central Bank reduced its short-term interest rates six times by three percentage points each time, cutting the overnight rate from 44 percent to 26 percent.

TSKB's Treasury Department played an active role in the very lively domestic and international markets, realizing a total turnover of US\$ 16 billion and the positions that it took made a major contribution to the Bank's profitability. It both increased portfolio returns and secured capital gains revenue, particularly through its portfolio management of Turkish Lira and foreign exchange securities and the acquisition of securities before the fall in interest rates.

I n f o r m a t i o n T e c h n o l o g y

TSKB sees the possibilities brought by information and communications technology as indispensable factors in terms of both the efficiency of the company's internal processes and operations and the variety and quality of services offered to the customer. Ever since its establishment the Bank has been one of the firsts to offer the latest banking technology to its customers.

It is TSKB's difference in the approach to information and communications technology that distinguishes it from those companies, which perceive technology merely as a support function to increase the productivity of operational processes. At TSKB, information technology is seen as a driving force, which shapes the business processes and customer relations and facilitates product variety, competitive advantage and management decision-making.

Secure and flexible infrastructure: TSKB's information technology infrastructure provides the Bank with the opportunity to perform all of its activities without interruption while ensuring a high level of customer satisfaction. With its powerful hardware and network infrastructure and the applications developed entirely by its own 25 member expert information technology team, TSKB is able to provide its customers and staff with one of the newest and most reliable technological environments.

7 x 24 Banking: In 2003, with the renewal of its Internet website and "on-line branch", the Bank introduced an advanced 7 x 24 distribution channel. Many special products and new functions – which are only available to TSKB customers – are offered in a secure, easy-to-use environment.

Operational efficiency and service quality: During the year important steps were taken to improve the efficiency of business operations through the introduction of new generation banking applications. By using new core banking applications and electronic workflow systems, TSKB experts have been able to reach levels of productivity above the sectoral average. The customer relationship management (CRM) applications, which have been developed, will facilitate the better analysis of the Bank's growing customer portfolio and the more rapid provision of services and products, which will increase customer satisfaction.

Decision support systems: TSKB's top-level management use risk management, decision support and financial information systems, which enable continuous monitoring and analysis of markets, economic conditions that affect the banking sector and all critical performance indicators. The TSKB Information Technology Department provides technologies and tools, which facilitate proactive management and control of the Bank's operations without any critical deviations from business targets.

IT Consultancy services: TSKB has continued to convert its experience in information technology and the financial markets into consulting services. In 2003, the TSKB IT Consulting Unit conducted a broad appraisal of Türkiye Halk Bankası A.Ş. which included an examination of issues such as the Bank's overall technology position, ICT infrastructure, IT organization, strategy and project management.

TSKB

Y e a r 2 0 0 3 *I n d e p e n d e n t A u d i t o r ' s R e p o r t* *F i n a n c i a l S t a t e m e n t s*



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TÜRKİYE SINAI KALKINMA BANKASI A.Ş.

To the Board of Directors
İstanbul

OPINION OF INDEPENDENT AUDITORS

1. We have audited the accompanying consolidated balance sheet of Türkiye Sınai Kalkınma Bankası (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira at 31 December 2003. These financial statements are the responsibility of the Group's management. The financial statements of the Group for the year ended 31 December 2002 were audited by other auditors whose report, dated 18 March 2003, expressed an unqualified opinion. The other auditors' report has been furnished to us, and our report, insofar as it relates to the opening balances for the current year is based solely on the report of such other auditors.
2. We conducted our audit in accordance with International 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. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2003, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards.

Denetim Serbest Mali Müşavirlik A.Ş.

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.

Member firm of DELOITTE TOUCHE TOHMATSU

İstanbul, 9 April 2004

ASSETS

		31 December 2003	As Restated 31 December 2002
	Note	TL Billion	TL Billion
Liquid assets	4	118	150
Balances with the Central Bank	5	1,487	1,286
Balances with banks	6	31,463	164,374
Interbank money market placements	5	-	513
Financial assets held for trading	7	5,900	9,098
Financial assets available for sale (net)	7	461,662	467,410
Financial assets held to maturity	7	21,548	28,181
Originated loans and securities (net)	8	1,004,431	1,104,460
Investments in associated companies	9	40,816	10,801
Property, plant and equipment, net	10	20,391	22,996
Deferred tax asset (net)	15	3,888	13,204
Other assets	11	44,710	22,299
Goodwill (net)		420	-
Total assets		1,636,834	1,844,772

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

LIABILITIES

		31 December 2003	As Restated 31 December 2002
	Note	TL Billion	TL Billion
Due to customers- securities sold under repurchase agreements	12	10,048	41,634
Financial liabilities held for trading	4		205
Interbank money market borrowings		10,547	28,519
Borrowings	13	1,280,354	1,459,245
Securities issued	14	1	28,539
Corporate tax payable	15	248	11,755
Other liabilities	16	51,687	42,093
Provisions	17	9,562	3,569
Total liabilities		1,362,451	1,615,559
Minority interest		1,914	7,978
Shareholders' equity			
Issued capital	18	807,915	807,915
Valuation reserve		11,635	8,202
Retained earnings / (accumulated losses)		(547,081)	(594,882)
Total shareholders' equity		272,469	221,235
Total liabilities and shareholders' equity		1,636,834	1,844,772
Commitments and contingent liabilities	23	-	-

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

Türkiye Sınai Kalkınma Bankası A.Ş.

Consolidated statements of income for the years ended 31 December 2003 and 2002

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2003 (note 2))

		1 January- 31 December 2003 TL Billion	As Restated 1 January- 31 December 2002 TL Billion
	Note		
Interest and similar income		104,776	183,695
Interest expense and similar charges		(55,059)	(83,459)
Net interest income	19	49,717	100,236
Fee and commission income		23,733	22,808
Fee and commission expense		(3,672)	(2,048)
Net fee and commission income	20	20,061	20,760
Dividend income		3,183	2,318
Net trading income		63,238	10,790
Foreign exchange gain (net)		16,566	-
Other operating income		5,445	7,498
Operating income		158,210	141,602
Salaries and employee benefits		(24,069)	(25,019)
Depreciation and amortization		(2,376)	(2,397)
Provision for loans	8	(37,754)	(25,574)
Foreign exchange loss (net)		-	(6,256)
Other operating expenses		(19,579)	(27,579)
Operating expenses		(83,778)	(86,825)
Income / (loss) from associates		(4,165)	1,460
Income before tax and loss on net monetary position		70,267	56,237
Loss on net monetary position		(14,222)	(27,557)
Income before tax		56,045	28,680
Income taxes	15	(8,221)	(12,558)
Income after tax		47,824	16,122
Minority interest		(23)	1,158
Net income for the year		47,801	17,280
Earnings per share (in full TL)		579	209
Average number of shares outstanding		82,506,451,507	82,506,451,507

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

Türkiye Sınai Kalkınma Bankası A.Ş.

Consolidated statements of changes in shareholders' equity for the years ended 31 December 2003 and 2002

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2003 (note 2))



	Issued capital TL Billion	Additional paid in capital TL Billion	Valuation reserves TL Billion	Retained earnings / (accumulated losses) and legal reserves TL Billion	Total TL Billion
Balance at 31 December 2002, as previously reported	807,915	-	-	(586,680)	221,235
As Restated:					
Balance at 1 January 2002	780,533	66,812	-	(644,755)	202,590
The effect of changes in inflation indices	(60,530)	-	-	53,693	(6,837)
Increase in issued capital:					
- Transfer from additional paid-in capital	66,812	(66,812)	-	-	-
- Transfer from statutory retained earnings	21,100	-	-	(21,100)	-
The effect of change in valuation of available for sale securities	-	-	8,202	-	8,202
Net income for the period	-	-	-	17,280	17,280
Balance at 31 December 2002, as restated	807,915	-	8,202	(594,882)	221,235
Change in valuation reserves	-	-	3,433	-	3,433
Net income for the year	-	-	-	47,801	47,801
Balance at 31 December 2003	807,915	-	11,635	(547,081)	272,469

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

	31 December 2003	As Restated 31 December 2002
	TL Billion	TL Billion
Operating Activities:		
Net income for the year	47,801	17,280
Adjustments for Non-Cash Items:		
Depreciation and amortization	2,302	2,397
Amortization of goodwill	74	-
Provision for loans	79,042	25,574
Change in fair value of financial instruments	-	(5,335)
Changes in provisions	48	16,085
Gain (loss) on the sale of property and equipment	-	5,939
Other non-cash items	-	1,001
(Income) / loss from associates	4,165	(1,460)
Minority interest	(6,064)	(1,158)
Changes in Operating Assets and Liabilities:		
Financial instruments held for trading	2,997	3,065
Originated loans and securities	20,987	(49,112)
Other operating assets	(714)	(6,875)
Due to customers	(31,586)	22,944
Securities issued	(28,538)	(55,086)
Interbank money market borrowings	(17,972)	(91,345)
Other operating liabilities	4,032	12,708
Cash flows from operating activities	76,574	(103,378)
Investing Activities:		
(Increase) in investments	(30,747)	(126,824)
Goodwill	(494)	-
Acquisition/(sale) of property and equipment (net)	303	26,518
Cash flows from investing activities	(30,938)	(100,306)
Financing Activities:		
Proceeds from borrowings	190,967	513,546
Repayment of borrowings	(369,858)	(251,460)
Cash flows from financing activities	(178,891)	262,086
Net decrease in cash and cash equivalents	(133,255)	58,402
Cash and cash equivalents at 1 January	166,323	107,921
Cash and cash equivalents at 31 December	33,068	166,323

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

1. ACTIVITIES OF THE GROUP

Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB" or the "Bank") was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital market in Turkey. TSKB and Sınai Yatırım Bankası A.Ş. (SYB) –sister bank with similar mission- were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (BRSA) decision no.659 dated 27 March 2002, in accordance with the first paragraph of the Article 18 of the Banks Act no: 4389.

Ever since its foundation in 1950, TSKB has played an active role in every stage of Turkey's economic development. The Bank -through its support and extension of medium - term loans for more than 3500 investment projects - has contributed significantly to the progress and development of the private sector. Over the past 35 years, the Bank provided financing by way of participating in the share capital of more than 100 companies. Further, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets.

The main shareholders of TSKB are T. İş Bankası Group, Sabancı Group and T. Vakıflar Bankası T.A.O. with the percentages of 55.30%, 9.66% and 8.38%, respectively.

The Bank holds direct and indirect shareholdings in Yatırım Finansman Menkul Değerler A.Ş. and TSKB Menkul Değerler A.Ş. As discussed in greater detail in notes 2 and 3.2, the financial statements of these subsidiaries have been consolidated. Yatırım Finansman Menkul Değerler A.Ş. and TSKB Menkul Değerler A.Ş. were incorporated in Turkey in 1976 and in 1997, respectively. The main operation of Yatırım Finansman Menkul Değerler A.Ş. and TSKB Menkul Değerler A.Ş. is to provide stock broking services in capital markets.

2. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") (formerly referred to as International Accounting Standards, "IAS").

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Banking Law, commercial practice and tax regulations. The consolidated subsidiaries maintain their books of account and prepare their financial statements in Turkish Lira, in accordance with current tax legislation, rules and regulations promulgated by the Turkish Capital Market Board. The accompanying financial statements are based on the statutory records with adjustments and reclassifications for the purposes of fair presentation in accordance with International Financial Reporting Standards. The principal accounting policies adopted in the preparation of the accompanying consolidated financial statements are set out below:

Inflation Accounting

In the accompanying consolidated financial statements, restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, as at the balance sheet date, in accordance with International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

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 181% for the three years ended 31 December 2003, based on the wholesale price index announced by the Turkish State Institute of Statistics. IAS 29 requires that financial statements be stated in terms of the measuring unit current at the balance sheet date and corresponding figures for previous periods be restated in the same terms by applying a general price index. Inflation adjustments are calculated by using the wholesale price index announced by the BRSA, based on the State Institute of Statistics Index.

The index and corresponding conversion factors for recent year ends to reach balance sheet date money values are as follows:

	<u>Index</u>	<u>Conversion Factor</u>
31 December 2000	2,626.0	2.8111
31 December 2001	4,951.7	1.4908
31 December 2002	6,478.8	1.1394
31 December 2003	7,382.1	1.0000

The comparative rates of currency devaluation of the Turkish Lira against the US Dollar, compared with the rates of general price inflation in Turkey at each year-end according to the WPI are set out below:

<u>Year:</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Currency devaluation US \$	(14.6)%	13.5%	114.3%	24.4%
WPI Inflation	13.9%	30.8%	88.6%	32.7%

The principal adjustments related with inflation accounting are as follows:

- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary 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 and the components of shareholders' equity are restated by applying, to the initial acquisition cost and any accumulated depreciation, the relevant conversion factors reflecting the increase in the WPI from the date of acquisition or initial recording to the balance sheet date. Revaluations made on any other basis in the statutory records are eliminated.
- All items in the statements of income are restated by applying the relevant conversion factors.
- The effect of general inflation on the Group's net monetary position is included in the statements of income as gain or loss on net monetary position.

Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries).

The financial statements of the entities below prepared as at 31 December 2003, have been consolidated with those of the Bank in the accompanying financial statements. The method of consolidation is set out in note 3.2. The ownership percentages stated below comprise the total of the Bank's direct and indirect holdings:

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Ownership (%)</u>
TSKB Menkul Değerler A.Ş.	Financial	92.40
Yatırım Finansman Menkul Değerler A.Ş.	Financial	90.24

The following equity investments have been accounted for under the equity method:

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Ownership (%)</u>
İş Finansal Kiralama A.Ş.	Financial	30.00
TSKB Yatırım Ortaklığı A.Ş.	Financial	44.03
Yatırım Finansman Yatırım Ortaklığı A.Ş.	Financial	29.21
İş Risk Sermayesi Yatırım Ortaklığı A.Ş.	Financial	23.82
İş Factoring Finansman Hizmetleri A.Ş.	Financial	21.75

The following equity investments have not been consolidated or accounted for under equity method, but included in available for sale assets, since their financial statements have no material effect on the Group's financial statements.

<u>Entity</u>	<u>Sector</u>	<u>The Bank's Ownership%</u>
TSKB Gayrimenkul Değerleme A.Ş.	Real-Estate Appraisers	80.00
Gözlük Sanayi A.Ş.	Manufacturing	21.71

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the accompanying consolidated financial statements are as follows:

3.1 Accounting Convention

The accompanying consolidated financial statements have been prepared in accordance with IFRS. 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 consolidated subsidiaries, maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

3.2 Consolidation

The consolidation includes the companies set out in note 2. The consolidated financial statements incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries).

Entities in which the Bank, directly or indirectly, has above 50% shareholding or above 50% interest in the voting rights or otherwise has power to exercise control over operations, have been fully consolidated. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. In cases where the consolidated entities are not 100% owned, the shareholders' equity and net income, which belongs to third party shareholders, are separately disclosed as minority interest. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Bank. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between consolidated entities have been eliminated from the accompanying financial statements.

3.3 Investments in Associates

As at the balance sheet date, the Group has investments in associates with a position to exercise significant influence as set out in note 2, through participation in the financial and operating policy decisions of the investee. Such investments have been accounted for under equity method in the accompanying consolidated financial statements.

3.4 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis following the assessment of its useful life (5 years).

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate and is presented separately in the balance sheet.

3.5 Income and Expense Recognition

Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered and dividends from equity participations, which are recognized as income when received. Income and expenses are recognized in accordance with International Accounting Standard No.39 "Recognition and Measurement" ("IAS 39") at fair value or amortized cost basis. For the purposes of convenience, certain income and expenses are recognized on a straight-line basis where that does not materially differ from fair value or the amortized cost method. All income and expense items are restated in equivalent purchasing power at the balance sheet date.

Exchange gains arising from revaluation of Turkish Lira loans, which are indexed to foreign currencies, are included as interest income.

3.6 Foreign Currency Items

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. All exchange gains and losses arising on settlement and translation of foreign currency items are included in the statement of income.

Assets and liabilities denominated in foreign currencies are translated at the Bank's internal year-end exchange rate.

As at 31 December 2003 foreign currency assets and liabilities of the Bank are mainly in US Dollars, Euro and Yen. As at 31 December 2003 and 31 December 2002 the exchange rates of US Dollar, Euro and Yen are as follows:

	<u>31 December 2003</u>	<u>31 December 2002</u>
1 US Dollar	1,398,000	1,631,000
1 EURO	1,757,286	1,707,005
1 JPY	13,080	13,745

Average rates are as follows:

	<u>31 December 2003</u>	<u>31 December 2002</u>
1 US Dollar	1,499,118	1,585,045
1 EURO	1,692,115	1,616,039
1 JPY	12,937	13,009

3.7 Financial Assets

The Group's financial assets primarily represent government bonds and 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. The cost of foreign currency denominated securities is translated at period end exchange rates.

Financial assets are impaired if their carrying amounts are greater than their estimated recoverable amounts. The Group assesses at each balance sheet date whether there is any objective evidence that they may be impaired. If any such evidence exists, the Group estimates the recoverable amount of that asset or group of assets and recognizes impairment losses in net profit or loss for the period.

Interest earned for holding securities are included in interest income. All gains or losses on sale of trading securities, and on investment securities if such transactions occur, are accounted for in the statement of income for the period.

The Group designates its financial assets in accordance with IAS 39 as follows:

Financial assets held for trading:

Financial assets held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their price or dealer's margin. Subsequent to initial recognition, held for trading financial assets are valued at their fair value if reliably measured. Gains or losses on held for trading financial assets are included in net profit or loss for the period in which they arise.

Investment fund share certificates are stated at market value. Quoted shares are carried at market value.

Financial assets held to maturity:

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Held to maturity financial assets having a fixed maturity are measured at amortized cost using the effective interest rate method.

Financial assets available for sale:

Available-for-sale financial assets are those that are not (a) held-to-maturity financial assets, or (b) financial assets held for trading. Subsequent to acquisition, available for sale financial assets are valued at their fair value if reliably measurable. Otherwise, they are accounted for at amortized cost.

Investments in equity instruments 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. Financial assets that do not have a fixed maturity are measured at cost.

3.8 Loan Loss Provisions

Loans are financial instruments originated by the Group and accounted for at amortized cost in accordance with IAS 39. Based on its evaluation of the current status of the loans granted, the Group makes specific loan loss provisions, which it considers are adequate to cover estimated un-collectible 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 overdue or not adequately collateralized, or where management believes the borrower has lost creditworthiness, into overdue loans. The Group 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.

3.9 Property, Plant and Equipment

Property, plant and equipment are carried at restated cost less restated depreciation at the equivalent purchasing power as at the reporting date. Property, plant and equipment are depreciated on a straight-line basis using rates, which write off the assets over their expected useful lives. The main depreciation rates used are:

Buildings	2%
Vehicles	20%
Furniture and fittings	20%
Computer equipment and software	20%
Leasehold and leasehold improvements	lease term or 20%

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

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

Entities of the Group revalue their property, plant and equipment (including the related depreciation) in their legal books of account, in accordance with the rates and procedures published by the Ministry of Finance. The surplus on revaluation is credited to a revaluation reserve, which may be subsequently incorporated as share capital. The revaluation is not taxable and depreciation, which is charged on the revalued amount, is deductible for tax purposes. Buildings are depreciated over their acquisition cost. Land and fixed assets taken over in settlement of loans are neither depreciated nor revalued. Coefficients for revaluation in recent years are as follows: 31 December 2003: 28.5%, 31 December 2002: 59%, 31 December 2001: 53.2%.

Revaluation surpluses arising from the revaluation of premises and equipment in the statutory records as allowed by the prevailing taxation legislation in Turkey are eliminated in the accompanying financial statements.

The Group regularly reviews its premises and equipment for impairment.

3.10 Finance and Operating Leases

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

The Group as Lessor

Amounts due from lessees under finance leases in the accounts of the lessor are recorded as receivables at the amount of the Group's net investment in the leases. Lease rentals are allocated between principal payment and interest income. Finance lease interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Assets leased under operating leases are included in premises and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as Lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leases of assets under which the lessor effectively retains all risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of lease.

3.11 Equity Participations

In the statutory books of account the Group values its equity participations at cost plus the nominal value of bonus shares received from investee companies converting their Revaluation Reserves to Share Capital. Revaluation surpluses arising from the nominal value of shares received in the statutory records are eliminated in the accompanying financial statements.

Equity investments are accounted for as financial assets available for sale, in accordance with IAS 39, using the policy set out in note 3.7 above. In cases where there is evidence of permanent impairment in value, recorded amounts are reduced by a provision for such impairment, charged to the statement of income.

3.12 Impairment

At each balance sheet date, the Group 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 (i) the sales price of the asset (less any selling costs); (ii) the present value of the cash flows which are expected to arise from future use of 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. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Management of the Group believes that there is no indication of internal or external factors implying any impairment of assets.

3.13 Retirement Pay

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 (revised) "Employee Benefits" ("IAS 19") has been applied in the accompanying financial statements. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit.

3.14 Related Parties

For the purpose of the accompanying financial statements shareholders of the Bank and related companies, consolidated and unconsolidated equity investments and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report.

During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year. Certain significant balances and transactions with Related Parties as at the balance sheet date are set out in note 21.

3.15 Taxation and Deferred Taxes

Provision is made in the accompanying financial statements for the estimated liability of the Group and its equity participations for local taxes on the results for the period by using tax rates that have been enacted or substantively enacted by the balance sheet date. The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Temporary differences arise in respect of retirement pay provisions, the difference between the book value of tangible fixed assets and the carrying value in the accompanying financial statements (which is based on indexed cost) and various other provisions not taxable or tax-deductible until the following year or years.

In principle, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the 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.

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

Deferred tax assets and liabilities are offset 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.

3.16 Securities Under Resale or Repurchase Transactions

Purchases or sales of securities under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of securities under the agreements of repurchase ("Repos") are retained in the balance sheet under financial assets and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as held for trading, held to maturity or available for sale, and interest expense accrued over the period to maturity. Purchases of securities under agreements of resale ("reverse repos") are included in securities portfolio and interest income on such transactions is accrued over the period to maturity.

3.17 Cash and Cash Equivalent Items

Cash and cash equivalent items seen in the statement of cash flows consist of cash, Central Bank accounts, bank balances and interbank funds sold.

3.18 Use of Estimates

The preparation of financial statements in conformity with IFRS 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.

3.19 Fair Values of Financial Instruments

The term financial instruments include both financial assets and financial liabilities, and also derivatives. Financial instruments are fundamental to the Group'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 Group. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Group's balance sheet. The Group trades in financial instruments for customer facilitation and as principal.

The Group accounts for financial instruments on a trade date basis. After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, except for loans and receivables originated by the enterprise and not held for trading, held-to-maturity investments and any financial asset that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. Those financial assets that are excluded from fair valuation and that have a fixed maturity are measured at amortized cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are reviewed periodically for impairment.

Various financial instruments are accounted for at fair value, as described above and in the related accounting policies notes. Other financial instruments are accounted for amortized cost but disclosure is required of fair value for comparison purposes wherever practicable. 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.

Current economic conditions have led not only to volatility in Turkish markets, but also to low trading volumes in many markets. Consequently the Group is unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets, and calculation of present values on an internal rate of return basis. Where no reliable estimate of fair value is available, amortized cost is used as the carrying value. As there is a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

Gains or losses on financial assets or liabilities held for trading are included in net profit or loss for the period in which they arise. For those financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in net profit or loss when the financial asset or liability is derecognized or impaired, as well as through the amortization process.

As discussed below, 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.

Financial assets: 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.

Originated loans: The major portion of the originated loans 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.

Securities under resale and repurchase agreements: The carrying amount is a reasonable estimate of fair value.

The fair values of balances denominated in foreign currencies, which are translated at period end exchange rates along with related accrued interest, are estimated to be their fair values.

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

The Group's off balance sheet financial instruments also include swaps as at the balance sheet date. All unrealized gains and losses on these instruments are included in the statement of income. Unrealized gains and losses on these instruments are not deductible for tax purposes. The fair values of off balance sheet derivative instruments are estimated based on the available quoted market rates prevailing at the reporting date.

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

	31 December 2003	
	Carrying Value	Fair Value
	TL Billion	TL Billion
Balances with banks	31,463	31,463
Interbank money market placements	-	-
Financial assets available for sale	461,662	461,662
Financial assets held to maturity	21,548	21,567
Originated loans and securities	1,004,431	1,004,483
Financial assets	1,519,104	1,519,175
Financial liabilities held for trading	4	4
Interbank money market borrowings	10,547	10,547
Securities issued	1	1
Borrowings	1,280,354	1,280,354
Financial liabilities	1,290,906	1,290,906

3.20 Risk Management

Risk Management has been a vital process for banks in Turkey due to the volatility of the economic variables and conditions. The Banking Regulation and Supervision Agency ("BRSA") has issued a decree on Risk Management on 8 February 2001 and TSKB has adopted the BRSA standard and restructured its Risk Management operations based on this decree.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The Bank has an Executive Risk Committee that consists of four risk committee departments, which are the Bank Committee, Credit Committee, Market Committee and Operational Committee. These departments report to the Executive Risk Committee. The Board of Directors and Executive Risk Committee together execute the risk control operations and implement the strategies which are defined.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet financial commitments arising from the cash flows generated by its business activities. This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities, and off-balance sheet instruments.

The strategy of the Group is to raise funding as cost effectively as possible while ensuring that no significant unintended mismatches arise between loans and deposits. Close control is exercised over both volume and quality of short-term credits, with the sources and maturities being managed to avoid a concentration of funding requirements. A major advantage of the Group in avoiding liquidity risk is the diverse funding sources including long-term borrowings from various financial institutions, issued securities, government loans provided and share capital. In order to manage this risk, the Group continually measures and manages its cash flow commitments on a daily basis and monitors the daily changes.

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

As at 31 December 2003 the estimated maturity analysis for certain assets and liabilities is as follows:

TL Billion

	On demand	Less than one month	Between one month and three months	Between three and twelve months	More than one year	Total
31 December 2003						
Assets						
Cash, balances with Central Bank	1,605	-	-	-	-	1,605
Balances with banks	31,463	-	-	-	-	31,463
Financial assets held for trading	432	127	1,491	2,167	1,683	5,900
Financial assets available for sale	-	10,723	55,567	166,712	228,660	461,662
Financial assets held to maturity	-	-	-	122	21,426	21,548
Originated loans and securities	-	3,280	35,955	125,163	840,033	1,004,431
	<u>33,500</u>	<u>14,130</u>	<u>93,013</u>	<u>294,164</u>	<u>1,090,802</u>	<u>1,526,609</u>
Liabilities						
Due to customers	-	10,048	-	-	-	10,048
Financial liabilities held for trading	-	4	-	-	-	4
Interbank money market borrowings	-	10,547	-	-	-	10,547
Borrowings	-	82,268	70,199	132,244	995,643	1,280,354
Securities issued	-	1	-	-	-	1
	<u>-</u>	<u>102,868</u>	<u>70,199</u>	<u>132,244</u>	<u>995,643</u>	<u>1,300,954</u>

TL Billion

	On demand	Less than one month	Between one month and three months	Between three and twelve months	More than one year	Total
31 December 2002						
Assets						
Cash, balances with Central Bank	-	1,436	-	-	-	1,436
Balances with banks	22	164,352	-	-	-	164,374
Financial assets held for trading	-	4,251	143	2,437	2,267	9,098
Financial assets available for sale and financial assets held to maturity	30	3,487	14,085	291,631	186,358	495,591
Originated loans and securities	95,269	22,835	46,128	208,383	731,845	1,104,460
	<u>95,321</u>	<u>196,361</u>	<u>60,356</u>	<u>502,451</u>	<u>920,470</u>	<u>1,774,959</u>
Liabilities						
Due to customers	-	41,634	-	-	-	41,634
Financial liabilities held for trading	-	205	-	-	-	205
Interbank money market borrowings	33	28,486	-	-	-	28,519
Borrowings	20,758	130,439	67,605	327,290	913,153	1,459,245
Securities issued	-	-	-	28,539	-	28,539
	<u>20,791</u>	<u>200,764</u>	<u>67,605</u>	<u>355,829</u>	<u>913,153</u>	<u>1,558,142</u>

Credit risk

Credit risk arises where the possibility exists of a counter party defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. Funds, which are usually long-term, are obtained through institutions such as the World Bank, European Investment Bank, etc. After the evaluation of the credit risk by various analysts, 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 including, wherever possible, mortgages or security over other assets. The credit portfolio is monitored according to the overall composition and quality of the credit portfolio considering factors such as loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally. The Bank has also an internal credit risk rating system in managing credit risk.

Market risk

Market risk is the risk to a financial institution's condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, or equity prices. The primary risks within the Group's activities are interest rate and foreign exchange rate risk. Turkish interest rates can be volatile. The Group's management of its exposure to market risk is performed through the Market Risk Committee, comprising members of senior management, and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions. The Bank benefits from Value-at-Risk (VaR) methods, stress testing and other non – statistical methods for measuring market risk. While the delta-gamma method is used in order to calculate VaR for the domestic fixed income securities portfolio, a variance-covariance model is used for overall foreign exchange risk. VaR calculations are made by choosing the 90%, 95% and 99% confidence intervals, 1 day / 10 day holding periods. Also back testing is applied to these measurements. The Bank also measures capital adequacy ratio by using the standardised methodology as stated in the regulatory requirements.

Interest Rate Risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. Borrowings and government loans provided are the basic sources of funding. Progressive forecasting is determined with simulation reports, interest rate fluctuations effects are identified with sensitivity reports and scenario analysis. The cash requirement in each period is determined with Gap analysis.

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 has established the Operational Risk Department to be in overall charge of operations risk management. The department's activities include improving operating procedures and implementing systems upgrades as well as supervising branch operations and providing specific guidance. In addition, the Bank has set up the Inspection Department to perform internal checking functions, and this department conducts examinations and provides guidance to prevent operational problems before they occur at all the Bank's offices. 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.

Currency risk

Currency risk is the risk of potential loss, as a result of change in the exchange rates in the course of the implementation of an agreement. Such losses arise from change in exchange rate of that currency, in which the price is determined, with respect to the payment currency, in the period between the signing of the agreement and settling the accounts under this agreement. Assets and liabilities denominated in foreign currencies together with purchase and sale commitments give rise to foreign currency exposure. The Bank's foreign currency assets are predominantly in US Dollars, Euro and Japanese Yen.

The currency structure of the Bank is as follows:

TL Billion

31 December 2003	US Dollar	Euro	Japanese Yen	Other FC	Total
Cash and balances with Central Bank	1,073	-	-	-	1,073
Balances with banks	22,120	6,018	100	2,326	30,564
Financial assets held for trading	-	-	69	-	69
Financial assets available for sale	152,660	45,086	-	-	197,746
Financial assets held to maturity	15,440	-	-	-	15,440
Originated loans and securities	202,655	578,021	216,452	814	997,942
Other assets	230	95	5	4	334
	<u>394,178</u>	<u>629,220</u>	<u>216,626</u>	<u>3,144</u>	<u>1,243,168</u>
Due to customers	7,702	924	-	-	8,626
Financial liabilities held for trading	-	-	4	-	4
Borrowings	384,216	617,564	218,630	1,139	1,221,549
Securities issued	-	-	-	-	-
Other liabilities	7,111	13,560	986	747	22,404
	<u>399,029</u>	<u>632,048</u>	<u>219,620</u>	<u>1,886</u>	<u>1,252,583</u>
Net foreign currency					
Long (short) position on balance sheet	<u>(4,851)</u>	<u>(2,828)</u>	<u>(2,994)</u>	<u>1,258</u>	<u>(9,415)</u>
Off-balance sheet net foreign currency					
long (short) position	<u>(8,528)</u>	<u>-</u>	<u>8,602</u>	<u>-</u>	<u>74</u>

TL Billion

31 December 2002	US Dollar	Euro	Japanese Yen
Cash and balances with Central Bank	-	-	-
Balances with banks	76,357	10,118	60,942
Financial assets held for trading	1,553	621	-
Financial assets available for sale and			
Financial assets held to maturity	282,423	21,399	-
Originated loans and securities	318,791	429,207	296,527
Other assets	1,018	453	-
	<u>680,142</u>	<u>461,798</u>	<u>357,469</u>
Due to customers	40,389	917	-
Financial liabilities held for trading	205	-	-
Borrowings	659,577	460,136	299,943
Securities issued	-	-	28,537
Other liabilities	5,598	10,395	1,612
	<u>705,769</u>	<u>471,448</u>	<u>330,092</u>
Net foreign currency			
long (short) position on balance sheet	<u>(25,627)</u>	<u>(9,650)</u>	<u>27,377</u>
Off-balance sheet net foreign currency			
long (short) position	<u>7,197</u>	<u>60,583</u>	<u>(66,102)</u>

3.21 Derivatives

Derivative instruments are contracts whose value is derived from that of an underlying instrument or market index and generally do not involve the exchange of principal but may involve the payment of a fee or receipt of a premium at inception of a contract. Certain instruments such as futures and forward contracts commit the Group to buy or sell a specified financial instrument, currency or precious metal at a future date. Futures contracts are exchange-trading instruments that settle through an independent clearinghouse and require daily cash settlement. Forward contracts are customized transactions that require no cash settlement until the end of the contract.

The Group has entered into certain SWAP contracts as at the balance sheet date. The fair value of such derivative instruments held for trading at 31 December 2003 are as follows:

	31 December 2003		
	Notional Amount	Asset	Liability
	TL Billion	TL Billion	TL Billion
Currency swaps –sell	4,262	69	-
Currency swaps – buy	(4,193)	-	(4)

3.22 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.

3.23 Comparatives and Restatement of Prior Year Financial Statements

The comparative figures have been adjusted and reclassified to comply with a change in accounting policy regarding fair value changes of available for sale assets. In prior years the Bank recorded such fair value changes through the statement of income whereas it has changed its policy and decided to recognize such changes in equity, through the statement of shareholders' equity. Accordingly, the comparative consolidated balance sheet, income statement, changes in shareholders' equity and cash flows have been restated. The effects of such restatement are as follows:

	2002 As Restated TL Billion	2002 As Previously Reported TL Billion
Accumulated losses as at 31 December 2002	(594,882)	(586,680)
Net income for the year ended 31 December 2002	17,280	25,482
Valuation reserve as at 31 December 2002	8,202	-

3.24 Derecognition

A financial asset is derecognized when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group commits to sell the assets.

Held-to-maturity instruments and originated loans and receivables are derecognized on the day they are transferred by the Group.

3.25 Earnings (loss) per share

Earnings (loss) per share disclosed in the accompanying consolidated statements of operations are calculated by dividing the net earnings (loss) attribute to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

4. LIQUID ASSETS

Liquid assets include cash balances on hand.

5. BALANCES WITH THE CENTRAL BANK

a) Balances with the Central Bank

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Balances with the Central Bank of Turkey	361	76

b) Liquidity requirements deposited at the Central Bank

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Foreign currency reserves	1,070	373
Turkish Lira ("TL") reserves	56	837
	1,126	1,210

The liquidity requirements are to be maintained as cash in special Turkish Lira accounts for Turkish Lira liabilities and in special US Dollar and EURO accounts for respective foreign currency liabilities with the Central Bank of Turkey. Both such Turkish Lira and foreign currency reserves maintained with the Central Bank of Turkey earn interest on a quarterly basis at the interest rates determined by the Central Bank of Turkey.

The liquidity requirement should also be maintained as government bonds and treasury bills in special accounts with the Central Bank of Turkey.

c) Interbank money market placements

As at 31 December 2003, there is no fund sold in interbank money market (31 December 2002: interest rate of 44 %, 2 days of maturity).

6. BALANCES WITH BANKS

	31 December 2003	31 December 2002
	TL Billion	TL Billion
<u>Domestic banks</u>		
Demand deposits	1,150	1,873
Time deposits	20,970	43,478
	22,120	45,351
<u>Banks abroad</u>		
Demand deposits	3,002	63,256
Time deposits	6,341	55,767
	9,343	119,023
	31,463	164,374

As at 31 December 2003, foreign currency denominated placements at domestic banks include TL 20,970 Billion, with an interest rate of 1.30 % and with the maturity of 4 days (31 December 2002: TL 43,243 Billion with interest rates ranging from 33% to 41.87% and 1.5% to 3.35% domestic and foreign placements respectively with maturities of 4 to 7 days for TL, 2 days for foreign currency placements).

As at 31 December 2003, time deposits at foreign banks have an interest rate of 2.35 % for Euro and 3.50 % for GBP deposits with the maturity of 2 to 6 days (31 December 2002: 1.63% interest rate, 5 to 12 days of maturity).

7. FINANCIAL ASSETS (NET)

	31 December 2003 TL Billion	31 December 2002 TL Billion
<u>Held for trading:</u>		
Government bonds and treasury bills	3,882	7,064
Investment funds	432	139
Equity investments	1,130	986
Securities in foreign currencies	359	909
Others	97	-
	5,900	9,098
<u>Held to maturity:</u>		
Government bonds and treasury bills	5,518	6,865
Securities in foreign currencies	16,030	21,316
	21,548	28,181
<u>Available for sale:</u>		
TL	229,369	154,595
Foreign currency	70,159	188,090
Government bonds and treasury bills	299,528	342,685
Securities in foreign currencies	129,005	69,867
Investment funds	-	30
Equity investments	33,129	54,828
Less: Diminution in value	-	-
	461,662	467,410
Total financial assets (net)	489,110	504,689

Estimated fair values for Government Bonds and Treasury Bills that are traded on a stock exchange were calculated based upon the prices quoted on the Istanbul Stock Exchange. For index-linked Government bonds, fair values were calculated based on the prices quoted in the Official Gazette by the Turkish Central Bank.

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and İMKB Takas ve Saklama Bankası A.Ş. (stock exchange clearing and settlement bank) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2003 are as follows:

	Nominal Value TL Billion	Book Value TL Billion
<u>Government Bonds and Treasury Bills:</u>		
Central Bank - Interbank market guarantee	105,599	79,859
Central Bank - Blocked securities	1,400	1,058
İMKB - Stock Exchange Bond Markets - Blocked securities	4,127	4,110
Central Bank - Foreign Currency Operations Guarantee	25,390	25,303
Clearing House - Blocked Securities	121,513	93,381
	258,029	203,711

As at 31 December 2003, the Bank's available for sale equity investments are as follows:

Investee	Ownership	Indexed Acquisition Cost
	%	TL Billion
İMKB Takas ve Saklama A.Ş.	5.00	8,875
Servus Bilgisayar A.Ş.	7.14	6,823
Ünsa Ambalaj San. ve Tic. Ltd.Şti.	13.04	5,283
Cam Elyaf Sanayi A.Ş.	1.18	3,353
Takasbank A.Ş.	1.80	3,291
Terme Metal San. ve Tic. A.Ş.	18.77	2,491
Senapa Plastik Ambalaj San. A.Ş.	11.85	1,982
İş Yatırım Ortaklığı A.Ş.	0.25	430
İş Portföy Yönetimi A.Ş.	10.00	389
Gözlük Sanayi A.Ş.	21.71	315
TSKB Gayrimenkul Değerleme A.Ş.	80.00	280
Vadeli İşlem ve Opsiyon Borsası A.Ş.	1.00	68
Others		188
		33,768
Provision		(639)
		33,129

The investment in TSKB Gayrimenkul Değerleme A.Ş. has not been consolidated since its effect on consolidated income and net assets is not significant.

The investment in Gözlük Sanayi A.Ş. has not been accounted for under the equity method since the Group does not have any significant influence on this investment.

8. ORIGINATED LOANS AND SECURITIES (NET)

Originated loans represent the loans and advances to customers and securities:

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Loans and advances to customers	971,212	1,050,830
Originated securities	33,219	53,630
	1,004,431	1,104,460
Securities:	31 December 2003	31 December 2002
	TL Billion	TL Billion
Foreign currency indexed treasury bills	33,219	41,530
Government bonds	-	12,100
	33,219	53,630

As at 31 December 2003, originated securities of TL 33,219 Billion were given as guarantees to capital markets and interbank transactions (31 December 2002: TL 52,468 Billion).

On 31 December 2003, foreign currency indexed Treasury bill interest rate is 2.06 % (31 December 2002: 2.16% and 54.28% for foreign currency indexed and TL Government bonds respectively).

Loans and Advances to Customers:

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Short-term loans	30,140	81,704
Long-term loans	806,123	826,336
Investment in direct finance leases, net	127,988	101,006
Total performing loans	964,251	1,009,046
Overdue loans	78,780	85,960
Accrued interest	6,961	7,946
Total loans	1,049,992	1,102,952
Less: Provisions for loan losses	(78,780)	(52,122)
Total loans (net)	971,212	1,050,830

Interest rates ranges are as follows:

	31 December 2003	31 December 2002
EUR	3.79-8.21 %	4.58-9.28 %
USD	3.27-14.00 %	3.52-15.00 %
TL	10.00-30.20 %	10.00-57.00 %
JPY	3.70-9.00 %	2.03-12.00 %
CHF	10.00-10.00 %	6.25-6.78 %

Loans can be analyzed by currency as follows:

Currency	31 December 2003		31 December 2002	
	TL Billion		TL Billion	
	Short-Term	Long-Term	Short-Term	Long-Term
Turkish Lira	582	13,744	1,181	32,702
Foreign currency	15,554	907,731	43,355	873,860
Foreign currency (indexed)	14,004	12,636	37,168	20,780
	30,140	934,111	81,704	927,342
Add (deduct) current portion	147,344	(147,344)	183,542	(183,542)
Total	177,484	786,767	265,246	743,800

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid at the Turkish Lira equivalent of the currency to which they are indexed. Foreign exchange differences arising from such indexation are reflected as interest income, in the accompanying consolidated financial statements.

Loans can be analyzed by sector as follows:

Sector	TL Billion					
	31 December 2003			31 December 2002		
	Long-Term	Short-Term	Arrears	Long-Term	Short-Term	Arrears
	186,933			117,395		
Tourism	158,690	-	-	189,587	-	-
Textile	90,019	8,092	30,243	113,309	26,210	40,208
Motor Vehicles	81,095	-	4	41,932	-	861
Chemical	73,716	14,004	3,245	83,050	37,168	754
Energy	88,048	-	-	68,661	-	-
Metal	42,995	6,000	6,196	48,353	11,972	3,784
Plastics	17,078	-	8,622	62,190	5,111	8,568
Food and Beverages	35,709	-	27,723	-	-	18,954
Cement	25,022	-	-	37,174	-	-
Lumber and Wood	14,516	-	-	22,059	-	-
Finance	1,772	-	100	-	-	113
Construction	14,980	-	-	-	-	-
Education	6,130	-	-	-	-	-
Shipyard	6,435	-	432	6,940	-	-
Machinery Production	30,964	-	-	-	-	1,923
Farming	5,482	-	6	12,023	-	-
Pulp and Paper	5,635	-	-	-	-	-
Health Services	6,053	-	-	8,675	-	-
Ceramics	2,270	1,234	-	9,913	-	4
Glass and Glass Products	5,469	-	-	13,923	-	-
Rubber & Tires	3,203	123	2,206	4,212	319	2,905
Electronics	31,897	105	-	87,946	-	478
Other	934,111	582	3	927,342	924	7,408
	30,140	78,780		81,704	85,960	

Performing loans include rescheduled and loans on watch list amounting to TL 4,701 Billion as at 31 December 2003 (31 December 2002: TL 52,325 Billion).

Originated loans include financing lease receivables.

Components of the lease contracts are as follows:

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Lease payments receivable	148,651	112,938
(Less): Unearned income	(20,663)	(11,932)
Investment in direct financing leases	127,988	101,006
Current maturity – net	17,634	34,015
Long - term portion – net	110,354	66,991
Investment in direct financing leases	127,988	101,006

Foreign currency components of net financial lease receivables are as follows (amounts in thousand and original currencies)

	US Dollar	EURO	JPY	CHF
2004	4,798	2,285	532,221	327
2005	2,396	6,256	473,603	361
2006	1,651	8,314	433,265	-
2007	427	8,495	444,124	-
2008	173	7,893	428,876	-
2009	192	7,767	156,685	-
2010	211	3,851	105,265	-
2011	59	488	-	-
	9,907	45,349	2,574,039	688

Movements in the provision for loan losses are as follows:

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Opening balance at 1 January	52,122	35,290
Charge for the period	79,042	27,132
Provision released	(41,288)	(1,558)
Monetary gain	(6,378)	(8,742)
Reclassification of general reserves to liabilities	(4,718)	-
Closing balance at 31 December	78,780	52,122

9. INVESTMENTS IN ASSOCIATED COMPANIES

	31 December 2003		31 December 2002	
	Carrying Value	Ownership	Carrying Value	Ownership
	TL Billion	(%)	TL Billion	(%)
İş Finansal Kiralama A.Ş.	17,527	30.00	10,079	30.00
TSKB Yatırım Ortaklığı A.Ş.	783	44.03	586	43.00
Yatırım Finansman Yatırım Ortaklığı A.Ş.	393	29.21	136	12.60
İş Factoring Finansman Hizmetleri A.Ş.	4,410	21.75	-	-
İş Risk Sermayesi Yatırım Ortaklığı A.Ş.	17,703	23.82	-	-
	40,816		10,801	

İş Factoring Finansman Hizmetleri A.Ş. and İş Risk Sermayesi Yatırım Ortaklığı A.Ş. had not been accounted for under equity method at 31 December 2002 but included in available for sale assets.

10. PROPERTY, PLANT AND EQUIPMENT, NET

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Buildings and installations	33,180	32,911
Furniture, data processing and office equipment	24,399	8,332
Vehicles	1,249	1,222
(Less: accumulated depreciation)	(38,437)	(19,469)
	<u>20,391</u>	<u>22,996</u>

11. OTHER ASSETS

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Assets held for sale	8,511	14,234
Receivables from securities brokerage activities	35,199	5,491
Deferred management fee and other expenses	32	504
Receivable from personnel	123	262
Prepaid tax	67	182
Cash guarantees given	73	100
Others	705	1,526
	<u>44,710</u>	<u>22,299</u>

12. DUE TO CUSTOMERS-SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

Repurchase agreements on 31 December 2003:

	Fair Value of Underlying Assets	Carrying Amount of Corresponding Liabilities	Repurchase Dates	Repurchase Price
Financial assets available for sale	10,111	10,048	2-5 January 2004	10,050

Repurchase agreements on 31 December 2002:

	Fair Value of Underlying Assets	Carrying Amount of Corresponding Liabilities	Repurchase Dates	Repurchase Price
Financial assets available for sale	38,715	41,634	2-27 January 2003	41,645

13. BORROWINGS

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Foreign currency borrowings	1,219,691	1,411,508
Turkish Lira borrowings	58,446	38,992
Accrued interest	2,217	8,745
Total borrowings	<u>1,280,354</u>	<u>1,459,245</u>

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Foreign Currency Borrowings		
International Bank for Reconstruction and Development (IBRD)		
IBRD-3346 Investment Credit Project	35,624	63,913
IBRD-3077 Investment	9,014	35,042
IBRD-EXIM	22,368	48,319
IBRD-3077 Working Capital	2,168	8,421
IBRD-3067 Investment	2,033	8,058
IBRD-3067 Working Capital	934	3,677
	<u>72,141</u>	<u>167,430</u>

European Investment Bank (EIB)	563,774	380,770
Japan Bank of International Cooperation (JBIC)	218,297	298,718
Kreditanstalt Für Wiederaufbau (KfW)	122,161	84,758
Dresdner Bank	19,994	28,947
Instituto de Credito Oficial	8,846	11,760
Black Sea Trade and Development Bank	2,436	4,534
Union Bank of Switzerland	1,137	3,682
T.Ihracat Kredi Bankası A.Ş.	1,864	2,863
Landesbank Baden-Wuerttemberg	-	2,192
Akbank T.A.Ş.	170,736	291,306
Other domestic bank borrowings	38,305	134,548
	<u>1,147,550</u>	<u>1,244,078</u>
Total foreign currency borrowings	<u>1,219,691</u>	<u>1,411,508</u>

Turkish Lira Borrowings		
IBRD (3067 – TU)	-	46
EIB-Venture Capital	10,542	12,012
Treasury originated funds	7,404	26,678
T.Ihracat Kredi Bankası A.Ş.	-	256
Domestic bank borrowings	40,500	-
Total Turkish Lira borrowings	<u>58,446</u>	<u>38,992</u>
Accrued interest	2,217	8,745
Total borrowings	<u>1,280,354</u>	<u>1,459,245</u>
Current maturities of medium and long-term loans	<u>203,854</u>	<u>201,828</u>

Foreign Currency:

IBRD:

- 3346 – TU, private sector investment project loan, with variable interest rates of 5.63 % for Euro and 5.09% - 6.83% for USD. (31 December 2002: 5.43% for Euro and 4.76% for USD), repayable in scheduled installments up to 2008.

- IBRD – EXIM: Variable interest rates of 2.68% - 3.68% for USD (31 December 2002: 2.83% - 3.33% for USD).

- 3077 – TU, Agro Industry Project, with variable interest rates of 5.63% for Euro and 5.09% for USD (31 December 2002: 5.43% for Euro and 4.76% for USD).

- 3067 – TU, second small and medium scale industry project loan, with variable interest rates of 5.63% for Euro and 5.09% for USD (31 December 2002: 5.43% for Euro and 4.76% for USD), repayable in scheduled installments up to 2004.

EIB:

- Interest rates of 2.29% - 2.58% for Euro and 1.27% for USD (31 December 2002: 3.07% - 3.16% for Euro and 1.52% for USD), repayable in scheduled installments up to 15 December 2017.

JBIC:

- Interest rates of 1.65% - 2.40% for JPY (31 December 2002: 1.65% - 2.40 % for JPY), repayable in scheduled installments up to 28 September 2010.

Akbank T.A.Ş.:

- Variable interest rates of 4.95%- 5.50% for USD and 5.73% for Euro (31 December 2002: 5.14% - 6.56% for USD and 5.94% for Euro).

KFW:

- Interest rates of 2.24% for Euro (31 December 2002: 2.98% for Euro), repayable in scheduled installments up to 2010.

KFW: (Trilateral Cooperation Fund)

- Fixed interest rates of 2.00% - 3.05% for Euro (31 December 2002: 2.00% - 3.05% for Euro), repayable in scheduled installments up to 2005.

DRESDNER BANK:

- Variable interest rates of 2.96% - 3.10% for Euro (31 December 2002: 3.93% - 4.19% for Euro), repayable in scheduled installments up to 4 November 2007.

INSTITUTO DE CREDITO OFFICIAL:

- Interest rate of 4% for USD (31 December 2002: 4% for USD), repayable in scheduled installments up to 2012.

BLACK SEA TRADE AND DEVELOPMENT BANK:

- Interest rate of 3.68% for USD (31 December 2002: 4.27% for USD), repayable in scheduled installments up to March 2006.

UNION BANK OF SWITZERLAND (FORMERLY SBC):

- Variable interest rates of 3.38% - 4.88% for CHF (31 December 2002: 3.13% - 4.87% for CHF), repayable in scheduled installments up to 16 July 2005.

T. İHRACAT KREDİ BANKASI A.Ş.:

- Variable interest rates of 2.72% - 3.21% for USD and 3.60% - 4.43% for Euro (31 December 2002: 3.31%- 3.36% for USD and 4.99% - 5.81% for Euro), repayable in scheduled installments up to 21 June 2004.

TREASURY ORIGINATED FUNDS:

- Interest rates range between 11.00% - 21.00% (31 December 2002 : 10.00% - 30.00 %).

Sources of current maturities of medium and long – term borrowings comprise the following:

	31 December 2003	31 December 2002
	TL Billion	TL Billion
IBRD-3067-TU	2,967	7,873
IBRD-3077-TU	11,182	28,929
IBRD-3346-TU	12,984	17,060
IBRD-EXIM	16,776	18,582
KFW	23,648	29,781
EIB	32,460	34,680
JBIC	31,185	37,340
Treasury Originated Funds	6,830	14,942
Dresdner Bank	5,080	6,818
Landesbank Baden-Wuerttemberg	-	2,192
Black Sea Trade and Development Bank	974	1,295
Union Bank of Switzerland	872	2,336
Akbank T.A.Ş.	58,896	-
	<u>203,854</u>	<u>201,828</u>

Certain parts of the long-term debt agreements provide that:

- 1) Debt Service coverage ratio shall not be less than 1.1.
- 2) A minimum collection of at least 85% shall be maintained.
- 3) Capital adequacy ratio to be set at 10% of the risk weighted assets.

The ratios disclosed below pertain to those of TSKB (parent) only.

Debt service coverage ratio and collection ratio as of 31 December 2003 are 1.54 and 94.35% respectively. (31 December 2002: 1.38 and 87.17% respectively).

As per the memorandum of IBRD related to the project agreement amendments to Loans No 3077 TU and No 3346 TU, dated 31 July 1995, the debt/equity ratio covenant is replaced with an asset-based capital adequacy ratio covenant to be calculated annually on a three-year moving average basis, to include the mid year and year end ratios of the last three years including the current year, and the projected financial results of the following year. It was also considered that the capital adequacy ratio is to be set at 10% of the risk weighted assets. The average capital adequacy ratio of 26.04 % on 31 December 2003 is determined by taking the average of the ratios existing at the dates shown below:

<u>Dates</u>	<u>Capital Adequacy Ratio of TSKB</u>	
31 December 2001	21.31 %	Audited
30 June 2002	19.30 %	Limited Review
31 December 2002	22.11 %	Audited
30 June 2003	24.12 %	Limited Review
31 December 2003	37.63 %	Audited
30 June 2004	30.24 %	Projected
31 December 2004	27.56 %	Projected

The average capital adequacy ratio of 26.04 % as at 31 December 2003, calculated as explained in the proceeding paragraph, is in compliance with the project agreement.

14. SECURITIES ISSUED

Securities issued consist of Japanese Yen Bonds as follows:

	<u>31 December 2003</u>	<u>31 December 2002</u>	
	<u>TL Billion</u>	<u>Yen (Million)</u>	<u>TL Billion</u>
Bonds	-	Yen 1,800	28,191
Accrued interest	-		346
Total bonds	-		28,537
Promissory bills	1		2
	1		28,539

The issued Japanese Yen Bonds were redeemed on 22 July 2003.

15. TAXATION

Corporate Tax

The Group is subject to Turkish corporation taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the year.

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

The effective rates of tax are as follows:

- In 2002 and prior years: 33%, being 30% corporate tax plus a 10% surcharge of funds contribution on corporate tax.
- In 2003: 30% (the funds contribution was abolished for 2003).
- In 2004: 33% (the corporate tax rate was increased from 30% to 33% by Law No. 5035 published in the Official Gazette on 2 January 2004).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was increased from 25% to 30%, effective from 24 April 2003, and to 33% for 2004.

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 of 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 who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Income withholding tax was also calculated in 2002 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 2003. 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 2003 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 2003 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". Application of the new principles is optional in the first quarterly advance tax return in 2004.

Deferred Tax

The Company 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 and are set out below:

Deferred taxation is calculated at a rate of 30%, since the increase to 33% is an event occurring in 2004.

In previous years, the difference between the net book values of fixed assets in the nominal statutory books of account and their inflation adjusted net book values in the accompanying financial statements was considered as a taxable temporary difference, on which deferred tax was calculated. The government's requirement to apply inflation accounting from 2004 onwards includes a requirement to calculate an inflation-adjusted statutory balance sheet for 31 December 2003, which will form the starting point for the new inflation accounting, and in which the uplifts from the former book values are a tax-exempt gain. Accordingly, deferred tax relating to fixed assets is now applicable only in case of different depreciation rates for statutory and IFRS purposes or other special factors, and the accompanying financial statements include a one-off adjustment to deferred tax to reflect the new rules.

a)	Balance sheet:	31 December 2003 TL Billion	31 December 2002 TL Billion
	Corporate tax payable	248	11,755
	Deferred tax asset (net)	(3,888)	(13,204)
b)	Income statement	1 January- 31 December 2003 TL Billion	1 January- 31 December 2002 TL Billion
	Corporate tax charge	(436)	(14,287)
	Deferred tax (charge) / benefit	(7,785)	1,729
		(8,221)	(12,558)

The deferred taxes (at 30% in 2003 and 33% in 2002) on major temporary differences as at the balance sheet are as follows:

	31 December 2003 TL Billion	31 December 2002 TL Billion
Restatement of property, plant and equipment	(1,873)	1,057
Retirement pay provision	(619)	(908)
Provision for loan losses	-	(17,201)
Financing lease receivables	-	10,605
Others	(1,396)	(6,757)
Deferred tax (asset)/liability	(3,888)	(13,204)

	31 December 2003 TL Billion	31 December 2002 TL Billion
Movement of Deferred Tax (Assets)/Liabilities:		
Opening balance at 1 January	(13,204)	(14,205)
Monetary gain (loss)	1,531	2,730
Deferred tax charge (benefit)	7,785	(1,729)
Closing balance	(3,888)	(13,204)

16. OTHER LIABILITIES

	31 December 2003 TL Billion	31 December 2002 TL Billion
Payable to customers	33,946	27,177
Transfer orders	9,146	5,726
Withholding taxes on interest, salaries and other expenses	1,767	1,397
Payable to clearing house	-	713
Bonuses payable to directors and staff	140	710
Others	6,688	6,370
	51,687	42,093

17. PROVISIONS

	31 December 2003 TL Billion	31 December 2002 TL Billion
Retirement pay provision	2,801	2,753
General loan loss provision	5,249	-
Other provisions	1,512	816
	9,562	3,569

In 2002, the general loan loss provision was disclosed as a deduction from assets.

Due to Turkish Labor Law, lump sum payments are made to all employees who retire from the Bank or whose employment is terminated for reasons other than misconduct. According to the law, the retirement condition is after certain number of years in service (25 years for men and 20 years for women) or the achievement of the retirement age (58 for women and 60 for men). The amount payable is 30 days gross pay for each year of eligible service. The rate of pay that is ruling on 31 December 2003 is subject to a maximum of TL 1,389,950,000 (in full TL) per month (31 December 2002: TL 1,260,150,000).

Under the definitions set out in International Accounting Standard No 19, "Employee Benefits" the Turkish retirement pay system is an unfunded defined benefit scheme. IAS 19 requires that a provision be built up for employees' accrued entitlement as calculated actuarially.

In the accompanying financial statements the provision has been made on an estimated basis in compliance with IAS 19, assuming a real discount rate of 6% (the net of inflation of 18% and a discount rate of 25%).

Actuarial gains and losses are recognized in the income statement in the period they occur.

	31 December 2003	31 December 2002
	TL Billion	TL Billion
Balance – beginning	2,753	3,753
Payments during the year	(466)	(1,858)
Period charge	851	1,520
Monetary gain	(337)	(662)
Balance – period end	2,801	2,753

18. SHARE CAPITAL

As at 31 December 2003, the authorized and issued capital consists of 227,999,950,000 shares of five hundred Turkish Lira and 250,000 shares of one hundred Turkish Lira each as reflected in the statutory financial statements. The total authorized and fully paid statutory issued capital is TL114,000 Billion. (31 December 2002: TL 114,000 Billion). This excludes the IAS 29 uplift adjustment. Founder shares entitle the holders to receive dividends in total equal to 5% of statutory net income (such dividends are limited to 10,000 in total) for each year, after transfer to legal and loss contingency reserves and a dividend of 6% on the paid-up capital. Ordinary shares carry voting rights in proportion to their nominal value.

	31 December 2003		31 December 2002	
	TL Billion	Percentage (%)	TL Billion	Percentage (%)
Shareholders				
T. İş Bankası A.Ş.	46,189	40.52	46,189	40.52
Akbank T.A.Ş.	7,349	6.45	7,349	6.45
Turkish Fund Equities and Bonds	8,961	7.86	8,961	7.86
T. Vakıflar Bankası T.A.O	9,550	8.38	9,550	8.38
T. Ticaret Bankası A.Ş. (in liquidation)	9,331	8.19	9,331	8.19
T. Garanti Bankası A.Ş.	3,523	3.09	3,523	3.09
Others	29,097	25.51	29,097	25.51
	114,000	100.00	114,000	100.00
Inflation adjustment	693,915	-	693,915	-
	807,915	100.00	807,915	100.00

19. NET INTEREST INCOME

	1 January – 31 December 2003	1 January – 31 December 2002
	TL Billion	TL Billion
Interest and similar income		
Financial assets (held for trading, available for sale, held to maturity)	53,832	97,163
Loans and advances to customers	41,384	67,489
Deposits at banks	1,293	3,013
Money market placements	2,810	8,099
Finance leases	5,457	7,931
	104,776	183,695
Interest expense and similar charges		
Borrowings	(41,375)	(57,541)
Money market borrowings	(12,330)	(19,074)
Securities issued	(1,354)	(6,249)
Due to customers	-	(595)
	(55,059)	(83,459)
Net interest income	49,717	100,236

20. NET FEE AND COMMISSION INCOME

Fee and commission income		
Cash loans	8,990	8,644
Non-cash loans	1,140	1,318
Other commission and bank service income	13,603	12,846
	23,733	22,808
Fee and commission expenses		
Cash borrowings	(281)	(636)
Non-cash borrowings	(39)	-
Other fee and commission expenses	(3,352)	(1,412)
	(3,672)	(2,048)
Net fee and commission income	20,061	20,760

21. RELATED PARTIES

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

	31 December 2003 TL Billion	31 December 2002 TL Billion
Balances with related parties		
Borrowings	189,012	295,125
Loans and advances to customers	84,491	59,126
Non-cash loans (guarantee letters given)	9,370	1,890
Due from other banks	27,584	83,987
Other assets	12	125
Other liabilities	4,479	-
	1 January – 31 December 2003 TL Billion	1 January – 31 December 2002 TL Billion
Transactions with related parties		
Interest and similar income (*)	360	11,484
Interest expenses and similar charges	(13,739)	(171)
Dividend income	2,713	2,317
Foreign exchange gain (loss)–net	1,105	(637)
Net fee and commission income	480	419
Operating expenses	(133)	(1,007)
Other income	1,123	-

(*) Foreign exchange losses translated on foreign exchange indexed loans are included as negative interest income for the year 2003.

22. SECTORAL ANALYSIS

As at 31 December 2003

	Banking TL Billion	Other Financial Institutions TL Billion	Combined TL Billion	Eliminations and Adjustments TL Billion	Total TL Billion
BALANCE SHEET					
Total assets	1,627,446	50,045	1,677,491	(40,657)	1,636,834
Liabilities	1,334,523	29,759	1,364,282	(1,831)	1,362,451

For the year ended 31 December 2003

	Banking TL Billion	Other Financial Institutions TL Billion	Combined TL Billion	Eliminations and Adjustments TL Billion	Total TL Billion
STATEMENT OF INCOME					
Operating income	146,654	13,911	160,565	(2,355)	158,210
Operating expenses	(73,249)	(11,902)	(85,151)	1,373	(83,778)

23. COMMITMENTS AND CONTINGENT LIABILITIES

	31 December 2003 TL Billion	31 December 2002 TL Billion
Letters of guarantee	14,743	18,199
Letters of credit commitments	31,866	33,143
Letters of loan commitments	63,773	79,749
Other commitments	519	9
	110,901	131,100

24. SUBSEQUENT EVENTS

The Board of Directors resolved the increase of the nominal capital of the Bank from TL 114,000 Billion to TL 142,500 Billion on 27 February 2004. As at the date of this report, no capital payments have been made by the shareholders yet.

One of the shareholders of the Bank, Türk Ticaret Bankası A.Ş. under liquidation, sold 8.19% of its shares to Bank Austria Creditanstalt on 8 April 2004.

The employee termination indemnity ceiling has increased to TL 1,485,430,000 commencing on 1 January 2004.

President and Chief Executive Officer
Legal Advisor

Halil Eroğlu
Prof.Dr.Safa Reisoğlu

Internal Audit and Risk Management

Member of the Board
Head of Board of Internal Auditors
Manager (Risk Management Unit)
Manager (Internal Control Unit)

Hasan Candan
Ömer Eryılmaz
Ayşen Demirkurt
Meltem Ayhan

Financial Control and Operations

Senior Executive Vice President
Department Head (Legal Operations) Secretary General
Department Head (Financial Control)
Department Head (Operations)

Ahmet Demirel
Akin Süel
Ece Ünal
Çiğdem İçel

Corporate Banking

Executive Vice President
Department Head (Loans)
Department Head (Corporate Finance)
Department Head (Problem Loans)

Lale Gökman
Burak Akgüç
İbrahim Öztıp
Ufuk Bala Yücel

Technical Services

Executive Vice President
Department Head (Economics and Research)
Department Head (Financial Analysis)
Department Head (Engineering)

Orhan Beşkök
Refik Akıncı
Korkut Ün
Korkut Ün

Treasury and Capital Markets

Executive Vice President
Department Head (Treasury)
Department Head (Capital Markets)

Yamaç Berki
Şeniz Yarcan
Hayrettin Eryılmaz

Information Technology and Human Resources

Executive Vice President
Department Head (Software Development)
Department Head (Human Resources)

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