KUVEYT TÜRK EVKAF FİNANS KURUMU A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003
TOGETHER WITH AUDITOR'S REPORT

AUDITOR'S REPORT

To the Board of Directors of
Kuveyt Türk Evkaf Finans Kurumu A.Ş.

1. We have audited the accompanying consolidated balance sheet of Kuveyt Türk Evkaf Finans Kurumu A.Ş. (the "Institution") at 31 December 2003 and the related consolidated statements of income and of 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 Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. As discussed in Note 8, as of 31 December 2003 the Institution is the defender in a lawsuit with the tax office with respect to the tax obligations amounting to TL5,301 billion arising from export intermediary services carried out in 1995. Following the decision of the Tax Court, the Institution has appealed to the Supreme Court, but also made a payment to the tax office amounting to TL5,301 billion in 2002, which is recorded in "transitory accounts" under "other assets" in the accompanying consolidated financial statements. No provision has been established in the accompanying financial statements with regard to this lawsuit, as the Institution's management believes that the Supreme Court's decision will probably be in favour of the Institution.

4. As discussed in Note 15, as of 31 December 2003 the Institution management recognized deferred tax assets of TL16,896 billion in the accompanying consolidated financial statements. There is uncertainty on the probability that the Institution will have sufficient taxable profit against which deferred tax assets can be utilised relating in the same period as the reversal of the deductible temporary difference.

5. In our opinion, except for the effects of the matters discussed in paragraphs 3 and 4 above, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Evkaf Finans Kurumu A.Ş. at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of
PricewaterhouseCoopers

Haluk Yalçın, SMMM
Istanbul, 19 March 2004

KUVEYT TÜRK EVKAF FİNANS KURUMU A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003

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KUVEYT TÜRK EVKAF FİNANS KURUMU A.Ş.

CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER

(Amounts expressed in billions of Turkish lira ("TL") in terms of the purchasing power of TL at 31 December 2003)

	Notes	2003	2002
ASSETS			
Cash and due from banks	3	167,813	243,965
Blocked accounts at the Central Bank of Turkey	4	98,466	108,357
Investment securities			
- available-for-sale securities	5	15,402	1,946
Due from financing activities	6	557,616	525,565
Investment in finance leases	7	207,601	218,835
Other assets	8	24,868	31,413
Construction projects	9	7,465	13,305
Intangible assets	10	305	23
Investment property	11	2,545	-
Property and equipment	12	48,455	49,605
Deferred tax assets	15	15,288	-
Total assets		**1,145,824**	**1,193,014**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to other financial institutions and banks		53,042	-
Current accounts and profit / loss sharing investors' accounts	14	964,988	1,064,201
Income taxes payable	15	187	889
Withholdings and other taxes payable		4,522	3,422
Other liabilities	16	4,009	7,424
Reserve for employment termination benefits	17	1,187	910
Deferred tax liabilities	15	-	280
Total liabilities		**1,027,935**	**1,077,126**
Shareholders' equity:			
Share capital	18	95,310	95,310
Adjustment to share capital	18	(3,250)	(3,250)
Total paid-in capital	18	92,060	92,060
Retained earnings	19	25,829	23,828
Total shareholders' equity		**117,889**	**115,888**
Total liabilities and shareholders' equity		**1,145,824**	**1,193,014**
Commitments and contingent liabilities	23		

These consolidated financial statements as at and for the year ended 31 December 2003 have been approved for issue by the Board of Directors on 18 March 2004 and signed on its behalf by Mohammed S. Al-Omar, the Chairman and by Ufuk Uyan, the Chief Executive Officer of the Institution.

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

KUVEYT TÜRK EVKAF FİNANS KURUMU A.Ş.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in billions of Turkish lira ("TL") in terms of the purchasing power of TL at 31 December 2003)

	Notes	2003	2002
Income from financing activities:			
Profit/loss sharing accounts		74,693	71,768
Current accounts and equity		20,952	25,722
		95,645	**97,490**
Profit shares distributed		(64,621)	(57,748)
Net financing income		**31,024**	**39,742**
Foreign exchange gain, net		6,232	1,628
Net financing income after net foreign exchange gain		**37,256**	**41,370**
Fee and commission income	20	21,301	22,920
Fee and commission expense		(5,388)	(6,680)
Net fee and commission income		**15,913**	**16,240**
Other operating revenue:			
Income from construction projects, net	21	680	811
Other income		4,453	3,352
Total operating income		**58,302**	**61,773**
Other operating expenses:			
Staff costs		(19,281)	(17,154)
Reserve for impairment in financing activities		(10,724)	(4,111)
Depreciation and amortisation expense		(3,279)	(3,290)
Withholdings and other taxes		(5,426)	(5,148)
Rent expense		(2,871)	(3,345)
Other expenses	22	(23,888)	(13,085)
Total other operating expenses		**(65,469)**	**(46,133)**
Loss on net monetary position		(6,466)	(5,361)
(Loss) / profit before tax		**(13,633)**	**10,279**
Income tax benefit / (expense)	15	16,435	(9,114)
Net profit for the year		**2,802**	**1,165**

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

KUVEYT TÜRK EVKAF FİNANS KURUMU A.Ş.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in billions of Turkish lira ("TL") in terms of the purchasing power of TL at 31 December 2003)

	Notes	2003	2002
Cash flows from operating activities:			
Net profit		2,802	1,165
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation		3,279	3,290
Reserve for employment termination benefits	17	277	(49)
Provision for doubtful receivables		10,724	4,111
Provision for taxation		(16,435)	9,114
Income taxes paid		(780)	(141)
(Loss) / profit on sales of property and equipment		(14)	(108)
Provision for impairment in completed projects, property and equipment and assets held for resale		8,676	-
Provision for impairment in available for sale investments		314	-
Income from funds invested		(96,234)	(97,490)
Profit shares		64,621	57,748
Inflation effect on non-operating activities		(3,212)	2,143
Operating loss before changes in, operating assets and liabilities:		**(25,982)**	**(20,217)**
Decrease / (increase) in blocked accounts with the Central Bank of Turkey		9,891	(4,776)
Increase in due from financing activities		(122,180)	(96,715)
Decrease / (increase) in overdue receivables		75,633	(47,435)
Decrease / (increase) in investment in finance leases		11,234	(75,700)
Decrease / (increase) in other assets and construction projects		7,385	(1,991)
(Decrease) / increase in current accounts and profit/ loss sharing investors accounts		(100,045)	167,839
Increase / (decrease) in withholdings and other taxes payable		1,100	(294)
(Decrease) / increase in other liabilities		(3,415)	647
		(146,379)	**(78,642)**
Income received from funds invested		99,417	93,549
Profit shares distributed		(63,789)	(67,543)
Inflation effect on operating activities		32,448	70,379
Net cash (used in) / provided from operating activities		**(78,303)**	**17,743**
Cash flows from investing activities:			
(Increase) / decrease in available-for-sale securities		(13,653)	431
Net additions to intangible assets	10	(345)	(11,974)
Net additions to investment property	11	(2,597)	-
Net additions to property and equipment	12	(4,142)	(19,858)
Acquisition of investments	5	(117)	(215)
Inflation effect on investment activities		(427)	(502)
Net cash used in investing activities		**(21,281)**	**(32,118)**
Cash flows from financing activities:			
Increase in share capital		-	49,454
Dividends and donation paid		(801)	(733)
Proceeds from / (redemption of) other financial institutions	13	53,042	(14,350)
Net cash provided from financing activities		**52,241**	**34,371**
Net increase in cash and cash equivalents		**(47,343)**	**19,996**
Inflation effect on cash and cash equivalents		(28,809)	(72,019)
Cash and cash equivalents at the beginning of the year	3	243,965	295,988
Cash and cash equivalents at the end of the year	**3**	**167,813**	**243,965**

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

KUVEYT TÜRK EVKAF FİNANS KURUMU A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in billions of Turkish lira ("TL") in terms of the purchasing power of TL at 31 December 2003)

	Share capital	Adjustment to share capital	Retained earnings	Shareholders' equity total
Balance at 1 January 2002	**36,630**	**5,976**	**23,396**	**66,002**
Increase in share capital	35,640	13,814	-	49,454
Non-cash increase in share capital	23,040	(23,040)	-	-
Cash dividends	-	-	(128)	(128)
Cash donation	-	-	(605)	(605)
Net income for the year	-	-	1,165	1,165
Balance at 31 December 2002	**95,310**	**(3,250)**	**23,828**	**115,888**
Balance at 1 January 2003	**95,310**	**(3,250)**	**23,828**	**115,888**
Cash dividends	-	-	(801)	(801)
Net income for the year	-	-	2,802	2,802
Balance at 31 December 2003	**95,310**	**(3,250)**	**25,829**	**117,889**

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

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Kuveyt Türk Evkaf Finans Kurumu A.Ş. ("the Institution") was formed in accordance with the provisions of Decree No. 83/7506, issued on 16 December 1983 relating to the establishment of Special Finance Houses in Turkey. The Institution obtained permission from the Central Bank of Turkey on 28 February 1989 and commenced its operations on 31 March 1989. At 31 December 2002, the Institution has 40 branches (2002: 36 branches) that are principally engaged in collecting funds through current accounts and profit/loss sharing accounts, and disbursing funds to the customers. As at 31 December 2003, the Institution has 647 employees (2002: 538 employees). The Institution's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli / Istanbul.

The Institution's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm Sanayi ve Ticaret Anonim Şirketi ("the subsidiary"), was incorporated in June 1996 according to the Turkish Commercial Code. The subsidiary's head office is registered in Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli / Istanbul. The Company is engaged in development and marketing of real estate projects in Turkey, including Güre project which comprises the construction of 199 "time-sharing" houses in Edremit-Balıkesir. The Company's main sources of revenue are currently from the sales of these projects and expert valuations carried for third parties.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of presentation of financial statements

The consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). The Institution and its subsidiary maintain their books of account and prepare their statutory financial statements in accordance with the Turkish Commercial Code, Turkish tax legislation, and the relevant rules and regulations of the Banking Regulation and Supervision Agency ("BRSA") and the Central Bank of Turkey for the Institution only. These consolidated financial statements are based on the statutory records, which are maintained under the historical cost convention with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The restatement for changes in the general purchasing power of the Turkish lira as of 31 December 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 is applicable to financial statements covering periods beginning on or after 1 January 1990. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish nation wide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS").

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Indices and conversion factors used to restate these financial statements as of 31 December 2003 and 2002 are given below:

Date	Index	Conversion factor
31 December 2003	**1.000**	**7382.100**
31 December 2002	1.139	6478.800
31 December 2001	1.491	4951.700

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.

- Monetary assets and liabilities, which are carried at amounts current at the balance sheet date, are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

- Non-monetary assets and liabilities, which are not carried at amounts current at the balance sheet date and components of shareholders' equity, are restated by applying the relevant (monthly, yearly average, year end) conversion factors. Additions to property and equipment in the year of acquisition are restated by applying the relevant (monthly, yearly average, year-end) conversion factors.

- All items in the statement of income are restated by applying the relevant conversion factors.

- The effects of inflation on the Institution's net monetary position are included in the statement of income as net loss on net monetary position.

- Comparative financial statements are restated using general inflation indices at the currency purchasing power at the latest balance sheet date.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation of subsidiary

Subsidiary undertaking, in which the Institution, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, has been line-by-line consolidated in 2003 and 2002. All material balances and transactions between the Institution and subsidiary are eliminated in these consolidated financial statements. Details of the subsidiary subject to consolidation are stated below:

Name of subsidiary	Country of incorporation	Direct shareholding by the Company (%) 2003	2002
Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez Gayrimenkul")	Turkey	99.00	99.00

Other subsidiaries, G.A.P. Boru San. ve Tic. A.Ş. and Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği A.Ş., where the Institution has direct or indirect shareholding of 100%, are excluded from the scope of consolidation on the grounds of materiality. Those subsidiaries are accounted for as if they were as available-for-sale securities (Notes 2 (c) and 5).

(c) Available-for-sale securities

Available-for-sale securities are stated at fair value based on quoted bid prices. All movements in fair value are included in the consolidated statement of income. The unconsolidated subsidiaries of the Institution which are unlisted have been also classified under available-for-sale securities. Those subsidiaries are carried at cost since they do not have quoted market prices in active markets and other methods of reasonably estimating fair value are clearly unworkable (Note 5).

(d) Related parties

For the purpose of these consolidated financial statements, shareholders of the Institution, companies controlled by or associated with the shareholders, other investments and directors and key management personnel are considered and referred to as related parties. A number of transactions were entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates (Note 24).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financing activities, provisions and revenue recognition

Financing activities, which are all originated by the Institution, such as project financing contracts (cost-plus-profit contracts), are stated at their gross principal amounts, less deferred income and provision for impairment on funds disbursed. All financing activities are recognised when cash is advanced to borrowers.

The provision for impairment on financing activities comprises an amount which is considered adequate by management to cover the inherent risk of loss present in funding relationships as a result of evaluation of total funds invested (including investments in leases) and specifically identified losses. The Institution reviews all significant financing relationship at each balance sheet date, where impairment is identified, the amount of the provision is the difference between the carrying amount and the recoverable amount, including amounts recoverable from guarantees and collateral, being the present value of the expected cash flows using the discounted profit rate at inception. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision expense.

The accounting treatment for provision for impairment on funds invested depends on the source of funds disbursed. When the funds disbursed from profit and loss sharing accounts are considered impaired, 20% of the risk is charged to income statement, and 80% of the risk is reflected to investors' accounts as deduction to profit shares to be distributed or customer accounts. If the funds invested are disbursed from equity, full provision is charged to income statement.

(f) Properties acquired in satisfaction of funds

Properties acquired in satisfaction of funds disbursed represent properties foreclosed and held for sale and they are included in other assets. These properties are stated at cost less impairment. For significant properties held for sale, impairment is determined by reference to valuation made by an independent expert.

(g) Accounting for export transactions via the Institution

Receivables arising from export transactions performed via the Institution where the collection risk belongs to the exporter and the corresponding payables to exporters, are accounted for under due from financing activities and other liabilities (Note 16).

(h) Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Institution is classified as investment property.

Investment property comprises building. Investment property is carried at cost less depreciation. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, which is 50 years for building.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of investment property is disclosed in Note 11. The valuation of investment property held has been carried out by independent professional valuer, namely CB Richard Ellis.

(i) Property and equipment and related depreciation

Property and equipment are carried at cost less accumulated depreciation, in each case restated to the equivalent purchasing power at 31 December 2003. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Buildings	50 years
Furniture and office equipment	4-5 years
Motor vehicles	4-5 years
Leasehold improvements	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

(j) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(k) Provision

Provisions are recognised when the Institution has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(l) Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets resulting from temporary differences in the recognition of expense for income tax and financial reporting purposes are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

The principal temporary differences arise from the restatement of property and equipment over their historical cost, differences arising from operating and finance lease, provision for impairment on funds disbursed and provision for employment termination benefits (Note 15).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employment termination benefits

Employment termination benefits represent the present value of the estimated total reserve of the future probable obligation of the Institution arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 17).

(n) Foreign currency transactions

Transactions in foreign currencies have been translated at the exchange rates prevailing at the dates of the transactions. Balance sheet items denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet dates (Note 2.u). Exchange gains or losses arising from settlement and translation of foreign currency items have been included in the related income and expense accounts, as appropriate.

(o) Due to other financial institutions

Due to other financial institutions is initially recognised at cost, being the proceeds issued net of transaction costs incurred. Subsequently, they are stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of borrowings using the value implicit in the agreement.

(p) Income and expense recognition

Income and expenses are recognised on accrual basis except for fees and commissions. Fee and commission income, including income from banking services, and fee and commission expenses are recorded as income or expense when received or paid. Income from construction projects is recognised based on the percentage of completion method measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

(q) Profit/loss sharing account income recognition

Income from funds invested from profit/loss sharing accounts is recognised on accrual basis and the net income is distributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognised in full and 80% of this income is recorded as expense for the profit shares distributed, except for the accrued income from funds invested from special profit/loss sharing accounts where 90% is accrued as expense.

(r) Accounting for leases

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents include cash and amounts due from banks.

(t) Credit risk

Financial instruments contain an element of risk that the counterparty may be unable to meet the terms of the agreements. This risk is managed by limiting the aggregate risk to any individual counterparty and financial institution. The Institution's exposure to credit risk is concentrated in Turkey where the majority of the activities are carried out. The credit risk is generally diversified due to the large number of entities comprising the customer bases and their dispersion across different industries.

(u) Currency risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. The risk arising from the depreciation or appreciation of Turkish lira against foreign currencies is managed by monitoring the foreign currency position by senior management and taking positions within approved limits.

The table below summarises the Institution's exposure to foreign exchange rate risk at 31 December 2003 and 2002. Included in the table are the Institution's assets and liabilities at carrying amounts, categorised by currency.

31 December 2003

	TL	US$	EUR	Other	Total
Cash and due from banks	50,743	83,518	24,135	9,417	167,813
Blocked accounts at the Central Bank of Turkey	9,849	68,795	19,822	-	98,466
Available-for-sale securities	624	4,894	-	9,884	15,402
Due from financing activities	125,578	339,462	92,576	-	557,616
Investment in finance leases	28,701	103,416	75,484	-	207,601
Other assets	21,629	677	2,551	11	24,868
Construction projects	7,465	-	-	-	7,465
Intangible assets	305	-	-	-	305
Investment property	2,545	-	-	-	2,545
Property and equipment	48,455	-	-	-	48,455
Deferred tax asset	15,288	-	-	-	15,288
Total assets	**311,182**	**600,762**	**214,568**	**19,312**	**1,145,824**
Due to other financial institutions	-	53,042	-	-	53,042
Current accounts and profit/loss sharing investors' accounts	203,314	545,219	214,234	2,221	964,988
Taxes on income	187	-	-	-	187
Withholdings and other taxes payable	4,522	-	-	-	4,522
Other liabilities	2,423	403	1,183	-	4,009
Reserve for employment termination benefits	1,187	-	-	-	1,187
Total liabilities	**211,633**	**598,664**	**215,417**	**2,221**	**1,027,935**
Net balance sheet position	**99,549**	**2,098**	**(849)**	**17,091**	**117,889**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

31 December 2002

	TL	US$	EUR	Other	Total
Cash and due from banks	48,002	138,769	53,044	4,150	243,965
Blocked accounts at the Central Bank of Turkey	5,770	80,540	22,047	-	108,357
Available-for-sale securities	984	962	0	-	1,946
Due from financing activities	78,887	380,194	66,484	-	525,565
Investment in finance leases	2,796	147,049	68,990	-	218,835
Other assets	26,043	2,310	3,060	-	31,413
Construction projects	11,904	1,401	-	-	13,305
Intangible assets	23	-	-	-	23
Property and equipment	49,605	-	-	-	49,605
Total assets	**224,014**	**751,225**	**213,625**	**4,150**	**1,193,014**
Current accounts and profit/loss sharing investors' accounts	110,992	750,077	201,048	2,084	1,064,201
Taxes on income	889	-	-	-	889
Withholdings and other taxes payable	3,422	-	-	-	3,422
Other liabilities	6,249	1,087	25	63	7,424
Reserve for employment termination benefits	910	-	-	-	910
Deferred tax liability	280	-	-	-	280
Total liabilities	**122,742**	**751,164**	**201,073**	**2,147**	**1,077,126**
Net balance sheet position	**101,272**	**61**	**12,552**	**2,003**	**115,888**

Foreign currency assets and liabilities are evaluated by using the Institution's foreign currency bid rate for US$1 = TL1,395,835, EUR1 = TL1,745,072 at 31 December 2003.

(v) Liquidity risk

Liquidity risk is the possibility that the Institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To hedge against this risk, management has diversified funding sources, and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Moreover, the ability to fund the existing and prospective debt requirements and cover withdrawals at unexpected levels of demand is managed by maintaining the availability of adequate funding lines from shareholders and high quality investors.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The table below analyses assets and liabilities of the Institution into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

31 December 2003	Demand and less than 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue/ no maturity	Total
ASSETS						
Cash and due from banks	163,543	-	4,270	-	-	167,813
Blocked accounts at Central Bank of Turkey	-	-	-	-	98,466	98,466
Available-for-sale securities	-	-	-	-	15,402	15,402
Due from financing activities	50,383	88,997	228,806	152,997	36,433	557,616
Investments in finance leases	8,542	18,293	66,370	82,178	32,218	207,601
Other assets	14,866	-	-	-	10,002	24,868
Construction projects	-	-	-	-	7,465	7,465
Intangible assets	-	-	-	-	305	305
Investment property	-	-	-	-	2,545	2,545
Property and equipment	-	-	-	-	48,455	48,455
Deferred tax asset	-	-	-	15,288	-	15,288
Total assets	**237,334**	**107,290**	**299,446**	**250,463**	**251,291**	**1,145,824**
LIABILITIES						
Due to other financial institutions	39,084	13,958	-	-	-	53,042
Current accounts and profit/loss sharing investors' accounts	696,064	187,196	41,704	40,024	-	964,988
Taxes on income	-	-	-	-	187	187
Withholdings and other taxes payable	4,522	-	-	-	-	4,522
Other liabilities	4,009	-	-	-	-	4,009
Reserve for employment termination benefits	-	-	-	1,187	-	1,187
Total liabilities	**743,679**	**201,154**	**41,704**	**41,211**	**187**	**1,027,935**
Net liquidity gap	**(506,345)**	**(93,864)**	**257,742**	**209,252**	**251,104**	**117,889**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

31 December 2002	Demand and less than 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue/ no maturity	Total
ASSETS						
Cash and due from banks	239,682	4,283	-	-	-	243,965
Blocked accounts at Central Bank of Turkey	-	-	-	-	108,357	108,357
Available for sale securities	-	-	-	-	1,946	1,946
Due from financing activities	37,196	82,912	241,643	85,695	78,119	525,565
Investments in finance leases	15,318	19,695	78,781	73,005	32,036	218,835
Other assets	15,448	-	-	-	15,965	31,413
Construction projects	-	-	1,401	-	11,904	13,305
Intangibles	-	-	-	-	23	23
Property and equipment	-	-	-	-	49,605	49,605
Total assets	**307,644**	**106,890**	**321,825**	**158,700**	**297,955**	**1,193,014**
LIABILITIES						
Current accounts and profit/loss sharing investors' accounts	738,302	217,369	45,051	63,479	-	1,064,201
Taxes on income	889	-	-	-	-	889
Withholdings and other taxes payable	3,422	-	-	-	-	3,422
Other liabilities	890	5,470	-	1,064	-	7,424
Reserve for employment termination benefits	-	-	-	910	-	910
Deferred tax liability	-	-	-	280	-	280
Total liabilities	**743,503**	**222,839**	**45,051**	**65,733**	**-**	**1,077,126**
Net liquidity gap	**(435,859)**	**(115,949)**	**276,774**	**92,967**	**297,955**	**115,888**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Repricing of assets and liabilities

Expected repricing and maturity dates do not differ significantly from the contractual dates. The table below summarises the effective average profit rate by major currencies for monetary financial instruments:

31 December 2003

Assets	**US$ %**	**EUR %**	**TL %**
Cash and due from banks	1.10	2.50	27.78
Due from financing activities	7.93	8.01	40.07
Investments in leases	8.96	7.97	51.20
Liabilities			
Profit/loss sharing investors' accounts	2.90	2.95	30.20

31 December 2002

Assets	**US$ %**	**EUR %**	**TL %**
Cash and due from banks	1.40	2.90	37.00
Due from financing activities	8.70	8.80	66.50
Investments in leases	10.80	8.70	66.70
Liabilities			
Profit/loss sharing investors' accounts	3.50	3.50	39.33

(x) Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Institution using available market information and appropriate valuation methodologies. However judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Institution could realise in a current market exchange.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Financial assets:

Monetary assets for which fair value approximates carrying value:

Balances denominated in foreign currencies are translated at year-end exchange rates.

The fair values of certain financial assets carried at cost, including cash and due from banks, and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The carrying values of funds invested along with the related allowances for uncollectibility is estimated to be their fair values.

Financial liabilities:

Monetary liabilities for which fair value approximates carrying value:

The fair value of monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

(y) Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

NOTE 3 - CASH AND DUE FROM BANKS

	2003		2002	
	TL	Foreign Currency	TL	Foreign Currency
Cash	4,613	15,610	4,144	10,823
Due from banks:				
Foreign banks	32,261	82,283	37,359	162,476
Central Bank of Turkey	193	68	2,233	899
Domestic banks	13,674	18,525	4,190	20,285
Special finance houses	2	584	76	1,480
Total cash and due from banks	**50,743**	**117,070**	**48,002**	**195,963**

NOTE 3 - CASH AND DUE FROM BANKS (Continued)

Foreign currency cash includes the following:

	2003		2002	
	Foreign currency	TL billion	Foreign currency	TL billion
US$	6,697,091	9,348	3,928,416	7,316
EUR	3,274,095	5,714	1,559,164	3,026
Other	-	548	-	481
		15,610		**10,823**

Foreign banks include the following profit and loss sharing accounts with maturities up to one month and four months.

	Principal 2003		Value at maturity	Principal 2002		Value at maturity
	Original currency	TL billion	Original currency	Original currency	TL billion	Original currency
Up to one month						
US$	35,150,000	49,064	35,231,065	46,000,000	98,533	46,081,290
EUR	10,600,000	18,498	10,600,391	28,000,000	52,840	28,079,220
TL		32,100			17,145	
		99,662			**168,518**	
Up to four months						
US$	3,000,000	4,187	3,059,269	14,500,000	27,004	14,502,332

NOTE 4 - BLOCKED ACCOUNTS AT THE CENTRAL BANK OF TURKEY AND LIQUIDITY REQUIREMENTS

Blocked accounts at the Central Bank of Turkey at 31 December are as follows:

	2003		2002	
	Foreign currency	TL billion	Foreign currency	TL billion
US$	49,286,114	68,795	43,245,768	80,540
EUR	11,358,670	19,822	11,358,670	22,047
TL		9,849		5,770
		98,466		**108,357**

NOTE 4 - BLOCKED ACCOUNTS AT THE CENTRAL BANK OF TURKEY AND LIQUIDITY REQUIREMENTS (Continued)

According to the Decree No 7 published in the Official Gazette 23515 dated 6 November 1998, the Institution is liable to maintain certain percentages of its Turkish lira and foreign currency current accounts and profit/loss sharing accounts as specified below in a blocked account at the Central Bank of Turkey. Blocked accounts may be in the form of cash or other type of liquid assets, as accepted by the Central Bank of Turkey.

	Rate %	
	Foreign currency	TL
Current accounts (*)	11	6
Profit/loss sharing accounts (*)	11	6

(*) Except for the placements of domestic banks and special finance houses.

NOTE 5 - INVESTMENT SECURITIES

	2003	2002
Common stocks foreign	9,884	-
Participation fund	4,894	962
Unlisted equity shares	530	413
Common stocks domestic	408	571
Provision for impairment in available-for-sale investment	(314)	-
	15,402	**1,946**

Participation fund represents investment to Unit Investment Fund of Islamic Development Fund and Kuwait Finance House in the amount of US$3,506,145 (2002: US$516,519). Common stocks include various shares traded in the Istanbul Stock Exchange.

The list of unlisted equity shares at 31 December 2003 is as follows:

Name of the company	Nature of business	2003 %	2002 %	2003 TL billion	2002 TL billion
Islamic Interrating Agency	Financial information	10.58	10.58	216	215
G.A.P. Boru San. ve Tic. A.Ş.	Metal processing	99.00	99.99	130	130
Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği A.Ş.	Tourism	99.00	99.99	184	68
Total				**530**	**413**
Provision for impairment in available-for-sale investments				(314)	-
				216	**413**

As of 31 December 2003 investment in G.A.P. Boru San. ve Tic. A.Ş. and Tesisler ve Devremülk İşletmeciliği A.Ş. are written-off.

NOTE 6 - DUE FROM FINANCING ACTIVITIES

	2003	2002
Performing:		
Funds invested from profit/loss sharing accounts	424,368	381,238
Funds invested from current accounts and equity	79,123	44,743
Income accruals on due from financing activities	17,692	21,465
	521,183	**447,446**
Impaired due from financing activities		
Funds invested from profit / loss sharing accounts	79,967	144,370
Funds invested from current accounts and equity	31,560	24,396
	111,527	**168,766**
Total due from financing activities	**632,710**	**616,212**
Provision for impairment in funds disbursed:		
Funds invested from current accounts and equity	(13,857)	(11,845)
Funds invested from profit / loss sharing accounts - Turkish lira	(6,258)	(6,361)
Funds invested from profit / loss sharing accounts foreign currency	(54,979)	(72,441)
	(75,094)	**(90,647)**
Total due from financing activities	**557,616**	**525,565**

Due from financing activities excluding income accruals at 31 December are further analysed per sectors as follows:

	2003	2002
Textile and leather	139,196	122,444
Food and beverage	94,972	78,455
Chemicals and petroleum	42,908	31,424
Metal products	37,378	30,262
Construction	32,377	15,967
Electronics	26,709	46,962
Forestry	21,212	27,070
Automotive	18,860	13,373
Paper	17,908	22,283
Health and social services	13,105	7,857
Leasing	9,231	3,377
Computer	6,215	10,657
Other industries	43,420	15,850
	503,491	**425,981**

NOTE 6 - DUE FROM FINANCING ACTIVITIES, NET (Continued)

Movement in provisions for impairment in funds disbursed is as follows:

	2003	2002
Balance at 1 January	90,647	102,933
Provisions - Institution	4,526	7,137
Provisions - customers	(9,088)	36,731
Recoveries of amounts previously provided for	(4,689)	(16,486)
Inflation effect	(6,302)	(39,668)
Balance at 31 December	**75,094**	**90,647**

As explained in Note 2.e., when the funds disbursed from profit and loss sharing accounts are considered impaired, 20% of the risk is charged to income statement, and 80% of the risk is reflected to investors' accounts as deduction to profit shares to be distributed or customer accounts. If the funds invested are disbursed from equity, full provision is charged to income statement.

NOTE 7 - INVESTMENT IN FINANCE LEASES

	2003	2002
Gross investment in finance leases	212,333	241,405
Unearned finance income	(36,950)	(54,606)
	175,383	**186,799**
Total impaired receivables	59,571	53,673
	234,954	**240,472**
Provision for impairment in finance lease receivables	(27,353)	(21,637)
Investment in finance leases, net	**207,601**	**218,835**

Movement in provisions for impairment in finance leases is as follows:

Balance at 1 January 2003	21,637	14,236
Provisions - Institution	8,186	7,094
Provisions - Customers	6,462	6,116
Recoveries of amounts previously provided for	(2,540)	(4,963)
Inflation effect	(6,392)	(846)
Balance at 31 December 2003	**27,353**	**21,637**

NOTE 8 - OTHER ASSETS

	2003	2002
Transitory accounts	11,207	9,326
Assets held for resale (in satisfaction of funds disbursed)	10,002	15,964
Advances and deposits given	2,038	4,520
Value added tax (VAT) receivable	1,105	473
Commission receivables from correspondent banks	12	22
Other	504	1,108
	24,868	**31,413**

The impairment charge on assets held for resale at 31 December 2003 is TL1,164 billion (Note 22) which was charged to statement of income in 2003 (31 December 2002: TL1,354 billion).

As of 31 December 2003, the Institution is engaged in a lawsuit with the tax office with respect to the tax obligations amounting to TL5,301 billion arising from export intermediary services carried out in 1995. Following the decision of the Tax Court, the Institution has appealed to the Supreme Court, but also made a payment to the tax office amounting to TL5,301 billion in 2002, which is recorded in "transitory accounts" under "other assets" in these consolidated financial statements. No provision has been established in these consolidated financial statements with regard to this lawsuit, as the Institution's management believes that the Supreme Court's decision will probably be in favour of the Institution.

NOTE 9 - CONSTRUCTION PROJECTS

	2003	2002
Completed construction projects (inventories)	10,626	11,904
Receivables from construction projects	3,496	4,253
	14,122	**16,157**
(Less) Provision for impairment in completed projects	(5,000)	-
(Less) Provision for impairment in receivables	(1,657)	(2,852)
Total construction projects, net	**7,465**	**13,305**

NOTE 10 – INTANGIBLE ASSETS

	Opening	Additions	Disposals	Closing
Cost	49	345	-	394
Accumulated depreciation	(26)	(63)	-	(89)
Net book amount	**23**	**282**	**-**	**305**

NOTE 11 – INVESTMENT PROPERTY

	2003
At the beginning of the year	-
Additions	2,597
Depreciation charge	(52)
At the end of the year	2,545

The fair value of investment property at 31 December 2003 is TL2,861 billion (US$2,050,000).

The valuations of investment properties held as of 31 December 2003 have been carried out by independent professional valuers, namely, CB Richard Ellis.

NOTE 12 - PROPERTY AND EQUIPMENT

Year ended 31 December 2003

	Opening	Additions	Disposals	Impairment Charge	Closing
Cost:					
Land and building	43,457	1,062	(325)	(2,069)	42,125
Property plant and equipment	24,183	1,936	(5,739)	-	20,380
Motor vehicles	2,858	114	(504)	-	2,468
Leasehold improvements	3,936	1,030	(1,464)	-	3,502
	74,434	**4,142**	**(8,032)**	**(2,069)**	**68,475**
Acc. Depreciation:					
Building	(3,500)	(727)	325	-	(3,902)
Property plant and equipment	(17,191)	(1,877)	5,697	-	(13,371)
Motor vehicles	(1,482)	(386)	487	-	(1,381)
Leasehold costs	(2,656)	(174)	1,464	-	(1,366)
	(24,829)	**(3,164)**	**7,973**	**-**	**(20,020)**
Net book amount	**49,605**	**978**	**(59)**	**(2,069)**	**48,455**

NOTE 13 - DUE TO OTHER FINANCIAL INSTITUTIONS

	2003	2002
Kuwait Finance House, Bahrain	34,896	-
Other foreign special finance houses	15,354	-
Other banks	2,792	-
	53,042	**-**

NOTE 14 - CURRENT ACCOUNTS AND PROFIT/LOSS SHARING INVESTORS' ACCOUNTS

	2003	2002
Current accounts:		
Turkish lira	54,479	40,341
Foreign currency	132,340	138,057
	186,819	**178,398**
Profit/loss sharing investors' accounts:		
Turkish lira	141,029	64,264
Foreign currency	628,223	812,741
	769,252	**877,005**
Blocked accounts:		
Turkish lira	4,836	4,902
Foreign currency	1,111	1,758
	5,947	**6,660**
Total current accounts and profit/loss inventors' accounts	**962,018**	**1,062,063**
Expense accrual on current accounts and profit/loss sharing investors' accounts	2,970	2,138
Total current accounts and profit/loss sharing investors' accounts	**964,988**	**1,064,201**

At 31 December, current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analysed according to their original maturities as follows:

	2003			2002		
	Turkish lira	Foreign currency	Total	Turkish lira	Foreign currency	Total
Up to 1 month	173,801	519,292	693,093	99,685	636,479	736,164
From 1 month to 3 months	21,522	137,114	158,636	7,462	209,907	217,369
From 3 months to 1 year	5,021	36,684	41,705	2,360	42,691	45,051
370 days special maturity	-	68,584	68,584	-	63,479	63,479
	200,344	**761,674**	**962,018**	**109,507**	**952,556**	**1,062,063**

NOTE 14 - CURRENT ACCOUNTS AND PROFIT/LOSS SHARING INVESTORS' ACCOUNTS (Continued)

At 31 December foreign currency current accounts and profit/loss sharing investors' accounts are as follows:

	2003		2002	
	Foreign currency	TL billion	Foreign currency	TL billion
Current and blocked accounts:				
US$	73,972,037	103,254	63,415,225	118,101
Euro	16,031,535	27,976	10,112,947	19,630
Other		2,221		2,084
		133,451		**139,815**
Profit/loss sharing investors' accounts:				
US$	316,631,882	441,965	339,042,473	631,429
Euro	106,733,021	186,258	93,412,078	181,312
Other				
		628,223		**812,741**
		761,674		**952,556**

NOTE 15 - TAXATION

(i) Income taxes payable

	2003	2002
Corporation and income taxes	187	889
	187	**889**

(ii) Deferred taxes

	2003	2002
Deferred tax assets	16,896	3,601
Deferred tax liabilities	1,608	3,881
Deferred tax assets / (liabilities), net	**15,288**	**(280)**

NOTE 15 – TAXATION (Continued)

(iii) Income tax expense

	2003	2002
Current tax benefit / (charge)	691	(661)
Deferred tax benefit / (charge)	15,744	(8,453)
Total income tax expense/(benefit)	**16,435**	**(9,114)**

Corporation tax is payable at a rate of 30% on the total income of the Institution after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed. Corporation tax rate on the total income of fiscal year 2004 will be 33%.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 11% (10% effective from 1 January 2004). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% (33% for the fiscal year 2004) on their corporate income. Advance tax is payable by the 16th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable held for not less than two years are tax exempt until 31 December 2004, if such gains are added to paid-in capital in the year in which they are sold.

Capital expenditures, with some exceptions, over TL5 billion (TL6 billion for 2004) are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowances utilized within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the financial year to which they relate.

Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

NOTE 15 – TAXATION (Continued)

Deferred income taxes

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2004 under the liability method using a principal tax rate of 33% at 31 December 2003. The rate for other temporary differences is 30% (31 December 2002: 33%).

The temporary differences giving rise to the deferred income tax assets and deferred tax liabilities are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2003	**2002**	**2003**	**2002**
Accounting for finance leases	75,728	-	14,994	-
Provision for impairment in receivables	1,694	2,852	559	941
Provision for impairment in due from financing activities and investment in finance leases	1,852	-	927	-
Reserve for employment termination benefits(Note 17)	1,187	910	236	181
Lease obligation	79	1,880	26	620
Tax losses carried forward	-	3,186	-	1,052
Effect of other adjustments	467	3,789	154	807
Deferred tax assets	**81,007**	**12,617**	**16,896**	**3,601**
Restatement of property and equipment, intangible assets and assets held for resale	5,736	4,797	1,107	1,151
Restatement of construction projects	1,133	538	374	178
Accounting for finance leases	-	2,802	-	555
Provision for impairment in due from financing activities and investment in finance leases	-	2,252	-	446
Accrued income on 'project financing contracts'	-	59	-	11
Accrued income on available-for-sale securities	-	33	-	7
Effect of other adjustments	385	6,201	127	1,533
Deferred tax liabilities	**7,254**	**16,682**	**1,608**	**3,881**
Deferred tax asset / (liability)- net			**15,288**	**(280)**

As of 31 December 2003 the Institution management recognized deferred tax assets of TL16,896 billion in the accompanying consolidated financial statements. There is uncertainty on the probability that the Institution will have sufficient taxable profit against which deferred tax assets can be utilised relating in the same period as the reversal of the deductible temporary difference.

NOTE 16 - OTHER LIABILITIES

	2003	**2002**
Expenses payable	2,142	709
Payable to exporter firms and suppliers	477	4,806
Deferred revenue	151	-
Advances received	-	344
Provision for taxation penalty	-	362
Other	1,239	1,203
	4,009	**7,424**

NOTE 17 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

Under the Turkish Labour Law, the Institution is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement (58 for women and 60 for men). Since the legislation was changed on 8 September 1999 there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL1,389,950,000 in full TL amount, (2002: TL1,260,150,000 in full TL amount, in terms of the purchasing power at 31 December 2002) for each year of service.

The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Institution arising from the retirement of the employees.

International Accounting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

	2003	**2002**
Discount rate	6%	6%
Turnover rate to estimate the probability of retirement	6%	6%

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL1,485,430,000 (2002: TL1,323,950,000) which is effective from 1 January 2004 has been taken into consideration in calculating the reserve for employment termination benefit of the Institution.

Movements in the reserve for the employment termination benefits during the year are as follows:

	2003	**2002**
Balance - 1 January	910	959
Paid during the year	(82)	(609)
Increase during the year	478	588
Monetary gain	(119)	(28)
Balance - 31 December	**1,187**	**910**

NOTE 18 - SHARE CAPITAL

The Institution's authorised and fully paid-in capital amounts to TL95,310 billion (2002: TL95,310 billion), which consists of 953,100,000 shares (2002: 953,100,000 shares) of a nominal value of TL100,000 each. At 31 December, the paid-in capital (in nominal TL) was held as follows:

	2003		2002	
	Shares %	**TL billion**	**Shares %**	**TL billion**
Kuwait Finance House	61.8	58,861	61.8	58,861
Directorate of Vakıf Foundations, Turkey	18.7	17,841	18.7	17,841
The Public Institution for Social Security, Kuwait	9.0	8,578	9.0	8,578
Islamic Development Bank	9.0	8,578	9.0	8,578
Other	1.5	1,452	1.5	1,452
Historical share capital	100	95,310	100	95,310
Adjustment to share capital		(3,250)		(3,250)
Total paid-in share capital		**92,060**		**92,060**

Adjustment to share capital represents the restatement effect of the cash contributions to share capital in year-end equivalent purchasing power.

NOTE 19 - LEGAL RESERVES AND RETAINED EARNINGS

The Institution is required to create the following legal reserves by making appropriations from earnings, which are available for distribution only in the event of liquidation of the Institution in accordance with the Turkish Commercial Code and the Institution's articles of association:

a) First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued share capital, without limit. It may be used to absorb losses.

At 31 December, legal reserves and retained earnings per statutory accounts are as follows:

	2003	**2002**
Legal reserves	954	783
Retained earnings	2,774	2,054
	3,728	**2,837**

NOTE 20 - FEE AND COMMISSION INCOME

	2003	2002
Banking service commissions	8,557	7,015
Communication expense charges	4,226	4,336
Credit card fees and commissions	2,358	2,482
Income from agency activities	1,315	2,010
Import letter of credit commissions	1,069	1,921
Letter of guarantee charges	872	868
Electronic fund transfer (EFT) charges	716	431
POS commission income	549	2,200
Other	1,639	1,657
	21,301	**22,920**

NOTE 21 - INCOME FROM CONSTRUCTION PROJECTS

	2003	2002
Gross revenue from construction projects	639	1,362
Income from service sales	735	632
Cost of construction project sales	(499)	(655)
Cost of services	(195)	(528)
	680	**811**

NOTE 22 - OTHER EXPENSES

	2003	2002
Impairment expense on completed projects	(5,443)	-
Impairment expense on property and equipment	(2,069)	-
Impairment expense on assets held for resale	(1,164)	(1,354)
Impairment expense on available-for-sale securities	(314)	-
Impairment charges	(8,990)	(1,354)
Professional fees	(2,982)	(2,373)
Advertising expenses	(1,940)	(2,393)
Communication expenses	(1,736)	(1,435)
Insurance fund premium expense	(1,389)	(1,321)
Asset to be sold sales loss	(1,000)	-
Stationery and subscription expenses	(924)	(517)
Repair and maintenance expenses	(794)	(679)
Travel and representation expenses	(645)	(573)
Energy expenses	(616)	(384)
Clearing expense	(382)	(223)
Insurance expense	(315)	(164)
Computer system expenses	(150)	(154)
Taxation provision expense	-	(362)
Other	(2,025)	(1,153)
Other expenses	(14,898)	(11,731)
	(23,888)	**(13,085)**

NOTE 23 - COMMITMENTS AND CONTINGENT LIABILITIES

The Institution has the following commitments and contingencies outstanding at 31 December:

	2003	2002
Guarantee letters	104,364	124,562
Letters of credit	62,759	90,206
Acceptance credits	8,106	4,378
	175,229	**219,146**

NOTE 24 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

i) Due from banks:

		2003		2002	
		Foreign currency	TL billion	Foreign currency	TL billion
Kuwait Finance House	Kuwait dinar	1,124,713	5,282	6,769	42
	US$	24,141	34	3,215,341	5,988
	EUR	5,000	9	25,897	50
			5,325		**6,080**

Income earned on profit and loss sharing accounts with Kuwait Finance House is TL498 billion (2002: TL198 billion).

ii) Participation funds:

	2003		2002	
	Original currency	TL billion	Original currency	TL billion
Kuwait Finance House (K.S.C.)	US$3,000,000	4,188	-	-
Islamic Development Bank participation fund	US$ 500,000	707	516,519	962
		4,895		**962**

iii) Due to other financial institutions::

		2003		2002	
		Foreign Currency	TL billion	Foreign Currency	TL billion
Kuwait Finance House	US$	25,000,000	34,896	-	-
			34,896	**-**	**-**

NOTE 24 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

iv) Profit/loss sharing investors accounts:

		2003		2002	
		Foreign Currency	TL billion	Foreign Currency	TL billion
Kuwait Finance House	US$	7,699,491	10,747	15,500,000	28,867
Islamic Development Bank	US$	72,795	102	-	-
Directorate of Vakıf Foundations, Turkey	TL		1,555		1,358
			12,404		**30,225**

vi) The profit shares distributed:

		2003		2002	
		Foreign Currency	TL billion	Foreign Currency	TL billion
Kuwait Finance House	US$	356,768	498	245,511	457
Islamic Development Bank	US$	-	-	126,536	236
Directorate of Vakıf Foundations, Turkey	TL		440		435
			938		**1,128**

vii) The guarantee letters issued:

	2003	2002
G.A.P. Boru San. ve Tic. A.Ş.	-	6
	-	**6**

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