TÜRK EKONOMİ BANKASI

Annual Report 2003

A EUROPEAN MUSICAL VOYAGE IN ORIENT

Throughout the following pages you will find illustrations, which reflect the Ottoman court's passion for the music of Europe in the 19th century. A passion which was triggered by ground-breaking reforms of Sultan Mahmud II (1808-39), who ordered pianofortes from Vienna for the ladies of his harem and invited Giuseppe Donizetti, the elder brother of the famous opera composer, to become his Maestro di Musica. The celebrated Rossini was so impressed by his successor, Sultan Abdülmecid (1839-61) - a great admirer of his operas - that a new Marcia Militare arrived from Italy with a royal dedication. Further dedications followed like Stephen Glover's Turkish March published in London. Keen virtuosi of the period, great names like Franz Liszt, Leopold de Meyer and Parish Alvars also flocked to the Ottoman capital for recitals.

Although the Ottoman Empire caught up with the music of Europe in latter years, Europe had well adapted its musical timbre to accommodate for the Ottoman-influenced melodies and musical instruments of the percussion group, which came from the mighty bands of the janissaries, the mehter.

In all these original examples, East and West meet in unity and harmony of music.

TEB takes pride in having sponsored Dr. Emre Aracı's research in this topic at Cambridge University between 1999 and 2002, which also resulted in a CD entitled European Music at the Ottoman Court. He is a distinguished scholar and researcher in Turkish and European music.

We would like to thank Dr. Emre Aracı who has provided us these valuable materials to be used in this year's annual report.

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Through its subsidiaries, making up the TEB Financial Services Group, TEB also offers its customers leasing, factoring, non-life insurance, asset management and investment brokerage services.

BANK PROFILE

Originally established in 1927 as a small-scale regional bank, Türk Ekonomi Bankası (TEB)'s services were expanded gradually over the years to cover all geographical regions of the country where economic and industrial activity are vibrant. TEB offers corporate, commercial, retail and private banking customers a wide range of contemporary banking services and products. Currently, TEB is operating through a geographically and economically well-chosen network of 76 branch locations in Turkey, an offshore branch in Bahrain and a wholly-owned Dutch subsidiary bank.

Through its subsidiaries, making up the TEB Financial Services Group, TEB also offers its customers leasing, factoring, non-life insurance, asset management and investment brokerage services.

Thanks to the flexibility of TEB's balance sheet and its strong financial position, 2003 has been another year of successful financial and operational results. The strong performance and the synergy between the Bank and the subsidiaries, as well as the expansion of its distribution network, have underpinned TEB's reputation as one of Turkey's most successful and well-integrated banking and financial services groups.

TEB owes much of this success to its experienced management who comply fully with international standards, corporate governance principles and ethical values of the banking profession. Senior staff regularly review strategic goals and decisions, analysing the risks related to financial markets, lending and liquidity as well as managerial and implementation issues. TEB and its subsidiaries have been able to distance themselves from the economic difficulties affecting the Turkish financial services industry. This was accomplished thanks to a prudent approach and conservative policies, closely monitoring asset growth and inherent risks, emphasising high liquidity and maintaining the quality of its client-base.

TEB is a listed company on the Istanbul Stock Exchange where approximately 20% of its shares are currently being traded. Similarly, TEB shares are listed and traded as GDRs on the London Stock Exchange since 2000.

FINANCIAL HIGHLIGHTS *

(in TL billions)

	2003	2002	2001
Total Assets	2,812,148	2,681,692	2,480,206
Marketable Securities	114,399	97,235	234,476
Loans, net	1,168,150	920,351	687,258
Total Deposits	2,005,934	1,960,460	1,594,178
Shareholders' Equity	323,666	285,835	265,414
Interest Income	324,814	370,409	541,378
Interest Expense	190,629	193,337	416,674
Net Income/Loss	54,158	20,425	(18,517)
Consolidated Net Income/(Loss)	54,533	26,830	(58,179)

Ratios and Key Operational Indicators

	2003	2002	2001
Capital Adequacy Ratio	14.88%	15.40%	13.26%
ROE	17.77%	7.15%	(6.96)%
ROA	1.97%	0.76%	(0.71)%
Number of Staff	1,849	1,673	1,262
Number of Branches	77	74	71

** All figures are expressed in the equivalent purchasing power of the Turkish lira on December 31, 2003, and are extracted from audited bank-only financial statements based on IAS.*

Thanks to the flexibility of TEB's balance sheet and its strong financial position, 2003 has been another year of successful financial and operational results.

TEB's Ratings from Major Rating Agencies*

Moody's Investors Service

Banking Financial Strength	Foreign Currency Bank Deposit
D+ (D+)	B3 (B3)

FitchRatings

LC Long-term	FC Long-term	Individual	National
B+ (B+)	B+ (B+)	C/D	A (tur)

LC Short-term	FC Short-term	Support
B (B)	B (B)	5

Note: Country ceilings are given in brackets.

** As of May 2004*

In a marketplace where inflation and interest rates have decreased, profit margins have narrowed considerably and where competition is running at full pace, TEB succeeded to close the year successfully.

Marche du Sultan - The Sultan's March [Marcia Militare] by Rossini, published by Schott in Mayence. There are also other editions, one including Cramer, Beale & Co, London (1853).

REPORT OF THE BOARD OF DIRECTORS

It was a relief in 2003 to leave behind some of the adversities encountered when starting the new millennium. The consecutive crises we experienced in 2000 and 2001 and some volatility in 2002 were finally over at the beginning of the new year. Markets are now expecting fundamental political and economical solutions to long-pending issues from the single-party government that came to power at the end of 2002. Throughout the year, all economic players were watchful of the economic and political developments.

The year started with growing concerns over the upcoming war in Iraq and the uncertainties around the newly elected Turkish government. However, worry did not turn into difficulty and the war in Iraq was much shorter than most analysts predicted. The new government displayed a rather resolute attitude toward the implementation of the IMF-sponsored economic programme and the structural reforms initiated by the previous government. With these events taking place on political and economical grounds, major economic indicators signalled a gradual improvement in the second half of the year.

Positive market expectations grew as budgetary discipline was attained, efforts were directed toward achieving macro-economic balances and the fight against inflation; as a result, fiscal stability was maintained. Further consequences were observed in the inflation rate decreasing even beyond targeted levels, interest rates dropping significantly and the Turkish lira appreciating against major foreign currencies, making investments in Turkish lira denominated securities worthwhile again. Despite a widening gap in the current account, a foreign currency shortage was not experienced thanks to the inflow of capital and short-term so-called ‘hot money.’ Indeed the Central Bank’s foreign currency deposits recorded increases much more that anticipated. With these promising developments taking place, economic activity had an upsurge, demand for financial services increased, especially for commercial and consumer credits and foreign trade volume started to record favourable growth.

There was a further decrease in the number of active banks, from 54 to 50 by the end of the year, due to SDIF’s take-overs and closures. However, total assets of the banking industry showed gradual growth especially in the second half of the year. The reasons why improvement was confined to trivial percentages were that banks’ balance sheets were still dominated by foreign currency liabilities and the appreciation of the Turkish lira. According to inflation-adjusted balance sheets of banks as of the end of the third quarter of 2003, the banking industry had:

- Total assets of TL 225.1 quadrillion,
- Total deposits of TL 141.9 quadrillion,
- Total investment securities portfolio of TL 96.1 quadrillion, and
- Total credits of TL 61.6 quadrillion.

REPORT OF THE BOARD OF DIRECTORS CONTINUED

These figures show that credits make up only 27% of total assets and investment securities portfolio make up 43% of total assets. Looking at these figures from another angle, we see that the banks finance the Turkish Treasury 1.7 times more than they finance their customers. Considering that the WPI has been realised at 13.9% in 2003, the banking industry's total assets and deposits have actually decreased in nominal terms while Treasury securities portfolio and credits have increased.

In a marketplace where inflation and interest rates have decreased, profit margins have narrowed considerably and where competition is running at full pace, TEB succeeded to close the year with TL 80,641 billion in gross profit and TL 54,158 billion in net profit. Compared to last year's figures, we achieved a 87% increase in gross profit and a 165% increase in net profit in real terms.

A short assessment of our 2003 year-end inflation-adjusted financial results shows that:

- Total assets have grown by 4.9%,
- Shareholders' equity has reached TL 324 trillion,
- Share of deposits in total assets is 71%,
- Share of investment securities portfolio in total assets is limited to only 4%,
- Total credits have expanded by 27% over the previous year and reached 42% of total assets,
- Credits/Deposits ratio of 58% shows that for every TL 100 in deposits, TEB is transferring TL 58 as credits to the customers,
- The NPL ratio of 2.5% in 2002 has decreased to 2.1% in 2003 and the free capital ratio of 42.5% in 2002 has increased to 47.2% in 2003,
- Capital adequacy ratio is 14.9%,
- Return on assets is 1.9%,
- Return on shareholders' equity is 17.8%, and
- Cost/Income ratio of 57.6% in 2002 has decreased to 54.6% in 2003 indicating a positive trend.

The fact that in our balance sheet we possess one of the smallest percentages of Treasury securities in total assets is a clear indication that our profits have been generated out of real banking activities and not from Government securities. This is a unique position in the Turkish banking industry and makes up one of the strengths TEB has in Turkey's highly competitive banking environment.

We continued delivering top-notch corporate banking services to a top-tier clientele supported by IT-based cash management products through specifically designated ten branch offices in major commercial and industrial hubs of the country. TEB has played a pioneering role in corporate banking services.

Although newly regulated by the Capital Markets Board in Turkey in July 2003, TEB has been a long-time proponent of good corporate governance principles, always emphasising transparency, professionalism and ethical values in business conduct.

Commercial banking activities are geared to medium and small-size companies and incorporate numerous products and services designed to meet the financial needs of this business segment. With the expansion of our branch network, the scope and geographical coverage of our commercial banking services expanded in 2003. We deliver commercial banking services through 52 branch offices, located mostly in Istanbul. We shall continue emphasising commercial banking services in 2004, enlarging our customer base.

In its retail banking activities, TEB continued targeting low risk individuals and aimed to position its credit cards as their first choice. As a reflection of our emphasis on service quality, we defined a new retail customer segment, TEB Elit, and developed a set of services geared to the specific needs of this group of individuals. Consumer credits increased without compromising on the careful credit evaluation process to which TEB adheres. The share of consumer credits in total credits rose to 6.5% in 2003. The Bank will continue adding new services to its alternative delivery channels in an effort to attract more retail clients.

This year TEB has emphasised the sales of mutual funds. Total funds under management by eight TEB mutual funds and two private-label funds increased by 80% in 2003 reaching the equivalent of US$ 360 million; the customer portfolio increased by 40% for the same period. TEB achieved a 3% market share in mutual funds and ranked third for the bank with the highest mutual fund sales in 2003. TEB's mutual funds are also marketed by Citibank branches and in 2003, TEB began marketing ABN Amro Bank N.V.'s mutual funds in Turkey.

As the first bank to initiate private banking services, we continued enhancing our wealth management services delivered by all branches and coordinated from the centralised marketing unit in Istanbul. The number of branches increased to 77 at the end of 2003, up from 74 at the end of the previous year. TEB plans to open 10 or 15 additional branches in 2004, as economic conditions permit.

Pursuing a customer-focused approach and providing swift services and competitive prices, we succeeded in increasing the share of foreign trade transactions TEB has in Turkey's international trade volume. While processing a significant amount of foreign currency transfers, TEB handles 5.5% of Turkey's international trade - 6.7% of exports and 4.7% of imports. The amount of import and export transactions processes by TEB reached US$ 3,163 million and US$ 3,247 million, respectively at the end of 2003, recording a 93% increase in exports and 45% in imports.

Risk awareness and management have always been important elements of TEB's vision. Risk management processes at TEB, defined in line with the requirements of BRSA's regulations concerning the internal audit of banks and their risk management systems, have been carried out most effectively by the Risk

Management Group. We are pleased to point out that our organisational set up and the action we have taken in this direction have placed the Bank in a pioneering position in Turkey in terms of achieving risk-control effectiveness required by the supervisory authority.

As part of our business continuity plan, work on the Disaster Recovery Plan initiated in 2002 was completed in 2003; the Disaster Recovery Centre, capable of handling all transactions uninterruptedly in case of a system failure or natural disaster, became operational in Izmir.

In 2003, TEB continued to receive the highest ratings in Turkey from international rating agencies. We take particular pride in being one of the highest-rated Turkish banks in our peer group, having been assigned 'D+' and 'B3' ratings by Moody's and 'A (tur) National' and 'C/D Individual' ratings by FitchRatings.

TEB Financial Services Group, where TEB is the controlling shareowner, was set up to provide customers with financial services in addition to the already existing banking products. The Group as a whole, enjoyed a successful year during 2003, thanks to the synergy that exists. TEB does not have any investments outside the TEB Financial Services Group companies. Our equity investments comprise leasing, factoring, investment and brokerage, insurance and asset management companies as well as a bank incorporated under Dutch laws in Amsterdam, TEB N.V.. These financial institutions provide cross-selling opportunities within the entire group and their products and services complement TEB's banking activities. Observed strictly as a matter of policy, TEB's cash and non-cash credits to its subsidiary companies are a mere 0.65% of its total credits portfolio.

In 2003, we began negotiations to merge TEB Portföy Yönetimi A.Ş., our asset management subsidiary, with ABN Amro Portföy Yönetimi A.Ş.. The negotiations were concluded in early 2004 and the merger was registered at the Trade Registrar's Office on January 12, 2004. TEB's share in the newly formed company is 46.77%.

We increased our paid-in capital from TL 55,125 billion to TL 57,800 billion following Capital Markets Board approval on February 26, 2004. This increase was realised with the addition to capital of TL 2,675 billion arising as the profit from the sales of 50% of our share in the Bank's headquarters building to TEB Insurance in December 2003. The amount corresponding to the capital increase will be distributed to our shareholders as bonus shares.

Risk management processes at TEB have been carried out most effectively by the Risk Management Group. We are pleased to point out that our organisational set up and the action we have taken in this direction have placed the Bank in a pioneering position in Turkey in terms of achieving risk-control effectiveness.

Although newly regulated in Turkey by the Capital Markets Board in July 2003, TEB has been a long-time proponent of good corporate governance principles, always emphasising transparency, professionalism and ethical values in business conduct. We believe this issue will gain further importance among publicly-traded companies. Indeed, in the near future, assessments regarding the implementation of good corporate governance principles will be as important as the credit rating obtained by a company.

TEB takes pride in being one of the two banks to announce its dividend policy to the public in 2003. This policy basically states that: provided there are no major changes in domestic or global economic conditions and that the Bank's capital adequacy ratio is at targeted levels, TEB envisages a 30% cash dividend distribution to its shareholders out of distributable profit every year as stipulated in its Articles of Association.

TEB undertakes to inform the investor community and its shareholders in a timely and accurate manner within the guidelines of prevailing regulations about corporate actions as well as any other data that may affect their investment decisions. TEB adheres fully to the Turkish Bankers Association's Rules of Ethics published in 2001.

To oversee compliance to good corporate governance, we have set up two committees in the Bank. The Corporate Governance Committee and the Audit Committee have started to function in 2003. During 2003, the Investors Relations Unit, established in addition to the Shareholders Unit, to inform our domestic and international shareholders on our operational and financial results, has participated in numerous road shows, tele-conferences and analysts meetings organised locally and abroad by international investment banks.

Aware of its responsibilities as a corporate citizen, TEB has donated TL 59.5 billion to various philanthropic institutions in 2003.

We would like to thank each one of our employees for their diligent efforts toward achieving successful results again this year. Our special thanks are also due to our shareholders for their continuous support.

BOARD OF DIRECTORS

Yavuz Canevi
Chairman

Dr. Akın Akbaygil
Vice Chairman and Executive Director

Varol Civil
General Manager

Aydın Esen
Executive Director

Cihat Madanoğlu
Executive Director

İsmail Yanık
Executive Director

Refael Taranto
Director

SENIOR OFFICERS *

Ünsal Aysun
Assistant General Manager

Turgut Boz
Assistant General Manager

Levent Çelebioğlu
Assistant General Manager

Turgut Güney
Assistant General Manager

Osman Kolat
Assistant General Manager

Ümit Leblebici
Assistant General Manager

Sevinç Özşen
Assistant General Manager

Hakan Tıraşın
Assistant General Manager

Nuri Tuncalı
Assistant General Manager

AUDITORS

Güney Serbest Muhasebecilik Mali Müşavirlik A.Ş., an affiliated firm of Ernst and Young International

*As of May 2004

Ample global liquidity helped bring interest rates down and together with very tight monetary policies in Turkey caused the Turkish lira to strengthen. Turkey enjoyed a virtuous cycle of improving macro fundamentals and consumer and business sentiment.

TURKISH ECONOMY IN 2003

The Turkish economy sustained its recovery in 2003 following the dual crisis of November 2000 and February 2001. The renewed IMF programmes, much-improved international conjuncture, as well as the confidence instilled by the single-party government appear to have pulled Turkey out of the depths of its recession, which had been exacerbated by the financial distress experienced following 9/11.

The early enthusiasm that greeted the victory of the AKP Government in the November 2002 elections somewhat faded when the markets were disappointed by the result of the EU Copenhagen summit in December 2002, where Turkey's EU accession decision was postponed to end-2004 and jitters began to set in regarding possible US action against neighbouring Iraq. The delay in the conclusion of the IMF review until April 2003 did not help the sentiment either.

The markets stabilised somewhat as the Government announced the first of several fiscal austerity packages in early 2003. Turkey negotiated with the US regarding the stationing and transit of US troops through Turkish soil in the war on Iraq, where US offered concessional loans of up to US$ 24 billion. The Government finally agreed to the plan, which was rejected by the Turkish Parliament on March 1st. This represented the start of a very volatile month in the markets that saw the yield of the benchmark bond climb above 70% on March 24th.

The Government immediately introduced fiscal measures following the failure of the US troop resolution in the Parliament to contain the market reaction and with the approval of the 2003 budget as late as in April, the relations with the IMF appeared to be back on track. The US prevailed quickly in the war and President Bush proposed including US$ 1 billion in the war budget for Turkey's cooperation, which was viewed as an important signal of patching up of relations. Meanwhile, AKP leader Tayyip Erdoğan had been elected to the Parliament in by-elections, allowing him to head the Government.

Although Turkey did sign an agreement to draw on the US$ 1 billion grant through a US$ 8.5 billion concessional loan, the political and economic conditions attached to the loan created a debate and Turkey has not as of yet actually utilized this credit line. The loan proposal nevertheless proved instrumental in restoring market confidence.

There were other developments that shook the confidence of the financial markets, yet the recoveries were usually swift. The detention of Turkish troops in Northern Iraq by US troops created a stir, but markets normalised quickly. Indeed, starting in April, the disinflation process together with the confidence boosting effect of a single-party government ensured the yields declined, while the equities surged continuously, notwithstanding some minor fluctuations. The mood further improved following the restructuring of IMF repayments in early August. The deeply tragic bombings in November caused horrific human damage. Ample global liquidity helped bring interest rates down and together with very tight monetary policies in Turkey caused the Turkish lira to strengthen. Turkey enjoyed a virtuous cycle of improving macro fundamentals and consumer and business sentiment.

ANNUAL INFLATION (%)

	1997	1998	1999	2000	2001	2002	2003
Wholesale	91.0	54.3	62.9	32.7	88.6	30.8	13.9
Consumer	99.1	69.7	68.8	39.0	68.5	29.7	18.4

Source: State Institute of Statistics (SIS)

Turkey has undertaken a massive effort to get rid of the high levels of inflation that have plagued the economy for most of the past three decades. The independence of the Central Bank, curtailed demand due to high unemployment and credit crunch until mid-2003, and the international disinflationary, even deflationary, trends have all helped achieve, and undershoot, targets in inflation in both 2002 and 2003. As part of the economic programme, the Central Bank (CBRT) was made independent of political influences. Following the February 2001 crisis, a floating exchange rate regime was adopted instead of the crawling peg and the short-term interest rates were adopted as the primary instrument for conducting monetary policy by the CBRT. Although the CBRT delayed the move to an explicit inflation-targeting regime in 2003, the implicit targeting with the monetary base as the nominal anchor seems to have gotten results.

CENTRAL BANK BALANCE SHEET: SELECTED ITEMS (US$ billion)

	Dec 02	Mar 03	Jun 03	Sep 03	Dec 03
Foreign Assets	31.1	31.2	32.8	38.1	37.8
Domestic Assets	14.4	14.5	16.2	16.9	16.9
Foreign Exchange Liabilities	32.7	32.1	34.2	35.2	37.4
Central Bank Money	12.5	13.6	14.8	19.9	17.2
Reserve Money	6.5	7.2	9.1	10.2	10.7
Liabilities from OMO	5.8	5.7	4.5	8.6	5.9
Foreign Exchange Position	(1.5)	(0.9)	(1.4)	2.9	0.4
Net Domestic Assets	19.5	20.8	20.2	15.9	18.5

Source: Central Bank of the Republic of Turkey

In setting monetary policy, the CBRT has opted to err on the side of caution, particularly in the second quarter of 2003. The effects of the previous Government's spending spree before the November 2002 elections, incoming Government establishing relations with the IMF and the delays in the budget-making process (2003 budget was published in April), skyrocketing agricultural prices, Iraq uncertainty weakening the Turkish lira and pushing oil prices higher all combined to induce a very tight monetary policy stance. The CBRT kept O/N rates steady from November 2002 to April 2003.

The independence of the Central Bank, curtailed demand due to high unemployment and credit crunch until mid-2003, and the international disinflationary, even deflationary, trends have all helped achieve, and undershoot, targets in inflation in both 2002 and 2003.

MONETARY AGGREGATES (US$ billion)

	Dec 02	Mar 03	Jun 03	Sep 03	Dec 03
Foreign Assets					
Currency in Circulation	4.4	4.6	6.0	7.1	7.2
M1	8.7	8.6	11.9	14.0	15.3
M2	37.5	37.1	47.8	54.7	57.5
Repo Transactions	1.7	2.3	1.7	2.2	2.2
Foreign Currency Deposits	44.3	41.4	44.5	46.3	48.8
M2YR	83.4	80.8	94.0	103.2	108.5

Source: Central Bank of the Republic of Turkey

In fact the monetary policy remained tight until several expansionary measures were enacted on July 16th despite successive rate cuts. The improved sentiment related to security, tourism, foreign trade issues and lower inflation expectations, together with high interest rate policy of the CBRT, resulted in Turkish lira strength that matched the pre-crisis levels of 2001. In 2000, the booming economy did not lend support to the disinflation process, whereas in 2003, unemployment was higher and incomes lower, making incomes "policy," together with the plummeting US dollar, the main drivers behind the two programmes' diverging fortunes.

BANK DEPOSITS AND LOANS (US$ billion)

	Dec 02	Mar 03	Jun 03	Sep 03	Dec 03
TL Deposits	34.2	34.5	44.5	51.3	54.0
FX Deposits	45.1	42.0	45.5	47.9	50.7
Loans by Deposit Banks	19.5	22.5	27.2	31.1	35.4

Source: Central Bank of the Republic of Turkey

After mid-September, however, the CBRT appeared to grow confident regarding the disinflation process, enacting two more rate cuts by October 15th and increasing the daily FX buy auctions to US$ 120 million per day. Some volatility in the FX markets followed the expansionary stance, but the CBRT helped the markets cool down by not enacting any further rate cuts for five months and giving a 3-month break to daily FX purchases.

With the FX rates acting as a de facto anchor, the CPI inflation undershot targets for 2002 and 2003, with 29.7% and 18.4% figures below the targets of 35% and 20%, respectively. WPI inflation similarly registered 13.9% in 2003, compared to the 17.4% original government target.

Debt sustainability lost its pivotal status in debates on Turkey, as the global liquidity conditions, the strong Turkish lira, relative improvement in fiscal performance, and the confidence in the strong single-party government alleviated worries.

Stephen Glover's Turkish March, published in England by C. Jeffery (circa 1854).

CONSOLIDATED BUDGET (January-December, US$ billion)

	2002	2003	Chg. (%)	Real Chg. TL terms (%)
Revenue	50.7	67.2	32.6	4.7
Tax Revenue	39.6	56.5	42.9	12.9
Non-Tax Revenue	10.7	10.7	(4.1)	(24.3)
Expenditure	76.6	93.9	22.6	(3.2)
Non-Interest	42.2	54.6	29.4	2.2
Personnel	15.4	20.2	31.8	4.1
Other Recurrent	5.2	5.5	5.3	(16.9)
Investment	4.6	4.8	5.2	(17.0)
Transfer	17.0	24.0	41.2	11.5
Interest Payments	34.4	39.3	14.2	(9.8)
Primary Balance	8.5	12.6	48.6	17.3
Budget Balance	(25.9)	(26.7)	3.0	(18.7)

Source: Ministry of Finance

The previous Government undertook considerable election spending and the primary surplus of the consolidated government sector undershot the 6.5% target, registering 3.9% in 2002. Furthermore, the civil servants (and pensions of civil service retirees) were raised substantially before the 2002 elections. This forced the incoming AKP Government to enact a significant raise for other social security institutions (SSK and Bağ-Kur, for workers and self-employed, respectively). The Government still hoped that it could finance the expansionary stance (both inherited and self-initiated) through the promised US$ 24 billion in subsidised loans from the US in return for extensive cooperation in Iraq, including use of Turkey as a base for attacks on Iraq. However, the Parliament rejected this resolution to allow the stationing of US troops in Turkey on March 1st, forcing the Government to revise its fiscal plan. The Government introduced two fiscal packages worth 4.4% of GNP, with majority of measures announced in the wake of the rejection of the motion.

OUTSTANDING EXTERNAL DEBT (US$ million)

	1997	1998	1999	2000	2001	2002	2003
Total	84,235	96,411	102,975	118,685	113,811	130,928	147,264
Medium and Long-Term	66,545	75,637	80,054	90,384	97,570	114,504	124,342
Public Sector	49,733	51,956	52,687	61,232	70,082	84,268	91,824
Private Sector	16,812	23,680	27,367	29,153	27,488	30,236	32,518
Short-Term	17,691	20,774	22,921	28,301	16,241	16,424	22,922

Source: Treasury Undersecretariat

A further fiscal austerity package worth 0.7% of GNP was introduced in July after the IMF staff pointed out the ongoing shortfall. Although long-term structural issues remain in the social security system and the poor tax system, the fiscal measures are likely to bring the year-end primary surplus of the consolidated government sector to within 0.5% of the 6.5% of GNP target. (The year-end realizations for the overall public sector are not available as of yet.)

The 12.9% real rise in tax revenues was achieved through these measures, although some of the measures such as the tax reconciliation project are temporary in nature. Under transfer payments, the social security deficits continued to rise steadily.

COMPONENTS OF OUTSTANDING DOMESTIC DEBT (US$ billion)

	1997	1998	1999	2000	2001	2002	2003
Total	30.6	37.0	42.4	54.2	84.5	91.4	139.5
G-Bonds	17.4	18.4	36.4	51.2	70.6	68.8	121.2
T-Bills	11.6	18.6	6.0	3.1	13.8	22.6	18.3
CB Advance Payments	1.7	0	0	0	0	0	0

Source: Treasury Undersecretariat

Debt sustainability lost its pivotal status in debates on Turkey, as the global liquidity conditions, the strong Turkish lira, relative improvement in fiscal performance, and the confidence in the strong single-party government alleviated worries. The weakening of the US dollar played a significant role in domestic debt stock rising rapidly in US dollar terms. The annual real Turkish lira rise was more subdued at 9.5%. Indeed, net debt stock of the public sector is estimated to have declined to around 70% of GNP by end-2003, from a high of 92% at end-2001. The crucial issue here is that, including FX-denominated domestic debt, half of public sector debt is denominated in foreign currencies. The strength of the Turkish lira has brought down the value of that portion of the debt stock relative to the size of the economy. On the other hand, the Turkish lira market debt carries heavy real interest, as average interest rate in 2003 borrowings was more than 45%.

BREAKDOWN OF THE DOMESTIC DEBT STOCK (TL quadrillion)

	End-2001	(%)	End-2002	(%)	End-2003	(%)
TOTAL	122.2	100	149.9	100	194.4	100
Public sector	80.6	66	79.1	53	92.6	48
CBRT	32.6	27	28.1	19	26.9	14
IMF loans	13.8	11	9.7	7	8.5	4
Other	18.8	15	18.4	12	18.4	10
State banks	22.7	19	24.3	16	27.2	14
SDIF banks	15.1	12	11.0	7	15.1	8
Other public	10.2	8	15.7	11	23.4	12
Market	41.6	34	70.8	47	101.8	52

Source: Treasury Undersecretariat

The very tight fiscal stance did not prevent growth targets being attained, thanks to improved confidence and strong tourism revenue.

MONETARY AGGREGATES (US$ billion)

	2001 (TL quadrillion)	(%)	2002 (TL quadrillion)	(%)	2003 (TL quadrillion)	(%)
Total	122.2	100	149.9	100	194.4	100
Cash	58.4	48	89.3	60	130.5	67
Fixed Rate	17.7	15	37.6	25	68.6	35
Floating Rate	11.4	9	17.4	12	29.1	15
FX-denominated	7.1	6	16.5	11	16.8	9
FX-indexed	22.1	18	17.8	12	16.0	8
IMF credit	13.8	11	9.7	6	8.5	4
Swap	7.7	6	7.6	5	7.5	4
Other	0.5	0	0.5	0	0.0	0
Non-Cash	63.8	52	60.6	40	63.9	33
Fixed Rate	0	0	0	0	0	0
Floating Rate	49.5	41	46.7	31	54.1	28
FX-denominated	12.4	10	11.9	8	7.9	4
FX-indexed	1.9	2	2.0	1	1.9	1

Source: Treasury Undersecretariat

The changes in the debt composition that are highlighted in the table on page 16 are significant. In the short span of one year, share of zero-coupon debt in domestic debt has risen from 25% to 35%. The high real interest rate on this portion will not help efforts to reduce the debt to GNP ratio. Moreover, public sector debt has been replaced with market debt. The rollover ratio has been quite high at 93% in 2003.

GROWTH IN GROSS DOMESTIC PRODUCT IN TERMS OF EXPENDITURE (%)

	1997	1998	1999	2000	2001	2002	2003
Private Consumption Exp.	8.4	0.6	(2.6)	6.2	(9.2)	2.0	6.6
Public Consumption Exp.	4.1	7.8	6.5	7.1	(8.5)	5.4	(2.4)
Public Fixed Capital Formation	28.4	13.9	(8.7)	19.6	(22.0)	14.5	(11.5)
Private Fixed Capital Formation	11.9	(8.3)	(17.8)	16.0	(34.9)	(7.2)	20.3
GDP	7.5	3.1	(4.7)	7.4	(7.5)	7.8	5.8

Source: State Institute of Statistics (SIS)

The very tight fiscal stance did not prevent growth targets being attained, thanks to improved confidence and strong tourism revenue. The recovery that started in 1Q02 continues and the year-end official projection of 5% GNP growth is likely to be surpassed. The manufacturing sector has led the way, while agricultural output suffered from the familiar odd-year downturn. 2002 GDP growth of 7.8% was followed by quarterly growth rates of 8.1%, 3.9%, and 4.8%, respectively, in 2003. However, among demand components, inventory build-up constituted more than half of the growth in 9M03. Meanwhile, the drastic positive contribution the external sector (exports - imports) made to the GDP diminished this year. Turkey is becoming a more open economy, but at least in 2003, is not benefiting from export-led growth.

REAL GROWTH BY SECTORS (%)

	1997	1998	1999	2000	2001	2002	2003
Agriculture	(2.3)	8.4	(5.0)	3.9	(6.5)	7.1	(2.5)
Industry	10.4	2.0	(5.0)	6.0	(7.5)	9.4	7.8
Services	8.6	2.4	(4.5)	8.9	(7.7)	7.2	5.6
GDP	7.5	3.1	(4.7)	7.4	(7.5)	7.8	5.8
GNP	8.3	3.9	(6.1)	6.3	(9.5)	7.8	5.9

Source: State Institute of Statistics (SIS)

Although the unemployment picture did not improve in 2003 (with actual declines in the number of jobs), the industrial production figures rose more than 9%.

FOREIGN TRADE (US$ billion)

	1996	1997	1998	1999	2000	2001	2002	2003
Exports	23.2	26.3	27.0	26.6	27.8	31.3	36.1	47.1
Imports	43.6	48.6	45.9	40.7	54.5	41.4	51.6	68.8
Exports/Imports (%)	53.2	54.1	58.7	65.4	51.0	75.7	69.9	68.4
Trade Balance	(20.4)	(22.3)	(18.9)	(14.1)	(26.7)	(10.1)	(15.5)	(21.7)

Source: State Institute of Statistics (SIS)

The 12-month cumulative current account balance peaked at US$ 4 billion surplus in January 2002 and has been worsening for the past 23 months, reaching US$ 6.8 billion deficit in December 2003. The annual 2003 figure could be around US$ 6.2 billion, which is a relative improvement compared to earlier government scenarios as tourism receipts surged and the export performance beat expectations. The export / import ratio appears set to remain above two thirds by year-end. This is well above the 50% pre-crisis level and is necessary to keep an appearance of sustainability given Turkey is now a much more open economy. GNP in US dollar terms is 20% larger than it was in 2000 whereas total foreign trade is up by 38%. The currency weakened in October, but the Turkish lira has recovered its losses since then. The Turkish lira is therefore as strong in real terms as it was in September, before the weakening.

The export / import ratio appears set to remain above two thirds by year-end. This is well above the 50% pre-crisis level and is necessary to keep an appearance of sustainability given Turkey is now a much more open economy.

BALANCE OF PAYMENTS (January-December, US$ million)

	2002	2003	Chg. (%)
Current account	(1,522)	(6,808)	347
Exports (FOB)	40,071	50,755	27
Trunk trade	4,065	3,953	(3)
Imports (FOB)	(47,053)	(62,170)	32
Foreign trade balance	(8,337)	(13,934)	67
Balance of services	7,879	8,936	13
Transport and freight (net)	861	784	(9)
Tourism (net)	6,599	7,563	15
Construction serv. (net)	832	906	9
Other business serv. (net)	(68)	304	Nm
Financial and other serv. (net)	(345	(621)	80
Investments balance (net)	(4,554)	(5,428)	19
Current transfers (net)	3,490	3,618	4
Capital account	1,373	1,587	16
Direct investment	863	79	(91)
Portfolio investment	(593)	2,287	Nm
Other	7,256	3,268	(55)
Net errors & omissions	149	5,221	3.404
Change in official reserves	6,153	4,047	(34)

Source: Central Bank of the Republic of Turkey

The 6th review was completed after some delays and waivers for failing to meet the targets for reduction of excess SEE workers and in the budget. Also after some delays, the 7th review of the stand-by arrangement with the IMF is expected to be completed in April.

The Government's efforts towards EU integration were more determined. Although the Government received some criticism regarding implementation, the general perception was positive and there was a shift in policy (particularly in January 2004) that led to the reopening of talks in Cyprus to reunite the divided island. The markets in general welcome efforts to bring Turkey closer to EU.

Improving consumer and business sentiment, abundant liquidity, and related low interest rates could allow Turkey to maintain its growth rate in the 4-5% range this year. However the poor domestic employment conditions as well as the pressure applied by the uncompetitive Turkish lira on the external balance put a cap on growth and raises questions about its sustainability.

Current account deficit is expected to remain high. Low short-term interest rates will ensure durables and investment demand will be robust. Government expects current account deficit to reach about 3% of GNP. The continued tight stance of the CBRT will also support the speculative demand for Turkish lira.

The early 2004 performance in inflation has been quite encouraging and now we have witnessed the market expectation for 2004 CPI inflation converge to the official 12% target. The attainment of this target hinges on the strength of the Turkish lira and the related administered prices. Fiscal needs could also play a role in indirect taxes as well as administered prices.

In summary, the 2004 macro outlook will be deeply affected by developments in Cyprus and EU fronts, as well as the fate of the IMF programme, which is due to expire at the end of the year. The year started on a positive note, however, as the market expectations regarding growth and inflation appeared to converge to Government targets.

Operating from ten corporate branches, covering a majority of Turkey's economically developed cities, the Corporate Banking Division now serves a diversified portfolio of large-scale business conglomerates.

Original programme of a concert given on 21 March 1910 at the court of Sultan Reşad (1910-18) in Istanbul. Repertoire includes works by Wagner, Bizet, Liszt, Weber and Mascagni. The famous love duet from Tristan und Isolde is sung in the second half.

OVERVIEW OF ACTIVITIES IN 2003

CORPORATE BANKING

The Corporate Banking Division provides services to large-scale Turkish companies and multi-national corporations, offering them a full range of sophisticated banking products. Operating from ten corporate branches, covering a majority of Turkey's economically developed cities, the Corporate Banking Division now serves a diversified portfolio of large-scale business conglomerates.

The Corporate Banking Division strives to offer an ever-expanding range of sophisticated services and products. In a fast changing market environment, it tailors solutions to meet even the most complicated financial requirements of its corporate clients. TEB, operating more like a business partner, facilitates clients' cash flows by utilising innovative cash management services.

Other corporate banking services and products made available by the Corporate Banking Division include foreign trade transactions, electronic banking, project finance, insurance, leasing and factoring. TEB's expertise in import and export transactions differentiates the Bank from its peers and constitutes an important service element to all clients dealing in foreign trade.

The strategy for 2003 was originally set to be the "housebank" of a majority of the clients. This year's strategy builds upon that of the previous year and has been established as "building in-depth relationships with existing customers while broadening the client base." TEB believes this strategy will foster its market share in the corporate banking segment.

In an environment of declining inflation, long-term relationship management, high service quality and business solutions tailored to company-specific needs continue to be important tools. The Corporate Banking Division uses these tools to achieve its goal of being the choice of large-scale companies in Turkey, now and for years to come.

COMMERCIAL BANKING

There is a complete range of commercial banking products and services at TEB, which are designed to meet the clients' entire banking requirements from loans and cash management to investment. The Bank's comprehensive approach contributes to the maximisation of the clients' cash flow and business assets, thus streamlining the financial management process. By providing financial consultancy services, TEB guides commercial clients in their move from general mass-market financial products to services, which are focused to their needs. Efficiency is given particular attention while marketing plans and strategies are geared toward concurrently attaining a balance between profitability for the Bank, on the one hand, and client satisfaction, on the other.

Targeting a broader client base, TEB designed its business policies on the basis of economic developments in 2003. In a highly competitive market, the strategy is to increase the number of commercial clients. Following this strategy, a segmentation process has been started to reach the medium and small-size companies and new commercial branches were added to the existing network, which totalled 52 at year-end. In this context, some branches were moved to more strategic locations in order to enhance TEB's competitive advantage.

The synergy between the Commercial Banking Division, Corporate Banking Division, and the Cash Management Unit continued to grow in 2003. Commercial banking services complement corporate banking services and are delivered to small and medium-size companies that operate as sales outlets, distributors or suppliers to larger companies in the corporate segment.

Close relationship between TEB and the Group companies, i.e. TEB Insurance, TEB Leasing and TEB Factoring, continued in 2003 whereby these financial service companies effectively responded to the needs of the commercial banking clients with services other than conventional banking products.

CASH MANAGEMENT SERVICES

Cash management services complement corporate and commercial banking services and create low cost funding opportunities for the Bank. By further expanding its service and product portfolio offered to corporate and commercial banking clientele under cash management services, TEB has maintained its lead and pioneering role in the marketplace. Cash management services help corporate and commercial clients to manage their time and resources more effectively by organising collections and payments. TEB's cash management services ease accounting, follow-up and collection burdens for companies that sell through a wide network of distributors or regional offices and help them plan their cash flow.

Ever expanding the service scope of cash management, TEB delivers cash management services through a state-of-the-art electronic platform operating online and real-time. TEB's cash management service platform 'TEB Access' was instrumental in developing client-oriented cash management solutions helping to establish long-term multi-faceted relationships with broad-based corporate clientele. Over 6,000 customers use this electronic service platform, TEB Access, at the end of 2003, 34% more than at the end of last year. TEB is placed among the top ten banks in Turkey in terms of cash collections, which increased by 42% over 2002 as a result of diligent marketing activities.

In a marketplace characterised by volatility and intense competition, traditional banking practices need to be complemented with high value-added and technology-driven services. Cash management services at TEB are highly dependent on its IT infrastructure as well as the Bank's organisational capabilities. These systems, specifically developed by TEB, greatly facilitate routine payments, collection and reconciliation processes of companies with their parametric structures.

The Structured Finance Division provides tailor-made advisory, corporate finance and international capital market services including syndicated loans, international capital market issues, project finance, commodity finance and structured trade finance transactions for the Bank and its corporate clients.

The number of companies subscribing to TEB's Continuous Cheques, Direct Debiting, Cheque Automation, Electronic Supplier Payment Systems increased by 50% by the end of 2003. TEB's cheque clearing volume has a market share of 4.2%, ranking it tenth among all banks. Active marketing through branch offices helped to increase the volume of cash collections on behalf of legal entities and utility providers through off-line and/or on-line collection systems in 2003 by 42% over the previous year placing the Bank among the top ten banks in that regard. These services create an important funding source for the Bank in the form of call deposits.

STRUCTURED FINANCE

The Structured Finance Division provides tailor-made advisory, corporate finance and international capital market services including syndicated loans, international capital market issues, project finance, commodity finance and structured trade finance transactions for the Bank and its corporate clients.

In 2003, TEB raised a US$ 125 million syndicated loan facility from international money markets with the participation of 44 international banks. The deal was over-subscribed by 110%; as a result, sizeable cutbacks were requested from the participants.

The Structured Finance Division arranged a two-year syndicated loan facility of US$ 65 million from international markets, for a leading Turkish corporation. This was the first syndicated loan facility arranged by a Turkish bank for a Turkish corporation from international money markets.

In 2003, the Division enhanced its market position in commodity finance activities for Turkey's traditional agro export products, such as tobacco, olive oil, raisins, dry fruits and herbs. The Bank maintained its market lead in tobacco financing, extending around US$ 150 million self-liquidating export finance facilities, raised through bilateral loans from international banks with TEB acting as an agent, guarantor or creditor.

The Structured Finance Division closely monitors international markets and informs clients of opportunities together with advice on tailoring business and financing methods.

RETAIL BANKING

While delivering all traditional consumer banking products and services TEB has emphasised the sales of mutual funds during 2003. This past year was a successful period for TEB in the area of retail banking as it focused on the needs of target clientele while improving the scope and quality of its products and services.

OVERVIEW OF ACTIVITIES IN 2003 CONTINUED

Credit and Debit Cards

TEB targeted low risk clients and aimed to position its credit cards as their first choice. The marketing strategy was geared to increasing the volume of spending made by TEB credit cards while raising customer loyalty. Total spending made by TEB credit cards increased by 30% in 2003. To complement its credit card portfolio, TEB launched TEB Elit credit cards in 2003 for its high net worth customers.

Consumer Credits

Consumer lending activities continued flawlessly during the year, due in part to the careful credit evaluation process to which TEB adheres. Consumer credits made up 6.5% of the total credit portfolio in 2003 and were allocated at competitive interest rates.

Alternative Distribution Channels

TEB offers a number of retail banking services via the Internet, a call centre and ATMs, which serve as alternatives to branches. TEB enjoyed a rapid increase in the number of customers and transaction volume through these channels in 2003, with the help of newly added services and promotional campaigns. In 2003, a new web banking infrastructure project, which will enable TEB's non-native customers in Turkey get fast and secure multi-lingual banking service, has been completed. TEB will continue adding new services to its alternative delivery channels in an effort to attract more clients.

MUTUAL FUNDS

Asset management has always been an area of substantial significance at TEB. The Bank has been a pioneer with regard to the introduction of new products to the mutual fund business. Key elements in TEB's mutual fund strategy have been the generation of new products and the diversification of distribution channels coupled with expansion of the customer base.

In 2003, along the lines dictated by its growth strategy, TEB continued to strengthen its position in the market by offering mutual funds from all of its alternative distribution channels and launching new mutual fund-related products. TEB will continue to expand its share in the funds market in 2004, by providing individual and institutional customers mutual funds, which best cater to their financial needs and risk-return profiles. In addition to alternative delivery channels, Citibank is another distribution channel for TEB mutual funds.

Since the launch of its first mutual fund in 1993, TEB has become one of the leading mutual fund management institutions in Turkey.

In 2003, TEB began selling four ABN Amro Bank mutual funds aiming at deeper penetration into the market by offering mutual funds from other financial institutions. This gave TEB customers a wider range to chose from while having the opportunity to access international funds that best match their risk behaviour.

Since the launch of its first mutual fund in 1993, TEB has become one of the leading mutual fund management institutions in Turkey. The management of these funds is subcontracted to TEB Asset Management, which has merged in early 2004 with ABN Amro Asset Management. This move will help TEB add new types of mutual funds to its product portfolio.

Total assets under management was US$ 205 million (including private funds) at the end of 2002. At the end of 2003, total assets under management reached US$ 350 million.

PERFORMANCE OF TEB MUTUAL FUNDS

Type of Fund	2003 Price Appreciation (%)	2003 Year-end Net Asset Value (US$ million)
TEB A-Type Variable Fund	72.69	3.5
TEB A-Type Mixed Fund	74.02	13.2
TEB B-Type Liquid Fund	55.15	223.4

Although TEB Asset Management, a subsidiary, manages the funds, the Bank tightly monitors the operations via a joint committee of executives from the Bank and TEB Investment. This committee oversees performance and sets the basic investment criteria. The overriding principle in fund management is to generate above market-level returns while maintaining a well-balanced portfolio of financial instruments, assuring high liquidity to the investor. Ability to provide efficient service and reliable information are also essential features of TEB mutual funds. Ernst and Young is the independent auditor for all TEB and TEB Investment funds.

PRIVATE BANKING

TEB pioneered private banking services in Turkey in the 1980s and, as the first Bank to offer such services through dedicated branch offices, has maintained its lead in the business ever since, strengthening its market position. Lately, private banking has become an area of involvement for many local banks in an effort to make up for shrinking interest spreads in face of improving economic dynamics. Among its competitors, TEB stands out for the quality of its services, efficient set-up and seasoned personnel accompanied with a high level of achievement in relationship banking. TEB's strong market positioning and reputable brand name are significant elements attracting private banking clients and enhancing TEB's private banking franchise.

After completion of the restructuring in 2002, the service format was an emphasised Private Banking Centre, complemented with a unit in Izmir and in Etiler, Istanbul. This centralised format enables the private banking team to concentrate on individuals possessing assets above a certain level and to deliver them high quality services and a large variety of products.

In 2003, the primary focus for private banking was on the synergy that would be created within related business units. Intensifying its strength in relationship banking, the Private Banking Division's sales strategy is mostly based on the new channels that will emerge through this synergy. Through co-operation with corporate and commercial banking branches, the Division added new clientele to its portfolio, while creating added value for these branches. Clients referred to the Private Banking Centre are mostly the owners, shareholders and executives of companies included in TEB's corporate or commercial banking activities.

In 2004, private banking team will continue to work in close collaboration with all TEB branches in Turkey to make private banking services available countrywide; however, the emphasis will inevitably be on specific geographical areas.

TEB's private banking strategy for 2003 can be outlined as recreating the private banking concept, getting a strong foothold in competition and achieving strong market penetration in this segment, in terms of the number of new clients acquired and total assets under management. All strategic targets were achieved successfully in 2003 and the same strategies will be pursued in 2004 with the addition of synergistic co-operation with TEB Portfolio Management. The highlight here is the physical proximity of the new offices, and the similar philosophy behind the tailor made, creative solutions. The underlying co-operation is planned to succeed in capturing the required perfectionist approach to wealth management.

Wide ranging techniques and approaches used under the perspective of wealth management can be utilised by expert investors as legally and fiscally efficient investment strategies through discretionary or non-discretionary portfolio management services. According to the preferences and expectations of the clients, TEB's Private Banking Division constantly fine-tunes its product range.

TEB's private banking strategy for 2003 can be outlined as recreating the private banking concept, getting a strong foothold in competition and achieving strong market penetration in this segment, in terms of the number of new clients acquired and total assets under management.

Clients receive a summary report on economic outlook and investment opportunities to help them base their investment decisions. In addition, a detailed performance report is delivered including a portfolio statement, updating the value of assets with all relevant transactions clearly documented. TEB's private banking team believes protecting asset value depends on exact performance measurement, accompanied by a coherent performance reporting system.

TREASURY

Combining the Division's success in treasury operations and the Bank's excellent relationship with correspondent banks, TEB was able to boost its foreign trade and invisibles transactions in the Turkish market, increasing the share of its FX-trading volume in the local market to unprecedented levels.

The know-how of TEB in the foreign exchange market was one of the main reasons that the Bank's share of Turkish foreign trade FX transactions reached 6% of the national total. As one of the founding member banks of the TRLIBOR, the money market reference rate, TEB also strengthened its position in money market operations during 2003.

The Treasury Marketing Unit (TMU) has been able to include potential commercial banking customers in its active client portfolio in tandem with the Bank's marketing strategy. The TMU has advised its clients of probable foreign exchange rate and parity risk and has presented them with hedging tools to manage their risk more efficiently in this regard.

INTERNATIONAL

TEB's share in the country's total international trade continued to increase as in previous years, however 2003 was a record-breaking year for TEB. Thanks to the strong position it enjoys in both the local and international markets, this rising trend is a reflection of the clients' appreciation of the service quality of TEB in trade finance, which is directly associated with its international credibility and reputation. Due to its high liquid position, TEB's need for international borrowing was limited in 2003, despite the availability of large cash facilities from international financial institutions. However, in line with its policy to support Turkish exporters, the Bank decided to renew its syndicated facility in October.

In 2003, TEB continued to provide its clients with medium-term buyers' loans under Export Credit Agencies' (ECAs) insurance schemes. The demand, which emerged in 2001 and 2002 for such financing products, continued also throughout 2003. The Bank intermediated several ECA transactions and supported the investment and expansion projects of several companies.

TEB's share in the country's total international trade continued to increase as in previous years, however 2003 was a record-breaking year for TEB.

Voyage d'un Harpiste en Orient; a collection of solo pieces for the harp by the harpist Parish Alvars based on traditional Turkish songs. Published in London by T. Boosey & Co (circa 1845).

OVERVIEW OF ACTIVITIES IN 2003 CONTINUED

TEB has always been successful in sustaining its high credibility even during severe economic crisis periods and thus has been able to expand capabilities to serve its clients in their international trade activities.

BANKNOTE TRADING

In 2003, TEB maintained its market share and position in the foreign banknote business reaching a trading volume of US$ 2.9 billion and providing service in ten cities. With its experience and service quality, TEB keeps being one of the top players in foreign banknote trading in Turkey.

PRECIOUS METALS

TEB is one of the leading members of the Istanbul Gold Exchange and the domestic market in gold bullion trading, having a share of 28% of Turkey's total gold imports in 2003.

TEB Precious Metals, a subsidiary of the Bank, is also one of the major traders in the silver business with 23 tons, representing a 9% market share. The Company imported 21 tons of silver in 2003, reaching a market share of 14%.

OPERATIONS

TEB has taken great strides in the centralisation project during 2003, that was initiated in 2001. Currently, all foreign trade transactions and credit operations are fully centralised as are the EFT transactions for Istanbul branches. The centralisation project will continue throughout 2004 transferring some other major activities to the centralised operations platform. Additionally, a number of new projects were initiated by the Centralised Operations Division including the Regulations Consultation Line.

The Regulations Consultation Line

The Regulations Consultation Line, launched in January 2003, is a first of its kind in Turkey's banking industry. Accessible via the telephone number (444 0 TEB ext. 832), this service is available to all, whether a TEB customer or not, requiring information on the Turkish and international trade regulations. A free-of-charge service, the Regulations Consultation Line is used extensively by TEB clients.

Awards

The Centralised Operations Division received two awards in 2003 from TEB's correspondent banks abroad. These awards were given to TEB as a result of evaluations made by Citibank and Deutsche Bank on the quality of payment orders they received from TEB during 2003. The 95% faultless ratio on payment orders was the main reason why these correspondent banks chose to reward TEB in 2003.

In 2003, the number of international transactions handled by TEB increased by 23% over the previous year; an increase of 34% in terms of US dollar amounts.

RISK MANAGEMENT

The Internal Control and Risk Management Division was established in 2001 as part of revising the Bank's risk management and internal control systems and initiating another body that works alongside the Board of Internal Auditors.

Internal control and risk management are independent functions; both report to the executive board member responsible for internal control and risk management in line with the BRSA regulation.

The risk management function oversees the analysis, identification, measurement, monitoring, reporting and controlling of risk through the establishment and application of risk management policies, guidelines and rules within principles set forth by the top management and approved by the Board of Directors. The ultimate goal of the risk management function is to safeguard TEB's assets by maintaining the balance between cost and risk in consistence with the Bank's aims and strategies.

As part of its overall strategy, TEB seeks controlled growth in line with current economic developments, a capital adequacy ratio exceeding the industry average, prudent credit allocation policies, high asset quality as well as high liquidity levels. TEB maintains its strong financial position coupled with an adequate "return on capital" ratio that parallels ongoing macroeconomic trends.

Market Risk

Market risk refers to the risk of loss resulting from volatility in interest rates, exchange rates, equity prices and commodity prices that arise from the Bank's trading, investment and funding activities.

The Market Risk Department measures interest and foreign exchange risk arising from the positions held by the Bank using the standard method. TEB also adopted an internal risk management system for its own decision making processes. Value at risk (VaR) methods (Historical Simulation, Monte Carlo and VarCovar) are applied to estimate the potential loss arising from portfolios with a predetermined probability and holding period, using market movements.

Scenario analysis and stress tests are applied to portfolios on a regular basis to estimate the impact of past extreme market movements and hypothetical scenarios on financial positions. Back testing is used to test the accuracy of VaR models. Treasury trading and stop loss limits, approved by the Board of Directors, are monitored and reported daily by the Market Risk Department.

As part of its overall strategy, TEB seeks controlled growth in line with current economic developments, a capital adequacy ratio exceeding the industry average, prudent credit allocation policies, high asset quality as well as high liquidity levels.

The Bank's asset and liability management process is designed to maintain a balance between enhancing interest revenue and maintaining strong liquidity within a framework of sound and prudent practices. Asset-liability ratio, liquidity and gap limits, approved by the Board of Directors, are monitored and reported by the Market Risk Department. The ALCO decisions are supported by risk management reports, which include duration and gap analysis.

Credit Risk

Credit risk is the potential for loss when a client or counter-party fails to meet its obligation to repay the Bank.

The Credit Allocation Department works in strict adherence to the Bank's traditionally prudent credit allocation and review policies whereby all credit clients are assigned in-house ratings. Distribution of credit risk within rating categories and industry groups is monitored periodically. Counter-party limits are reviewed regularly by the Credit Allocation Committee and the Bank's credit exposure and its subsidiaries are monitored daily by the Credit Risk Department.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems and/or from external events. This definition includes legal risk but excludes strategic, reputation and systemic risk.

TEB is applying policies and procedures to meet the standards of the Basel Committee, ensuring the strict observance of the internal code of conduct and developing an internal control culture. Compliance with legal rules, information security, fraud prevention, incident management and contingency planning and disaster recovery are the main subjects of the operational risk mitigation controls.

Disaster Recovery and Business Continuity

Establishing a disaster recovery and business continuity plan that covers business and technology operations, TEB has maintained a leading position in this regard, in the banking sector.

As part of the business continuity plan, TEB's disaster recovery project, which started in the previous year, was completed in 2003. This project was realised with hardware and network installations at the Bank's Izmir premises and with all the necessary software adjustments for real-time data mirroring. In addition to an education and awareness programme for the entire organisation, a full test of the plan that involved systems and people was carried out at the alternate site in September to ensure the successful applicability of TEB's business continuity plan. In 2003, TEB also started disaster recovery projects at its subsidiaries as part of its strategy to build an integrated disaster recovery and business continuity plan.

INFORMATION TECHNOLOGY

With ongoing development efforts in 2003, several enhancements have been implemented in TEBIS II, a complete in-house developed core banking application. Additionally, many new infrastructure applications have been developed or provided and integrated into the existing system during 2003.

On the infrastructure side, the most important project was the acquisition of a new high-end UNIX server system, which was installed in May 2003. The new server, which is highly scalable and expandable for forthcoming performance requirements, will provide the extra power and performance for banking applications necessitated by enlarged business volumes.

On the software side, the EMV Acquiring project was initiated for credit cards and POS applications. It is slated for completion in 2004. A decision was made to change the underlying software technology of TEB's Internet banking application with Java and JSP as the new high performance front-end that will be more secure and easily customized. The project was launched in mid-2003 and is planned for production in February 2004.

HUMAN RESOURCES

With regard to staffing and organisational structure, TEB's primary consideration has always focused on efficiency, productivity and practices capable of achieving both. The number of personnel increased from 1,673 at the end of December 2002 to 1,849 at the end of December 2003, paralleling the emphasis TEB placed on marketing staff and augmenting the diversity of products and services on offer.

In 2003, improvements were made in the salary and benefits scheme for upper-level management and branch managers. The performance evaluation criteria for these management levels were expanded to include the Bank's profit, market share, synergy created with TEB's financial subsidiaries and employee satisfaction.

TEB is applying policies and procedures to meet the standards of the Basel Committee, ensuring the strict observance of the internal code of conduct and developing an internal control culture.

In 2003, training programmes concentrated more on marketing, sales, products, client relations and communications. TEB promoted the usage of e-learning (virtual training centre) through the Intranet and achieved an annual 60 hours of classroom and Intranet training per employee.

INVESTOR RELATIONS

During 2003, TEB continued its market-oriented approach to increase visibility and recognition by both domestic and international investors. To this end, the Investor Relations Division arranged three road shows and participated in an investor forum organised by well-known international investment houses. The road shows were held in London, New York, Connecticut and Boston. Representatives of institutional investors operating in developed markets visited TEB's headquarters in Istanbul; consequently managers from the Investors Relations Division visited some 70 investors abroad.

The Investor Relations Division continued its programme of quarterly tele-conferences and arranged three similar events during 2003 to inform investors of quarterly results and developments in the Bank's operations and performance.

Another initiative by the Investor Relations Division was to arrange the first analysts' meeting in Istanbul. As a pleasing outcome of this meeting, the number of research reports commenting on TEB's shares increased significantly and five special reports about TEB, produced by local and international analysts, were published during 2003.

The presence and availability of TEB financial services beyond national borders is yet another indication of TEB's aim to become the EU market's Turkish Market Specialist.


The Last Night of performing till the Holidays.

Theatre Royal, Covent-Garden.

This present SATURDAY, Dec. 22, 1827.

The SERAGLIO.

Die Entführung aus dem Serail.

MAHOMETANS.

Ibrahim, Mr. WARDE.

Malek (a veteran Officer) Mr. EGERTON,

Mozetur, Mr. TURNOUR.

Zayde, Miss HENRY.

GREEKS.

Mr. CLAREMONT.

Mr. BAKER.

Mr. HENRY.

Doris, Miss CAWSE.

FOREIGNERS.

Mr. SAPIO.

Mr. POWER.

Pedrillo, Mr. WRENCH.

Miss HUGHES.

Madame VESTRIS.

SUCCESSION OF THE SCENERY.

The RUINS of the TEMPLE of BACCHUS.—Morning—Sun-rise

3 The BASSA's PALACE and CANAL, on which the GONDOLA

6. Ruins of the Temple of Bacchus, by Moonlight.

3. Exterior of Women's Apartments in the Seraglio, with Garden by Moonlight.

6. The PALACE of the BASSA, overlooking the Bay.

THE SCAPE-GOAT.

A hand-bill dated 22 December 1827 for the Theatre Royal, Covent Garden, advertising The Seraglio, an adaptation of Mozart's famous opera Die Entführung aus dem Serail.

TEB FINANCIAL SERVICES GROUP

TEB N.V. (The Economy Bank N.V.)

TEB N.V., a wholly owned subsidiary of TEB, became operational in Amsterdam, in November 1998. The synergy created between TEB Financial Services Group companies and TEB N.V. helped to develop the entire Group's activities.

The Bank offers foreign trade finance, corporate banking, private banking and correspondent banking services. The presence and availability of TEB financial services beyond national borders is yet another indication of TEB's aim to become the EU market's Turkish Market Specialist.

TEB N.V. has a paid-up capital of € 30 million and is 100% owned by TEB.

TEB Investment (TEB Yatırım Menkul Değerler A.Ş.)

TEB Investment is the Bank's investment banking subsidiary and provides corporate finance, fixed income and equity brokerage services to Turkish and international institutional and retail investors.

TEB Investment enjoys a significant origination capacity for corporate finance transactions and has the financial strength to underwrite security issues.

TEB Investment has a paid-up capital of TL 12,950 billion, of which 74.80% belongs to TEB.

TEB Leasing (TEB Finansal Kiralama A.Ş.)

The Bank's long-term equipment financing subsidiary, TEB Leasing, provides financial leasing services to clients investing in machinery and equipment. Since its establishment in 1997, the Company has been able to secure itself a leading position in the sector in terms of financial aggregates. Its business philosophy is to identify the adequate financing method that best meets the requirements of the customer's investment project.

TEB Leasing has a paid-up capital of TL 29,500 billion, of which 68.76% belongs to TEB.

TEB Factoring (TEB Factoring A.Ş.)

As a further step toward the Bank's objective of becoming a fully integrated financial services group, TEB Factoring was established in 1997 to provide both domestic and international factoring services. A member of FCI - Factors Chain International, TEB Factoring is a leading player in export-related and forfaiting transactions.

TEB Factoring has a paid-up capital of TL 6,200 billion, of which 69.40% belongs to TEB.

TEB FINANCIAL SERVICES GROUP CONTINUED

TEB Insurance (TEB Sigorta A.Ş.)

TEB's non-life insurance subsidiary, TEB Insurance, provides risk coverage to clients in the areas of fire, marine, accident and engineering insurance.

TEB Insurance was the first Turkish insurance company to be rated by an international rating agency. FitchRatings awarded an 'A- (tur)' rating to TEB Insurance in January 2001, which was interpreted as a major event in the Turkish insurance industry. Since then, TEB Insurance has retained this favourable rating.

TEB Insurance has a paid-up capital of TL 10,000 billion, of which 50% belongs to TEB.

TEB Asset Management (TEB Portföy Yönetimi A.Ş.)

The management of TEB's mutual funds, which had been the responsibility of TEB Investment until January 2000, was turned over to TEB Asset Management with a view toward enhancing efficiency and independence. TEB Asset Management is one of the country's larger fund managers and has an extensive Internet distribution capacity. The Company has a marketing agreement with Citibank.

In early 2004, TEB Asset Management merged with ABN Amro Asset Management and the merger was registered at the Trade Registrar's Office on January 12, 2004.

TEB Asset Management has a paid-up capital of TL 1,500 billion, of which 55.87% belongs to TEB.

TEB Precious Metals (TEB Kıymetli Madenler A.Ş.)

TEB Precious Metals is involved in importing and domestic trading of precious metals. It is the leading gold trading company on the Istanbul Gold Exchange with a market share of 28% in imports. It is also one of the major traders of silver in Turkey with 23 tons, representing a market share of 9%.

TEB Precious Metals has a paid-up capital of TL 100 billion, of which 66% belongs to TEB.

Varlık Investment Trust (Varlık Yatırım Ortaklığı A.Ş.)

Varlık Investment Trust is a closed-end mutual fund whose shares are traded on the ISE. The Company was incorporated in early 1998, following the approval of the Turkish Capital Markets Board.

Varlık Investment Trust has a paid-up capital of TL 1,000 billion, of which 24.40% belongs to TEB.

Türk Ekonomi Bankası
Anonim Şirketi

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH REPORT OF INDEPENDENT AUDITORS DECEMBER 31, 2003

ERNST & YOUNG

Güney S.M.M.M. A.Ş.
Büyükdere Cad. Beytem Plaza
No: 22 K: 9-10, 34381 - Şişli
İstanbul - Turkey

Phone : (212) 315 30 00
Fax : (212) 230 82 91
www.ey.com

To the Board of Directors of
Türk Ekonomi Bankası Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Türk Ekonomi Bankası Anonim Şirketi (the Bank - a Turkish corporation) and its subsidiaries as of December 31, 2003 and the related consolidated income, changes in equity and cash flow statements for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2003. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Türk Ekonomi Bankası Anonim Şirketi and its subsidiaries as of December 31, 2003 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

March 11, 2004
Istanbul, Turkey

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED BALANCE SHEET
As at December 31, 2003

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Notes	2003	2002
ASSETS			
Cash and balances with the Central Bank	4	580,112	490,825
Deposits with banks and other financial institutions	4	837,746	1,184,520
Other money market placements	4	434,685	471,864
Reserve deposits at the Central Bank	5	149,601	151,625
Trading securities	6	52,488	61,130
Investment securities	6	91,936	65,226
Originated loans and advances	7	1,725,282	1,511,509
Factoring receivables	8	114,223	76,304
Minimum lease payments receivable	9	151,054	97,740
Derivative financial instruments	17	4,385	4,624
Premises and equipment	10	48,462	48,253
Intangible assets	11	4,213	4,264
Deferred tax assets	16	5,458	-
Other assets	12	43,556	34,284
Total assets		**4,243,201**	**4,202,168**
LIABILITIES AND EQUITY			
Deposits from other banks	13	153,979	120,401
Customers' deposits	13	2,919,778	3,092,651
Other money market deposits	13	15,436	26,011
Funds borrowed			
- Subordinated debt	14	21,151	28,393
- Other funds borrowed	14	594,585	449,686
Factoring payables	8	64,601	31,884
Derivative financial instruments	17	7,113	5,205
Other liabilities and provisions	15	113,915	123,649
Income taxes payable	16	8,979	15,264
Deferred tax liability	16	-	2,372
Total liabilities		**3,899,537**	**3,895,516**
Minority interest		**17,700**	**13,556**
Share capital issued	18	55,125	55,125
Adjustment to share capital	18	214,998	214,998
Currency translation differences		1,855	7,192
Legal reserves and accumulated profits (deficit)	19	53,986	15,781
Total equity		**325,964**	**293,096**
Total liabilities and equity		**4,243,201**	**4,202,168**

The accompanying policies and explanatory notes on pages 44 through 85 form an integral part of the consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2003

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Notes	2003	2002
Interest income			
Interest on originated loans and advances		218,786	235,061
Interest on securities		25,017	66,705
Interest on deposits with banks and other financial institutions		45,126	71,355
Interest on other money market placements		87,268	97,254
Interest on financial leases		27,606	26,060
Other interest income		21,497	20,521
Total interest income		**425,300**	**516,956**
Interest expense			
Interest on deposits		(185,838)	(204,457)
Interest on other money market deposits		(16,218)	(32,728)
Interest on funds borrowed		(35,359)	(57,172)
Other interest expense		(12,672)	(1,604)
Total interest expense		**(250,087)**	**(295,961)**
Net interest income		**175,213**	**220,995**
Provision for possible loan, lease, factoring and other receivables losses	7, 8, 9	(4,609)	(17,325)
Net interest income (expense) after provision for possible loan, lease, factoring and other receivables losses		**170,604**	**203,670**
Foreign exchange gain (loss)		(2,675)	(16,383)
Net interest income after foreign exchange gain (loss) and provision for possible loan, lease, factoring and other receivables losses		**167,929**	**187,287**
Other operating income			
Fees and commissions income		30,707	28,159
Income from banking services		22,339	23,523
Trading income (loss)		43,307	24,738
Other income	23	24,194	19,943
Total other operating income		**120,547**	**96,363**
Other operating expense			
Fees and commissions expense		(16,586)	(19,686)
Salaries and employee benefits	22	(75,571)	(68,477)
Depreciation and amortization	10, 11	(14,652)	(15,533)
Taxes other than on income		(12,850)	(14,869)
Other expenses	23	(54,277)	(56,288)
Total other operating expense		**(173,936)**	**(174,853)**
Profit from operating activities before income tax, monetary gain (loss) and minority interest		**114,540**	**108,797**
Income tax	16	(30,780)	(32,278)
Monetary gain (loss)		(28,118)	(48,616)
Net profit from ordinary activities		**55,642**	**27,903**
Minority interest		(1,109)	(1,073)
Net profit		**54,533**	**26,830**
Earnings per share			
Basic		495	244

The accompanying policies and explanatory notes on pages 44 through 85 form an integral part of the consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2003

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Notes	Share capital	Adjustment to share capital	Currency translation differences	Legal reserves and accumulated profits (deficit)	Total
At January 1, 2002		**55,125**	**469,784**	**5,880**	**(265,835)**	**264,954**
Accumulated losses netted off	18	-	(254,786)	-	254,786	-
Currency translation differences		-	-	1,312	-	1,312
Net profit for the year		-	-	-	26,830	26,830
At December 31, 2002		**55,125**	**214,998**	**7,192**	**15,781**	**293,096**
Dividend distribution		-	-	-	(16,328)	(16,328)
Currency translation differences		-	-	(5,337)	-	(5,337)
Net profit for the year		-	-	-	54,533	54,533
At December 31, 2003		**55,125**	**214,998**	**1,855**	**53,986**	**325,964**

The accompanying policies and explanatory notes on pages 44 through 85 form an integral part of the consolidated financial statements.

Türk Ekonomi Bankası Anonim Şirketi
CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2003

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	2003	2002
Cash flows from operating activities		
Interest received	431,560	536,418
Interest paid	(244,076)	(314,209)
Dividend received	171	-
Fees and commissions received	30,707	28,159
Income from banking services	22,339	23,523
Trading income (loss)	43,307	24,738
Recoveries of loans previously written off	3,244	1,144
Fees and commissions paid	(16,586)	(19,686)
Cash payments to employees and other parties	(75,571)	(68,477)
Cash received from other operating activities	20,779	19,943
Cash paid for other operating activities	(67,078)	(71,157)
Income taxes paid	(52,928)	(45,788)
Cash flows from operating activities before changes in operating assets and liabilities	**95,868**	**114,608**
Changes in operating assets and liabilities		
Net (increase) decrease trading securities	1,189	(50,862)
Net (increase) decrease in reserve deposits at the Central Bank	(18,620)	859
Net (increase) in originated loans and advances	(213,773)	(135,825)
Net (increase) decrease in factoring receivables	(48,344)	(17,243)
Net (increase) decrease in minimum lease payments receivable	(66,775)	(27,278)
Net (increase) decrease in other assets	(14,491)	(4,699)
Net increase (decrease) in deposits from other banks	49,422	18,698
Net increase in customers' deposits	(172,873)	683,760
Net increase (decrease) in other money market deposits	(7,562)	(276,739)
Net increase in factoring payables	37,460	15,700
Net increase (decrease) in other liabilities	8,124	(9,954)
Net cash from operating activities	**(350,375)**	**196,417**
Cash flows from investing activities		
Purchases of available-for-sale securities	-	(19,963)
Proceeds from sale and redemption of available-for-sale securities	17,236	174,919
Purchases of held to maturity securities	(55,766)	(45,264)
Proceeds from redemption of held to maturity securities	3,773	56,302
Disposal of subsidiaries and associates net of cash disposed	-	(550)
Purchases of premises and equipment	(15,786)	(17,393)
Proceeds from the sale of premises and equipment	2,135	1,849
Purchase of intangible assets	(1,618)	(2,112)
Net cash provided by (used in) investing activities	**(50,026)**	**147,788**
Cash flows from financing activities		
Proceeds from funds borrowed	520,444	400,414
Repayments of funds borrowed	(382,523)	(445,470)
Dividends paid	(16,328)	-
Net cash provided by (used in) financing activities	**121,593**	**(45,056)**
Effect of net foreign exchanges difference and monetary gain (loss) on cash and cash equivalents	(17,569)	(49,750)
Net increase in cash and cash equivalents	(296,377)	364,007
Cash and cash equivalents at beginning of year (Note 4)	2,111,334	1,747,327
Cash and cash equivalents at end of year (Note 4)	**1,814,957**	**2,111,334**

The accompanying policies and explanatory notes on pages 44 through 85 form an integral part of the consolidated financial statements.

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası A.Ş. (a Turkish joint stock company – TEB, the Bank) was incorporated in Turkey. Certain shares of the Bank, representing 20% of the total, are listed on the Istanbul Stock Exchange since February 2000. The registered office address of TEB is at Meclis-i Mebusan Caddesi, No: 35, Fındıklı-İstanbul/Turkey. The Bank was originally incorporated in 1927 and in 1982 was acquired by the Çolakoğlu Group and renamed as Türk Ekonomi Bankası A.Ş.

The consolidated financial statements of the Bank were authorized for issue by the management on March 11, 2004. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue. The parent and the ultimate parent of the Bank is TEB Mali Yatırımlar A.Ş.

Nature of Activities of the Bank / Group

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

The operations of the Group consist of banking, leasing, factoring, insurance, brokerage and portfolio management in capital markets, which are conducted mainly with local customers.

The Bank provides banking services through 76 (2002-74) branches and 1,847 employees (2002 – 1,673) (excluding the subsidiaries) as of December 31, 2003 in Turkey. Also the Bank has an offshore branch in Bahrain with 2 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. The consolidated financial statements have been prepared on a historical cost convention except for the measurement at fair value of derivative financial instruments, trading securities and available-for-sale financial assets.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. In accordance with the accounting and reporting standards issued by the Banking Regulation and Supervision Agency (BRSA) effective July 1, 2002 and October 1, 2002, the Bank is required to apply restatement for the changes in the general purchasing power of Turkish lira and other standards which aim to align statutory accounting standards with IFRS, in its statutory financial statements. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of deferred taxation and employee termination benefits.

Reclassifications on 2002 Financials

The Group has made certain reclassifications in the consolidated financial statements as of December 31, 2002 to be consistent with the current year presentation. Such reclassifications relate to certain classifications in asset accounts and are made primarily to be consistent with the current year presentation.

Measurement and Reporting Currency and Translation Methodology

Measurement and Reporting Currency and Translation Methodology for the Bank and Its Subsidiaries, Which Operate in Turkey:

Measurement currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The restatement for the changes in the general purchasing power of TL as of December 31, 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods 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%. As of December 31, 2003, the three-year cumulative rate has been 181.1% (2002 - 227.3%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three-year period ended December 31, 2003 are given below:

Dates	Index	Conversion Factors
December 31, 2001	4,951.7	1.491
December 31, 2002	6,478.8	1.139
December 31, 2003	7,382.1	1.000

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

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2003.

- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2003 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.

- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property transferred to share capital from the date they were contributed.

- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity (except for the statutory revaluation surplus which is eliminated) are restated by applying the relevant conversion factors.

- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).

- all items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortization).

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Measurement and Reporting Currencies of Foreign Subsidiaries:

As of December 31, 2003 and 2002, the foreign subsidiaries (Economy Bank and Petek International) adopted EURO as their measurement and reporting currency.

The foreign subsidiaries are regarded as foreign entities since they are financially, economically and organizationally autonomous.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The consolidated financial statements of the Group include the Bank and its subsidiaries, which it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The subsidiaries included in consolidation and their shareholding percentages at December 31, 2003 and 2002 are as follows:

		Effective Shareholding and Voting Rights %	
	Place of Incorporation	2003	2002
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
Petek International Holdings B.V. (Petek International)	Netherlands	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey/İstanbul	99.5	99.5
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey/İstanbul	92.1	91.8
TEB Factoring A.Ş. (TEB Factoring)	Turkey/İstanbul	73.5	70.8
TEB Finansal Kiralama A.Ş. (TEB Leasing)	Turkey/İstanbul	72.7	72.5
TEB Sigorta A.Ş. (TEB Sigorta) (*)	Turkey/İstanbul	50.0	50.0

(*) The management of the Company is controlled by the Bank representatives.

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank - Commercial bank, which deals mainly foreign trade finance, corporate banking, private banking and correspondent banking services (incorporated in the Netherlands).

Petek International - Private holding company (incorporated in the Netherlands).

TEB Yatırım - Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Market Board of Turkey (incorporated in Turkey).

TEB Portföy - Managing the Bank's mutual funds, which are made up of the capital market instruments according to the rules of the related regulation and the Capital Market (incorporated in Turkey).

TEB Leasing - Providing financial leasing services to corporate clients, investing in industrial machinery and equipment, various equipment and transport vehicles (incorporated in Turkey).

TEB Factoring - Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey (incorporated in Turkey).

TEB Sigorta - Rendering all types of property and casualty insurance services (incorporated in Turkey).

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

Dates	TL (full) / USD	TL (full) / EUR
December 31, 2001	1,446,638	1,268,115
December 31, 2002	1,639,745	1,718,945
December 31, 2003	1,393,278	1,757,480

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are also translated at year-end exchange rates, which is considered as a proxy to restate such income statement amounts at year-end purchasing power of TL. Differences resulting from the deviation between the inflation rate and the appreciation of foreign currencies against the Turkish Lira related to equity accounts of consolidated subsidiaries were taken to shareholders' equity as a translation gain (loss).

Premises and Equipment

Premises and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

The initial cost of premises and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period in the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of premises and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and land improvements	50 years
Machinery and equipment	5 years
Office equipment	5 years
Furniture, fixtures and vehicles	5 years
Leasehold improvements	Lease period

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the income statement. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of premises and equipment.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. The Group maintains three separate securities portfolio, as follows:

Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted average bid prices. All related realized and unrealized gains or losses are recognized in trading income / (loss), net.

Held-to-maturity securities

Investment securities with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Held-to-maturity investments include debt securities, primarily government bonds and treasury bills, initially recognized at cost, which is the fair value of consideration given for them and are carried at amortized cost using the effective yield method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held-to-maturity securities is reported as interest income.

Available-for-sale securities

All other investments are classified as available-for-sale. Available-for-sale securities are subsequently carried at fair value. Gains or losses on remeasurement to fair value are recognized in income.

Available-for-sale securities also include debt securities, primarily government bonds and treasury bills. Debt securities classified as 'available-for-sale' are stated at fair values, with any resulting gain/(loss) recognized in the statement of income. Fair value is determined by reference to their quoted market prices at the balance sheet date.

Foreign currency denominated debt securities are valued at their closing prices and translated at the foreign currency year-end rate of exchange at the balance sheet date.

Interest earned on available-for-sale investments is reported as interest income. Dividends received are included in dividend income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

Repurchase and Resale Transactions

The Group enters into short-term sales of securities under agreements to repurchase such securities. Such securities, continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio to which they relate. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement.

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.

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion financial asset. The Group derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expired.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Originated Loans and Advances to Customers

Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as loans originated by the Group and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognized when cash is advanced to borrowers.

Provisions for Possible Loan, Lease and Factoring Receivable Losses

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectible amounts in the Group's loan and receivable portfolio and losses under guarantees and commitments. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan; such loans are considered impaired and classified as "loans in arrears".

The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. On the portfolio basis, management estimates that a 1.5% lump sum allowance over net investments in direct financing leases to third parties (excluding related parties) is adequate to cover future, potential or unforeseen uncollectible amounts in rentals receivable and in the net investment in direct financing leases.

The Group ceases to accrue interest on those loans that are classified as "loans in arrears" and for which the recoverable amount is determined primarily in reference to fair value of collateral.

The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance for impairment account. A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write offs are charged against previously established allowances and reduce the principle amount of a loan. Recoveries of loans written off in earlier periods are included in income.

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 for loan losses expense. Unwinding of the discount is treated as income and remaining provision is then reassessed.

Deposits and Funds Borrowed

Deposits and funds borrowed are initially recognized at cost. After initial recognition, all interest bearing liabilities are subsequently measured at amortized cost using effective yield method, less amounts repaid. Amortized cost is calculated by taking into account any discount or premium on settlement. Gain or loss is recognized in the income statement when the liability is derecognized or impaired as well as through the amortization process.

Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such amounts are recognized in the accompanying financial statements as earned. The total reserve represents the estimated amount of liability required in accordance with IAS 19 (Revised 1998) - Employee Benefits.

In the financial statements the Group has reflected a liability calculated using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Company and its Turkish subsidiaries' experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the current market yield at the balance sheet date on government bonds.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Leases

The Group as Lessee

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancelable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as Lessor

Finance Leases

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized immediately as expenses.

Factoring Receivables and Factoring Payables

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for possible losses. Factoring payables are recognized at original factored amount less advances extended against factoring receivables, interest and factoring commissions charged, and then carried at amortized cost.

Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income also includes coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments.

Commission income, fee for various banking services and dividends are recorded as income when collected.

Insurance premium income represents premiums on policies written during the period, net of cancellations. Unearned premiums, set aside to provide for the period of risk extending beyond the date of the balance sheet, are determined from premiums written during the period, less reinsurance, on the basis that, premiums are written on a daily basis (2002: unearned premiums are determined on the basis that the premiums are written on the middle day of each month (the twenty-fourth basis)).

Income Tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except for the taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Derivative Financial Instruments

The Group enters into transactions with derivative instruments including forwards, swaps, futures and options in the foreign exchange and capital markets. These derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value.

Fair values are calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group.

Use of Estimates

The preparation of the 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 balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. SEGMENT INFORMATION

Segment information is prepared on the following bases:

Business segments

The Group conducts the majority of its business activities in the following areas:

Year ended December 31, 2003:

	Banking	Leasing	Factoring	Brokerage, Insurance and Other	Eliminations	Group
Net interest income	143,429	24,051	4,058	3,623	52	175,213
Provision for possible loan, lease and factoring receivable losses	(2,465)	(1,003)	(458)	(683)	-	(4,609)
Foreign exchange gain/loss	11,272	(11,695)	(129)	(1,342)	(781)	(2,675)
Other operating income	110,195	743	2,448	23,635	(16,474)	120,547
Other operating expense	(147,418)	(4,983)	(3,924)	(20,515)	2,904	(173,936)
Profit loss from operating activities	**115,013**	**7,113**	**1,995**	**4,718**	**(14,299)**	**114,540**
Income tax	(29,834)	2,587	(686)	(2,847)	-	(30,780)
Monetary gain/loss	(24,765)	(2,416)	(682)	(2,224)	1,969	(28,118)
Minority interest	-	-	-	-	(1,109)	(1,109)
Net profit/loss	**60,414**	**7,284**	**627**	**(353)**	**(13,439)**	**54,533**
Other segment information						
Segment assets	4,002,780	218,134	124,488	69,258	(171,459)	4,243,201
Total assets	**4,002,780**	**218,134**	**124,488**	**69,258**	**(171,459)**	**4,243,201**
Segment liabilities	3,577,140	185,426	114,244	32,551	(9,824)	3,899,537
Total liabilities	**3,577,140**	**185,426**	**114,244**	**32,551**	**(9,824)**	**3,899,537**
Capital expenditures						
Tangible fixed assets	12,892	85	43	3,399	(633)	15,786
Intangible fixed assets	1,286	6	11	315	-	1,618
Depreciation	(11,033)	(222)	(168)	(1,575)	-	(12,998)
Amortization	(1,321)	(52)	(51)	(230)	-	(1,654)

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Year ended December 31, 2002:

	Banking	Leasing	Factoring	Brokerage, Insurance and Other	Eliminations	Group
Net interest income	189,213	25,807	2,445	3,530	-	220,995
Provision for possible loan, lease and factoring receivable losses	(16,592)	(719)	(14)	-	-	(17,325)
Foreign exchange gain/loss	2,283	(10,329)	754	2,076	(11,167)	(16,383)
Other operating income	73,546	2,313	1,996	30,948	(12,440)	96,363
Other operating expense	(145,298)	(4,737)	(4,242)	(23,787)	3,211	(174,853)
Profit loss from operating activities	**103,152**	**12,335**	**939**	**12,767**	**(20,396)**	**108,797**
Income tax	(27,641)	(1,578)	(186)	(2,873)	-	(32,278)
Monetary gain/loss	(45,841)	(4,240)	(2,066)	(7,060)	10,591	(48,616)
Minority interest	-	-	-	-	(1,073)	(1,073)
Net profit/loss	**29,670**	**6,517**	**(1,313)**	**2,834**	**(10,878)**	**26,830**
Other segment information						
Segment assets	4,070,908	152,510	82,514	56,570	(160,334)	4,202,168
Total assets	**4,070,908**	**152,510**	**82,514**	**56,570**	**(160,334)**	**4,202,168**
Segment liabilities	3,697,627	127,086	72,897	25,104	(27,198)	3,895,516
Total liabilities	**3,697,627**	**127,086**	**72,897**	**25,104**	**(27,198)**	**3,895,516**
Capital expenditures						
Tangible fixed assets	16,863	40	40	450	-	17,393
Intangible fixed assets	1,815	9	156	132	-	2,112
Depreciation	(11,612)	(231)	(261)	(1,807)	-	(13,911)
Amortization	(1,290)	(51)	(57)	(224)	-	(1,622)

Transactions between the business segments are on normal commercial terms and conditions. Those transactions are eliminated in consolidation.

Geographical segments:

The Group conducts majority of its business activities with local customers and therefore, geographical segments are insignificant.

4. CASH AND CASH EQUIVALENTS

	2003	2002
Cash on hand	66,069	100,215
Balances with the Central Bank	514,043	390,610
Cash and balances with the Central Bank	**580,112**	**490,825**
Deposits with banks and other financial institutions	**837,746**	**1,184,520**
Funds lent under reverse repurchase agreements	2,507	8,034
Interbank placements	432,178	463,830
Other money market placements	**434,685**	**471,864**
Less: Time deposits with original maturities of more than three months	(37,586)	(35,875)
Cash and cash equivalents in the cash flow statement	**1,814,957**	**2,111,334**

As of December 31, 2003 and 2002, interest range of deposits and placements are as follows:

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with the Central Bank	54,021	460,022	16%	0.43%-0.80%	16,863	373,747	25%	0.55%
Deposits with banks and other financial institutions	91,636	746,110	24%-58%	1%-4.5%	48,863	1,135,657	42%-71.5%	0.45%-5%
Funds lent under reverse repurchase agreements	2,507	-	25.7%-26%	-	8,034	-	42%	-
Interbank placements	368,060	64,118	26%-26.1%	0.5%-0.75%	260,067	203,763	44%-45.25%	1%-1.5%
Total	**516,224**	**1,270,250**			**333,827**	**1,713,167**		

5. RESERVE DEPOSITS AT THE CENTRAL BANK

	2003	2002
- Turkish lira	19,522	11,579
- Foreign currency	130,079	140,046
Total	**149,601**	**151,625**

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to reserve a certain portion of their deposits other than interbank deposits. Such reserves are deposited with the Central Bank.

As of December 31, 2003 and 2002, reserve deposit rates applicable for Turkish lira deposits were 6% and 11% for foreign currency deposits.

Effective from August 2002, the Central Bank started to give interest on the Turkish lira and foreign currency reserves deposited, respectively. As of December 31, 2003, the interest rates applied for Turkish lira and foreign currency reserve deposits are 16% and 0.43 – 0.80% (December 31, 2002 - 25% and 0.55%), respectively.

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

6. INVESTMENTS IN SECURITIES

Trading Securities:

	2003	2002
Trading securities at fair value		
Debt instruments		
Turkish government bonds	31,345	24,831
Turkish treasury bills	7,501	25,307
Foreign currency government bonds	805	1,681
Eurobonds issued by the Turkish government	11,703	9,001
	51,354	**60,820**
Others		
Precious metals	1,134	310
	1,134	310
Total trading securities	**52,488**	**61,130**

Investment Securities:

	2003		2002	
	Amount	Effective Interest rate	Amount	Effective Interest rate
Available-for-sale securities at fair value				
Debt instruments				
Turkish treasury bills	-	-	340	43.8%
Eurobonds issued by the Turkish government	-	-	19,613	3.5%
Total available-for-sale securities at fair value	**-**	**-**	**19,953**	
Available-for-sale securities at cost				
Equity instruments -unlisted	9	-	10	-
Total available-for-sale securities	**9**		**19,963**	
Held to maturity securities at amortized cost				
Debt instruments				
Turkish government bonds	5,259	30.2%	302	43.80%
Eurobonds issued by the Turkish government	-	-	1,490	8.1%-12.3%
Turkish treasury bills	85,285	30.1%-33.36%	41,649	44.6%-56.1%
Foreign currency government bonds	1,383	5.00%	1,822	-
Total held to maturity securities	**91,927**		**45,263**	
Total investment securities	**91,936**		**65,226**	

Carrying value of debt instruments given as collateral under repurchase agreements are:

	2003	2002
Trading securities	15,628	29,145

As of December 31, 2003, the carrying value and the nominal amounts (in historical terms) of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are TL 85,847 and TL 85,475 (2002 – TL 38,417 and TL 35,270), respectively.

7. ORIGINATED LOANS AND ADVANCES

	2003					
	Amount			Effective interest rate		
	Turkish Lira	Foreign Currency	Foreign currency indexed	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	417,239	1,166,187	83,854	25%-72%	1.75%-14%	6.6%-14.4%
Consumer loans	24,914	60	14,081	24%-66%	4.2%-13%	5.28%-13%
Credit cards	17,300	1,062	-	83.4%	83.4%	-
Total loans	459,453	1,167,309	97,935			
Loans in arrears	24,415	-	-			
Less: Reserve for possible loan losses	(23,830)	-	-			
	460,038	**1,167,309**	**97,935**			

	2002					
	Amount			Effective interest rate		
	Turkish Lira	Foreign Currency	Foreign currency indexed	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	294,130	1,095,374	85,169	25%-90%	2.75%-16%	3.5%-8%
Consumer loans	14,037	394	6,765	0.36%-84%	3.5%-4.7%	9%-10.8%
Credit cards	15,584	1,345	-	93%	93%	-
Total loans	323,751	1,097,113	91,934			
Loans in arrears	23,030	46	-			
Less: Reserve for possible loan losses	(24,319)	(46)	-			
	322,462	**1,097,113**	**91,934**			

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Movements in the reserve for possible loan losses:

	2003	2002
Reserve at beginning of year	24,365	13,468
Provision for possible loan losses	5,709	17,707
Recoveries	(3,244)	(1,114)
Provision net of recoveries	2,465	16,593
Loans written off during the year	(77)	(7)
Monetary gain	(2,923)	(5,689)
Reserve at end of year	**23,830**	**24,365**

As of December 31, 2003, loans and advances on which interest is not being accrued, or where interest is suspended, amounted to TL 24,415 (2002- TL 23,076). There is no uncollected interest accrued on impaired loans.

8. FACTORING RECEIVABLES AND PAYABLES

	2003					
	Amount			Effective interest rate		
	Turkish Lira	Foreign Currency	Foreign currency indexed	Turkish Lira	Foreign currency	Foreign currency indexed
Open accounts	48,651	25,226	9,070	25.33%-53%	6.02%-6.50%	6.02%-6.50%
Checks receivable	27,853	-	-	25.33%-53%	-	-
Notes receivable	4,956	-	-	25.33%-53%	-	-
Doubtful factoring receivables	758	-	-	-	-	-
Total factoring receivables	**82,218**	**25,226**	**9,070**			
Less: Reserve for impairment	(1,092)	-	-	-		
Less: Deferred income	(995)	-	(204)	-		
Net factoring receivables	80,131	25,226	8,866			
Factoring payables	(44,806)	(16,556)	(3,239)			
Funds in use, net	**35,325**	**8,670**	**5,627**			

2002						
	Amount			Effective interest rate		
	Turkish Lira	Foreign Currency	Foreign currency indexed	Turkish Lira	Foreign currency	Foreign currency indexed
Open accounts	16,385	26,371	1,879	53%-58%	5%-6%	5%-6%
Checks receivable	32,152	-	-	53%-58%	-	-
Notes receivable	1,035	-	-	53%-58%	-	-
Doubtful factoring receivables	652	-	-	-	-	-
Total factoring receivables	**50,224**	**26,371**	**1,879**			
Less: Reserve for impairment	(726)	-	-			
Less: Deferred income	(1,444)	-	-			
Net factoring receivables	48,054	26,371	1,879			
Factoring payables	(15,734)	(16,150)	-			
Funds in use, net	**32,320**	**10,221**	**1,879**			

Movements in the reserve for possible losses:

	2003	2002
Reserve at beginning of year	726	925
Provision for possible losses	456	13
Recoveries	-	-
Provision net of recoveries	456	13
Factoring receivables written off during the year	-	-
Monetary gain	(90)	(212)
Reserve at end of year	**1,092**	**726**

9. MINIMUM LEASE PAYMENTS RECEIVABLE

	2003	2002
Not later than 1 year	102,813	73,436
Later than 1 year and not later than 5 years	67,598	36,851
Later than 5 years	-	1,653
Minimum lease payments receivables, gross	**170,411**	**111,940**
Less: Unearned interest income	(17,067)	(12,705)
Net investment in finance leases	**153,344**	**99,235**
Less: Reserve for impairment	(2,290)	(1,495)
Minimum lease payments receivables, net	**151,054**	**97,740**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Net investment in finance leases are analyzed as follows:

	2003	2002
Not later than 1 year	91,008	64,299
Later than 1 year and not later than 5 years	62,336	33,374
Later than 5 years	-	1,562
	153,344	**99,235**

As of December 31, 2003 and 2002, TL 170,191 and TL 110,991 of gross lease receivables are denominated in foreign currency (mainly US$ and Euro) and TL, respectively and the effective interest rates are between 11% to 14% (2002- 14% to 15%) for foreign currency and 41% to 76% for TL (2002 – 69% to 92%).

Movements in the reserve for impairment:

	2003	2002
Reserve at beginning of year	1,495	1,185
Provision for impairment	1,003	749
Recoveries	-	(30)
Provision net of recoveries	1,003	719
Minimum lease payments receivables written off during the year	(2)	(55)
Monetary gain	(206)	(354)
Reserve at end of year	**2,290**	**1,495**

10. PREMISES AND EQUIPMENT

	Land and Buildings	Leased Assets	Motor Vehicles	Furniture, Office Equipment and Leasehold Improvements	Total
At January 1, 2003, net of accumulated depreciation	9,279	15,741	2,850	20,383	48,253
Additions	1,877	1,386	1,093	11,430	15,786
Disposals	-	-	(92)	(2,438)	(2,530)
Depreciation charge for the year	(257)	(5,220)	(1,098)	(6,423)	(12,998)
Exchange adjustment	-	-	(3)	(46)	(49)
At December 31, 2003, net of accumulated depreciation	**10,899**	**11,907**	**2,750**	**22,906**	**48,462**
At December 31, 2002					
Cost	12,504	36,680	6,214	54,748	110,146
Accumulated depreciation	(3,225)	(20,939)	(3,364)	(34,365)	(61,893)
Net carrying amount	**9,279**	**15,741**	**2,850**	**20,383**	**48,253**
At December 31, 2003					
Cost	14,381	38,066	7,212	63,743	123,402
Accumulated depreciation	(3,482)	(26,159)	(4,462)	(40,837)	(74,940)
Net carrying amount	**10,899**	**11,907**	**2,750**	**22,906**	**48,462**

11. INTANGIBLES

	Software Licenses and Other
At January 1, 2003, net of accumulated amortization	4,264
Additions	1,618
Disposals	-
Amortization charge for the year	(1,654)
Exchange adjustment	(15)
At December 31, 2003, net of accumulated amortization	**4,213**
At December 31, 2002	
Cost	10,708
Accumulated amortization	(6,444)
Net carrying amount	**4,264**
At December 31, 2003	
Cost	12,213
Accumulated amortization	(8,000)
Net carrying amount	**4,213**

12. OTHER ASSETS

	2003	2002
Insurance premium receivables	22,722	18,213
Accounts receivable	5,940	2,701
Equipment to be leased	4,641	1,593
Transitory accounts and prepaid expenses	4,283	2,329
Value added taxes receivable	434	1,258
Prepaid taxes	164	561
Others	5,372	7,629
	43,556	**34,284**

13. DEPOSITS

Deposits from other banks

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	2,507	25,295	0%-5%	-	851	21,858	0%-5%	-
Time	78,362	47,815	20%-37%	0.75%-4.25%	37,356	60,336	41%-49%	2.5%-3.75%
Total	**80,869**	**73,110**			**38,207**	**82,194**		

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Customers' deposits

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	32,307	24,965	0%-5%	0.75%-4%	19,664	3,105	0%-5%	-
Time	263,622	117,012	12%-46%	0.75%-5%	173,173	74,359	28%-65%	0.75%-5%
	295,929	**141,977**			**192,837**	**77,464**		
Commercial and other								
Demand	107,663	374,953	0%-5%	0.75%-4%	99,081	524,322	0%-5%	-
Time	269,924	1,729,332	12%-46%	0.75%-5%	123,893	2,075,054	28%-65%	0.75%-5%
	377,587	**2,104,285**			**222,974**	**2,599,376**		
Total	**673,516**	**2,246,262**			**415,811**	**2,676,840**		

Other money market deposits

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	15,436	-	13.85%-25.96%	-	11,180	-	28.21%-41%	-
-Due to banks	-	-	-	-	14,831	-	44%-44.1%	-
	15,436	**-**			**26,011**	**-**		
Interbank deposits	-	-	-	-	-	-	-	-
Other money market deposits	-	-	-	-	-	-	-	-
Total	**15,436**	**-**			**26,011**	**-**		

14. FUNDS BORROWED

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term								
Fixed interest	70,240	135,181	22.68%-36.31%	2.09%-5.10%	42,351	22,130	36%-71%	4%-7.42%
Floating interest	-	324,322	-	1.27%-7.94%	-	317,529	-	1%-6.22%
Medium/long-term								
Fixed interest	-	-	-	-	-	777	-	-
Floating interest	-	85,993	-	1.43%-7.10%	-	95,292	-	2%-8%
Finance lease obligations	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-
Total	**70,240**	**545,496**			**42,351**	**435,728**		

Repayments of medium and long-term borrowing are as follows:

	2003		2002	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2004	-	-	777	27,836
2005	-	43,600	-	17,241
2006	-	15,301	-	14,717
2007	-	10,372	-	13,078
Thereafter	-	16,720	-	22,420
	-	**85,993**	**777**	**95,292**

The Bank has signed an agreement with the International Finance Corporation (IFC) on July 17, 2002, to receive a US$85 million financing facility. The facility consists of three separate loans. The first loan is a US$ 15 million, 7-year term, subordinated convertible loan, bearing an interest rate of Libor + 4.5% and matching BRSA's Tier II Capital definitions as well as contributing to the Bank's capital adequacy ratio. The second loan is a US$ 20 million medium-term loan facility to be lent as working capital, investment or export pre-finance needs to TEB' clients with 3-month to 5-year maturity from IFC's own account. The third part of the loan allows for the syndication of up to US$ 50 million from private commercial banks.

As of December 31, 2003, the Bank's foreign funds borrowed includes US$ 125 million of syndicated loan obtained at October 27, 2003 with a maturity of 1 year.

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

15. OTHER LIABILITIES AND PROVISIONS

	2003	2002
Transitory accounts	23,318	11,182
Payment orders	16,056	31,495
Trade payables	12,984	6,059
Insurance technical reserves	12,942	13,629
Payable to credit card member firms	9,384	3,065
Blocked bank cheques	7,857	5,787
Taxes other than on income	6,041	12,775
Employee termination benefits	6,166	4,920
Payments for SDIF and other premiums	5,424	5,713
Others	13,743	29,024
	113,915	**123,649**

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 1,390 and TL 1,260 at December 31, 2003 and December 31, 2002, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2003 and 2002, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

IAS 19 (revised) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	2003	2002
Discount rate	18%	43%
Expected rates of limit increases	25%	35%

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

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

	2003	2002
At January 1,	4,920	4,336
Paid during the year	(813)	(546)
Increase during the year	2,522	2,175
Monetary gain	(463)	(1,045)
At December 31,	**6,166**	**4,920**

Insurance Technical Reserves

	2003	2002
Unearned premiums reserve	12,019	15,129
Unearned premiums reserve, reinsurer's share	(4,835)	(5,928)
	7,184	9,201
Deferred commission income	**2,140**	**2,286**
Claim provision	8,664	6,743
Claim provision, reinsurer's share	(5,046)	(4,601)
	3,618	2,142
Total	**12,942**	**13,629**

16. INCOME TAXES

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in the countries in which the Group companies operate.

The corporation tax rate for the fiscal year ended December 31, 2002 was 30% plus an additional 10% fund levy, giving an effective tax rate of 33%. A 19.8% withholding tax was applied to investment deductions, which were exempt from corporation tax. Until April 24, 2003, where distributions had been made in respect of 2002 and prior years, withholding taxes of 5.5% and 16.5% (both including the additional 10% fund levy) applied to distributions made by either public or private corporations, respectively. This withholding tax only applied to amounts distributed that had been subject to corporation tax.

Law No. 4842, effective from April 24, 2003, abolished the 10% fund levy. Beginning with 2003, the effective corporation tax rate reverted to 30%. However, with Law No. 5035 published at January 2, 2004, only for the year 2004 the corporation tax will be calculated at 33%.

Effective from April 24, 2003, income from 2002 and prior years will not be subject to withholding taxes if it is undistributed, is transferred to share capital or is distributed to resident tax-paying corporations. Where profits are distributed to resident taxpaying real persons, to those who are exempt from income and corporate tax, to those who are not income or corporation tax payers, to non-resident corporations, to non-resident real persons and to those who are exempt from income tax, a 10% withholding tax is applied. However profit distributions up to December 31, 2003 shall be subject to an effective tax rate of 11% due the continuation of the fund levy until that date. On the other hand, profit distributions on income from 2002 and prior years which had been exempt from corporation tax and income, which had been subject to 19.8% withholding tax due to investment incentive certificates obtained based on applications made prior to April 24, 2003, will not be subject to withholding tax.

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Effective from April 24, 2003, investment incentive certificates will not be required to utilize an investment deduction in calculating the corporate income tax base. No withholding taxes will apply to the investment deduction; however the deduction will be limited to 40%. Investment deductions made as a result of holding investment incentive certificates for which application was made prior to April 24, 2003, and unused investment deductions carried forward from previous periods due to insufficient taxable profits, will be subject to a 19.8% withholding tax. Where, however, investment certificates were obtained based on applications made prior to April 24, 2003, an exemption from this withholding tax is available if written notification was made to the tax authorities before May 15, 2003. In this case the investment deduction will be limited to 40%. With the Law No. 5024 published on December 30, 2003, tax-paying corporations which did not notify the tax authorities were given right to make a notification until the filing date of first quarterly temporary tax return subsequent to the date Law No. 5024 became effective which is January 1, 2004.

In Turkey, tax regulations do not provide a procedure for final agreement of tax assessments. Tax returns are filed within the fourth month after the end of the year to which they relate to and tax authorities may examine the accounting records and revise assessments within five years.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month (2002- 3 installments).

In 2003 and prior years corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code without any adjustment for inflation accounting With Law No. 5024 published on December 30, 2003 related with changes in Procedural Tax Code, Income Tax Law and Corporation Tax Law, starting from January 1, 2004, depending on the status of the current year annual inflation rate, a new tax legislation is likely to be put in practice, in which, taxable income will be derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet will not be subject to corporation tax, and similarly accumulated deficits arising from such application will not be deductible for tax purposes. Moreover, accumulated tax loss carryforwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years.

The tax legislation provides for a temporary tax of 30% (25% before April 24, 2003) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, effective from January 2, 2004, temporary taxes for the year 2004 will be calculated and paid at the rate of 33%.

As of December 31, 2003 and 2002, prepaid income taxes are netted off with the current income tax payable as stated below:

	2003	2002
Income tax payable	41,792	27,000
Prepaid income taxes	(32,813)	(11,736)
	8,979	**15,264**

	2003	2002
Consolidated income statement		
Current income tax		
Current income tax charge	38,342	33,221
Deferred income tax		
Relating to origination and reversal of temporary differences	(7,562)	(943)
Income tax expense reported in consolidated income statement	**30,780**	**32,278**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the group's effective income tax rate for the years ended December 31 was as follows:

	2003	2002
Net profit/loss from ordinary activities before income tax	**85,313**	**59,108**
At Turkish statutory income tax rate of 30% (2002 – 33%)	25,594	19,506
Effect of different income tax rates in other countries	-	91
Income not subject to tax	(13,903)	(13,624)
Expenditure not allowable for income tax purposes	5,740	12,494
Utilization of previously unrecognized tax losses	-	(1,705)
Effect of temporary differences between IFRS and statutory historical income	(7,562)	(943)
Effect of restatement and others	20,911	16,459
Income tax	**30,780**	**32,278**

Deferred income tax

Deferred income tax at December 31, relates to the following:

	Consolidated Balance Sheet	
	2003	2002
Deferred income tax liabilities		
Difference between tax and book bases of premises and equipment and intangible assets	633	6,713
Deferred gains and losses on foreign exchange contracts	-	1,526
Deferred acquisition costs related to insurance contracts	1,283	1,381
Others	181	675
Gross deferred income tax liabilities	**2,097**	**10,295**
Deferred income tax assets		
Loan loss provisions	2,913	2,290
Unearned premium reserve and claim provisions	1,027	2,149
Deferred gains and losses on foreign exchange contracts	857	1,717
Post-employment benefits	1,557	1,623
Others	1,201	144
Gross deferred income tax assets	**7,555**	**7,923**
Net deferred income tax liability	**-**	**2,372**
Net deferred income tax asset	**5,458**	**-**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

Movement of net deferred tax liability/ (asset) can be presented as follows:

	2003	2002
Balance at January 1	2,372	4,459
Deferred income tax recognized in income statement	(7,562)	(943)
Monetary gain/loss	(268)	(1,144)
Balance at December 31	**(5,458)**	**2,372**

Deferred income tax liabilities have not been established for the withholding and other taxes that would be payable on the unremitted earnings of certain subsidiaries incorporated in Turkey, as it is not certain whether such amounts will be permanently reinvested or received in cash. Such unremitted earnings totaled to TL 9,684 at December 31, 2003 (2002 – TL 8,580) at nominal values. If such amounts are collected in cash in the form of dividends, they will be subject to withholding tax at the effective rates of 5.5% to 16.5% depending on whether the subsidiary is publicly quoted or not.

17. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

			2003				
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Derivatives held for trading							
Forward purchase contract	4,145	-	203,610	80,772	81,754	26,190	14,894
Forward sale contract	-	5,992	206,247	81,428	82,885	27,008	14,926
Currency swap purchase	240	-	136,659	136,249	410	-	-
Currency swap sale	-	1,121	137,588	137,124	464	-	-
	4,385	**7,113**	**684,104**	**435,573**	**165,513**	**53,198**	**29,820**

	2002						
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Derivatives held for trading							
Forward purchase contract	3,783	-	145,800	102,341	20,293	18,496	4,670
Forward sale contract	-	2,751	149,324	105,790	19,958	18,906	4,670
Currency swap purchase	841	-	173,015	146,866	-	26,149	-
Currency swap sale	-	2,454	174,546	148,928	-	25,618	-
	4,624	**5,205**	**642,685**	**503,925**	**40,251**	**89,169**	**9,340**

18. SHARE CAPITAL

	2003	2002
Number of common shares, TL 500 (in full TL), par value Authorized; Issued and outstanding in 2003 and 2002	110,250 million	110,250 million

Share of TL 500 nominal value each trade in the Istanbul Stock Exchange in the form of units of two shares with a combined nominal value of TL 1,000 each.

As of December 31, 2003 and 2002, the Bank's historical subscribed and issued share capital was TL 55,125 (historical terms).

There was no increase in the share capital of the Bank during 2003 and 2002.

As of December 31, 2003 and 2002, the composition of shareholders and their respective % of ownership are summarized as follows:

	2003		2002	
	Amount	%	Amount	%
TEB Mali Yatırımlar A.Ş.	38,681	70.17	38,631	70.08
Publicly Traded	11,025	20.00	11,025	20.00
Çolakoğlu Metalurji A.Ş.	4,740	8.60	4,740	8.60
Other shareholders	679	1.23	729	1.32
	55,125	**100.00**	**55,125**	**100.00**
Restatement effect	214,998		214,998	
	270,123	**100.00**	**270,123**	**100.00**

As allowed by the BRSA, the Bank has set off prior year losses against legal reserves and restatement effect of share capital.

The Bank has increased its share capital from TL 55,125 to TL 57,800 (within its registered share capital ceiling of TL 100,000) by transferring the gain on sale of property with a nominal amount of TL 2,675 with respect to the approval of BRSA dated January 21, 2004.

19. LEGAL RESERVES AND ACCUMULATED PROFITS (DEFICIT)

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of December 31, 2003, the Group's legal reserves, which were included within the legal reserves and accumulated profits balance amount to TL 10,039 (2002 - TL 7,294) at nominal values.

The statutory general reserve and statutory current year profit are available for distribution, subject to the reserve requirements referred to above.

Dividends

In accordance with the permission for appropriation of profits taken by the Bank from BRSA on February 25, 2004, the Bank has decided on its Board of Directors' meeting dated March 4, 2004, to conduct its Annual General Meeting of shareholders on March 26, 2004 and to offer its shareholders a distribution of profits after legal reserves from the Bank's 2003 net income, amounting to TL 14,019 (25.43% and 254.3 TL per share).

20. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below, without consideration through December 31, 2003.

	Number of Shares (in millions)		Issued Attributable to	
	Transfers from Retained Earnings	Transfers from Revaluation Surplus	Reinvestment of Dividend Payments	Total
1995 and before	32	247	2,969	3,248
1996	-	330	1,270	1,600
1997	1,022	596	4,382	6,000
1998	529	682	7,277	8,488
1999	600	2,062	16,338	19,000
2000	-	-	26,068	26,068
2001	-	-	-	-
2002	-	-	-	-
2003	-	-	-	-
	2,183	**3,917**	**58,304**	**64,404**

There is no dilution of shares as of December 31, 2003 and 2002.

The following reflects the income (in full TL) and share data (in billions) used in the basic earnings per share computations:

	2003	2002
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	495	244
Weighted average number of ordinary shares (in billions) for basic earnings per share	110.25	110.25

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

21. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by TEB Mali Yatırımlar A.Ş., which owns 70.17% (2002 – 70.08%) of ordinary shares, and included in Çolakoğlu Group of companies. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders and Çolakoğlu Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group’s Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

The following transactions have been entered into with related parties:

Related party		Placements with bank	Cash loans (*)	Non-cash loans	Minimum lease payments receivable	Premium receivable	Funds borrowed	Deposits taken	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other Operating expense
Shareholders	**2003**	**-**	**64,907**	**1,346**	**-**	**812**	**-**	**165,750**	**22,537**	**6,375**	**(5,572)**	**23**	**(944)**
	2002	-	117,528	7,668	-	2,844	-	213,223	49,350	4,950	(2,792)	521	(926)
Others	**2003**	**40,964**	**2,717**	**4,611**	**-**	**519**	**51,676**	**679,055**	**33,841**	**2,997**	**(12,982)**	**67**	**(432)**
	2002	19,895	11,570	4,983	39	2,714	50,301	865,097	27,899	11,925	(15,547)	623	(1,161)

(*) Cash loans granted to related parties include TL 64,201 (2002 – TL 116,851) of cash collateralized loans.

22. SALARIES AND EMPLOYEE BENEFITS

	2003	2002
Staff costs		
Wages and salaries	56,280	52,534
Bonuses	3,159	1,715
Other fringe benefits	6,062	6,244
Provision for employee termination benefits	2,522	2,175
Cost of defined contribution plan (employers’ share of social security premiums)	7,548	5,809
Total	**75,571**	**68,477**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

The average number of employees during the year is:

	2003	2002
The Bank	1,849	1,570
Subsidiaries	329	318
Total	**2,178**	**1,888**

23. OTHER INCOME/OTHER EXPENSES

Other income

	2003	2002
Fund management fees	6,106	5,152
Insurance technical income	2,884	6,287
Others	15,204	8,504
Total	**24,194**	**19,943**

Other expenses

	2003	2002
Rent expense	11,470	13,110
Communication expense	6,775	7,748
Maintenance expense	4,826	1,172
SDIF premium	4,918	10,139
Advertisement expenses	3,652	4,328
Various administrative expenses	22,587	19,791
Total	**54,228**	**56,288**

24. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2003	2002
Letters of guarantees		
- issued by the Bank	690,636	630,591
- obtained by consolidated subsidiaries from other banks	40,154	30,996
Letters of credit	430,692	366,879
Acceptance credits	48,514	45,988
Total non-cash loans	1,209,996	1,074,454
Other commitments	231,046	140,112
Credit card limit commitments	107,169	76,724
	1,548,211	**1,291,290**

Trust Assets

The nominal values of the assets held by the Group in fiduciary, agency or custodian capacities amounted to TL 2,392,102 and millions of EURO 57.7 (2002 - TL 1,759,766 and millions of EURO 40.2) at December 31, 2003.

Letters of Guarantee Given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of December 31, 2003 and 2002, in line with the requirements of IGM letters of guarantee amounting to US$ 1,610,000 had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of December 31, 2003 and 2002, according to the general requirements of the ISE, letters of guarantee amounting to TL 1,902 (in historical terms) and US$17 million had been obtained from various local banks and were provided to the ISE for bond and stock market transactions. Also, as of December 31, 2003 and 2002, according to the general requirements, letters of guarantee amounting to TL 722 and TL 2,346 (in historical terms) were given to the Capital Markets Board, respectively.

Other

The Group manages nine open-ended investment funds, which were established under the regulations of the Turkish Capital Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

As of December 31, 2003 and 2002, the total value of the investment funds managed by the Group amounted to TL 278,799 and TL 373,194, respectively.

25. FINANCIAL RISK MANAGEMENT

General

The Risk Management Group is headed by a dedicated member of the Board who is assigned as Risk Supervisor. The group reports to the Board of Directors and manages Market Risk, Credit Risk and Operational Risk.

Board of Directors sets limits and risks taken for all money, capital and commodity markets and counterparties.

Credit Risk

Credit risk represents the risk generating from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally.

Sectoral risk limitations are imposed on debtors individually or as a group in accordance with the credit risk, but risk limitations are not imposed according to geographical regions. The rating of the firms, credit limit and guarantee acceptance processes are taken into consideration all together in accordance with conservative lending policies applied by the Loan Lending and Risk Follow up Group, and, accordingly the follow up of credit risk is established.

The risks and limits generated from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity is performed daily. Risk limits are determined for the transactions taking place daily and the risk concentration of the off-balance sheet transactions are followed up by the system.

The credibility of the debtors of the Group is assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Majority of the accepted statements presenting the financial position of the borrowers are audited. The sole reason for accepting unaudited financials, is the timing differences between the lending of the money and the audit period of the borrowers. The unaudited financials are replaced with the audited statements when they become available. The loan limits are determined based on the audited financials and the guarantees are determined by the loan committee according to the borrowers' financial structure and the quality of the transactions.

Transaction limits for the forward and other similar agreement positions held by the Bank is determined by the Board of Directors and transactions take place within these limits.

The fulfillment of liabilities in the forward agreements is only possible at the maturity of the agreement. However, in order to be able to minimize the risk, reverse positions of the present positions are taken from the market and by means of that the risk is closed.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans.

Since the volume of the restructured loans is not material to the financial statements, no additional follow up methodology is developed, except as stated in the regulations.

Foreign country and institution risks of the Bank are generally determined for foreign countries and institutions, which are considered at the investment level, in other words, which are stated as carrying minimum level of default risk by the international rating companies. Accordingly, the possible risks that may occur are minor risks when the financial structure of the Bank is considered.

The Parent Bank does not hold a major credit risk when compared to other financial institutions together with their financial activities as an active participant at the international banking market.

Sectoral breakdown of cash and non-cash loans is as follows:

	2003		2002	
	Cash	Non-cash	Cash	Non-cash
Financial institutions and discounted bills	219,788	75,824	237,252	96,881
Metals	172,183	122,172	209,872	102,761
Textiles	219,969	143,193	174,121	118,176
Chemicals and chemical products	108,767	86,425	140,812	81,708
Food, beverage, tobacco	154,559	148,484	116,535	116,619
Wholesale and retailing	152,019	83,939	115,612	94,168
Transportation	112,651	20,898	73,389	35,163
Ready-to-wear textiles	90,425	48,292	72,216	42,849
Wood products	65,829	26,739	69,737	27,816
Machinery	37,115	40,838	36,596	40,630
Construction	30,252	43,246	29,240	32,164
Tourism, transportation, warehousing	25,991	35,440	27,804	27,866
Mining, other than metals	33,793	26,925	21,261	10,997
Electricity and optic devices	20,001	27,356	18,919	17,200
Fuel products	31,519	4,656	14,270	8,085
Fiber and plastic	27,205	33,556	11,725	33,267
Leather and leather products	7,754	3,285	3,840	2,271
Others	144,750	71,768	82,050	45,457
Corporate loans	1,654,570	1,043,036	1,455,251	934,078
Consumer loans	56,428	5,020	35,523	11,802
Letters of guarantee secured by counter guarantees	-	56,560	-	55,319
Confirmed and collateralized letters of credit	-	65,226	-	42,259
Interest accruals	13,699	-	22,024	-
Loans in arrears	24,415	-	23,076	-
Provision for possible loan losses	(23,830)	-	(24,365)	-
	1,725,282	**1,169,842**	**1,511,509**	**1,043,458**

Liquidity Risk

Liquidity risk occurs when there is insufficient amount of cash inflows to fulfill the cash outflows completely on time.

Liquidity risk may occur when market penetration is not adequate, when the open positions cannot be closed at a suitable price and sufficient amount due to barriers and conditions at the markets. The Group's policy is to establish a liquid asset structure that provides comfort in meeting all kinds of liabilities by liquid assets. The Board of Directors of the Bank continuously determines the standards for the liquidity ratios, and controls them, in order to keep this structure.

According to the general policies of the Group, the matching of the maturity and interest rate structure of assets, and liabilities is always established within the asset liability management strategies. A positive difference is tried to be established between the yields of TL and foreign currency assets and liabilities at the balance sheet and their costs. According to this strategy, the Group pays special attention not to take maturity risk, and no banking service is marketed when the price is lower than the financing cost.

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by deposits, and in addition to this source, it makes use of prefinancing and syndication products to generate additional sources. Generally the Bank does not prefer to utilize liquidity from interbank money markets and keeps its position as a net lender position in interbank money markets.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
As at December 31, 2003						
Assets:						
Cash and balances with the Central Bank	580,112	-	-	-	-	580,112
Deposits with banks and other financial institutions	813,891	6,340	11,747	5,768	-	837,746
Other money market placements	434,685	-	-	-	-	434,685
Reserve deposits at the Central Bank	149,601	-	-	-	-	149,601
Trading securities	1,662	2,441	4,494	4,217	39,674	52,488
Investment securities	1,807	36,983	5,136	123	47,887	91,936
Originated loans and advances	622,648	362,670	311,129	251,051	177,784	1,725,282
Factoring receivables	23,137	62,759	9,377	17,515	1,435	114,223
Minimum lease payments receivable	713	25,389	23,264	40,801	60,887	151,054
Derivative financial instruments	1,738	1,871	387	389	-	4,385
Premises and equipment	-	-	-	-	48,462	48,462
Intangible assets	-	-	-	-	4,213	4,213
Deferred tax assets	-	-	-	-	5,458	5,458
Other assets	25,727	4,956	6,601	5,556	716	43,556
Total assets	**2,655,721**	**503,409**	**372,135**	**325,420**	**386,516**	**4,243,201**
Liabilities:						
Deposits from other banks	98,519	43,883	7,425	4,152	-	153,979
Customers' deposits	2,214,928	350,496	119,206	151,957	83,191	2,919,778
Other money market deposits	15,436	-	-	-	-	15,436
Funds borrowed	64,376	90,946	81,906	292,515	85,993	615,736
Factoring payables	13,363	35,084	15,373	-	781	64,601
Derivative financial instruments	2,920	2,823	1,139	231	-	7,113
Other liabilities and provisions	101,144	1,958	6,252	4,427	134	113,915
Income taxes payable	-	-	8,979	-	-	8,979
Total liabilities	**2,510,686**	**525,190**	**240,280**	**453,282**	**170,099**	**3,899,537**
Net liquidity gap	145,035	(21,781)	131,855	(127,862)	216,417	343,664
As at December 31,2002						
Total assets	2,745,544	441,750	396,009	221,308	397,557	4,202,168
Total liabilities	2,862,445	263,517	161,969	323,114	284,471	3,895,516
Net liquidity gap	**(116,901)**	**178,233**	**234,040**	**(101,806)**	**113,086**	**306,652**

Market Risk

The interest rate and exchange rate risks of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to VAR is taken into consideration by the standard method. Scenario analysis and stress tests are used additionally in market risk computations and reported to senior management.

The Group has determined market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks".

The Board of Directors of the Bank evaluates basic risks than can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management group and senior management have taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into account and is calculated by using the standard method. Net short and long position of Turkish Lira equivalent of each foreign currency is calculated. The value, which will be a base for calculating the share capital requirement, is computed by taking the higher absolute value of the position by adding to absolute net gold position. Share capital requirement is computed over of this amount.

The Board of Directors of the Bank sets limits for the positions, which are followed up daily. Also any possible changes in Bank's positions are monitored.

As an element of the Group's risk management strategies, foreign currency liabilities are hedged against exchange rate risk by derivative instruments.

The Board of Directors of the Bank determines the short position limits that the Bank can hold in accordance with the current legal limitations. The Treasury Department of the Bank is responsible for the management of Turkish Lira or foreign currency price, liquidity and affordability risks that could occur in the domestic and international markets. The monitoring of risk and risk related transactions occurring in the money markets is performed daily and reported to the Bank's Asset-Liability Committee.

The Loan Committee determines the related principles and limitations of the counterparties. The Asset-Liability Committee monitors the limits concerning the maturity structure of the foreign currency transactions and interest rates.

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

The allocation of assets, liabilities and off balance sheet items in various currencies are:

	Turkish Lira	US Dollars	Euro	Japanese Yen	Others	Total
As at December 31, 2003						
Assets						
Cash and balances with the Central Bank (or central banks	62,587	496,434	18,787	44	2,260	580,112
Deposits with banks and other financial institutions	91,655	625,901	89,082	186	30,922	837,746
Other money market placements	370,567	64,118	-	-	-	434,685
Reserve deposits at the Central Bank (or central banks)	19,522	109,284	20,795	-	-	149,601
Trading securities	38,846	5,590	6,918	-	1,134	52,488
Investment securities	86,278	5,658	-	-	-	91,936
Originated loans and advances	460,616	944,902	301,618	-	18,146	1,725,282
Factoring receivables	80,110	6,134	18,944	-	9,035	114,223
Minimum lease payments receivable	4,233	45,976	96,800	-	4,045	151,054
Derivative financial instruments	1,137	2,699	449	-	100	4,385
Premises and equipment	42,108	-	6,354	-	-	48,462
Intangible assets	4,134	-	79	-	-	4,213
Deferred tax assets	5,458	-	-	-	-	5,458
Other assets	38,035	1,500	3,998	-	23	43,556
Total assets	**1,305,286**	**2,308,196**	**563,824**	**230**	**65,665**	**4,243,201**
Liabilities						
Deposits from other banks	80,628	26,030	3,666	12	43,643	153,979
Customers' deposits	672,937	1,890,279	307,709	1,817	47,036	2,919,778
Other money market deposits	15,436	-	-	-	-	15,436
Funds borrowed	68,234	447,269	79,380	-	20,853	615,736
Factoring payables	44,806	2,732	10,301	-	6,762	64,601
Derivative financial instruments	3,097	3,928	-	-	88	7,113
Other liabilities and provisions	86,481	8,596	14,852	-	986	113,915
Income taxes payable	8,979	-	-	-	-	8,979
Total liabilities	**983,598**	**2,378,834**	**415,908**	**1,829**	**119,368**	**3,899,537**
Effect of foreign currency swap transactions	**(871)**	**871**	**-**	**-**	**-**	**-**
Net balance sheet position	**320,817**	**(69,767)**	**147,916**	**(1,599)**	**(53,703)**	**343,664**
Off-balance sheet position						
Net notional amount of derivatives	60,410	59,638	(98,920)	1,709	50,483	73,320
Non - cash loans	717,143	570,307	217,144	10,053	33,564	1,542,811
At December 31, 2002						
Total assets	907,718	2,662,858	495,472	21,708	114,412	4,202,168
Total liabilities	628,537	2,770,948	383,503	920	111,608	3,895,516
Net on balance sheet position	279,181	(108,090)	111,969	20,788	2,804	306,652
Off-balance sheet position	(46,177)	192,684	(118,317)	(20,603)	(12,643)	(5,056)

Interest Rate Risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk.

The first priority of the Bank's risk management is to protect from interest rate volatility. All types of sensitivity analysis performed within the context is calculated by the risk management and reported to the Asset-Liability Committee.

The estimations on interest income are performed in connection with economic indicators used in the budget of the Group. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budget targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank when necessary.

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2003								
Assets:								
Cash and balances with the Central Bank	514,236	-	-	-	-	-	65,876	580,112
Deposits with banks and other financial institutions	487,816	6,340	11,747	5,768	-	-	326,075	837,746
Other money market placements	434,685	-	-	-	-	-	-	434,685
Reserve deposits at the Central Bank	149,601	-	-	-	-	-	-	149,601
Trading securities	24,483	3,134	4,497	3,607	15,325	1,442	-	52,488
Investment securities	45,420	36,980	5,136	124	4,276	-	-	91,936
Originated loans and advances	569,003	363,855	313,131	250,597	175,871	52,825	1,725,282	
Factoring receivables	23,137	62,759	9,377	17,515	1,435	-	114,223	
Minimum lease payments receivable	713	25,389	23,264	40,801	60,887	-	-	151,054
Derivative financial instruments	1,738	1,871	387	389	-	-	-	4,385
Premises and equipment	-	-	-	-	-	-	48,462	48,462
Intangible assets	-	-	-	-	-	-	4,213	4,213
Deferred tax asset	-	-	-	-	-	-	5,458	5,458
Other assets	8,562	4,956	6,601	5,556	714	-	17,167	43,556
Total assets	**2,259,394**	**505,284**	**374,140**	**324,357**	**258,508**	**1,442**	**520,076**	**4,243,201**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities:								
Deposits from other banks	98,519	43,883	7,425	4,152	-	-	-	153,979
Customers' deposits	2,214,928	350,496	119,206	151,956	83,192	-	-	2,919,778
Other money market deposits	15,436	-	-	-	-	-	-	15,436
Funds borrowed	238,109	115,426	180,225	78,259	3,717	-	-	615,736
Factoring payables	13,363	35,084	15,373	-	781	-	-	64,601
Derivative financial instruments	2,920	2,823	1,139	231	-	-	-	7,113
Other liabilities and provisions	4,926	1,958	6,251	4,427	132	-	96,221	113,915
Income taxes payable	-	-	-	-	-	-	8,979	8,979
Total liabilities	**2,588,201**	**549,670**	**329,619**	**239,025**	**87,822**	**-**	**105,200**	**3,899,537**
Balance sheet interest sensitivity gap	(328,807)	(44,386)	44,521	85,332	170,686	1,442	414,876	343,664
Off balance sheet interest sensitivity gap	-	-	(54)	-	-	-	-	(54)
Total interest sensitivity gap	**(328,807)**	**(44,386)**	**44,667**	**85,332**	**170,686**	**1,442**	**414,876**	**343,610**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2002								
Assets:								
Cash and balances with the Central Bank	390,610	-	-	-	-	-	100,215	490,825
Deposits with banks and other financial institutions	1,080,541	15,374	10,295	3,080	-	-	75,230	1,184,520
Other money market placements	471,864	-	-	-	-	-	-	471,864
Reserve deposits at the Central Bank	151,625	-	-	-	-	-	-	151,625
Trading securities	3,070	36,464	12,702	7,773	759	52	310	61,130
Investment securities	302	61,262	1,823	1,489	-	-	350	65,226
Originated loans and advances	463,570	292,259	347,679	178,784	229,217	-	-	1,511,509
Factoring receivables	-	76,304	-	-	-	-	-	76,304
Minimum lease payments receivable	5,338	15,642	14,787	26,114	35,859	-	-	97,740
Derivative financial instruments	1,746	802	2,076	-	-	-	-	4,624
Premises and equipment	-	-	-	-	-	-	48,253	48,253
Intangible assets-	-	-	-	-	-	4,264	4,264	
Deferred tax asset	-	-	-	-	-	-	-	-
Other assets	3,733	3,206	7,088	4,185	-	-	16,072	34,284
Total assets	**2,572,399**	**501,313**	**396,450**	**221,425**	**265,835**	**52**	**244,694**	**4,202,168**

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities:								
Deposits from other banks	116,263	2,999	1,139	-	-	-	-	120,401
Customers' deposits	2,563,582	185,751	60,808	94,146	188,364	-	-	3,092,651
Other money market deposits	26,011	-	-	-	-	-	-	26,011
Funds borrowed	37,930	226,311	85,883	115,930	12,025	-	-	478,079
Factoring payables	-	31,884	-	-	-	-	-	31,884
Derivative financial instruments	3,066	641	1,233	265	-	-	-	5,205
Other liabilities and provisions	-	-	6,732	13,629	-	36	103,252	123,649
Income taxes payable	-	-	-	-	-	-	15,264	15,264
Deferred tax liabilities	-	-	-	-	-	-	2,372	2,372
Total liabilities	**2,746,852**	**447,586**	**155,795**	**223,970**	**200,389**	**36**	**120,888**	**3,895,516**
On balance sheet interest sensitivity gap	(174,453)	53,727	240,655	(2,545)	65,446	16	123,806	306,652
Off balance sheet interest sensitivity gap								
Total interest sensitivity gap	**(174,453)**	**53,727**	**240,655**	**(2,545)**	**65,446**	**16**	**123,806**	**306,652**

Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Bank's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. In accordance with the Regulation on the Establishment and Operations of Banks, it is required to maintain minimum 12% capital adequacy ratio on consolidated and unconsolidated basis the for the Banks that have a branch at the offshore banking regions (standard ratio is 8%). As of December 31, 2003, the Bank's capital adequacy ratio on a consolidated basis is 15.21% (2002- 16.75%).

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2003	**2002**	**2003**	**2002**
Financial assets				
Originated loans and advances to customers	1,752,282	1,511,509	1,749,976	1,511,431
Investments held to maturity	91,927	45,263	92,841	44,592
Minimum lease payments receivables	151,054	97,740	147,659	97,990
	1,995,263	**1,654,512**	**1,990,476**	**1,654,013**
Financial liabilities				
Deposits from other banks	153,979	120,401	153,779	120,389
Customer deposits	2,919,778	3,092,651	2,916,817	3,092,048
Funds borrowed	631,172	478,079	631,172	481,537
	3,704,929	**3,691,131**	**3,701,768**	**3,693,974**

Fair values of remaining financial assets and liabilities carried at cost, including deposit with banks and other financial instruments, balances with the Central Bank, reserve deposits, other money market placements, deposits, factoring receivables and payables, funds borrowed under securities repurchase agreements and promissory notes are considered to approximate their respective carrying values due to their short-term nature.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristics or by discounting the expected future cash flows at prevailing interest rates.

The interest used to determine the fair values of financial instruments, applied on the balance sheet date to reflect active market price quotations are as follows:

Originated loans and advances:

	Interest Rates Applied (%)	
Currency	December 31, 2003	December 31, 2002
Turkish lira	29.50	37.59
US$	3.50	5.71
EURO	4.50	5.38

Lease contract receivables:

	Interest Rates Applied (%)	
Currency	December 31, 2003	December 31, 2002
Turkish lira	41.08	70.71
US$	12.23	11.26
EURO	11.25	13.31
CHF	11.23	9.97

Deposits:

	Interest Rates Applied (%)	
Currency	December 31, 2003	December 31, 2002
Turkish lira	27.54	43.87
US$	2.51	2.51
EURO	3.01	2.60

Funds borrowed:

	Interest Rates Applied (%)	
Currency	December 31, 2003	December 31, 2002
Turkish lira	29.50	45.23
US$	3.19	3.25
EURO	5.01	5.67

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

27. UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK

The Bank's own unconsolidated balance sheets and income statements prepared in accordance with IFRS as of and for the years ended December 31, 2003 and 2002 are included in the Appendix for information purposes only. In the unconsolidated financial statements, the Bank opted to account for investments in subsidiaries at restated cost in accordance with IAS 27. These financial statements have been included within the consolidated financial statements as of the respective dates.

	2003	2002
ASSETS		
Cash and balances with the Central Bank	580,009	490,697
Deposits with banks and other financial institutions	182,342	377,246
Other money market placements	432,178	463,830
Reserve deposits at the Central Bank	149,601	151,625
Trading securities	28,243	35,662
Investment securities	86,156	61,573
Originated loans and advances	1,168,150	920,351
Derivative financial instruments	4,441	5,007
Investments in subsidiaries and associates	131,234	121,709
Premises and equipment	36,351	42,425
Intangible assets	3,396	3,377
Deferred tax assets	4,203	49
Other assets	5,844	8,141
Total assets	**2,812,148**	**2,681,692**
LIABILITIES AND EQUITY		
Deposits from other banks	125,420	68,533
Customers' deposits	1,865,078	1,865,916
Other money market deposits	15,436	26,011
Funds borrowed		
- Subordinated debt	21,156	28,393
- Other funds borrowed	369,735	308,189
Derivative financial instruments	7,113	5,205
Other liabilities and provisions	77,377	81,677
Income taxes payable	7,167	11,933
Total liabilities	**2,488,482**	**2,395,857**
Share capital issued	55,125	55,125
Adjustment to share capital	214,998	214,998
Legal reserves and accumulated profits (deficit)	53,543	15,712
Total equity	**323,666**	**285,835**
Total liabilities and equity	**2,812,148**	**2,681,692**

	2003	2002
Interest income		
Interest on originated loans and advances	178,434	182,427
Interest on securities	24,233	64,981
Interest on deposits with banks and other financial institutions	28,335	19,857
Interest on other money market placements	87,175	97,817
Other interest income	6,637	5,327
Total interest income	**324,814**	**370,409**
Interest expense		
Interest on deposits	(139,087)	(126,542)
Interest on other money market deposits	(16,218)	(32,781)
Interest on funds borrowed	(22,628)	(32,466)
Other interest expense	(12,696)	(1,548)
Total interest expense	**(190,629)**	**(193,337)**
Net interest income	**134,185**	**177,072**
Provision for possible loan losses	(2,465)	(16,546)
Net interest income (expense) after provision for possible loan losses	**131,720**	**160,526**
Foreign exchange gain (loss)	11,207	1,284
Net interest income after foreign exchange gain (loss) and provision for possible loan losses	**142,927**	**161,810**

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	2003	2002
Other operating income		
Fees and commissions income	12,982	11,219
Income from banking services	21,032	21,869
Trading income (loss)	41,373	21,394
Other income	26,876	10,625
Total other operating income	**102,263**	**65,107**
Other operating expense		
Fees and commissions expense	(13,013)	(17,262)
Salaries and employee benefits	(59,295)	(52,538)
Depreciation and amortization	(12,050)	(12,496)
Taxes other than on income	(11,824)	(14,149)
Other expenses	(43,603)	(41,542)
Total other operating expense	**(139,785)**	**(137,987)**
Profit from operating activities before income tax and monetary gain (loss)	**105,405**	**88,930**
Income tax	(26,483)	(22,664)
Monetary gain (loss)	(24,764)	(45,841)
Net profit	**54,158**	**20,425**

DIRECTORY OF BRANCHES (*)

Main
Tel : (0212) 252 67 67
Fax : (0212) 249 63 10

Adana
Tel : (0322) 458 90 33
Fax : (0322) 459 00 63

Aksaray
Tel : (0212) 632 68 78
Fax : (0212) 632 69 68

Altıyol
Tel : (0216) 414 85 84
Fax : (0216) 414 60 86

Altunizade
Tel : (0216) 474 35 63
Fax : (0216) 474 10 52

Ankara
Tel : (0312) 468 11 32
Fax : (0312) 467 01 49

Antakya
Tel : (0326) 225 28 80
Fax : (0326) 225 28 87

Antalya
Tel : (0242) 248 48 01
Fax : (0242) 248 06 69

A.O.S. Çiğli
Tel : (0232) 376 83 43
Fax : (0232) 376 83 50

Avcılar
Tel : (0212) 690 21 90
Fax : (0212) 690 22 10

Aydın
Tel : (0256) 213 67 80
Fax : (0256) 213 90 96

Bahçeşehir
Tel : (0212) 669 23 00
Fax : (0212) 669 23 11

Bahrain
Tel : (00973) 17 54 00 70
Fax : (00973) 17 54 00 71

Bakırköy
Tel : (0212) 543 66 36
Fax : (0212) 543 74 24

Balıkesir
Tel : (0266) 244 01 30
Fax : (0266) 245 00 97

Bayramyeri
Tel : (0258) 264 94 64
Fax : (0258) 264 85 45

Bayrampaşa
Tel : (0212) 565 28 50
Fax : (0212) 565 33 36

Bebek
Tel : (0212) 287 79 31
Fax : (0212) 287 79 39

Beşiktaş
Tel : (0212) 227 70 65
Fax : (0212) 236 09 94

Beşyüzevler
Tel : (0212) 477 57 57
Fax : (0212) 477 57 65

Beylikdüzü
Tel : (0212) 852 33 80
Fax : (0212) 852 33 91

Bursa
Tel : (0224) 224 41 61
Fax : (0224) 224 42 92

Bursa Free Zone
Tel : (0224) 524 86 20
Fax : (0224) 524 86 23

Bodrum
Tel : (0252) 317 24 14
Fax : (0252) 317 24 41

Bornova
Tel : (0232) 343 84 85
Fax : (0232) 343 62 52

Call Centre
Tel : (0212) 444 0 666
Fax : (0212) 252 08 74

Çarşı
Tel : (0232) 469 73 10
Fax : (0232) 469 73 19

Çiftehavuzlar
Tel : (0216) 330 12 35
Fax : (0216) 330 24 19

Çukurova Corporate
Tel : (0322) 457 14 12
Fax : (0322) 457 14 62

Davutpaşa
Tel : (0212) 501 92 08
Fax : (0212) 612 23 28

Denizli
Tel : (0258) 241 28 01
Fax : (0258) 241 28 10

Ege Corporate
Tel : (0212) 483 55 55
Fax : (0212) 445 10 38

Eskişehir
Tel : (0222) 220 24 24
Fax : (0222) 234 24 24

Etiler
Tel : (0212) 257 78 00
Fax : (0212) 257 39 39

Gayrettepe
Tel : (0212) 356 21 51
Fax : (0212) 356 21 36

Gaziantep
Tel : (0342) 215 41 00
Fax : (0342) 215 41 19

Gaziosmanpaşa
Tel : (0312) 447 74 40
Fax : (0312) 447 74 02

Gebze
Tel : (0262) 643 02 65
Fax : (0262) 643 02 75

Gülsokak
Tel : (0232) 463 00 02
Fax : (0232) 463 42 37

Güneşli
Tel : (0212) 630 91 10
Fax : (0212) 630 91 21

Güneydoğu Corporate
Tel : (0342) 322 05 80
Fax : (0342) 322 05 89

Harbiye
Tel : (0212) 234 12 16
Fax : (0212) 231 64 67

Işıkkent
Tel : (0232) 436 47 70
Fax : (0232) 436 47 73

İkitelli
Tel : (0212) 549 17 05
Fax : (0212) 549 16 43

İmes San. Sit.
Tel : (0216) 527 12 01
Fax : (0216) 527 12 10

İskenderun
Tel : (0326) 614 19 19
Fax : (0326) 613 22 25

İstanbul Free Zone
Tel : (0212) 465 04 41
Fax : (0212) 465 04 38

İzmir
Tel : (0232) 489 10 60
Fax : (0232) 482 33 72

İzmit
Tel : (0262) 322 36 00
Fax : (0262) 322 36 04

Kadıköy
Tel : (0216) 445 08 38
Fax : (0216) 445 08 37

Kahramanmaraş
Tel : (0344) 231 20 81
Fax : (0344) 231 20 91

Karabağlar
Tel : (0232) 254 53 43
Fax : (0232) 265 06 60

Karadeniz Ereğli
Tel : (0372) 322 52 08
Fax : (0372) 322 52 16

Kartal
Tel : (0216) 379 93 93
Fax : (0216) 598 10 50

Kayseri
Tel : (0352) 222 11 23
Fax : (0352) 232 30 18

Karşıyaka
Tel : (0232) 364 55 00
Fax : (0232) 369 85 20

Kemalpaşa
Tel : (0232) 877 06 60
Fax : (0232) 877 06 61

Kızılay
Tel : (0312) 425 63 00
Fax : (0312) 425 77 07

Konya
Tel : (0332) 236 10 67
Fax : (0332) 236 20 64

Kozyatağı
Tel : (0216) 355 07 37
Fax : (0216) 355 07 40

Levent
Tel : (0212) 283 70 50
Fax : (0212) 282 33 37

Maçka
Tel : (0212) 219 38 70
Fax : (0212) 219 38 71

Malatya
Tel : (0422) 325 42 62
Fax : (0422) 325 48 07

Marmara Corporate
Tel : (0224) 272 72 00
Fax : (0224) 273 03 98

Marmaris
Tel : (0252) 413 40 01
Fax : (0252) 413 60 01

Mecidiyeköy
Tel : (0212) 274 53 44
Fax : (0212) 274 37 33

Mersin
Tel : (0324) 238 68 40
Fax : (0324) 238 68 53

Mersin Free Zone
Tel : (0324) 238 83 47
Fax : (0324) 238 83 51

Merter
Tel : (0212) 637 21 10
Fax : (0212) 637 21 09

Nilüfer
Tel : (0224) 249 96 01
Fax : (0224) 245 79 80

Orta Anadolu Corporate
Tel : (0312) 468 67 00
Fax : (0312) 468 86 00

Private Banking Centre
Tel : (0212) 352 64 00
Fax : (0212) 352 64 14

Samsun
Tel : (0362) 432 99 88
Fax : (0362) 432 89 68

Suadiye
Tel : (0216) 463 58 40
Fax : (0216) 416 51 38

Sultanhamam
Tel : (0212) 514 11 51
Fax : (0212) 511 27 15

Taksim
Tel : (0212) 361 60 00
Fax : (0212) 361 60 10

Trabzon
Tel : (0462) 323 08 70
Fax : (0462) 323 08 83

Trakya Corporate
Tel : (0212) 474 03 04
Fax : (0212) 474 04 30

Ulus
Tel : (0312) 309 03 08
Fax : (0312) 309 03 26

Uşak
Tel : (0276) 224 51 64
Fax : (0276) 212 37 72

Ümraniye
Tel : (0216) 461 60 71
Fax : (0216) 461 60 78

Yeşilköy
Tel : (0212) 662 45 99
Fax : (0212) 662 46 01

Zeytinburnu
Tel : (0212) 679 20 75
Fax : (0212) 679 20 80

(*) As of May 2004

Financial Calendar

Announcement of financial results:

1st Quarter	: Within six weeks from March 31
2nd Quarter	: Within eight weeks from June 30
3rd Quarter	: Within six weeks from September 30
Year-end	: Within ten weeks from December 31

Annual General Meeting of Shareholders: No later than March 31

Information for Shareholders

ISE Ticker Symbol	: <TEBNK.IS>
GDR Ticker Symbol	: <TKKKYP(144A)
Reuters Code	: <TURAq.L> on SEAQ International on the London Stock Exchange
Bloomberg Code	: <TURA LI>

Enquiries

All enquiries, including shareholder enquiries and notifications concerning dividends, share certificates, Global Depository Receipts or transfers and address changes should be sent to:
TEB Investor Relations Division at the following address:

TEB Investor Relations Division

Meclis-i Mebusan Caddesi No: 35
Fındıklı 34427 Istanbul Turkey

Tel	: (90 212) 251 21 21
Fax	: (90 212) 249 65 68
E-mail	: investor.relations@teb.com.tr

Further information about TEB can be obtained on the Internet at www.teb.com.tr.

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TÜRK EKONOMİ BANKASI
Meclis-i Mebusan Cad. 35 Fındıklı, 34427 Istanbul Turkey
Tel: (90 212) 251 21 21
Fax: (90 212) 249 65 68
www.teb.com.tr