Annual Report 2003

ARAP TÜRK BANKASI
المصرف العربي التركي
ARAB TURKISH BANK

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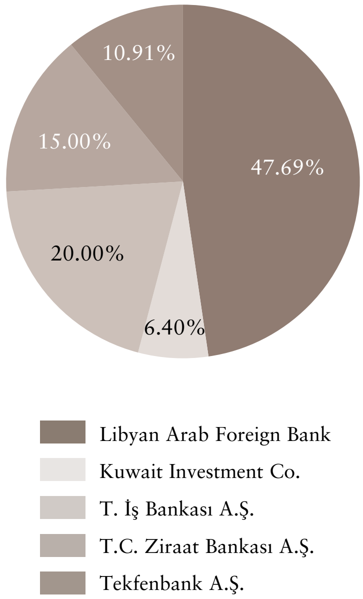
Consolidated Financial Highlights

(TL in billions)

	2003	2002
Total Assets	332,209	369,495
Marketable Securities	176,807	137,324
Loans, Net	72,038	67,629
Balances With Banks	35,431	88,311
Total Deposits	35,717	64,333
Total Loans Borrowed	203,441	188,460
Shareholders' Equity	81,570	81,450
Net Income / Loss	8,713	3,109

Shareholders



	Share Amount (TL)	Shareholding Percentage
Libyan Arab Foreign Bank	9,538,461,200,000	47.69%
Kuwait Investment Co.	1,280,000,000,000	6.40%
Turkish Group		
T. İş Bankası A.Ş.	3,999,999,600,000	20.00%
T.C. Ziraat Bankası A.Ş.	3,000,000,000,000	15.00%
Tekfenbank A.Ş.	2,181,538,800,000	10.91%
Emek İnşaat ve İşletme A.Ş.	400,000	-
Total	**20,000,000,000,000**	**100.00%**

Board Of Directors

A. Aykut Demiray *Chairman*
Al-Amin Ashour Shallouf *Deputy Chairman*
Mohamed Najib Hmida El-Jamal *Member and General Manager*
Hakan Barut *Member*
Mehmet N. Erten *Member*
Khaled M. N. M. Alhershani *Member*
Mohammed Benhalima *Member*
Dr. Aisha Salem Elhaji *Member*
Sharef Said Ali Shalabi *Member*
Selim K. Selim Ihmouda *Member*
Atilla Çetiner *Member*
Bige Sungur *Secretary to the Board*

Management Committee

A. Aykut Demiray
Al-Amin Ashour Shallouf
Mohamed Najib Hmida El-Jamal
Khaled M. N. M. Alhershani
Atilla Çetiner

Statutory Auditors

Yüksel Nedim Yalçın
Mehmet Sevindik
Efe Gündeş

Management

Mohamed Najib Hmida El-Jamal
General Manager

Assistant General Managers

Nuri Güzveli
M. Oğuz Teoman
Khalifa Mohamed Zrig

Managers

Bige Sungur, *Credits Department*
Giuma Masaud S. Kordi, *Information Technologies Department*
M. Muzaffer Haşim, *General Administration*
Selim Kızılırmak, *Inspection Council*
Bahtiyar Kamberoğlu, *Treasury & Capital Markets*
Soner Aydınol, *Organisation & Method*
K. Birhan Acarer, *Legal Department*
Z. Sebla Köktuğ, *Human Resources Department*
Houri Dekesoğlu, *International Department*
Faruk Ismik, *Investigation & Financial Analysis*
Salih Hatipoğlu, *Risk Management*
Salim Soydan, *Translation & Research Services Department*
E. Mine Ercan, *Banking Services & Legislation Department*
Mohamed A. Alrahebi, *Head of Operations Central Branch*
Adel S. Abu Shwierb, *Head of Operations Kozyatağı Branch*

Branch Managers

Şeref Kasar, *Istanbul Central Branch*
Yusuf Zaimoğlu, *Ankara Branch*
M. Ferit Kartal, *Kozyatağı Branch*

Chairman's Statement

Dear Shareholders,

It gives us great pleasure to present the financials of Arab Turkish Bank and the remarkable achievements realised during the year 2003 as well as a brief summary about the recent economic developments in the country.

In light of the overall economic picture, 2003 was a year where high growth and diminishing inflation were achieved. The growth was primarily in the area of exports, which outperformed the levels reached in previous years. Thanks to successful fiscal and monetary policies, the inflation rate realised was 18.4% in CPI and 13.9% in WPI as of the end of 2003, which were lower than the targets of 20% and 16.5%, respectively. As a result of the political and economical stability, positive expectations, and the floating exchange rate system, the FX rates demonstrated a decreasing or somewhat stable trend during the year. Another consequence of the stability in the country was the decrease in interest rates from a level of 70% to 25%. If the situation remains politically and economically stable, the Turkish economy is expected to continue to improve in 2004.

During 2003, Arab Turkish Bank maintained a highly liquid and secure position based on the prudent policies followed in taking market and credit risk. According to the inflation-adjusted financial statements, Arab Turkish Bank realised a gross profit of TL 10,975 billion. While setting aside TL 4,707 billion for tax provision, the Bank retained a net profit of TL 6,268 billion. By the end of 2003, the Bank's Capital Adequacy Ratio increased to 58.02%, up from 52.05% as of the end of the previous year, a figure far above the industry average.

Other information and statistics are included in this report as part of the performance review on the financial statements of the Bank and treasury activities.

We take this opportunity to extend our appreciation to all shareholders and to our customers and correspondents both within Turkey and abroad, for their support, cooperation, and high level of confidence in us.

We also extend our gratitude and appreciation to the General Management for their valuable assistance and to the entire staff of the Bank for their dependability and faithfulness.

With my best regards,

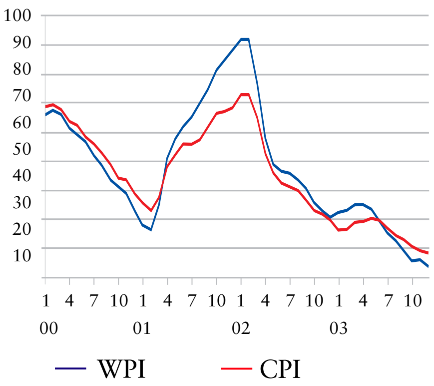
A. Aykut Demiray
Chairman

Turkish Economic Outlook

Last year, Turkey was able to decrease inflation rates more than those which were targeted. End of the year figures were well below those estimated the previous year. Consumer price inflation (CPI) was down to 18.4% in 2003. Wholesale price inflation (WPI) decreased to 13.9% at the end of 2003, well below the IMF-backed target of 16.5%. This was the second year in a row that Turkey achieved results better than its inflation projections. In 2002, Turkey had brought inflation down to 29.7% from 68.5% in 2001 a result far better than its year-end target of 35%.

The record low inflation level in 2003 was due to several primary causes. The successful monetary policy of the Central Bank led to a gradual improvement in market expectations. Furthermore, the appreciation of the Turkish lira, the low increases in the prices of public goods, the relatively low agricultural inflation (due to the favourable weather conditions, especially after May), and considerably low price increases in the energy sector were all effective in bringing down the inflation rate. In addition to these, the increase in private consumption demand was moderate in 2003, which did not exert extra pressure on prices.

Annual Inflation Rates (%)



The domestic debt stock rose to TL 194 quadrillion at the end of 2003, up from TL 150 quadrillion at the end of 2002. The domestic debt stock in foreign currency, which stood at US$ 91 billion at the end of 2002, rose to US$ 139 billion at the end of 2003. The appreciation of the Turkish lira in 2003 was quite effective in the considerable surge in the domestic debt stock when calculated in US dollar terms.

Considering the entire year 2003, it is important to note that the Treasury borrowed TL 110 quadrillion from the markets and a total of TL 130 quadrillion from the sales to public institutions and primary dealers, both at uncompetitive bids and option sales. Meanwhile, the Treasury paid back to the market TL 100 quadrillion and a

Under the current economic conditions, the management of Arab Turkish Bank pursued careful strategies and lending policies in 2003 to hedge against possible credit and market risks. The Bank maintained a liquid position in order to meet the requirements of both its customers as well as its shareholders.

total of TL 130 quadrillion including payments to the state enterprises and the Central Bank. Consequently, in 2003, the rollover ratio of the Treasury amounted to 100%.

Turkey's 2003 exports were the highest in history and reached US$ 46.9 billion worth of goods, a 30.0% increase compared to figures from the previous year. Of these exports, 83.9% were industrial products, earning US$ 40 billion according to the data supplied by the Turkish Exporters Association. Imports also increased substantially in 2003. At the end of 2003, Turkey's imports reached US$ 68.7 billion worth of goods, 33.3% higher than the same period of the previous year.

The Turkish currency, which closed 2002 at approximately TL 1,650,000 against the US dollar, appreciated in value throughout 2003 and closed the year at around TL 1,400,000. This indicated a real appreciation rate of about 18% for the year as a whole. The Turkish lira appreciated despite the ongoing uncertainties due to the foreign currency inflow, born from the unexpected quick results achieved in the Iraq war and the continuation of economic and political stability in the country. Yet another factor effective in the appreciation of the Turkish lira was the beginning of reverse currency substitution due to the positive expectations regarding the progress of the ongoing IMF programme.

In 2003, the existence of excess foreign currency supply in the market created an opportunity for the Central Bank to strengthen its reserves. Thus, last year the Central Bank purchased US$ 10 billion via market interventions and daily FX buying auctions. Consequently, the FX reserves of the Central Bank increased by US$ 7 billion over the US$ 26.7 billion at the end of 2002. This, too, was quite a significant progress for the year 2003.

Turkey's parliament approved the 2004 budget in December, keeping its pledges to IMF to cut spending and raise revenues. The budget targets a gross national product (GNP) of TL 419,700 trillion (US$ 262 billion), GNP growth of 5%, and consumer price inflation of 12% by the end of 2004. It foresees a primary surplus, which excludes interest payments on debt, of 6.5%. Exports are expected to reach US$ 51.7 billion, whereas imports are forecast to be US$ 75 billion.

Developments in the Banking Sector

The Banking Regulation and Supervision Agency (BRSA) continued reorganising the system by issuing new precautionary regulations designed to improve the overall financial positions and mainly the capital structures of the banks. Consequently, internal control and risk management systems were strengthened.

Turkey's parliament passed revisions to the banking law last year to bolster the hand of Turkey's Banking Regulation and Supervision Agency (BRSA). The amendments aimed at prosecuting fraudulent bankers and enabling the state to recover losses from seized banks. These measures placed banking crimes under the scope of money-laundering infractions, thus enabling authorities to pursue suspects abroad. They also increased the powers of prosecutors dealing with such cases.

Overall, 2003 was a period of rehabilitation and restoration for the Turkish banking sector.

Performance Review

Under the current economic conditions, the management of Arab Turkish Bank pursued careful strategies and lending policies in 2003 to hedge against possible credit and market risks.

Detailed information of the Bank's activities and performance has been provided in the statement of accounts, which were prepared and audited in accordance with the regulations stipulated by the BRSA.

Treasury and Capital Markets

The economic recovery in domestic markets was the main news for 2003. However, parallel to the changes in the market, Arab Turkish Bank's treasury transaction volumes continued declining compared with its previous traditional bank placement volumes, due primarily to the decline in spreads. While this adversely affected the Bank's profitability, the significant rate decreases throughout the year provided additional income on its treasury bills and government bonds portfolio.

In spite of this, however, the Bank's Treasury and Capital Market Department performed quite well. It channelled the foreign currency funds it borrowed into positive long-term investments on foreign currency-denominated government bonds and eurobonds, in conformity with the Bank's risk-taking policies. The sale and purchase of foreign currency on import and export transactions, stemming from the Bank's long-term and widespread relationships with financial institutions in the Arab world and countries of the Middle East and North Africa, contributed a lot to its net departmental profit in 2003, extending to a non-inflation adjusted figure of TL 8,582 trillion.

Below are the deposit volumes realised in 2003, as compared to 2002:

2003		2002	
Deposits Placed	Deposits Taken	Deposits Placed	Deposits Taken
TL 676,177,837,500,000	TL 294,231,860,000,000	TL 770,615,000,000,000	TL 90,111,000,000,000
US$ 248,373,542	US$ 711,966,349	US$ 82,000,000	US$ 379,200,000
CHF 110,059,640	CHF 1,050,000	CHF 97,150,000	CHF 4,600,000
EUR 594,384,226	EUR 350,756,388	EUR 697,750,000	EUR 573,986,118

The income derived from Turkish lira money market transactions during 2003 was equivalent to US$ 4.12 million. The annual average interest rate of the Bank's government bond portfolio brought a yield of approximately 40.31% per annum.

In 2003, the Treasury Department held a eurobond portfolio of US$ 30.3 million, with an average yield of 9.96%. The Treasury Department's 2003 investment in foreign currency-denominated internal debt securities formed a portfolio of US$ 70.4 million, with an average yield of 5.65%.

Credits

In 2003, Arab Turkish Bank continued to pursue a contemporary marketing approach in order to expand its customer base and business portfolio activities. Additionally, the Bank followed a prudent and conservative credit policy both in Turkey as well as in countries with which it has traditionally strong relationships in North Africa and the Middle East. Generally, the Bank prefers to allocate credits to reputable and prime-rated companies.

Arab Turkish Bank has developed a corporate credit scoring model in which customers are classified into five groups, namely: Very Weak Company, Weak Company, Average Company, Good Company and Very Good Company. Most of the Bank's customers are in the Good or Very Good categories. Reserves are allocated for 100% of the probable non-performing loans each year.

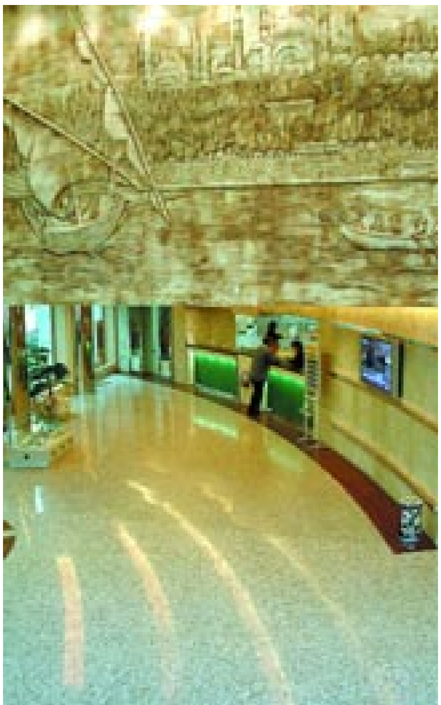
In keeping with Arab Turkish Bank's conservative lending policies, in 2003, the Credits Department directed

Credits	2003		2002	
Type of credit	TL billions	US$ millions Equiv.	TL billions	US$ millions Equiv.
FX cash credits	13,498	9.7	22,252	16
TL cash credits	25,642	18.4	21,572	15.5
Net non-performing credits	260	0.2	45	
FX non-cash credits	75,915	54.4	152,982	109.6
TL non-cash credits	6,461	4.6	8,199	5.9
Total FX credits	89,413	64.1	175,234	125.6
Total TL credits	32,363	23.2	29,816	21.4
Cash credits	39,400	28.2	43,869	31.5
Non-cash credits	82,376	59	161,181	115.5
Total credit portfolio	121,776	87.2	205,050	147
Total cash credits/ Total assets in percentage	13.2%		13.2%	

Note: In order to properly compare the figures, restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish lira as of December 31, 2003.

marketing activities towards an elite group of corporate customers. Throughout the prevailing economic crisis, including the transfer of some banks to the SDIF, the Bank successfully continued devising careful marketing strategies by diversifying risk within various different business sectors. By working with customers on a package basis, the Bank created a liquid and secure customer portfolio based on strong collaterals and having short-term maturity.

The credit instruments of Arab Turkish Bank are spot, rotating, FX-indexed, FX and Eximbank credits, in addition to non-cash credits serving a number of different purposes.



The Credits Division of Arab Turkish Bank has three departments:

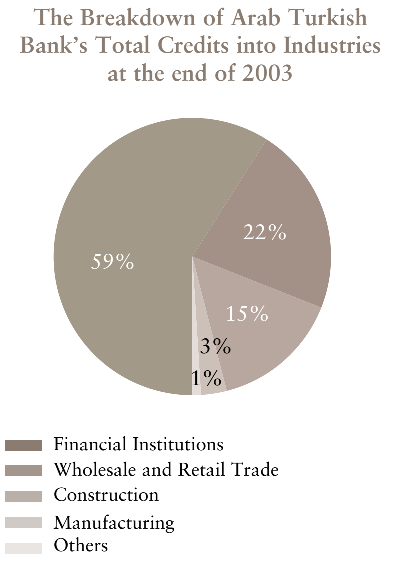
1. The Corporate and Retail Marketing Department

This Department deals with establishing the Bank's marketing strategies, policies and applications in practice with a view to achieving higher business volume, a higher market share and higher profits. Marketing strategies are developed for both commercial clients (companies) and for individuals (consumers).

Arab Turkish Bank's modus operandi is to begin the marketing process with customers at the branch level. Generally, the first contact with customers is established in either one of two ways: (a) the customer applies to a branch for banking needs; or (b) the marketing officer of a branch takes the initiative to approach credible customers, within the guidelines of the marketing strategies of the Bank. Once the Credit Department of the Bank decides that the customer is credible and appropriate then the credit allocation process starts.

2. The Credit Allocation and Utilisation Control Department

This Department performs the risk assessment procedures analysing and evaluating the credit proposals coming from the branches. All potential risk factors related to a credit transaction are considered, after which all eligible proposals are submitted to the Credit Committee for a more elaborated assessment.



The limit allocation process is the final step based on the results of the assessment process. Credit limits are first discussed and determined by the Credit Committee, and then submitted to the Board of Directors for final approval.

3. Branches Support and Credit Follow-up Department

This Department provides advisory services, expertise and information in the various areas that require deeper technical knowledge and understanding, such as legal issues, credit techniques, market information and other specific banking applications.

During the severe economic crisis that Turkey has been going through since 1998, Arab Turkish Bank has followed a very conservative credit policy. This especially typifies the year 2003. During this time, the Bank has determined to work with credit customers who have a strong financial structure as well those who are creditworthy and have a good reputation in the market.

In 2004, Arab Turkish Bank plans to continue to adhere to its prudent and far-sighted lending policies and to remain liquid by avoiding long-term risk with the exception of credits granted to a limited number of top tier companies. However, due to the positive outlook in the Turkish economy, the Bank will place a greater emphasis on marketing strategies and activities in an effort to increase the credit portfolio. It is the Bank's goal in 2004 to increase the volume of its credit exposures in keeping with its philosophy to be both conservative as well as to provide solutions for its selected, reputable, reliable and creditworthy customers.

The limits and risks of Eximbank credits
as of December 31, 2003
(TL in millions, FX in thousands):

	Limit	Risk
Eximbank pre-shipment TL export credits	TL 3,000	-
Eximbank pre-shipment FX export credits	US$ 5,000	US$ 1,050
Eximbank letters of guarantee	US$ 6,000	US$ 1,220

Non-Performing Loans
(TL millions)

	2003	2002
Loans under Legal Follow-up	11,508	14,472
Provisions set aside	11,248	14,427
Net Loans	260	45

International Banking

Arab Turkish Bank continued in 2003 to build strong relationships with both local and foreign correspondent banks, as well as with international financial institutions. The focus of the Bank's activities was on consolidating these relationships with a view towards creating a favourable and secure business climate for its customers. The Bank played a key role in the expansion of Turkish exports by encouraging and supporting the industrial, commercial, agricultural and service sectors. Export oriented activities included documentary credits, guarantees, export financing and discounting, as well as other traditional international banking transactions.

In addition, the Bank placed a high priority on implementing strict anti-money laundering measures by carefully selecting business partners and closely monitoring their activities. This, along with increased flexibility in customer relations, enabled the Bank to more effectively anticipate and react to market challenges.

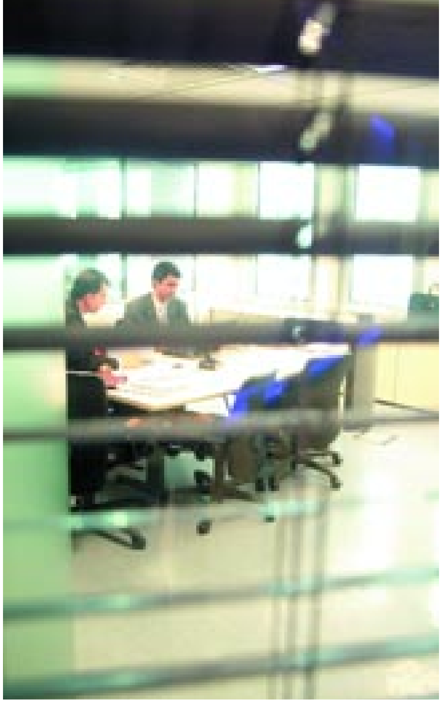
Last year the International Banking Department of Arab Turkish Bank worked in association with 331 correspondent banks spread across 67 countries. This network is constantly being strengthened to meet the growing needs of the Bank's customers, allowing Arab Turkish Bank to maintain its superior position within the international banking community. In 2003, the Bank was visited by a substantial number of representatives from correspondent banks, creating the opportunity to negotiate and enlarge its facilities portfolio.

Total export settlements processed by Arab Turkish Bank in 2003 amounted to US$ 164 million, while all import settlements totalled US$ 17 million. The total volume of collections and payments in foreign currency reached US$ 327 million.

Arab Turkish Bank will continue to strengthen its network of correspondent banks in the coming years by maintaining strong ties and close relationships with them.

Human Resources

Arab Turkish Bank's philosophy underscores the high value it places on both the quality and professionalism of its staff, as well as inculcating a strong sense of responsibility at all organisational levels. The Bank has always believed that the greater the investment in human resources the greater the return in profits. Therefore, the management has developed a wide



variety of sophisticated professional training programmes that enhance the personnel's technical capacities, as well as providing career enhancement opportunities.

In keeping with this strategy, Arab Turkish Bank's management team encourages the staff to improve their personal and professional skills by attending seminars and workshops conducted by well-known academic institutions, professional organisations, and correspondent banks. The importance the Bank places on training activities was underscored by the fact that fully 93% of the total staff, from all levels of the organisation, participated in the various training programmes offered during 2003.

Throughout 2003, the Bank continued its practice of recruiting and placing skilled bankers and other expert personnel. The placement of new staff in strategic, profit-oriented departments resulted in maximum productivity and performance. This process was complemented by internal transfers to new positions by promoting successful staff to higher management levels.

As a result of these effective human resources and training policies, Arab Turkish Bank has built a team of banking professionals that are not only well-educated and experienced, but also dynamic and successful. By the end of December 2003, the Bank had 175 employees, approximately half of which are university graduates. The Bank's staff averages 37 years of age, with an average of eight years experience in the banking sector.

Information Technologies

In 2003, Arab Turkish Bank's IT Department began working on the Enterprise Content Management System project, a tools and methods program employed to capture, manage, store, preserve, and deliver content across an enterprise. These involve:

- *Capture* – data capture, imaging, scanning and hybrid systems

- *Manage* – business process management and outsourcing, workflow, portals, search engines, XML, content categorisation and classification

- *Store* – e-mail archiving, data warehousing and storage systems

- *Preserve* – records management and archiving, film-based imaging, digital preservation, disaster recovery and planning

- *Deliver* – digital printing and publishing, print systems and utilities, encryption, authenticity and digital signatures

Other projects completed by the IT Department during 2003 are summarised as follows:

- The establishment of e-mail policy and Internet usage guidelines - to provide employees with guidance as to the use of the Bank's Internet and e-mail system

- The enhancement of cheques clearing system by purchasing a new Teller Scan Machine and related software - to enable support of the new barcode system

- The replacement of older PCs with new ones equipped with TFT Screens

- Continued support for the Quantis system - developing and implementing new modules for banking regulations, as well as other changes

In order to manage the internal control processes more effectively, the Bank put into place clear descriptions regarding various aspects such as duties, responsibilities, policies, procedures, and job descriptions.

Internal Control and Risk Management Systems

Recent developments in banking have made risk management more important than ever. Parallel to the developments throughout the banking industry, new regulations on risk management have come into effect in Turkey. In order to comply with the Regulation on Banks' Internal Control and Risk Management Systems, Arab Turkish Bank established two independent control bodies – in addition to the Inspection Council - namely, the Risk Management Department in November of 2000 and the Internal Control Centre in October of 2001. The management structure and working principles of these were developed and put in place. Moreover, in order to manage the internal control processes more effectively, the Bank put into place clear descriptions regarding various aspects such as duties, responsibilities, policies, procedures and job descriptions.

The Risk Management Department is assigned all the diverse responsibilities related to risks in banking. These include such duties as analysing, identifying, measuring, monitoring, reporting and controlling risks. Furthermore, the Department is charged with the responsibility of establishing and applying risk management policies, guidelines and rules, in accordance with the principles established by upper level management and approved by the Bank's Board of Directors.

In 2003, Arab Turkish Bank's various control bodies strengthened their activities to comply with current legislation, regulations, and pre-determined departmental policies. The Internal Control Centre is responsible for examining, monitoring, and supervising the activities of the Bank on an ongoing basis. The Inspection Council, on the other hand, is charged with the investigation and inspection of all the work and functions of the Bank and all subsidiary companies under its control.

The Bank's High Level Risk Committee was established for the purpose of preparing and monitoring the implementation of risk management strategies and policies of the Bank on a consolidated and unconsolidated basis. It is under the direction of the Board Member responsible for the Internal Control and Risk Management System.

Since the Regulation on Measurement and Assessment of Capital Adequacy of Banks has come into effect, the Bank has begun to consider market risk in the calculation of Capital Adequacy Ratio (CAR). Authorisation and execution of trading limits and standards related to risk have been established. Working along these lines, the Standard Method has been used to foresee risk and calculate the amount of capital required to cover these risks. The Risk Management Group also uses some other risk analysis methods to effectively manage the market, credit, and operational risks of the Bank.

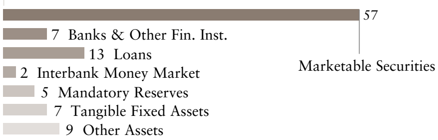
In 2003, systems were put in place to identify and remove any deficiencies in the internal control mechanism of the Bank that might hinder the effective functioning of the control system.

Arab Turkish Bank's primary objective is to successfully comply with all the qualitative standards of the Basel Committee. This is done by applying appropriate policy and procedures and developing an internal control culture. Last year, the Bank initiated the process of preparing itself to comply with the Basel II guidelines, which will come into effect by the end of the year 2006.

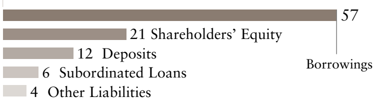
As it looks towards the future, the ultimate aim of the Internal Control and Risk Management Systems is to safeguard the Bank's assets by striking the right balance between risk and return, in compliance with the Bank's goals and strategies.

Capital Adequacy Ratio (%)

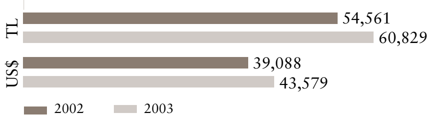
Breakdown of Assets (%)



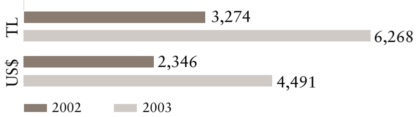
Breakdown of Liabilities (%)



Shareholders' Equity (TL billion, US$ thousand)



Net Profit (TL billion, US$ thousand)



Financial Highlights

(According to the BRSA regulations)

Arab Turkish Bank's Capital Adequacy Ratio, the most important indicator of a bank's financial strength, continued to show substantial improvement in the year 2003. The ratio, which was already well above the legal requirement of 8% at 52.05% as of December 31, 2002, grew to 58.02% by the end of 2003.

The Marketable Securities item, which had the biggest share within total assets at the end of 2002 with 40%, also led the way in 2003 with a share of 57%. Last year Marketable Securities grew by 27%, from TL 132,422 billion to TL 168,421 billion. Meanwhile, the Loans portfolio was another significant investment item within total assets, garnering a 13% share in 2003, the same percentage as that of the previous year. Overall, Loans decreased by 10%, going from TL 43,869 billion in 2002 to TL 39,400 billion in 2003.

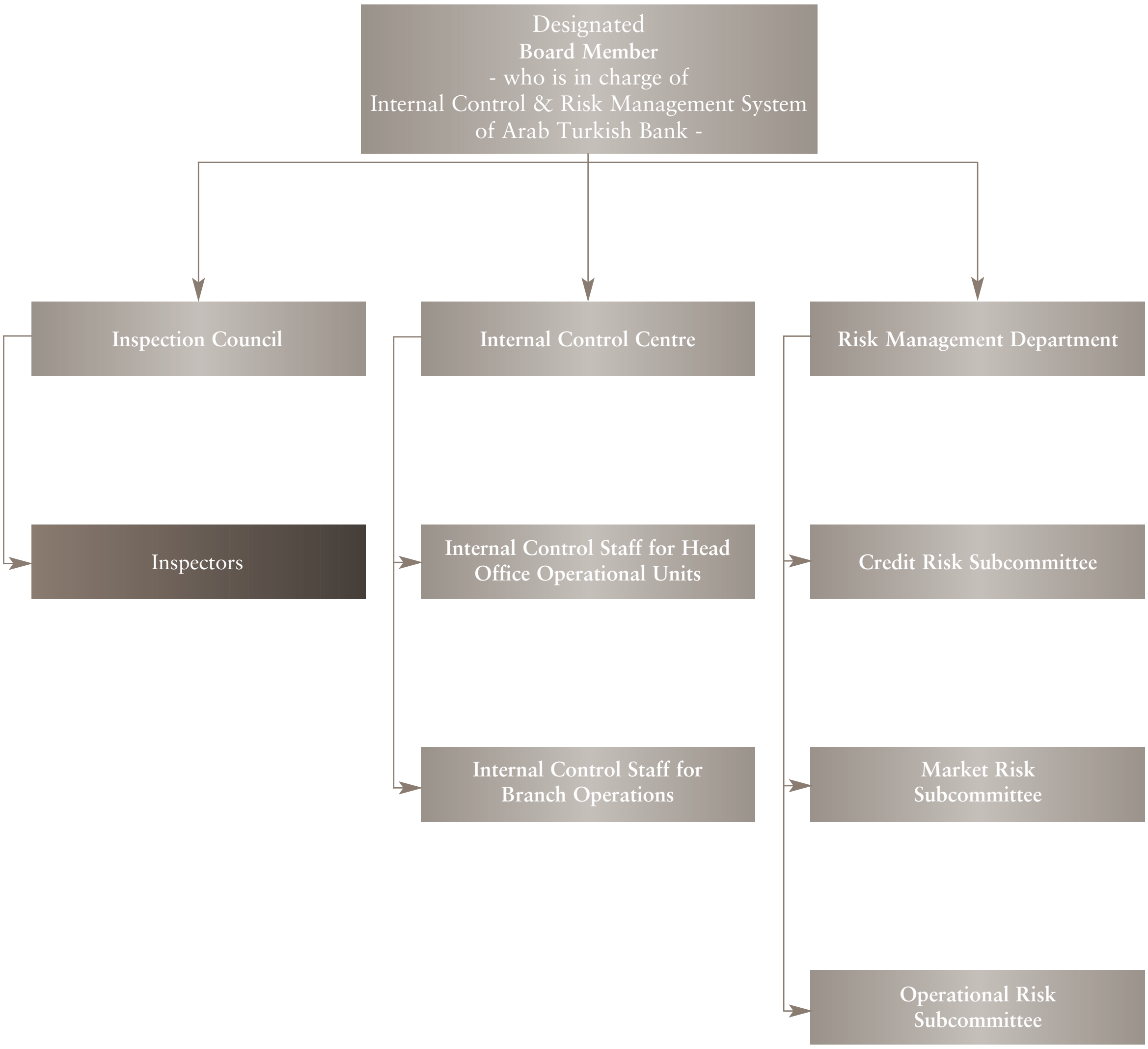
Among all funding sources, the Borrowings item played the most important role in 2003 with a 57% share in total liabilities, as compared to a 47% share in 2002. This item increased over the period of one year from TL 155,934 billion to TL 168,641 billion, up by 8%. The next most important source of funding for the Bank was Shareholders' Equity with a 21% share, an item, which had stood at 16% the previous year. This was followed by Deposits, constituting 12% of total liabilities at the end of 2003, down from a total of 19% the year before.

The Shareholders' Equity item increased by 11% and reached TL 60,829 billion at the end of 2003, up from its level of TL 54,561 billion as of December 31, 2002. On the other hand, Deposits decreased by 45%, from TL 64,159 billion in 2002 to TL 35,589 billion in 2003.

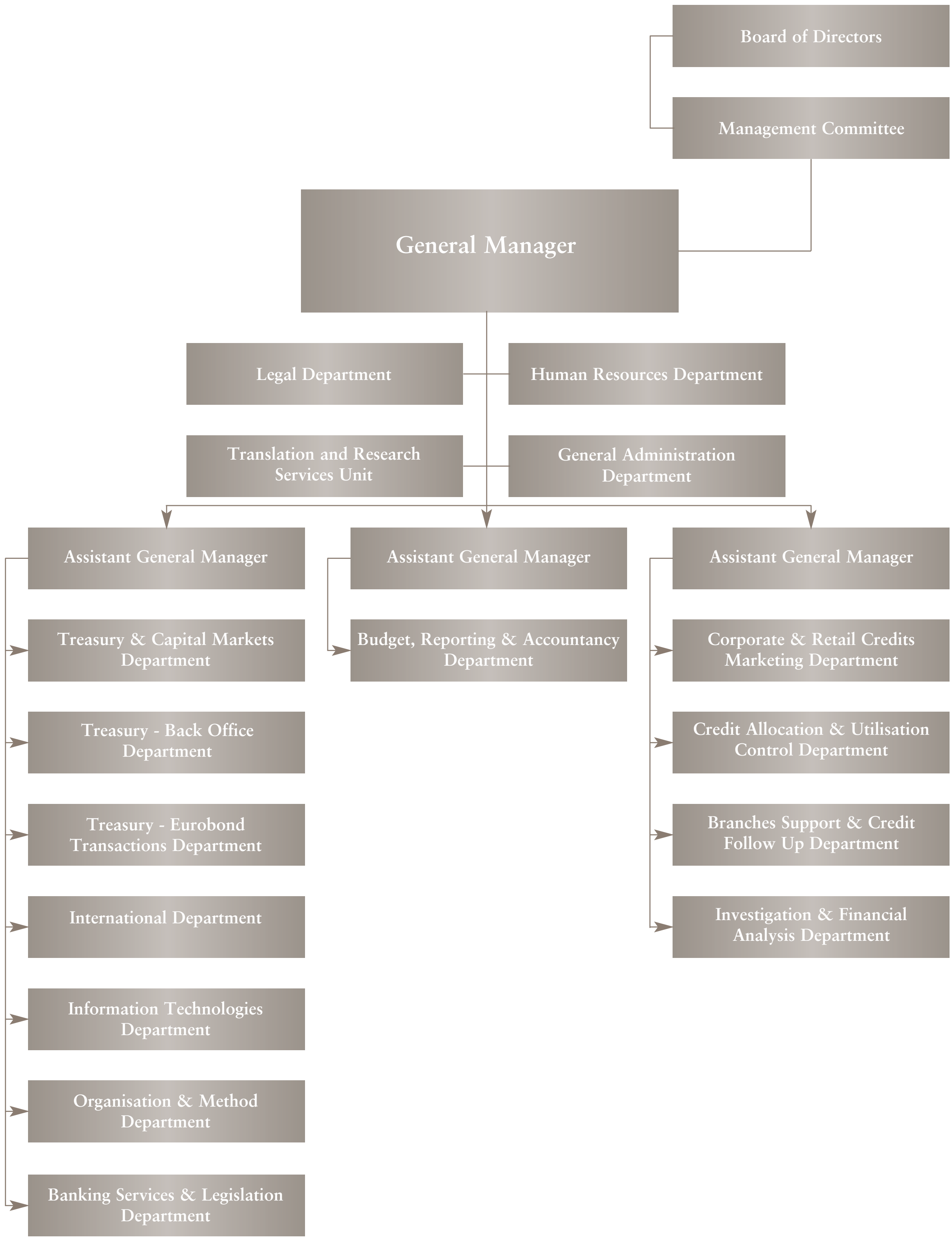
Arab Turkish Bank had ended the year 2002 with a profit of TL 3,274 billion. In 2003, the Bank succeeded in creating an inflation adjusted net profit of TL 6,268 billion, equivalent to US$ 4.5 million, by an increase of 91%.

** In analysis, the restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish lira, as of December 31, 2003, in accordance with the International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29). In other words, the December 31, 2002, figures of Arab Turkish Bank have been restated and adjusted to the December 31, 2003, figures by taking the conversion factor as 1.13942.*

Organisation Of Arab Turkish Bank's Internal Control & Risk Management Function



Arab Turkish Bank
General Management Organisational Chart



Arab Turkish Bank

Consolidated Financial Statements for the Year Ended 31 December 2003 In Conformity With International Financial Reporting Standards

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To the Board of Directors,
Arap Türk Bankası A.Ş.

İstanbul

OPINION OF INDEPENDENT AUDITORS

1. We have audited the accompanying consolidated balance sheet of Arap Türk Bankası A.Ş. ("the Bank") and its subsidiary (together "the Group") as of 31 December 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of Turkish Lira as at 31 December 2003. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2003, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards.

DRT Yeminli Mali Müşavirlik A.Ş.

DRT DENETİM REVİZYON TASDİK
YEMİNLİ MALİ MÜŞAVİRLİK A.Ş.

Member Firm of DELOITTE TOUCHE TOHMATSU

Istanbul, February 26, 2004

ARAB TURKISH BANK

Consolidated Balance Sheets
as at 31 December 2003 and 2002

ASSETS	Note	2003 TL Billion	2002 TL Billion
LIQUID ASSETS	4	978	1,106
BALANCES WITH THE CENTRAL BANK	5	178	90
BALANCES WITH BANKS	6	35,431	88,311
INTERBANK FUNDS SOLD		5,585	28,140
SECURITIES PORTFOLIO (NET)	7		
Held-For-Trading		48,500	1,488
Available-For-Sale		1,387	1,387
Held-To-Maturity		126,920	134,449
		176,807	137,324
RESERVE DEPOSITS AT THE CENTRAL BANK	5	15,876	19,473
LOANS (NET)	8	72,038	67,629
SUNDRY DEBTORS	9	184	105
PREMISES AND EQUIPMENT (NET)	10	24,369	25,824
OTHER ASSETS	11	763	1,493
TOTAL ASSETS		332,209	369,495

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

LIABILITIES	Note	2003 TL Billion	2002 TL Billion
DEPOSITS	12		
Demand		20,877	31,326
Time		14,840	33,007
		35,717	64,333
MONEY MARKET TRANSACTIONS		1,850	-
FUNDS RECEIVED UNDER SECURITIES REPURCHASE AGREEMENTS		477	667
BANK BORROWINGS	13	203,441	188,460
TAXES AND DUES PAYABLE		750	562
CORPORATE TAX	22	603	1,910
SUNDRY CREDITORS	14	2,689	3,203
PROVISIONS	15	1,904	2,383
OTHER LIABILITIES	16	2,179	22,753
DEFERRED TAX LIABILITY (NET)	22	1,029	3,774
TOTAL LIABILITIES		250,639	288,045
SHAREHOLDERS' EQUITY			
Share Capital	17	221,219	221,219
Subordinated Loan	18	16,750	22,349
Revaluation Surplus	10	1,671	4,665
Legal Reserves		20,076	19,874
Accumulated Losses		(178,146)	(186,657)
TOTAL SHAREHOLDERS' EQUITY		81,570	81,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		332,209	369,495
COMMITMENTS AND CONTINGENCIES	25	96,827	177,738

ARAB TURKISH BANK

Consolidated Statements of Income
for the Years Ended 31 December 2003 and 2002

	Note	2003 TL Billion	2002 TL Billion
INTEREST INCOME			
Interest on loans		3,237	10,542
Interest on interbank funds sold		6,416	12,689
Interest on securities portfolio		15,985	8,490
Interest received from banks		3,513	3,496
Interest from lease operations		2,960	2,278
Other		253	193
		32,364	37,688
INTEREST EXPENSE			
Interest on deposits		(832)	(1,534)
Interest on interbank funds borrowed		(62)	(3)
Interest on borrowings		(4,185)	(5,059)
Other		(194)	(212)
		(5,273)	(6,808)
NET INTEREST INCOME		27,091	30,880
Provision for loan losses		(99)	(6,134)
NET INTEREST INCOME AFTER PROVISIONS		26,992	24,746
NET FOREIGN CURRENCY GAINS/(LOSSES)		3,142	(1,167)
NET SECURITIES TRADING GAINS		237	209
NET TRADING INCOME		30,371	23,788
OTHER OPERATING INCOME	19	7,735	12,023
OTHER OPERATING EXPENSES	20	(20,149)	(20,395)
INCOME BEFORE MONETARY LOSS	21	17,957	15,416
MONETARY LOSS		(7,536)	(7,193)
INCOME BEFORE TAXATION		10,421	8,223
TAXATION	22	(1,708)	(5,114)
NET INCOME		8,713	3,109

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

ARAB TURKISH BANK

Consolidated Statement of Changes in Shareholders' Equity for the Years Ended 31 December 2003 and 2002

	Share Capital TL Billion	Subordinated Loan TL Billion	Legal Reserves TL Billion	Revaluation Surplus TL Billion	Accumulated Profit / (Loss) TL Billion	Total TL Billion
At 1 January 2002	220,608	-	22,059	-	(188,311)	54,356
Cash Increase in Capital	611	-	-	-	(222)	389
Transfers to:						
Capital	-	-	-	-	-	-
Legal Reserves	-	-	9	-	(9)	-
Change in indexation methodology	-	-	(2,194)	-	(1,224)	(3,418)
Revaluation surplus on properties and equipment	-	-	-	4,665	-	4,665
Subordinated Loan	-	22,349	-	-	-	22,349
Dividends Paid	-	-	-	-	-	-
Income for the Year	-	-	-	-	3,109	3,109
At 31 December 2002	221,219	22,349	19,874	4,665	(186,657)	81,450
Cash Increase in Capital	-	-	-	-	-	-
Transfers to:						
Capital	-	-	-	-	-	-
Legal Reserves	-	-	202	-	(202)	-
Effect of change in foreign currency rate on subordinated loan	-	(5,599)	-	-	-	(5,599)
Change in revaluation surplus on properties and equipment	-	-	-	(2,994)	-	(2,994)
Dividends Paid	-	-	-	-	-	-
Income for the Year	-	-	-	-	8,713	8,713
At 31 December 2003	221,219	16,750	20,076	1,671	(178,146)	81,570

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

ARAB TURKISH BANK

Consolidated Statements of Cash Flows
for the Years Ended 31 December 2003 and 2002

	2003 TL Billion	2002 TL Billion
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) for the year	8,713	3,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,086	687
Increase/(decrease) in provisions for loan losses	(3,179)	1,445
Increase/(decrease) in other provisions	(479)	(4,292)
Increase/(decrease) in taxes and dues	(2,280)	(3,248)
Net cash provided from (used in) operating activities	3,861	(2,299)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase)/decrease in balances with banks and Central Bank	75,347	252
(Increase)/decrease in marketable securities	(39,483)	(77,543)
(Increase)/decrease in loans	10,414	11,839
(Increase)/decrease in tangible fixed assets (net)	(4,210)	(2,978)
(Increase)/decrease in lease receivables	(11,644)	246
(Increase) in accrued interest and other assets	651	7,538
Net cash provided from (used in) investing activities	31,075	(60,646)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) in deposits	(26,957)	4,938
Increase/(decrease) in reserve deposits at the Central Bank	3,597	(12,981)
Increase/(decrease) in funds borrowed	14,981	36,926
Increase/(decrease) in accrued expenses and other liabilities	(21,086)	15,160
Increase/(decrease) in paid-up capital	-	389
Dividends paid	-	-
Net cash provided from (used in) financing activities	(29,465)	44,432
EFFECT OF CHANGE IN INDEXATION METHODOLOGY	-	(3,419)
SUBORDINATED LOAN	(5,599)	22,349
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(128)	417
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,106	689
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	978	1,106

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

1. ACTIVITIES

Arap Türk Bankası A.Ş. was established on 31 March 1976 in accordance with the "Agreement for the Establishment of a Joint Bank between the Libyan Arab Republic and the Republic of Turkey" which was signed in Tripoli, Libya on 11 August 1975. The establishment of the Bank was published in the Trade Register Gazette on 18 July 1976. The Head Office of the Bank is located in Istanbul. As at the balance sheet date the Bank has 3 branches in Turkey.

The Bank holds one subsidiary, and has direct and indirect equity participations in some 7 companies mainly operating in the financial sector. These participations are listed in Note 2. The Bank and its subsidiary are hereinafter referred as the "Group".

The numbers of personnel working for the Bank, and its subsidiary as at 31 December 2003 are 175 and 13, respectively.

2. BASIS OF FINANCIAL STATEMENTS

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

Basis of Presentation of Financial Statements

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Banking Law, Commercial Practice and Tax Regulations. The Bank’s subsidiary maintains its books of account and prepares its statutory financial statements in accordance with regulations prevailing in its area of specialization, Commercial Practice and Tax Regulations. The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention (except for the revaluation of property, plant and equipment for companies incorporated in Turkey as discussed in note 3) with adjustments and reclassifications for the purposes of fair presentation in accordance with IFRS.

These financial statements are presented in Turkish Lira since that is the currency in which the majority of the Group's transactions are denominated.

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

Inflation Accounting

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

One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey has been 181% for the three years ended 31 December 2003, based on the wholesale price index announced by the Turkish State Institute of Statistics. IAS 29 requires financial statements to be stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods to be restated in the same terms by applying a general price index. The restatement adjustments are calculated by using the wholesale price index ("WPI") announced by the Turkish State Institute of Statistics (1994 Index =100).

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

	Index	Conversion Factor
31 December 2000	2,626.0	2.8112
31 December 2001	4,951.7	1.4908
31 December 2002	6,478.8	1.1394
31 December 2003	7,382.1	1.0000

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

Year:	2003	2002	2001	2000
Currency Devaluation US$	(14.6%)	13.5%	114.3%	24.3%
WPI Inflation	13.9%	30.8%	88.6%	32.6%

In the accompanying financial statements figures are presented on a TL Billion basis.

The principal adjustments related with inflation accounting are as follows:

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

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

• Non-monetary assets and liabilities and the components of shareholders' equity are restated by applying, to the initial acquisition cost and any accumulated depreciation, the relevant conversion factors reflecting the increase in the WPI from the date of acquisition or initial recording to the balance sheet date. Revaluations made on any other basis in the statutory records are eliminated.

• All items in the statements of income are restated by applying the relevant conversion factors.

• The effect of general inflation on the Group's net monetary position is included in the statements of income as monetary gain or loss.

Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and an enterprise controlled by the Bank (its subsidiary) made up to 31 December each year.

The financial statements of the below entity have been consolidated with those of the Bank in the accompanying financial statements. The method of consolidation is set out in note 3.

Entity	Sector	The Bank's Ownership (%)
A & T Leasing A.Ş.	Financial Leasing	99.98%

The following equity participations have been accounted for at indexed cost:

Entity	Sector	The Bank's Ownership (%)
İMKB Takas ve Saklama Bankası A.Ş.	Financial	0.01
Yatırım Finansman A.Ş.	Financial	0.10
Güç Birliği Holding A.Ş.	Textile & Energy	<1
Arab Financial Services Co.	Financial	1.25
Akdeniz Gübre San. A.Ş.	Manufacturing	<1
Toros Gübre ve Kimya End. A.Ş.	Manufacturing	<1
Tekfen Dış Ticaret A.Ş.	Manufacturing	<1

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Accounting Convention

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards. Effect has been given in the financial statements to adjustments and reclassifications, which have not been entered in the general books of account of the Bank, and its subsidiary maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

3.2 Consolidation

The consolidation includes the company set out in note 2.

Accounting policies adopted by the consolidated entity have been changed to comply with those of the Bank, wherever necessary.

Other equity participations in which the Bank has less than 20% ownership or interest in voting rights are accounted for at indexed cost, less any provision where a permanent diminution in value is judged to have occurred.

3.3 Income and Expense Recognition

Interest and other income and expenses are recognized on the accrual basis, except for fees and commissions for various banking services rendered and dividends from equity participations, which are recognized as income when received. Income and expenses are recognized in accordance with IFRS 39 at fair value or amortized cost basis. For the purposes of convenience, certain income and expenses are recognized on a straight-line basis wherever that does not materially differ from fair value or the amortized cost method. All income and expense items are restated in the equivalent purchasing power at the balance sheet date.

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

3.4 Foreign Currency Items

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates.

All exchange gains and losses arising on settlement and translation of foreign currency items are included in the statement of income.

3.5 Securities Portfolio

The Bank's securities portfolio primarily represents Government Bonds and Treasury Bills which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices. The cost of foreign currency denominated securities is translated at year-end exchange rates.

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

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

The Group designates its securities portfolio in accordance with IFRS 39 as follows:

Securities held-for-trading:

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

Securities held-to-maturity:

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

Securities available-for-sale:

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

In the statutory books of account the Bank values its share on available-for-sale assets at cost plus the nominal value of bonus shares received from investee companies converting their Revaluation Reserves to Share Capital. Revaluation surpluses arising from the nominal value of shares received in the statutory records are eliminated in the accompanying financial statements.

Investments in available-for-sale securities with no quoted market price in an active market, and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable, are accounted for at cost. Securities that do not have a fixed maturity are measured at cost.

In cases where there is evidence of permanent impairment in value, recorded amounts are reduced by a provision for such impairment, charged to the statement of income.

3.6 Premises and Equipment

Property, plant and equipment are carried at indexed historical cost. Property, plant and equipment, are depreciated principally on a straight-line basis using the following rates, which amortize the assets over their expected useful lives:

Buildings	2%
Movables	20%
Furniture and Fittings	20%
Leasehold and Leasehold Improvements	"lease term" or 20%

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

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

The Headquarters building is revalued according to appraisal report dated 23 January 2004. The difference between the revalued amount and indexed carrying amount of the asset is accounted in shareholders' equity under the heading of revaluation surplus. Furthermore, the deferred tax charge arising on the revaluation is debited to revaluation surplus to disclose it net of tax. The carrying value of the building is adjusted to the revalued amount by amending the cost and the revalued amount is depreciated over the remaining useful life of the building.

3.7 Retirement Pay Provision

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

According to Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"), the obligation for future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as the net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit.

3.8 Loan Loss Provisions

Based on its evaluation of the current status of the loans granted, the Bank makes specific loan loss provisions, which it considers are adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known. The Bank classifies any loan, which is not adequately collateralized or where the management believes the borrower lost their creditworthiness, into overdue loans. The Bank ceases to recognize income on overdue loans and receivables. The loan loss provisions and the general loans provision follow the requirements as specified by Turkish Banking regulations. In accordance with the prevailing provisioning legislation, Banks in Turkey should also appropriate 0.5% general provision for cash loans and other receivables and 0.1% general provision for non-cash loans.

3.9 Securities Under Resale or Repurchase Transactions

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

3.10 Cash and Cash Equivalent Items

Cash and cash equivalent items in the statement of cash flows consist of liquid assets.

3.11 Taxation and Deferred Taxes

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Temporary differences arise in respect of items not taxable or tax-deductible until the following year or years.

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.12 Finance Leases

The Group as Lessor

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

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

The Group as Lessee

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

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

3.13 Impairment

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

Recoverable amount is the higher of (i) the sales price of the asset (less any selling costs); (ii) the present value of the cash flows which are expected to arise from future use of the asset.

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

Corporate assets are not directly separable and independent from the other assets and operations of the Group. Management of the Group believes that there is no indication of internal or external factors implying any impairment of corporate assets.

3.14 Use of Estimates

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

3.15 Fair Values of Financial Instruments

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

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

Various financial instruments are accounted for at fair value, as described above and in the related accounting policies. Other financial instruments are accounted at amortized cost but disclosure is required of fair value for comparison purposes wherever practiable. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

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

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

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

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

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

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

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

Deposits: Estimated fair value of demand deposits, saving deposits, interbank deposits and certificates of deposits are the amount payable on demand at the reporting date.

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

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

The fair values of off balance sheet derivative instruments are estimated based on the available quoted market rates prevailing at the reporting date. All unrealized gains and losses on these instruments are included in the statement of income.

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

3.16 Risk Management

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

Liquidity Risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Bank is exposed to an acceptable degree of mismatch between the maturities of its assets and liabilities.

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

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

Credit Risk

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

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

Market Risk

Market risk is the risk that changes in the level of interest rates, currency exchange rates or the price of securities and other financial contracts will have an adverse financial impact. The primary risks within the Group's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Bank's balance sheet is denominated in currencies other than Turkish Lira (principally US dollar and Euro).

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

Operational Risk

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

3.17 Related Parties

For the purpose of the accompanying financial statements shareholders of the Group and related companies, directors and key management personnel together with their families and related companies and other companies in the Arap Türk Bankası Group are referred to as "Related Parties" in this report.

During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year. Certain significant balances and transactions with Related Parties as at the balance sheet date are set out in note 24.

3.18 Offsetting

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

4. LIQUID ASSETS

	2003 TL Billion	2002 TL Billion
Cash balances – Turkish Lira ("TL")	37	39
Cash balances – Foreign currencies ("FC")	585	1,041
Other	356	26
	978	1,106

5. BALANCES AND DEPOSITS WITH THE CENTRAL BANK

a) Balances with the Central Bank

	2003 TL Billion	2002 TL Billion
Demand deposits – TL	118	77
Demand deposits – FC	-	13
Time deposits – FC	60	-
	178	90

b) Reserve Deposits at the Central Bank

	2003 TL Billion	2002 TL Billion
Turkish Lira reserves	69	68
Foreign currency reserves	15,786	19,368
Accrued interest	21	37
	15,876	19,473

Under the Turkish Central Bank regulations, Banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than interbank deposits. The prevailing rates are 6% for Turkish Lira deposits and 11% for foreign currency deposits (2003: TL 69 Billion, US$ 11,309,408 in the Central Bank Balance for reserve deposit).

6. BALANCES WITH BANKS

	2003 TL Billion	2002 TL Billion
DOMESTIC BANKS		
Demand deposits – TL	144	74
Time deposits – TL	11,087	4,742
Demand deposits – FC	973	14,789
Time deposits – FC	2,137	14,144
	14,341	33,749
BANKS ABROAD		
Demand deposits – FC	18,484	47,349
Time deposits – FC	2,443	6,966
	20,927	54,315
Accrued interest	163	247
	35,431	88,311

The time deposits above mature within 1-3 months and earn interest at rates ranging from 0.50% to 2.10% (2002: 0.58% to 4.35%) per annum for FC deposits and 27.61% (2002: 43%) per annum for TL deposits.

As of 31 December 2003 current accounts in foreign banks include US$11,562,885 blocked by foreign correspondent banks (2002: US$11,535,498).

7. SECURITIES PORTFOLIO (NET)

Securities Portfolio can be summarized as follows:

	2003 TL Billion	2002 TL Billion
Held-for-trading		
Government Bonds	47,856	6
Treasury Bills	-	574
Securities held due to REPO transactions	644	908
	48,500	1,488
Available-for-sale		
Affiliates	1,387	1,387
Held-to-maturity		
Government Bonds	82,305	71,752
Eurobonds	44,615	62,697
	126,920	134,449
Less: Diminution in value of securities portfolio	-	-
	176,807	137,324

Securities portfolio includes TL 476 Billion (2002: TL 667 Billion) securities sold with agreements to repurchase ("REPO") as at the balance sheet date. The Group recorded TL 168 Billion (2002: TL 241 Billion) as income on the securities under REPO agreements being the year end income accrual.

Estimated fair values for Government Bonds and Treasury Bills that are traded on a stock exchange market were calculated based upon the prices quoted on the Istanbul Stock Exchange.

The fair values of Government Bonds and Treasury Bills that are traded on a stock exchange have been compared with their book values and unrealized gains and losses on them are as follows: (Securities held under REPO agreements are excluded.)

	2003 TL Billion	2002 TL Billion
Treasury Bills and Government Bonds	167,945	131,756
Interest accruals as of 31 December	6,831	3,273
Total book value	174,776	135,029
Fair Value of Above Securities	173,643	137,021

Government bonds as of 31 December 2003 comprise bonds issued by the Republic of Turkey in foreign currencies (Eurobonds), and mature through year 2008. These government bonds are valued at cost plus accrued interest income in foreign currency, translated at year end exchange rates.

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

	2003 Nominal Value TL Billion	2003 Book Value TL Billion	2002 Nominal Value TL Billion	2002 Book Value TL Billion
Central Bank-Liquidity Requirement	2,792	2,666	10,243	9,975
Istanbul Stock Exchange-Trading Guarantee	501	512	540	526
Central Bank Repo Guarantee	-	-	1	1
Istanbul Stock Exchange-Interbank Guarantee	13,958	13,208	3,725	3,627
	17,251	16,386	14,509	14,129

Available-for-Sale Securities

Investee	Ownership %	Nominal TL Billion	2003 TL Billion	2002 TL Billion
Arab Financial Services Co.	1.25	919	1,273	1,273
Yatırım Finansman A.Ş.	0.10	11	55	55
İMKB Takas ve Saklama Bankası A.Ş.	0.01	5	22	22
Güç Birliği Holding A.Ş.	<1	9	37	37
Akdeniz Gübre San. A.Ş.	<1	<1	<1	<1
Toros Gübre ve Kimya End. A.Ş.	<1	<1	<1	<1
Tekfen Dış Ticaret A.Ş.	<1	<1	<1	<1
		944	1,387	1,387

In the accompanying financial statements, all available-for-sale assets are accounted for at indexed cost.

Nominal values stated above refer to book values of the available-for-sale assets as of the year end.

8. LOANS (NET)

	2003 TL Billion	2002 TL Billion
SHORT-TERM LOANS		
Discount and purchase bills	523	2,519
Secured export loans	12,849	20,216
Other secured loans	3,841	20,970
Loans given to financial sector	7,855	-
Rescheduled loans	16	119
Finance lease receivables	18,146	14,183
	43,230	58,007
MEDIUM AND LONG-TERM LOANS		
Other secured loans	7,048	-
Loans given to financial sector	7,008	-
Finance lease receivables	14,115	6,434
	28,171	6,434
OVERDUE LOANS	11,508	14,472
TOTAL LOANS	82,909	78,913
Less: Provisions		
Specific loan loss provisions	(11,248)	(14,427)
Accrued interest	377	3,143
TOTAL LOANS (NET)	72,038	67,629

As of 31 December 2003, Turkish Lira loans include foreign currency indexed loans amounting to TL 19,627 Billion (US$ 12,406,058, EURO 1,324,000) (2002: TL 10,389 Billion corresponding to US$ 5,933,168, EURO 575,530).

Such loans are recorded at their initial transaction date TL values, and foreign currency gains or losses on these loans are included under interest on loans in the income statement.

The loans at 31 December 2003 and 2002 can be analyzed by sector as follows:

Sector	2003 Loans %	2002 Loans %
Foreign & Domestic Trade	41	26
Finance	38	19
Construction	18	24
Manufacturing	1	10
Iron and Steel	-	20
Others	2	1
	100	100

9. SUNDRY DEBTORS

	2003 TL Billion	2002 TL Billion
Deposits and guarantees	19	23
Receivables from banking services	3	3
Receivables from correspondent banks	-	1
Other	162	78
	184	105

10. PREMISES AND EQUIPMENT (NET)

	Land & Buildings TL Billion	Leasehold & Leasehold Improvements TL Billion	Vehicles, Furniture & Equipment TL Billion	Leased Assets TL Billion	Total TL Billion
COST/VALUATION					
At 1 January 2003	28,526	177	5,195	3,131	37,029
Additions	5,058	-	439	499	5,996
Decrease in revaluation on building	(4,579)	-	-	-	(4,579)
Disposal	(1,488)	-	(227)	(71)	(1,786)
At 31 December 2003	27,517	177	5,407	3,559	36,660
DEPRECIATION					
At 1 January 2003	4,663	47	3,861	2,634	11,205
Charge for the year	444	35	498	336	1,313
Disposals	(31)	-	(192)	(4)	(227)
At 31 December 2003	5,076	82	4,167	2,966	12,291
NET BOOK VALUE					
At 31 December 2003	22,441	95	1,240	593	24,369
NET BOOK VALUE					
At 31 December 2002	23,863	130	1,334	497	25,824

The Bank revalued its headquarters building based on an independent appraiser's report. The headquarters building of the Bank is disclosed at the revalued amount in the accompanying financial statements. The difference between the revalued amount and indexed carrying amount of this property is credited to the shareholders' equity under the heading of revaluation surplus.

Furthermore, the deferred tax charge on the revaluation is debited to revaluation surplus to disclose it net of tax. The carrying value of the property is increased to the revalued amount by increasing the cost and the revalued amount is depreciated over its remaining useful life.

As at 31 December 2003, revalued amount of this property has been examined and reviewed by another appraiser firm and the net book value of the building increased in US$ terms but decreased in TL terms because of the revaluation of TL against US$ during 2003. The carrying value of fixed assets is adjusted to the revalued amount by adjusting the cost and the revalued amount is depreciated over the remaining useful life of the fixed asset.

Fixed Asset Type	Revaluation Date	Revalued Amount TL Billion	Indexed Carrying Amount TL Billion	2002 Revaluation Surplus TL Billion
Headquarters Building	2002	19,166	12,200	6,966
(Less) deferred tax charge debited to revaluation surplus				(2,301)
Net revaluation surplus as of 31 December 2002				4,665

Fixed Asset Type	Revaluation Date	Revalued Amount TL Billion	Indexed Carrying Amount TL Billion	2003 Revaluation Surplus TL Billion
Headquarters Building	2003	18,297	15,910	2,387
(Less) deferred tax charge debited to revaluation surplus				(716)
Net revaluation surplus as of 31 December 2003				1,671

11. OTHER ASSETS

	2003 TL Billion	2002 TL Billion
Advances given	17	1
Prepaid expenses	197	696
Stationery stocks	79	90
Fixed assets taken over from borrowers	113	-
Prepaid taxes	-	539
Deferred VAT	-	81
Other assets	357	86
	763	1,493

12. DEPOSITS

	Time TL Billion	Demand TL Billion	2003 Total TL Billion	2002 Total TL Billion
Turkish Lira Deposits				
Savings deposits	475	117	592	1,166
Public, commercial and other enterprises	142	286	428	605
Bank deposits	-	2	2	2
	617	405	1,022	1,773
Foreign Currency Deposits				
Savings deposits	11,438	5,211	16,649	22,736
Public, commercial and other enterprises	2,653	9,782	12,435	27,740
Bank deposits	-	5,477	5,477	11,838
	14,091	20,470	34,561	62,314
Interest accruals on deposits – Turkish Lira	13	-	13	16
Interest accruals on deposits – Foreign currency	119	2	121	230
	14,840	20,877	35,717	64,333

The time deposits have maturity periods of less than one year. The Bank has applied interest rates to Turkish Lira time deposits based upon maturity as follows: one month 25% (2002: 38-40%), three months 26% (2002: 40-43%), six months 27% (2002: 45%) and one year 27% (2002: 42-55%). Interest rates applied for foreign currency time deposits vary between 0.75% and 3.75% (2002: 1-5%).

13. BANK BORROWINGS

	2003 TL Billion	2002 TL Billion
Domestic Banks – Turkish Lira	55	516
Domestic Banks – Foreign currency	1,593	1,986
Banks Abroad – Foreign currency	201,793	185,958
	203,441	188,460

Borrowings from domestic banks consist of funds used from the Turkish Export and Import Bank. These funds were extended to the Bank's loan customers for export activities.

Borrowings from banks abroad include the following:

2003:

Currency	Amount	Maturity	Interest Rate (%)
US$	111,447,744	January 2004 - April 2005	1.10-1.17
EURO	26,491,972	January 2004 - December 2005	2.15-2.26

Foreign currency borrowings include loans extended by the main shareholder, Libyan Arab Foreign Bank, amounting to US$ 89,157,449 and Euro 6,515,176. The rest of the borrowings from banks abroad include the loans extended by UBAE Arab Italian Bank, Umma Bank and Libyan Arab Foreign Bank.

The Bank’s US$ borrowings mature between January - March 2004 and EURO borrowings in February 2004.

The subsidiary’s US$ borrowings mature in April 2005 and EURO borrowings mature between January 2004 and December 2004. The interest rate range is between Libor and Libor+2.

14. SUNDRY CREDITORS

	2003 TL Billion	2002 TL Billion
Cash guarantees	1,687	1,004
Payables to compulsory Government Funds	11	28
Blocked money (*)	73	1,541
Other (**)	918	630
	2,689	3,203

(*) Blocked money balance includes the customer deposit accounts blocked against the letters of credit given.
(**) Other sundry creditors balance includes accruals of commission expenses payable to correspondent banks.

15. PROVISIONS

	2003 TL Billion	2002 TL Billion
PROVISION FOR RETIREMENT PAY		
At 1 January	1,419	1,318
Provision for the period	454	552
Provision released	(160)	(140)
Net effect of indexation	(282)	(311)
At 31 December	1,431	1,419
GENERAL LOAN LOSS PROVISION		
At 1 January	898	1,113
Additions during the year	-	47
Provision released	(357)	-
Net effect of indexation	(110)	(262)
At 31 December	431	898
Other loan loss provision	42	66
Total Provisions	1,904	2,383

Retirement Pay Provision:

Lump sum payments are made to all employees who retire from the Group or whose employment is terminated for reasons other than misconduct. The amount payable is 30 days gross pay for each year of eligible service. The rate of pay that is ruling at 31 December 2003 is subject to a maximum of TL 1,323,950,000 (in full TL) per year. The upper limit was raised to TL 1,485,430,000 (in full TL) per year on 1 January 2004.

The Group calculates and provides retirement pay provision as of year end.

Under the definitions contained in IAS 19, "Employee Benefits" the Turkish retirement pay system is an unfunded defined benefit scheme. Consequently, IAS 19 requires that a provision be built up for employees' accrued entitlement as calculated actuarially.

In the accompanying financial statements the provision has been made on an estimated basis in compliance with IAS 19.

Actuarial calculations are not available for the Group's accrued liability but for the purposes of these financial statements a calculation has been prepared, assuming a real discount rate of approximately 6% (the net of inflation of 18% and a discount rate of 25%).

16. OTHER LIABILITIES

	2003 TL Billion	2002 TL Billion
Payment orders – FC	42	19,844
Payment orders – TL	10	1
Blocked cash of Bank customers	986	1,380
Due to insurance companies	70	49
Other	1,071	1,479
	2,179	22,753

17. SHARE CAPITAL

Share capital consists of 20,000,000,000 shares of TL 1,000 nominal each.

Shareholders	%	2003 Authorized Capital TL Billion	2003 Paid-Up Capital TL Billion	2002 Authorized Capital TL Billion	2002 Paid-Up Capital TL Billion
Libyan Arab Foreign Bank	48	105,499	105,499	105,499	105,499
Kuwait Investment Company	6	14,159	14,159	14,159	14,159
T. İş Bankası A.Ş.	20	44,244	44,244	44,244	44,244
T.C. Ziraat Bankası A.Ş.	15	33,182	33,182	33,182	33,182
Emek İnşaat ve İşletme A.Ş.	<1	<1	<1	<1	<1
Tekfenbank A.Ş.	11	24,135	24,135	24,135	24,135
	100	221,219	221,219	221,219	221,219

Components of Capital:

	2003 Authorized Capital TL Billion	2003 Paid-Up Capital TL Billion	2002 Authorized Capital TL Billion	2002 Paid-Up Capital TL Billion
Nominal capital	20,000	20,000	20,000	20,000
Effect of inflation	201,219	201,219	201,219	201,219
	221,219	221,219	221,219	221,219

18. SUBORDINATED LOAN

	2003 TL Billion	2002 TL Billion
Banks Abroad – Foreign currency	16,750	22,349
	16,750	22,349

The subordinated loan amounts to US$ 12,000,000 extended by Libyan Arab Foreign Bank. Maturity of the subordinated loan is five years and one month, the interest rate is Libor+2% and the interest period is on a quarterly basis.

19. OTHER OPERATING INCOME

	2003 TL Billion	2002 TL Billion
Income from fees and commissions on loans	1,001	1,290
Income from banking services	4,025	4,636
Dividends from equity participations	-	89
Other	2,709	6,008
	7,735	12,023

20. OTHER OPERATING EXPENSES

	2003 TL Billion	2002 TL Billion
Personnel expenses	13,315	12,220
Taxes and dues paid	482	611
Rent expenses	557	627
Fees and commissions paid	160	410
Depreciation and amortization	1,313	1,597
Administrative expenses and other	4,223	4,772
Other provision expenses	99	158
	20,149	20,395

21. SECTORAL ANALYSIS

2003	Banking TL Billion	Leasing TL Billion	Eliminations TL Billion	TOTAL TL Billion
Interest income	26,427	5,964	(27)	32,364
Interest expenses	(4,228)	(1,072)	27	5,273
NET INTEREST INCOME	22,199	4,892	-	27,091
Loan Loss Provisions	(99)	-	-	(99)
Net Foreign Currency Gains/(Losses)	3,189	(47)	-	3,142
Net Securities Trading Gains/(Losses)	185	52	-	237
NET TRADING INCOME	25,474	4,897	-	30,371
Other Operating Income	8,577	15	(857)	7,735
Other Operating Expense	(18,025)	(2,134)	10	(20,149)
INCOME/(LOSS) BEFORE TAX AND MONETARY GAIN/(LOSS)	16,026	2,778	(*) (847)	17,957

	Banking TL Billion	Leasing TL Billion	Eliminations TL Billion	TOTAL TL Billion
Total Assets	295,916	46,676	(10,383)	332,209
Liabilities	215,238	35,581	(180)	250,639
Shareholders’ Equity Before Net Income	73,002	9,211	(9,356)	72,857
Net Income	7,676	1,884	(*) (847)	8,713
Total Shareholders’ Equity	80,678	11,095	(10,203)	81,570
Total Liabilities and Shareholders’ Equity	295,916	46,676	(10,383)	332,209

(*) TL 847 Billion is the dividend income that the Bank has received from its consolidated subsidiary in the year 2003. This dividend is distributed from the retained earnings of the subsidiary. This amount is eliminated from the dividend income, and added to the retained earnings for consolidation purposes.

2002	Banking TL Billion	Leasing TL Billion	Eliminations TL Billion	TOTAL TL Billion
Interest income	32,568	5,285	(165)	37,688
Interest expenses	(5,723)	(1,250)	165	(6,808)
NET INTEREST INCOME	26,845	4,035	-	30,880
Loan Loss Provisions	(6,134)	-	-	(6,134)
Net Foreign Currency (losses)	(1,090)	(77)	-	(1,167)
Net Securities Trading Gains	143	66	-	209
NET TRADING INCOME	19,764	4,024	-	23,788
Other Operating Income	12,048	-	(25)	12,023
Other Operating Expense	(18,478)	(1,942)	25	(20,395)
INCOME/(LOSS) BEFORE TAX AND MONETARY GAIN/(LOSS)	13,334	2,082	-	15,416

	Banking TL Billion	Leasing TL Billion	Eliminations TL Billion	TOTAL TL Billion
Total Assets	336,307	39,402	(6,214)	369,495
Liabilities	254,711	33,411	(77)	288,045
Shareholders’ Equity Before Net Income	77,857	6,621	(6,137)	78,341
Net Income	3,739	(630)	-	3,109
Total Shareholders’ Equity	81,596	5,991	(6,137)	81,450
Total Liabilities and Shareholders’ Equity	336,307	39,402	(6,214)	369,495

22. TAXATION

Corporate Tax

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

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

The effective rates of tax are as follows:

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

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

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

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

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Income withholding tax was also calculated in 2002 and prior years on various types of income and gains exempt from corporation tax, whether distributed or not. Such withholding tax has been removed in general. However, 19.8% withholding tax is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Such allowances may be used to relieve corporation tax liability until the profits reach the calculated level of exemption. If companies fail to make a profit or incur losses, any allowance outstanding may be carried forward to following years so as to be deducted from taxable income of subsequent profitable years.

Inflation Adjusted Tax Calculation

For 2003 and previous years, taxable profits were calculated without any inflation adjustment to the statutory records, except that fixed assets and the related depreciation were revalued annually. Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 requires the application of inflation accounting in Turkey in 2004 and future years for tax purposes, if the actual rate of inflation meets certain thresholds, using principles which do not differ substantially from the principles in IAS 29 "Financial Reporting in Hyperinflationary Economies". Application of the new principles is optional in the first quarterly advance tax return in 2004.

Deferred Tax

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

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

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

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

a) Balance sheet:

	2003 TL Billion	2002 TL Billion
Corporate tax	4,707	1,910
Prepaid tax	(4,104)	-
Net corporate tax liability	603	1,910
Deferred tax asset	(692)	(4,354)
Deferred tax liability	1,721	8,128
Net Deferred tax liability	1,029	3,774

b) Income statement:

	2003 TL Billion	2002 TL Billion
Corporate tax charge	4,707	3,904
Deferred tax charge/(benefit)	(2,999)	1,210
	1,708	5,114

	31 December 2003 TL Billion	31 December 2002 TL Billion
c) Temporary differences subject to deferred tax:		
Restatement of fixed assets	-	4,844
Retirement pay provision	(1,408)	(1,412)
Leasing adjustment	2,087	1,896
Revaluation surplus	2,387	6,966
Amortised cost vs market value accrual for securities	1,264	-
General loan loss provision	(899)	(857)
	3,431	11,437
Components of Deferred Tax (Assets)/Liabilities:		
On restatement of fixed assets	-	1,596
Retirement pay provision	(422)	(466)
Leasing Adjustment	626	626
Revaluation surplus	716	2,301
Amortised cost vs market value accrual for securities	379	-
General Loan Loss Provision	(270)	(283)
	1,029	3,774
d) Movement of Deferred Tax (Assets)/Liabilities:		
Opening balance at 1 January	3,774	349
Monetary (gain)	(462)	(86)
Deferred tax charge/(benefit)	(2,999)	1,210
Deferred tax liability on revaluation surplus	716	2,301
Closing balance at 31 December	1,029	3,774

	31 December 2003 TL Billion	31 December 2002 TL Billion
e) Reconciliation of Taxation:		
Profit/(Loss) Before Taxation, after Monetary Loss (*)	10,421	8,223
Tax at the domestic income tax rate		
(30% for the Bank and 19.8% for the consolidated subsidiary)	3,183	2,688
Tax effect of restatement of non monetary items per IAS29	2,221	727
Tax effect of dividend and other non-taxable income	(889)	-
Tax effect of investment incentive deduction	(471)	-
Tax effect of expenses that are not deductible in determining taxable income	(2,336)	1,699
Taxation per Income Statement	1,708	5,114

23. MATURITY ANALYSIS OF THE BALANCE SHEET

Maturities of assets and liabilities as at 31 December 2003:

	Up To 1 Month TL Billion	From 1 Month To 3 Months TL Billion	From 3 Months To 1 Year TL Billion	1 Year and More Than 1 Year TL Billion	Total TL Billion
ASSETS					
Liquid assets	978	-	-	-	978
Balance with the Central Bank	178	-	-	-	178
Balances with banks	6,067	13,224	-	16,140	35,431
Interbank funds sold	5,585	-	-	-	5,585
Securities portfolio (net)	-	383	32,540	143,884	176,807
Reserve deposits	7,649	8,024	203	-	15,876
Loans (net)	8,716	13,945	28,125	21,252	72,038
Sundry debtors	184	-	-	-	184
Premises and equipment (net)	-	-	-	24,369	24,369
Other assets	-	-	-	763	763
Total	29,357	35,576	60,868	206,408	332,209
LIABILITIES					
Deposits	30,060	2,866	2,791	-	35,717
Money market transactions	1,850	-	-	-	1,850
Funds received under securities repurchase agreements	477	-	-	-	477
Bank borrowings	75,144	93,243	22,337	12,717	203,441
Taxes and dues payable	750	-	-	-	750
Corporate tax	-	603	-	-	603
Sundry creditors	2,689	-	-	-	2,689
Provisions	-	-	-	1,904	1,904
Other liabilities	-	-	-	2,179	2,179
Deferred tax liability (net)	-	-	-	1,029	1,029
Share capital	-	-	-	221,219	221,219
Subordinated loan	-	-	-	16,750	16,750
Revaluation surplus	-	-	-	1,671	1,671
Legal reserves	-	-	-	20,076	20,076
Accumulated profit/(loss)	-	-	-	(178,146)	(178,146)
Total	110,970	96,712	25,128	99,399	332,209

The maturity analysis for certain asset and liability items is estimated.

Maturities of assets and liabilities as at 31 December 2002:

	Up To 1 Month TL Billion	From 1 Month To 3 Months TL Billion	From 3 Months To 1 Year TL Billion	1 Year and More Than 1 Year TL Billion	Total TL Billion
ASSETS					
Liquid assets	1,106	-	-	-	1,106
Balance with the Central Bank	90	-	-	-	90
Balances with banks	82,562	3,887	-	1,862	88,311
Interbank funds sold	28,140	-	-	-	28,140
Securities portfolio (net)	227	1,740	91,177	44,180	137,324
Reserve deposits	19,473	-	-	-	19,473
Loans (net)	25,771	20,215	15,127	6,516	67,629
Sundry debtors	105	-	-	-	105
Premises and equipment (net)	-	-	-	25,824	25,824
Other assets	-	-	-	1,493	1,493
Total	157,474	25,842	106,304	79,875	369,495
LIABILITIES					
Deposits	53,065	5,882	5,386	-	64,333
Money market transactions	-	-	-	-	-
Funds received under securities repurchase agreements	667	-	-	-	667
Bank borrowings	18,145	45,553	99,594	25,168	188,460
Taxes and dues payable	562	-	-	-	562
Corporate tax	-	1,910	-	-	1,910
Sundry creditors	3,203	-	-	-	3,203
Provisions	-	-	-	2,383	2,383
Other liabilities	-	-	-	22,753	22,753
Deferred tax liability (net)	-	-	-	3,774	3,774
Share capital	-	-	-	221,219	221,219
Subordinated loan	-	-	-	22,349	22,349
Revaluation surplus	-	-	-	4,665	4,665
Legal reserves	-	-	-	19,874	19,874
Accumulated profit/(loss)	-	-	-	(186,657)	(186,657)
Total	75,642	53,345	104,980	135,528	369,495

The maturity analysis for certain asset and liability items is estimated.

24. RELATED PARTY TRANSACTIONS AND BALANCES

The accompanying financial statements include the following balances due from or due to related parties and transactions with related parties.

Balances with related parties generally earn or incur interest at the same rates applied to third parties.

The Bank had the following related party balances throughout the year:

Related Party	Transaction Type	Currency Type	2003 TL Billion
Year-end Balances			
Libyan Arab Foreign Bank	Bank Borrowings	US$	124,449
Libyan Arab Foreign Bank	Bank Borrowings	EURO	11,369
Libyan Arab Foreign Bank	Bank Balances	US$	15
Libyan Arab Foreign Bank	Bank Balances	GBP	1
Libyan Arab Foreign Bank	Bank Balances	EURO	183
Libyan Arab Foreign Bank	Bank Balances	CHF	1
T. İş Bankası A.Ş.	Bank Balances	US$	642
T. İş Bankası A.Ş.	Bank Balances	GBP	63
T. İş Bankası A.Ş.	Bank Balances	CHF	1
T. İş Bankası A.Ş.	Bank Balances	CAD	10
T. İş Bankası A.Ş.	Bank Balances	EURO	1,377
T. İş Bankası A.Ş.	Bank Balances	TL	9,984
Transactions			
Libyan Arab Foreign Bank	Interest Expenses Paid	TRL	2,061
T. Ziraat Bankası A.Ş.	Interest Expenses Paid	TRL	1
T. İş Bankası A.Ş.	Interest Expenses Paid	TRL	1
Tekfenbank A.Ş.	Interest Expenses Paid	TRL	84
Total Expenses			2,147
Libyan Arab Foreign Bank	Interest Received	TRL	3
T. İş Bankası A.Ş.	Interest Received	TRL	198
Tekfenbank A.Ş.	Interest Received	TRL	12
Total Income			213

Related Party	Transaction Type	Currency Type	2002 TL Billion
Year-end Balances			
Libyan Arab Foreign Bank	Bank Borrowings	US$	104,088
Libyan Arab Foreign Bank	Bank Borrowings	EURO	9,704
Libyan Arab Foreign Bank	Bank Borrowings	CHF	333
Libyan Arab Foreign Bank	Bank Balances	US$	4,269
Libyan Arab Foreign Bank	Bank Balances	GBP	1
Libyan Arab Foreign Bank	Bank Balances	EURO	46
T. İş Bankası A.Ş.	Bank Balances	US$	16,152
T. İş Bankası A.Ş.	Bank Balances	GBP	58
T. İş Bankası A.Ş.	Bank Balances	CHF	1
T. İş Bankası A.Ş.	Bank Balances	CAD	-
T. İş Bankası A.Ş.	Bank Balances	EURO	299
Transactions			
Libyan Arab Foreign Bank	Interest Expenses Paid	TRL	1,970
T. İş Bankası A.Ş.	Interest Expenses Paid	TRL	3
Tekfenbank A.Ş.	Interest Expenses Paid	TRL	28
Total Expenses			2,001
T. İş Bankası A.Ş.	Interest Received	TRL	40
T.C. Ziraat Bankası A.Ş.	Interest Received	TRL	8,329
Total Income			8,369

25. COMMITMENTS AND CONTINGENCIES

	2003 TL Billion	2002 TL Billion
Letters of guarantee	62,692	86,141
Letters of credit	34,135	91,515
Acceptances	-	82
	96,827	177,738

The foreign currency position of the Bank can be summarized as follows:

	2003 TL Billion	2002 TL Billion
Total foreign currency assets	253,562	301,073
Total foreign currency liabilities	(258,284)	(297,529)
Net foreign currency position	(4,722)	3,544

Foreign currency indexed loans are classified in foreign currency assets.

26. SUBSEQUENT EVENTS

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

The management of the Bank has proposed to the Board of Directors that the authorized and paid-up nominal capital of the Bank be increased from TL 20,000 Billion to TL 29,000 Billion. This increase will be incorporated from the nominal accumulated profits.

Financial Statements

The following pages include Inflation Adjusted Financial Statements, prepared in compliance with Turkish Banking Regulation and Supervision Agency's communiqués as well as Non-inflation Adjusted Financial Statements, prepared for tax purposes according to prevailing Turkish Tax Laws.

ARAB TURKISH BANK

Inflation Adjusted Balance Sheets as at 31 December 2002 and 2003

ASSETS		31/12/02	31/12/03
I.	CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY	1,170	800
1.1.	Cash	39	37
1.2.	Foreign currency	1,041	585
1.3.	Balances with the Central Bank of Turkey	90	178
II.	TRADING SECURITIES (Net)	1,188	44,333
2.1.	Public sector debt securities	1,188	44,333
2.1.1.	Government bonds	523	44,333
2.1.2.	Treasury bills	665	-
2.1.3.	Other	-	-
2.2.	Share certificates	-	-
2.3.	Other marketable securities	-	-
III.	BANKS AND OTHER FINANCIAL INSTITUTIONS	70,837	21,517
3.1.	Due from banks	70,837	21,517
3.1.1.	Domestic banks	16,522	590
3.1.2.	Foreign banks	54,315	20,927
3.2.	Other financial institutions	-	-
IV.	MONEY MARKET SECURITIES	27,864	5,583
4.1.	Interbank money market placements	27,864	5,583
4.2.	Istanbul Stock Exchange money market placements	-	-
4.3.	Receivables from reverse repurchase agreements	-	-
V.	INVESTMENT SECURITIES AVAILABLE-FOR-SALE (Net)	1,160	899
5.1.	Share certificates	-	-
5.2.	Other marketable securities	1,160	899
VI.	LOANS	43,869	39,400
6.1.	Short-term	43,824	25,084
6.2.	Medium and long-term	-	14,056
6.3.	Loans under follow-up	14,472	11,508
6.4.	Specific provisions (-)	(14,427)	(11,248)
VII.	FACTORING RECEIVABLES	-	-
VIII.	INVESTMENT SECURITIES HELD-TO-MATURITY (Net)	131,234	124,088
8.1.	Public sector debt securities	111,727	124,088
8.1.1.	Government bonds	111,727	124,088
8.1.2.	Treasury bills	-	-
8.1.3.	Other	-	-
8.2.	Other marketable securities	19,507	-
IX.	INVESTMENTS AND ASSOCIATES (Net)	-	-
9.1.	Financial investments and associates	-	-
9.2.	Non-Financial investments and associates	-	-
X.	SUBSIDIARIES (Net)	6,135	10,201
10.1.	Financial subsidiaries	6,135	10,201
10.2.	Non-Financial subsidiaries	-	-
XI.	OTHER INVESTMENTS (Net)	-	-
XII.	FINANCE LEASE RECEIVABLES (Net)	-	-
12.1.	Gross finance lease receivables	-	-
12.2.	Unearned income (-)	-	-
XIII.	RESERVE DEPOSITS	19,436	15,855
XIV.	MISCELLANEOUS RECEIVABLES	105	184
XV.	ACCRUED INTEREST AND INCOME RECEIVABLE	7,022	7,562
15.1.	Loans	2,973	377
15.2.	Marketable securities	3,514	6,999
15.3.	Other	535	186
XVI.	PROPERTY AND EQUIPMENT (Net)	18,324	21,588
16.1.	Book value	27,662	31,774
16.2.	Accumulated Depreciation (-)	(9,338)	(10,186)
XVII.	INTANGIBLE ASSETS (Net)	326	224
17.1.	Goodwill	-	-
17.2.	Other	1,700	1,766
17.3.	Accumulated Amortisation (-)	(1,374)	(1,542)
XVIII.	OTHER ASSETS	2,493	4,407
	TOTAL ASSETS	331,163	296,641

LIABILITIES		31/12/02	31/12/03
I.	DEPOSITS	64,159	35,589
1.1.	Interbank deposits	11,839	5,478
1.2.	Savings deposits	1,167	592
1.3.	Public sector deposits	-	-
1.4.	Commercial deposits	415	297
1.5.	Other institutions deposits	190	135
1.6.	Foreign currency deposits	50,548	29,087
1.7.	Precious metals deposits	-	-
II.	INTERBANK MONEY MARKET	667	2,326
2.1.	Interbank money market takings	-	-
2.2.	Istanbul Stock Exchange money market takings	-	1,850
2.3.	Funds provided under repurchase agreements	667	476
III.	FUNDS BORROWED	155,934	168,641
3.1.	Funds borrowed from the Central Bank of Turkey	-	-
3.2.	Other funds borrowed	155,934	168,641
3.2.1.	Domestic banks and institutions	2,432	1,633
3.2.2.	Foreign banks, institutions and funds	153,502	167,008
IV.	MARKETABLE SECURITIES ISSUED (Net)	-	-
4.1.	Bills	-	-
4.2.	Asset backed securities	-	-
4.3.	Bonds	-	-
V.	FUNDS	-	-
VI.	MISCELLANEOUS PAYABLES	2,983	1,933
VII.	OTHER EXTERNAL RESOURCES	22,479	1,928
VIII.	TAXES AND OTHER DUTIES PAYABLE	497	660
IX.	FACTORING PAYABLES	-	-
X.	FINANCE LEASE PAYABLES (Net)	3	176
10.1.	Finance Leasing Payables	3	176
10.2.	Deferred finance leasing expenses (-)	-	-
XI.	ACCRUED INTEREST AND EXPENSES PAYABLE	841	591
11.1.	Deposits	246	134
11.2.	Borrowings	371	276
11.3.	Repurchase agreements	1	-
11.4.	Other	223	181
XII.	PROVISIONS	6,690	7,218
12.1.	General provisions	898	431
12.2.	Reserve for employee termination benefits	2,010	2,038
12.3.	Provisions for income taxes	3,716	4,707
12.4.	Insurance technical reserves (Net)	-	-
12.5.	Other provisions	66	42
XIII.	SUBORDINATED LOANS	22,349	16,750
XIV.	SHAREHOLDERS' EQUITY	54,561	60,829
14.1.	Paid-in capital	20,000	20,000
14.2.	Supplementary capital	31,287	31,287
14.2.1.	Share premium	-	-
14.2.2.	Share cancellation profits	-	-
14.2.3.	Marketable securities value increase fund	-	-
14.2.4.	Revaluation fund	-	-
14.2.5.	Value increase in revaluation fund	-	-
14.2.6.	Other capital reserves	-	-
14.2.7.	Adjustment to share capital	31,287	31,287
14.3.	Profit reserves	-	144
14.3.1.	Legal reserves	-	144
14.3.2.	Status reserves	-	-
14.3.3.	Extraordinary reserves	-	-
14.3.4.	Other profit reserves	-	-
14.4.	Profit or loss	3,274	9,398
14.4.1.	Prior year income/loss	-	3,130
14.4.2.	Current year income/loss	3,274	6,268
	TOTAL LIABILITIES	331,163	296,641

ARAB TURKISH BANK

Inflation Adjusted Income Statements
for the Years Ended 31 December 2002 and 2003

INCOME & EXPENSE ITEMS		31/12/02	31/12/03
I.	INTEREST INCOME	32,570	26,426
1.1.	Interest on loans	10,543	3,237
1.1.1.	Interest on TL loans	7,615	2,041
1.1.1.1.	Short-term loans	7,615	1,673
1.1.1.2.	Medium and long-term loans	-	368
1.1.2.	Interest on foreign currency loans	2,342	950
1.1.2.1.	Short-term loans	2,342	950
1.1.2.2.	Medium and long-term loans	-	-
1.1.3.	Interest on loans under follow-up	586	246
1.1.4.	Premiums received from Resource Utilisation Support Fund	-	-
1.2.	Interest received from reserve deposits	106	109
1.3.	Interest received from banks	728	675
1.3.1.	The Central Bank of Turkey	1	1
1.3.2.	Domestic banks	124	488
1.3.3.	Foreign banks	603	186
1.4.	Interest received from money market transactions	12,689	6,416
1.5.	Interest received from marketable securities portfolio	8,490	15,985
1.5.1.	Trading securities	1,734	5,499
1.5.2.	Available-for-sale securities	-	-
1.5.3.	Held-to-maturity securities	6,756	10,486
1.6.	Other interest income	14	4
II.	INTEREST EXPENSE	5,724	4,227
2.1.	Interest on deposits	1,643	840
2.1.1.	Interbank deposits	328	183
2.1.2.	Savings deposits	246	144
2.1.3.	Public sector deposits	-	-
2.1.4.	Commercial deposits	130	56
2.1.5.	Other institutions deposits	-	-
2.1.6.	Foreign currency deposits	939	457
2.1.7.	Precious metals deposits	-	-
2.2.	Interest on money market transactions	3	62
2.3.	Interest on funds borrowed	3,813	3,113
2.3.1.	The Central Bank of Turkey	-	-
2.3.2.	Domestic banks	428	212
2.3.3.	Foreign banks	3,385	2,901
2.3.4.	Other financial institutions	-	-
2.4.	Interest on securities issued	-	-
2.5.	Other interest expense	265	212
III.	NET INTEREST INCOME (I - II)	26,846	22,199
IV.	NET FEES AND COMMISSIONS INCOME	5,541	4,871
4.1.	Fees and commissions received	5,951	5,031
4.1.1.	Cash loans	189	-
4.1.2.	Non-cash loans	1,126	1,006
4.1.3.	Other	4,636	4,025
4.2.	Fees and commissions paid	410	160
4.2.1.	Cash loans	-	-
4.2.2.	Non-cash loans	2	2
4.2.3.	Other	408	158
V.	DIVIDEND INCOME	89	1
5.1.	Trading securities	-	-
5.2.	Available-for-sale securities	89	1
VI.	NET TRADING INCOME	(947)	3,373
6.1.	Profit/losses on trading account securities (Net)	142	184
6.2.	Foreign exchange gains/losses (Net)	(1,089)	3,189
VII.	PROFIT/LOSS FROM HELD-TO-MATURITY MARKETABLE SECURITIES	-	-
VIII.	OTHER OPERATING INCOME	6,005	2,699
IX.	TOTAL OPERATING INCOME (III+IV+V+VI+VII+VIII)	37,534	33,143
X.	PROVISION FOR LOAN LOSSES OR OTHER RECEIVABLES (-)	6,292	98
XI.	OTHER OPERATING EXPENSES (-)	17,751	17,954
XII.	OPERATING PROFIT (IX-X-XI)	13,491	15,091
XIII.	PROFIT/LOSSES FROM ASSOCIATES AND SUBSIDIARIES	-	847
XIV.	NET MONETORY POSITION GAIN/LOSS	(6,302)	(4,963)
XV.	PROFIT BEFORE TAX (XII+XIII+XIV)	7,189	10,975
XVI.	PROVISION FOR TAXES ON INCOME (-)	3,659	4,707
XVII.	ORDINARY OPERATING PROFIT/LOSS AFTER TAX (XV-XVI)	3,530	6,268
XVIII.	EXTRAORDINARY INCOME/EXPENSE AFTER TAXES	(256)	-
18.1.	Extraordinary net income/expense before taxes	(256)	-
18.1.1.	Extraordinary income	-	-
18.1.2.	Extraordinary expense (-)	256	-
18.2.	Provision for taxes on extraordinary income	-	-
XIX.	NET PERIOD PROFIT AND LOSS (XVIII-XIX)	3,274	6,268

ARAB TURKISH BANK

Capital Adequacy Ratio Analysis Form Based on Unconsolidated Financial Statements and Inflation Adjusted as of 31/12/2003 (TL billion)

1	SUM OF CORE CAPITAL (2+3+4+5+6-7)	60,829
2	a) Paid-Up Capital	20,000
3	b) Legal Reserves	144
4	c) Optional reserves and reserves for probable losses	-
5	d) Capital Reserves resulting from the inflation accounting	31,287
6	e) Total of net profit for the period and previous years' profit	9,398
7	f) Total of loss for the period and previous years’ losses (-)	-
		8
8	SUM OF SUPPLEMENTARY CAPITAL (From 9 to 15)	17,181
9	a) General loan reserves	431
10	b) Fixed asset revaluation fund (including reserves for cost value increase adjustment, shares of subsidiaries and affiliates to be included in capital and proceeds from the sale of real property)	-
11	c) Revaluation fund calculated for the fixed assets as specified in the definition of supplementary capital in Article 4, paragraph 4 of Regulation on the Establishment and Operation Principles of Banks	-
12	d) Provisions for revaluation of fixed assets of subsidiaries and affiliates (including those related to other participations held for the purpose of acquiring an interest in capital and booked among securities)	-
13	e) Subordinated debts	16,750
14	f) Securities value increase (revaluation) fund	-
15	g) Free reserves for probable risks	-
16	TIER 3 CAPITAL	-
17	CAPITAL (According the limits specified in the Regulation: 1+8+16)	78,010
18	SUM OF ASSETS DEDUCTED FROM CAPITAL (From 19 to 26)	11,318
19	a) All capital participations to the financial institutions which mainly operate in money and capital markets or insurance sector with permissions and licenses defined in specific acts in these fields.	11,063
20	b) Special expense values (cost accounts)	94
21	c) Preliminary expenses	-
22	d) Pre-paid expenses	161
23	e) Difference between the fair value and the book value if the fair value of subsidiaries, affiliates, investments in other participations and fixed assets are below their book value	-
24	f) "Subordinated loans" extended to other banks operating in Turkey	-
25	g) Goodwill	-
26	h) Capitalised costs	-
27	OWN FUNDS (17-18)	66,692
28	SUM OF RISK-WEIGHTED ITEMS (From 29 to 33)	114,950
29	a) 0% Risk Weight (40* 0%)	-
30	b) 20% Risk Weight (81* 20%)	6,666
31	c) 50% Risk Weight (111* 50%)	5,496
32	d) 100% Risk Weight (129* 100%)	78,538
33	e) Market risk exposure	24,250
34	STANDARD CAPITAL ADEQUACY RATIO ((27/28)*100)	58.02
35	SUPPLEMENTARY CAPITAL/CORE CAPITAL ((8/1)*100)	28.24
36	SUBORDINATED TERM DEBTS /CORE CAPITAL ((13/1)*100)	27.54
37	TOTAL NET RISK/ASSETS, NON-CASH CREDITS AND OBLIGATIONS (GROSS) ((28/39)*100)	40.43
38	CORE CAPITAL/RISK WEIGHTED ASSETS, NON-CASH CREDITS AND OBLIGATIONS ((1/28)*100)	52.92
39	ASSETS, NON-CASH CREDITS AND OBLIGATIONS (GROSS) (33+40+81+111+129)	284,353

ARAB TURKISH BANK

Non-Inflation Adjusted Balance Sheets

as at 31 December 2002 and 2003 (TL billion)

ASSETS		31/12/02	31/12/03
I.	CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY	1,027	800
1.1.	Cash	34	37
1.2.	Foreign currency	914	585
1.3.	Balances with the Central Bank of Turkey	79	178
II.	TRADING SECURITIES (Net)	1,043	44,333
2.1.	Public sector debt securities	1,043	44,333
2.1.1.	Government bonds	459	44,333
2.1.2.	Treasury bills	584	-
2.1.3.	Other	-	-
2.2.	Share certificates	-	-
2.3.	Other marketable securities	-	-
III.	BANKS AND OTHER FINANCIAL INSTITUTIONS	62,170	21,517
3.1.	Due from banks	62,170	21,517
3.1.1.	Domestic banks	14,501	590
3.1.2.	Foreign banks	47,669	20,927
3.2.	Other financial institutions	-	-
IV.	MONEY MARKET PLACEMENTS	24,454	5,583
4.1.	Interbank money market placements	24,454	5,583
4.2.	Istanbul Stock Exchange money market placements	-	-
4.3.	Receivables from reverse repurchase agreements	-	-
V.	INVESTMENT SECURITIES AVAILABLE-FOR-SALE (Net)	944	811
5.1.	Share certificates	-	-
5.2.	Other marketable securities	944	811
VI.	LOANS	38,500	39,400
6.1.	Short-term	38,461	25,084
6.2.	Medium and long-term	-	14,056
6.3.	Loans under follow-up	12,701	11,508
6.4.	Specific provisions (-)	(12,662)	(11,248)
VII.	FACTORING RECEIVABLES	-	-
VIII.	INVESTMENT SECURITIES HELD-TO-MATURITY (Net)	115,176	124,088
8.1.	Public sector debt securities	98,056	124,088
8.1.1.	Government bonds	98,056	124,088
8.1.2.	Treasury bills	-	-
8.1.3.	Other	-	-
8.2.	Other marketable securities	17,120	-
IX.	INVESTMENTS AND ASSOCIATES (Net)	-	-
9.1.	Financial investments and associates	-	-
9.2.	Non-Financial investments and associates	-	-
X.	SUBSIDIARIES (Net)	2,000	5,999
10.1.	Financial subsidiaries	2,000	5,999
10.2.	Non-Financial subsidiaries	-	-
XI.	OTHER INVESTMENTS (Net)	-	-
XII.	FINANCE LEASE RECEIVABLES (Net)	-	-
12.1.	Gross finance lease receivables	-	-
12.2.	Unearned income (-)	-	-
XIII.	RESERVE DEPOSITS	17,058	15,855
XIV.	MISCELLANEOUS RECEIVABLES	92	184
XV.	ACCRUED INTEREST AND INCOME RECEIVABLE	6,163	7,562
15.1.	Loans	2,608	377
15.2.	Marketable securities	3,084	6,999
15.3.	Other	471	186
XVI.	PROPERTY AND EQUIPMENT (Net)	12,063	19,471
16.1.	Book value	14,415	22,698
16.2.	Accumulated Depreciation (-)	(2,352)	(3,227)
XVII.	INTANGIBLE ASSETS (Net)	94	101
17.1.	Goodwill	-	-
17.2.	Other	302	366
17.3.	Accumulated Amortisation (-)	(208)	(265)
XVIII.	OTHER ASSETS	2,164	4,406
	TOTAL ASSETS	282,948	290,110

LIABILITIES		31/12/02	31/12/03
I.	DEPOSITS	56,309	35,589
1.1.	Interbank deposits	10,391	5,478
1.2.	Savings deposits	1,024	592
1.3.	Public sector deposits	-	-
1.4.	Commercial deposits	364	297
1.5.	Other institutions deposits	167	135
1.6.	Foreign currency deposits	44,363	29,087
1.7.	Precious metals deposits	-	-
II.	INTERBANK MONEY MARKET	585	2,326
2.1.	Interbank money market takings	-	-
2.2.	Istanbul Stock Exchange money market takings	-	1,850
2.3.	Funds provided under repurchase agreements	585	476
III.	FUNDS BORROWED	136,854	168,641
3.1.	Funds borrowed from the Central Bank of Turkey	-	-
3.2.	Other funds borrowed	136,854	168,641
3.2.1.	Domestic banks and institutions	2,135	1,633
3.2.2.	Foreign banks, institutions and funds	134,719	167,008
IV.	MARKETABLE SECURITIES ISSUED (Net)	-	-
4.1.	Bills	-	-
4.2.	Asset-backed securities	-	-
4.3.	Bonds	-	-
V.	FUNDS	-	-
VI.	MISCELLANEOUS PAYABLES	2,618	1,933
VII.	OTHER EXTERNAL RESOURCES	19,728	1,928
VIII.	TAXES AND OTHER DUTIES PAYABLE	436	660
IX.	FACTORING PAYABLES	-	-
X.	FINANCE LEASE PAYABLES (Net)	3	176
10.1.	Finance Leasing Payables	3	176
10.2.	Deferred finance leasing expenses (-)	-	-
XI.	ACCRUED INTEREST AND EXPENSES PAYABLE	738	591
11.1.	Deposits	216	134
11.2.	Borrowings	325	276
11.3.	Repurchase agreements	1	-
11.4.	Other	196	181
XII.	PROVISIONS	5,871	7,218
12.1.	General provisions	788	431
12.2.	Reserve for employee termination benefits	1,764	2,038
12.3.	Provisions for income taxes	3,261	4,707
12.4.	Insurance technical reserves (Net)	-	-
12.5.	Other provisions	58	42
XIII.	SUBORDINATED LOANS	19,614	16,750
XIV.	SHAREHOLDERS' EQUITY	40,192	54,298
14.1.	Paid-in capital	20,000	20,000
14.2.	Supplementary capital	5,236	7,968
14.2.1.	Share premium	-	-
14.2.2.	Share cancellation profits	-	-
14.2.3.	Marketable securities value increase fund	-	-
14.2.4.	Revaluation fund	5,236	7,967
14.2.5.	Value increase in revaluation fund	-	1
14.2.6.	Other capital reserves	-	-
14.3.	Profit reserves	1,051	1,195
14.3.1.	Legal reserves	986	1,130
14.3.2.	Status reserves	-	-
14.3.3.	Extraordinary reserves	65	65
14.3.4.	Other profit reserves	-	-
14.4.	Profit or loss	13,905	25,135
14.4.1.	Prior year income/loss	6,473	13,761
14.4.2.	Current year income/loss	7,432	11,374
	TOTAL LIABILITIES	282,948	290,110

ARAB TURKISH BANK

Non-Inflation Adjusted Income Statements

for the years Ended 31 December 2002 and 2003

INCOME STATEMENT		31/12/02	31/12/03
I.	INTEREST INCOME	25,229	25,776
1.1.	Interest on loans	8,053	3,084
1.1.1.	Interest on TL loans	5,821	1,923
1.1.1.1.	Short-term loans	5,821	1,573
1.1.1.2.	Medium and long-term loans	-	350
1.1.2.	Interest on foreign currency loans	1,792	927
1.1.2.1.	Short-term loans	1,792	927
1.1.2.2.	Medium and long-term loans	-	-
1.1.3.	Interest on loans under follow-up	440	234
1.1.4.	Premiums received from Resource Utilisation Support Fund	-	-
1.2.	Interest received from reserve deposits	86	107
1.3.	Interest received from banks	562	664
1.3.1.	The Central Bank of Turkey	1	1
1.3.2.	Domestic banks	93	483
1.3.3.	Foreign banks	468	180
1.4.	Interest received from money market transactions	9,876	6,269
1.5.	Interest received from marketable securities portfolio	6,641	15,648
1.5.1.	Trading securities	1,299	5,406
1.5.2.	Available-for-sale securities	-	-
1.5.3.	Held-to-maturity securities	5,342	10,242
1.6.	Other interest income	11	4
II.	INTEREST EXPENSE	4,476	4,136
2.1.	Interest on deposits	1,267	821
2.1.1.	Interbank deposits	253	181
2.1.2.	Savings deposits	192	140
2.1.3.	Public sector deposits	-	-
2.1.4.	Commercial deposits	100	55
2.1.5.	Other institutions deposits	-	-
2.1.6.	Foreign currency deposits	722	445
2.1.7.	Precious metals deposits	-	-
2.2.	Interest on money market transactions	3	61
2.3.	Interest on funds borrowed	2,999	3,047
2.3.1.	The Central Bank of Turkey	-	-
2.3.2.	Domestic banks	330	207
2.3.3.	Foreign banks	2,669	2,840
2.3.4.	Other financial institutions	-	-
2.4.	Interest on securities issued	-	-
2.5.	Other interest expense	207	207
III.	NET INTEREST INCOME (I - II)	20,753	21,640
IV.	NET FEES AND COMMISSIONS INCOME	4,263	4,741
4.1.	Fees and commissions received	4,603	4,898
4.1.1.	Cash loans	138	-
4.1.2.	Non-cash loans	874	979
4.1.3.	Other	3,591	3,919
4.2.	Fees and commissions paid	340	157
4.2.1.	Cash loans	-	-
4.2.2.	Non-cash loans	2	2
4.2.3.	Other	338	155
V.	DIVIDEND INCOME	66	1
5.1.	Trading securities	-	-
5.2.	Available-for-sale securities	66	1
VI.	NET TRADING INCOME	(781)	3,387
6.1.	Profit/losses on trading account securities (Net)	116	183
6.2.	Foreign exchange gains/losses (Net)	(897)	3,204
VII.	PROFIT/LOSS FROM HELD-TO-MATURITY MARKETABLE SECURITIES	-	-
VIII.	OTHER OPERATING INCOME	4,259	2,654
IX.	TOTAL OPERATING INCOME (III+IV+V+VI+VII+VIII)	28,560	32,423
X.	PROVISION FOR LOAN LOSSES OR OTHER RECEIVABLES (-)	4,542	96
XI.	OTHER OPERATING EXPENSES (-)	13,172	17,096
XII.	NET OPERATING INCOME (IX-X-XI)	10,846	15,231
XIII.	PROFIT/LOSSES FROM ASSOCIATES AND SUBSIDIARIES	-	850
XIV.	INCOME BEFORE TAXES (XII+XIII)	10,846	16,081
XV.	PROVISION FOR TAXES ON INCOME (-)	3,211	4,707
XVI.	NET OPERATING INCOME/EXPENSE AFTER TAXES (XIV-XV)	7,635	11,374
XVII.	EXTRAORDINARY INCOME/EXPENSE AFTER TAXES	(203)	-
17.1.	Extraordinary net income/expense before taxes	(203)	-
17.1.1.	Extraordinary income	-	-
17.1.2.	Extraordinary expense (-)	203	-
17.2.	Provision for taxes on extraordinary income	-	-
XVIII.	NET PROFIT/LOSSES (XVI+XVII)	7,432	11,374

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