annual
report
2003

ANADOLUBANK

contents

Financial Highlights

(Turkish Lira in billions)	2003	2002
For the Year		
Net interest income	54,387	45,408
Non-interest income	51,231	45,486
Total income	105,618	90,894
Non-interest expense	(61,330)	(58,307)
Provision for loan losses	(6,949)	(2,874)
Taxation charge	(14,117)	(8,585)
Minority interest	47	48
Monetary loss due to inflation	(7,204)	(14,920)
Net income	16,064	6,208
At Year-End		
Assets	1,632,842	1,313,602
Loans	586,631	381,365
Securities	643,632	647,895
Total earning assets	1,585,201	1,251,704
Customer deposits	1,205,612	1,076,181
Short-term borrowings	135,323	94,054
Total shareholders' equity	101,359	84,291
Free capital	85,036	54,967
Financial Ratios (%)		
Return on average equity (ROE)	17.31	7.62
Return on average assets (ROA)	1.09	0.44
Net interest margin	3.69	3.19
Efficiency ratio	57.45	63.87
Capital adequacy ratio (BIS)	12.76	15.29
Total equity to assets (average)	6.88	5.92

Anadolubank's Ratings

Anadolubank was rated by FitchRatings in 2003 and following assessments were made:

Long-term foreign and local currency rating	'B-' (B minus)
Short-term foreign and local currency rating	'B'
Individual rating	'D'
Support	'4T'
National rating	'BBB (tur)'
Outlook for long-term ratings	Negative (This is in line with the sovereign rating)

About Anadolubank

Anadolubank, owned by the Habaş Group, is a commercial bank with 49 branches covering all major regions throughout Turkey. Acquired from the Privatisation Administration in 1997, the Bank is comparatively young in the industry to which it owes its dynamism. Its resilience was demonstrated during turbulent times in the last seven years. A successful restructuring process was achieved during that period where the strength of the shareholders, a well-chosen and experienced management team, and a dedicated staff ensured the Bank a distinct standing in the industry. Anadolubank provides small to medium-size enterprises with short-term working capital and trade finance facilities. The strategies and operations of the Bank are discussed in detail in the related sections of this report.

Acquired from the Privatisation Administration in 1997, the Bank is comparatively young in the industry to which it owes its **dynamism.**

The Habaş Group, an important and primary Turkish producer of industrial and medical gases, started its operations in 1956.

About the Shareholders

The Habaş Group, an important and primary Turkish producer of industrial and medical gases, started its operations in 1956. The Group invested in iron and steel industries in 1987 and became a major player in that sector. Today, it has an annual steel production capacity of 1,600,000 metric tons at its plant in Aliağa, an industrial town and port in Western Turkey. Additionally, Habaş is involved in the storage and distribution of LPG, production of steel bottles and tanks, spiral welded steel pipes, and engineering services in the steel and gas industries.

The Group's industrial activities, structured within strictly defined and related areas, resulted in US$ 383 million in export revenue from the sale of its own products. Including imports, the foreign trade volume of the Habaş Group reached US$ 678 million. The Group was also the 9th largest exporter in Turkey. During the year, the Group was rated A- (tur) (stable) in local currency-national, B (stable) in long-term local and foreign currency by FitchRatings.

Employing nearly 650 people at 12 production and distribution plants located mainly in the western and north-western parts of Turkey, and managed through the Headquarters in Istanbul, Habaş serves customers all over the country through a network of some 500 dealerships. Habaş attaches special importance to quality, customer satisfaction, and environmental issues. The quality management system was audited by RWTÜW and Habaş became the first industrial and medical gases manufacturer in Turkey to be awarded the EN ISO 9000-2000 Quality Certificate. In addition to a safety award from the European Gases Association, the newly established carbon dioxide plant was awarded an EN ISO 9000-2000 Quality Certificate by RINA.

HABAŞ

Letter from the Chairman

Of Banking and of Human Needs

Getting prepared for this year's address, I had a pile of figures on one side of my desk and reports from previous years on the other side. At one point I allowed myself to indulge in some philosophical thinking, as is my habit sometimes. This, I thought, was especially triggered by so many referrals to the 2001 crisis in my last year's address. Those days are long gone, however, and the atmosphere was almost completely changed in 2003. We had been overwhelmed, I thought, and tortured by crises of our own creation and fault, whereas the basic human needs had always been the same, waiting to be satisfied. After all, why do companies and banks exist, if not for the basic reason of meeting the needs of our people?

The year 2003 saw a widespread economic optimism in Turkey. Almost all targets set by the IMF-backed economic programme were met. The Turkish economy grew by 5.9%, inflation was down to 18.4%, consumer confidence was boosted, the public debt was easily managed, and the government issued bonds for longer maturities at declining interest rates. Exports rose by 30.5%, and imports grew by 33.5%, thereby increasing the trade deficit to US$ 21,740 million. The threat posed by such a huge trade deficit was managed through other factors such as tourism, capital inflows and invisibles, although a portion of US$ 5.2 billion is of unknown origin. However, the Central Bank's reserves rose to US$ 35,169 million successively. Banks and companies reported larger profits and their executives grew more boastful. The perception of most players in the market now is that those "grey depressive waves of winter seas" have been left behind and they can now carry out their daily business under "friendly and clear Mediterranean skies."

Is that really so?

I think two things are certain. The Turkish economy was not so feeble as to crack under the pressure of economic crises, nor can any economy afford, in modern times, to consider itself so well-equipped as to let itself go unmanaged. Again, compared to the past ten years, I think we are now better equipped to create a relatively stable environment. For one thing, the political will is there. Also, in 2003 we had sufficient proof to show us that things did not have to go uncontrolled and that they can be managed. I can safely assume, apart from external shocks, that current domestic indicators show we are now more likely to enjoy this stability for the foreseeable future.

Anadolubank's major commitment is the satisfaction of human needs through commercial banking. The Bank was successful in accomplishing all its targets towards that end in 2003. Assets grew by 24.3% to TL 1.6 quadrillion, the equity base increased by 20.25% to TL 101.3 trillion, and profits were TL 16 trillion. The year's profitability was much higher since some profits were capitalised during the year and some were used to offset tax assets created in 2001 as explained, along with other performance results, in following section entitled "Management's Assessment of Operations."

I would again like to reiterate that this success is due to the strong support of our staff, clientele, and correspondent banks without whose dedication and contribution our growth and achievements would not have been possible. Thank you very much indeed.

Mehmet R. Başaran
Chairman

Board of Directors

Mehmet Rüştü Başaran, Chairman and Executive Member
Pulat Akçin, Vice Chairman and Executive Member
Engin Türker, Member
Fikriye Filiz Haseski, Member
Erol Altıntuğ, Member
Yusuf Gezgör, Member

İbrahim Kazancı, Statutory Auditor
Murat Koçoğlu, Statutory Auditor

Anadolubank's major commitment is the satisfaction of human needs through commercial banking. The Bank was successful in accomplishing all its **targets towards that end in 2003.**

Management's Assessment of Operations

Last year, in this section we tried to give an outline of the major principles Anadolubank adheres to while carrying out its operations. We stated that there are no secrets to our success, and that all members of our staff and management are committed to understanding the social dimension and human element involved in our work. Though these values will be evident in the pages ahead, they merit underscoring here, because to us they are like "the skeleton that keeps the body erect," in other words, foundational to all that we are and do.

Our major principles are based on:

- a secure and liquid loan portfolio
- adequate liquidity at all times
- diversified funding sources
- sustained profitability

Anadolubank's fine performance in 2003 successfully enabled all four of these principled to be accomplished. In fact, it can be said that these four principles govern the Bank's two major statements, i.e. the balance sheet and the income statement.

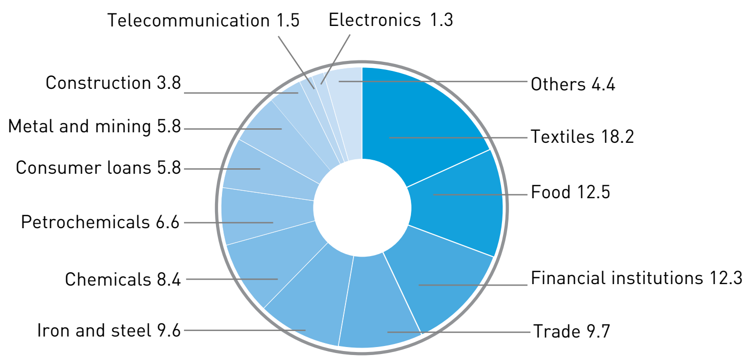
Balance Sheet Analysis

Loans

The loan book made up 35.9% of total assets in 2003. The target for the loans/total assets ratio for 2004 has been set at 45%. Another aspect of Anadolubank's loan portfolio is to address the needs of small to medium-size enterprises (SMEs). Towards this end, we increased the number of our loan customers to 6,290, of which 40.4% fall into the SME category. While doing that, three of the Bank's branches were re-designed to service larger customers, enabling 37 branches to serve SMEs exclusively, according to tranches set by the Marketing Department. The remaining nine branches continued to cover the needs of households and individuals.

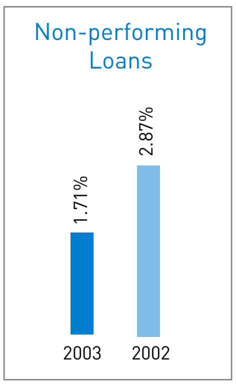
Not only was the major emphasis in 2003 placed on loan book growth, but also on diversifying the loans according to industries. The pie-chart on this page shows how successful we were in our efforts in 2003 to further diversify our loans. The textiles industry is the largest with an 18% share. Considering that textiles is the leading sector in Turkey, we believe this will not prevent us from realising our principle where we prefer not to be exposed to any particular industry for more than 10% of our loan portfolio.

Breakdown of the Loan Portfolio into Industries
(in percentages)



Non-performing Loans

Although the asset quality, when expressed as non-performing loans (NPLs), may well connote negative feelings to some, we at Anadolubank are prudent bankers as reflected in the 1.71% NPL ratio, one of the lowest in nominal as well as percentage terms in the Turkish banking industry. The other table relating to NPLs, on the other hand, shows the Bank's NPLs at the end of 2002 and movements in NPLs in 2003. The figures also show that the total NPLs decreased by more than TL 1 trillion versus an increase to 35.9% in the total loans/total assets ratio.



Movements in NPLs

(TL billion)

Balance at the beginning of 2003	11,203
Additions	+ 5,453
Reductions	(6,591)
Payments	3,256
Colleterals liquidated	736
Re-scheduled	2,599
Balance at the end of the year	10,065

Related Party Transactions

The term related parties has a connotation, especially in Turkish banking, of relations with shareholders, the last creditors of a company in rank.

Anadolubank's related parties deposited, on average, more than twice what they borrowed from the Bank in 2003, another meaningful indicator of their commitment to Anadolubank. As expressed in last year's report, the Bank will enter transactions with Habaş, the shareholding group, always within the legally stipulated limits and as and when deemed profitable by the Bank. It should also be noted that Anadolubank is not the major banker of the Group.

Related Party Balances

(TL billion)

	Year-end	Maximum	Average
Loans	(19,011)	(22,772)	(10,510)
Non-cash loans	(2,998)	(3,407)	(1,751)
Total exposures	(22,009)	(26,179)	(12,261)
Deposits	71,580	71,675	25,219

Not only was the major emphasis in 2003 placed on loan book growth, but also on diversifying **the loans according to industries.**

Liquidity

Just as we likened our four principles to a skeleton above, the liquidity for us, is like the blood that circulates throughout the body, or, as some of us put it, "like the extra money we can spend on a stormy day at a bus stop where we would not have to wait for the bus to come through traffic jams and accidents so common on our roads and enjoy the luxury of a safer alternative to travel or even a safe shelter." What's more, we claim to keep stormy days in mind even in the finest weather.

Especially in Turkey's volatile environment, albeit now enormously stable compared to the last few years, liquidity is of utmost importance. In 2003, with the improved economic stability, Anadolubank's core liquidity consisting of balances with banks and the Central Bank grew to 23.3% of its total assets, up from 18% the previous year. The second layer, i.e. readily marketable securities, will further increase this ratio to 32.6% of total assets. Under normal circumstances, a 20% liquidity ratio is generally the level where the management feels comfortable.

Liquid Assets by Currency

(TL billion)

	TL	US$	EUR	Other	Total
Liquid assets	90,049	221,201	65,964	3,104	380,318
Assets	681,746	824,026	123,966	3,104	1,632,842
Percentage in assets	**13.2**	**26.8**	**53.2**	**100.0**	**23.3**
Liquid assets 2*	237,468	226,088	66,089	3,104	532,749
Percentage in assets	**34.8**	**27.4**	**53.3**	**100.0**	**32.6**

*Including securities for trading

Securities

Though only expressed in two paragraphs here, the issue of securities deserves a fairly large chapter in the Turkish banking history. Rather than just storage for liquidity, securities funded by very short-term repurchase agreements as a profitable strategy, caused disastrous results in the not too distant past through realisation of interest rate risk.

Last year in this report, we stated our expressed desire to decrease the percentage of securities in the total assets. This we did. At the end of 2003, securities at Anadolubank made up 39.4% of total assets, a figure that will further decline to around 30% at the end of 2004. The table below shows a breakdown of government securities in our portfolio as of December 31, 2003.

Breakdown of government bonds

(TL billion)	Year Ended December 31		Percentage in Total Assets	
	2003	2002	2003 (%)	2002 (%)
Held-for-trading	**152,431**	**15,390**	**9.3**	**1.1**
Turkish lira government bonds	147,413	451	9	0.1
Foreign currency government bonds	5,018	14,939	0.3	1.0
Held-to-maturity	**491,201**	**632,505**	**30.1**	**48.2**
Turkish lira government bonds	61,911	69,096	3.8	5.3
Foreign currency government bonds	356,490	448,720	21.8	34.2
Foreign currency indexed government bonds	72,800	114,689	4.5	8.7
Total	**643,632**	**647,895**	**39.4**	**49.3**

Deposits

Although our major policy to base the liabilities mainly on customer deposits has not changed, our efforts to diversify the funding sources in 2003 resulted in a decreased share (73.8%) of deposits within liabilities from 81.9% in the previous year. The deposits, however, kept growing at 12.05% in 2003. The shift was in favour of borrowing from foreign banks and repurchase agreements with foreign banks, again offering longer terms at more favourable rates. As a result of these efforts, the Bank extended the maturity profile of the funding sources on the one hand and eased off the pressure for higher interest rates in domestic markets on the other hand. Anadolubank will continue to fund its assets through customer deposits and a minimum deposits/total liabilities ratio of 70% will be targeted, which the management is comfortable with. By source, deposits were entrusted to the Bank by households and its loan customers, the share of the latter growing to 45% in 2003, yet another indicator of the Bank's commercial character.

Anadolubank will continue to fund its assets through customer deposits and a minimum deposits/total liabilities ratio of 70% will be targeted, which **the management is comfortable with.**

Composition of customer deposits

(TL billion)	Year Ended December 31		Percentage in Total Assets	
	2003	**2002**	**2003 (%)**	**2002 (%)**
Turkish Lira deposits	**385,614**	**256,744**	**23.6**	**19.6**
Non-interest bearing demand	74,308	46,425	4.6	3.5
Time	311,306	210,319	17.0	15.8
FX Deposits	**819,998**	**819,437**	**50.2**	**62.3**
Non-interest bearing demand	125,338	140,436	7.7	10.7
Time	694,660	679,001	45.5	51.6
Total	**1,205,612**	**1,076,181**	**73.8**	**81.9**

Shareholders' Equity

Given the inherent risks and uncertainty in the finance business, shareholders' equity is a valued parameter, almost a constant among others. It serves as a buffer against risks, and also helps the implementation of conservative policies.

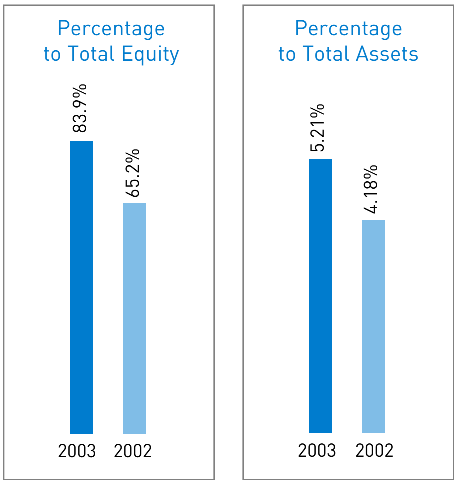
In 2003, Anadolubank's equity grew by 20.25%, mainly through profits. This corresponded to a capital adequacy ratio of 12.76%.

Shareholders' Equity Growth

(TL billion)

2003	2002	Change	Percentage Change
101,359	84,291	17,068	20.25%

Free capital ratios



Another important development in the equity was the share of free liquid portion. After deduction of fixed assets and equity participations, the capacity of equity to fund liquid items was enhanced enormously and this portion corresponded to 5.21% of total assets.

Capital Adequacy Ratio (IAS)

	2003	2002
Tier 1 Capital	101,359	84,291
Tier 2 Capital	3,398	2,248
Deductions	8,015	9,160
Capital Base	**96,742**	**77,379**
Risk Weighted Assets + Market Risk	758,218	506,218
Capital Adequacy Ratio	**12.76**	**15.29**
Tier 1 Ratio	**13.37**	**16.65**

In 2003, Anadolubank's equity grew by 20.25%, mainly through profits. This corresponded to a capital adequacy ratio of 12.76%.

Commitments and Contingencies

For many years, inflation in Turkey covered many defects and wrong decisions. With inflation decreasing in 2003, however, the banking system generally started realising that interest margins alone were not sufficient any more and more fees and commissions were now needed. Off-balance sheet, or non-cash items, are a first resort to create such income.

Though strictly controlled, Anadolubank was successful in increasing its involvement in such commitments and the most outstanding increase among different instruments are those that relate to trade finance, especially letters of credit as shown in the table below. Based on trade finance, the Bank's involvement in international operations have also shown a dramatic increase as reflected in the following graph.

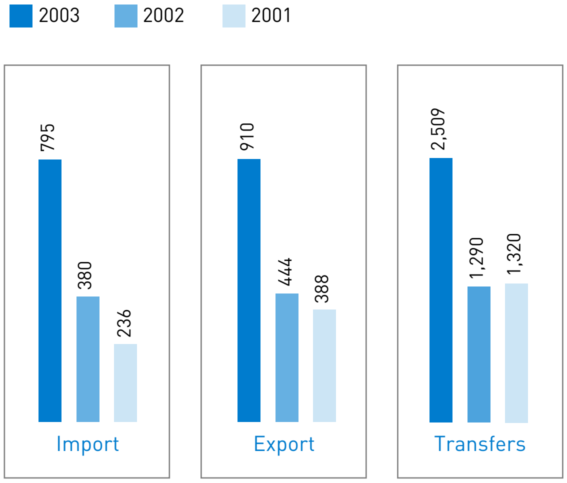
Breakdown of Commitments

(TL billion)

	Year Ended December 31		Percentage in Total Assets	
	2003	**2002**	**2003 (%)**	**2002 (%)**
Letters of guarantee	326,102	276,455	20.0	21.0
Letters of credit	126,353	71,583	7.7	5.5
Total	**452,455**	**348,038**	**27.7**	**26.5**

Management's Assessment of Operations

Increase in International Trade Volume
(US$ million)



Income Statement Analysis

Interest Income

That we were successful in our efforts to shift the weight in the assets towards loans was best seen in the 2003 income statement. Major interest income now comes from loans and helps to increase the net interest margin (NIM), as clearly seen in the related table below.

Income Statement – Adjusted*
(TL billion)

	2003	2002	% Change
Interest income	196,459	235,899	
Interest expense	(147,292)	(159,612)	
FX profit/loss	5,220	(30,879)	
Net interest income	**54,387**	**45,408**	**19.9**
Trading income	26,464	25,302	4.6
Other operating income	24,767	20,184	22.7
Other operating expense	(61,330)	58,307	5.1
Net non-interest income	**(10,099)**	**(12,821)**	**31.2**
Provision for possible loan losses, (net)	(6,949)	(2,874)	141.8
Income before taxation and loss on net monetary position	**37,338**	**29,665**	**25.9**
Taxation charge	(14,117)	(8,585)	64.4
Minority interest	47	48	
Loss on net monetary position	(7,204)	(14,920)	(51.7)
NET INCOME	**16,064**	**6,208**	**158.8**

* Also worthy of mention is that the Bank sold a fixed asset in 2003 and the accumulated revaluation surplus year over year for this asset was deducted from the net income and added to the capital during the same year in order to take advantages of a provisional article in the Turkish Tax Law. The amount thus deducted from the net income was TL 10,613 billion and a correction back in the income for a fair assessment of the year's profitability will raise the net profit to TL 16,064 billion.

The effect of the shift was also seen in non-interest income, aided on the one hand by increased fees and commissions received mainly through an increased penetration in trade finance and other trade related areas and, on the other hand, a strict control of expenses. While the NIM increase was raised to 3.7%, the achievement on non-interest income even surpassed the increase in NIM and was 3.2% higher than in 2002. The increase in non-interest expense, however, stood only at 5.1% giving way to a considerable improvement in the efficiency ratio from 63.87% in 2002 to 57.45% in 2003.

Fees and Commissions and Other Income

(TL billion)

	2003	2002	%
Fees and Commissions	**15,392**	**14,860**	**4**
Commissions from loans	1,192	505	136
Commissions from guarantees	6,786	5,398	26
Others	7,414	8,958	(17)
- Credit cards	3,356	4,016	(16)
- Stock brokerage	2,848	3,505	(19)
- Transfers	433	425	2
- Insurance	411	389	6
- Others	367	623	(41)
Income from equity investment	**2,385**		
Other income	**6,989**	**5,324**	**31**
Total	**24,767**	**20,184**	**23**

That we were successful in our efforts to shift the weight in the assets towards loans was best seen in the 2003 **income statement.**

Operating Expenses in Detail

(TL billion)

	2003	2002	%
Salaries	24,191	21,163	14
General and administrative expenses	22,747	23,460	(3)
- Rent	4,842	5,005	(3)
- Office maintenance	576	449	28
- Vehicles	932	803	16
- Telephone and postage	2,872	2,548	13
- Heating and electricity	835	840	(1)
- Printing and stationary	894	1,049	(15)
- Computer expenses	813	1,143	(29)
- Deposit insurance premiums	5,435	6,509	(17)
- Others	5,548	5,114	8
Depreciations and amortisations	6,192	6,501	(5)
Fees and commissions paid	1,528	779	96
Taxes other than on income	6,673	6,404	4
Total	**61,330**	**58,307**	**5**

Management's Assessment of Operations

Improved Cost / Income Ratio

(%)

2003	2002
57.45	63.87

Higher ROA

(%)

2003	2002
1.09	0.44

(TL billion)	2003	2002
Average asset size	1,473,222	1,424,727
Net Income	16,064	6,208

Higher ROE

(%)

2003	2002
17.31	7.62

(TL billion)	2003	2002
Average Equity	92,825	81,445
Net Income	16,064	6,208

A last note regarding the year's profitability relates to the tax assets created against the losses incurred during the 2001 crisis. The last portion of such assets was again written of with the year's profits, which helped to increase the net free equity of the Bank as indicated in the relevant chapter of this report.

The two critical performance criteria, i.e. Return on Assets (ROA) and Return on Equity (ROE), according to this corrected calculation stood at 1.09 and 17.31, respectively, for 2003. The percentage increase is clearly visible in the relevant graphs.

Risk Management

As a result of today's rapidly developing financial markets, risk management has gained utmost importance. As the world is getting more and more globalised, it is clear now that the financial institutions are not only subject to risks in their own countries but are prone to be affected by all risks surrounding them. The art of banking has become the art of living with and managing risks. Risks cannot be avoided, but they can be managed. Success in contemporary banking lies in how apt a bank is at managing the risks confronting it. In our quest to become a bank of global standards, we believe our success will be judged by the effectiveness of our risk management systems.

Risk Management Organization

Risk management at Anadolubank is structured under the Senior Risk Management Committee with Credit Risk, Market Risk, and Operational Risk Committees reporting to it. Additionally, the Risk Management Department carries out the decisions taken by these committees and the numerical studies necessary to assess banking risks. This department keeps the risk management processes active throughout the entire organization and ensures that they are effective and efficient.

Value-at-Risk as of December 31, 2003

FX Bonds	63%
TL Bonds	34%
FX Book	3%

Market Risks

The Market Risk Department follows the trends in the fast moving money markets, tries to identify the risks likely to affect the Bank, and reports such possibilities to the upper management ranks. Among the advanced methodologies, the historical simulation method is used to calculate value-at-risk and stress tests and scenario analysis tests are performed to ensure the system's viability.

Interest and maturity gap reports are prepared on a monthly basis around different scenarios and their likely effects on the Bank's balance sheet are quantified. These studies are reported to the Bank's executive management as well as to the Board.

Interest Margin Simulation

December 31, 2003
(Average TL billion)

Currency	Interest Change	Value Subject to Interest Risk	Effect on Net Interest Margin
FX	+0.5	(17,747)	(0.08)%
TL	+2.00	84,443	+1.06%
FX	(0.5)	(17,747)	+0.08%
TL	(2.00)	84,443	(1.06)%

Liquidity Risk

All applications that are likely to affect the Bank's liquidity position are subject to prior approval by the Bank's Asset and Liability Committee as well as the Risk Management Department. The Risk Management Department continuously monitors the risks that may have an effect on the liquidity position and reports such risks monthly to the executive committee. Through these reports, the executive management monitors the Bank's liquidity and takes the necessary action as and when needed.

Credit Risks

Under credit risk management processes, the creditworthiness of all borrowers are meticulously assessed and risks inherent in a credit transaction are identified. Such risks are then monitored and reviewed in line with legal regulations and Bank's own procedures in an effort to avoid the risk of incurring any non-performing loans. Such risks are reported regularly to the executive committee.

A corporate scorecard developed in-house by Anadolubank's expert credit officers has been integrated into the Bank's credit assessment and decision processes. The output of the scorecard is used in pricing as well. As of the end of 2003, nearly all credit customers have been assigned a credit score enabling the Bank to map its credit risks by the size of companies, regions, limits, and outstanding risks. Anadolubank's rating module assesses the borrowers not only in terms of their financial positions but also in terms of their operations and their obedience to the ethical rules of business conduct. Currently, the rating system's compliance to Basel II criteria is being tested and statistical analyses are being performed on the customer portfolio.

Anadolubank is a member of the Numerical Effects Work Committee set up among banks for the purpose of conducting studies to conform to the New Basel Capital Accord, which will be in effect in Europe by 2007. The new accord will make it compulsory for banks to calculate their capital adequacies by taking into consideration their credit, market, and operational risks.

Anadolubank has already classified its risk-weighted credit portfolio according to rules set forth by the New Capital Accord.

In order to avoid any credit concentrations in specific industries, industry analysis reports are prepared and an even distribution of credits into different industries is ensured through close monitoring.

Operational Risks

The Risk Management Department, the Board of Internal Auditors, the Internal Control Centre and the Information Technology Department coordinate and cooperate in the management of operational risks.

The Bank's operational risks have been identified and reported with three different methods as specified by the Numerical Effects Work Group's initiatives led by BRSA and in conformity with the New Basel Capital Accord.

The Board of Internal Auditors and the Internal Control Centre oversee the compliance of the Bank's operations to legal and banking regulations while monitoring the human mistakes and frauds that might be committed by the Bank's personnel. These bodies are also responsible for the monitoring of the branch performances and offering recommendations to increase their efficiencies.

The Information Technology Department oversees the core banking systems, the software and hardware, and network access and ensures a faultless and seamless running of operations. Potential risks are identified and measured at three levels.

The current hardware and core banking system were renewed in 2003 and the IT infrastructure was strengthened. Additionally, Data Security Management systems have been installed in compliance with BS 7799 principles and bank-wide security applications were developed through the joint efforts of the Information Security Coordination Group and external consultants.

Organisation

Anadolubank is organised at the Head Office level in Istanbul and has 49 branches spread throughout Turkey. Of these, 41 are authorised to handle all banking business, while the remaining eight handle retail banking instruments only and mainly customer deposits and credit cards. There is also one Collections Office. Management believes that this number of branches is sufficient to cover all industrially and commercially active centres and adequate to supply optimal funding sources for assets. Therefore, the Bank does not intend to increase the number of branches. Instead, efforts are concentrated on increasing the per branch and per head share of assets, liabilities, and profits. Enhancing visibility in the marketplace by stressing corporate identity elements and elevating service quality through standardisation of operations will continue in 2004.

Branches are organised into two units, namely Commercial and Retail Marketing and Operations, both headed by managers who report to the branch manager. The same structure is reflected at the Head Office level, i.e. Marketing and Support Departments headed by Assistant General Managers who report to the General Manager, with the exception of Credits, Internal Audit, and Risk Departments, which report directly to the Board. Cooperation between the branches and Head Office departments are based on workflows aided by temporary and standing committees constituted through the participation of different branches and departments.

Anadolubank is organized at the Head Office level in Istanbul and has 49 branches **spread throughout Turkey.**

Management's Assessment of Operations

The following is an abridged organisational chart of the Head Office:

Marketing	Support
Corporate and Commercial	Internal Audit and Risk Management
Retail	Credits
International	Treasury
	IT
	Financial Affairs
	Operations
	Human Resources

The Corporate and Commercial Banking Department is mainly responsible for streamlining and monitoring the Bank's customer-related assets, i.e. commercial loans and off-balance sheet commitments. Organized into three units, it puts budget targets into effect in close cooperation with the branches and senior management. Corporate Banking also makes regular customer visits in an effort to keep pace with developments in the marketplace, as well as to share their views with senior management and different committees such as the ALCO and the Credit Committee.

The Credits Department, as outlined in the loans section of this report, consists of three units that assess and monitor loans and commitments. A measure of this Department's success is evident by the low level of non-performing loans. Although a support unit, it pays regular visits to the branches as well as to customers when necessary and shares information with other banks and financial institutions.

The Retail Banking Department follows a similar approach for the liabilities of the Bank. It is responsible for the management of the Bank's major funding source, i.e. customer deposits at an optimal cost, size, and diversity. In addition to this major task, the Department monitors and evaluates consumer products to achieve full customer satisfaction. It is also responsible for attaining budget targets, for reporting to senior management, and for joining different committees to discuss the trends and practices in the market.

Anadolubank offers a select group of individuals, who are usually shareholders or executives of the Bank's corporate customers, a wide array of retail banking services and products that include debit and credit cards.

	Number of Credit Cards	Change (%)
2000	7,583	
2001	24,066	217
2002	54,410	126
2003	68,296	17

	Number of Debit Cards	Change (%)
2000	6,490	
2001	10,894	68
2002	29,373	170
2003	33,283	13

In addition to regular credit cards, Anadolubank is also offering co-branded credit cards issued through agreements made with various associations and Chambers of Commerce. Installment-based card payment schemes were introduced in 2003 and campaigns were successfully carried out.

Anadolubank has 50 ATMs located both inside the premises as well as in off-site locations. However, the Bank is a member of the "Ortak Nokta" ATM network group where 13 banks are sharing their ATMs. Being part of the Ortak Nokta Group enables Anadolubank to reach all parts of Turkey and the Turkish Republic of Northern Cyprus.

Anadolubank completed its Internet Branch infrastructure in 2003 and launched its Internet banking operations in January of 2004. Additionally, the Bank is offering a voice-response system where customers may obtain information on their account statements and credit cards.

In 2003, new electronic banking products were launched after the necessary technological infrastructure was completed. During the year, ATM and credit card software was renewed and operational services previously outsourced were taken over by the

Bank's units. As a result, changing customer requirements were addressed with improved service quality and at lower costs, therefore increasing the Bank's competitiveness.

The International Banking Department plays a major role in trade finance while managing the Bank's relationships with correspondent banks abroad. These banks totalled 450 in 2003.

The network of correspondent banks covers all major economic regions of the world with the majority of them located in the USA and Europe. The correspondent banks are usually the region's largest banking institutions with branches encompassing the entire world. This network enables Anadolubank also to reach every part of the world where there may be a business opportunity.

The total foreign trade volume handled by the Bank in 2003 reached US$ 2.6 billion. The International Banking Department aims to increase this volume further through intensified activities in the future. Also in 2003, the Bank processed import and export transactions worth US$ 594 million and US$ 469 million, respectively. The Department works together with branches and other departments and offers technical assistance through customer visits.

The Department prides itself on the close relationships it has developed with foreign correspondents abroad. In an effort to establish mutually beneficial relationships with correspondent bankers, the Department pursues a solution-oriented approach at all times while displaying a detailed point-of-view and offering an alternative route to decisions.

The total foreign trade volume handled by the Bank in 2003 reached US$ 2.6 billion. The International Banking Department aims to increase this volume further through intensified **activities in the future.**

Management's Assessment of Operations

All Anadolubank branches are authorised to handle international transactions and all such transactions are centralised at the Headquarters for increased efficiency and specialisation.

The Internal Audit and Risk Management Department is responsible for the problem-free running of the Bank's operations. Risk Committees have already been discussed in previous sections of this report. The Internal Audit Department is made up of seven inspectors and nine assistant inspectors, two of whom are authorised. Additionally, there are two officers and a manager at the Internal Control Centre. In 2003, these two departments carried out a total of 22,304 hours of on-site inspections at branches and at Head Office departments.

The Treasury Department is where asset and liability and liquidity managements come together. Apart from managing the Bank's excess liquidity, this active member of the ALCO also manages daily fluctuations of interest rates and FX prices and is in constant contact with senior management, marketing departments and branches. Organised in three units - Fixed Income, Treasury Marketing (TMU) and FX units - the management of the securities portfolio and derivative instruments are also part of this Department's responsibilities. Through the TMU, this Department is in direct contact with corporate customers.

The Financial Affairs Department is where the control of all financial data is carried out. Through the management information system (MIS), this Department is extremely important in decision-making processes and assists the senior management in setting strategy. All reporting in the Bank is centralised in this Department. Balance sheets and income statements are gathered daily and departments and branches are supplied with much needed data to help guide them with policy implementation. This Department is responsible for preparing the groundwork for the quarterly performance appraisals of all departments and branches.

The IT Department supports all other departments within the Bank to accomplish their business goals with fast, cost efficient, flexible, and user-friendly solutions. Since its inception, Anadolubank has attached great importance to its IT infrastructure and now has one of the most capable and up-to-date IT Departments in the banking industry. Currently, the Department is developing Anadolubank's virtual branch office on the Internet, which will provide remote access to the Bank by corporate and individual clients. The Bank has a Disaster Recovery Centre in Izmir, which is able to conduct all banking activities without interruption in case a disaster occurs affecting the Headquarters in Istanbul. The IT Department believes that quality in IT operations will surely create a satisfied clientele.

The Operations Department, in an effort to provide support to the risk management function and to standardise transactions and rationalise operational costs, has centralised credit processes in 2002, following the centralisation of FX transactions in 2001. Centralisation facilitates the swift handling of routine banking transactions and helps to foster customer satisfaction through increased service quality. Additionally, the Branch Operations Department has centralised cashier and check settlement transactions in 2002, greatly reducing the workload of branch offices and allowing them to concentrate more on marketing and customer relations.

Human Resources and Training: The Human Resources Department is composed of the Personnel and Training Units. Since human resources are our most valued asset, the recruitment process of the Bank is subject to very carefully designed selection and interview processes, where the senior management is usually involved directly.

At the end of 2003, Anadolubank had a total staff of 936, of which 293 served at the Headquarters and 643 were in the branches.

Personnel Statistics

Number of Staff	2003	2002
Headquarters	293	256
Branches	643	569
Total	936	825
Number of staff per branch	19	17
Male	48%	48%
Female	52%	52%

Educational Backgrounds of the Staff		
Post-Graduate Degree	26	18
University Degree	575	497
High School Graduate	320	298
Primary Education	15	12

Participants and length of training are determined through a well-planned yearly programme. Training programmes are checked and evaluated regularly and cover a number of diverse subjects that enhance the technical capacity and personal competence of the staff. In 2003, 36,680 hours of training were given to a total number of 2,366 participants. A total of 197 training programmes were conducted, of which 110 were organised in-house and 87 were led by professional training institutions. The number of training hours per staff increased to 39.19 hours per staff, up by 48.8% over figures from the previous year.

Participation in training programmes was actively promoted in the belief that training is the only way to foster both personal and corporate development and enhancement.

All Anadolubank branches are authorised to handle international transactions and all such transactions are centralised at the Headquarters for increased **efficiency and specialisation.**

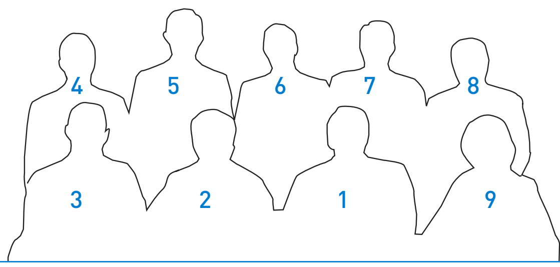
We aim to create a team of bankers who are up-to-date in their knowledge of the profession and multi-dimensional in their careers. As we always favour filling vacant positions from within our own ranks, we want all our personnel to be ready for the upper ranks when the time comes.

	Number of Training Programmes		Number of Participants		Number of Training Hours	
	2003	2002	2003	2002	2003	2002
In-house training	110	90	2,226	1,986	34,755	20,696
External training	87	106	140	72	1,925	1,384
Total	**197**	**196**	**2,366**	**2,058**	**36,680**	**22,080**

Executive Management

1 **Pulat AKÇİN**, Vice Chairman and General Manager
2 **Merih YURTKURAN**, Assistant General Manager - International Banking
3 **B. Gökhan GÜNAY**, Assistant General Manager - Treasury
4 **Cengiz DOĞRU**, Assistant General Manager - Operations
5 **Zafer AYBARTÜRK**, Assistant General Manager - Financial Affairs
6 **İsmet DEMİR**, Assistant General Manager - Human Resources and Internal Audit
7 **Hakan ATİTÜRK**, Assistant General Manager - Corporate Banking
8 **Halil KUTLUÖZ**, Assistant General Manager - Information Technologies
9 **Çiğdem ÖZKARDEŞ**, Assistant General Manager - Retail Banking

Participation in training programmes was actively promoted in the belief that training is the only way to foster **both personal and corporate development** and enhancement.



ANADOLUBANK ANONİM ŞİRKETİ

Consolidated Financial Statements
As of 31 December 2003
Together with Report of Independent Auditors

Kapital
Yeminli Mali Müşavirlik A.Ş.
Correspondent firm of RSM International

Karanfil Sokak, No: 72
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Tel : (0212) 284 39 00
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of
Anadolubank Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Anadolubank Anonim Şirketi ("the Bank" - a Turkish Corporation) and the related consolidated statements of income, changes in equity and cash flows for the year ended, all expressed in the equivalent purchasing power of Turkish Lira (TL) at 31 December 2003. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Anadolubank Anonim Şirketi as of 31 December 2003 and the consolidated results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kapital Yeminli Mali Müşavirlik A.Ş.
Correspondent Firm of RSM International
Engagement Partner
Lokman Ketenci

18 February 2004
Istanbul, Turkey

Anadolubank A.Ş.

Consolidated Balance Sheet as at 31 December 2003

(Currency - Billions of Turkish Lira in equivalent purchasing power of TL at 31 December 2003)

	Notes	31 December 2003	31 December 2002
ASSETS			
Cash and due from banks	3	25,380	14,467
Placements with banks	4	275,462	127,408
Reserve deposits	5	79,476	95,027
Investments			
Trading securities	6	152,431	15,399
Securities held to maturity	6	491,201	632,504
Originated loans and advances, net	7	586,631	381,365
Accrued income	8	762	2,555
Unconsolidated subsidiary			
Premises, equipment and leasehold improvements, net	9	16,323	29,324
Deferred tax asset	14	1,209	12,727
Other assets	8	3,967	2,825
Total Assets		**1,632,842**	**1,313,602**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	10	1,227,412	1,114,935
Obligations for repurchase agreements	13	158,333	35,482
Funds borrowed	11	113,523	55,301
Accrued expense	12	1,594	919
Deferred tax liability	14	1,926	3,097
Taxation on income	14	4,862	302
Other liabilities	12	23,229	18,625
Total liabilities		**1,530,879**	**1,228,661**
Minority interest	2	604	651
Equity			
Share capital	15	141,268	130,268
Legal reserves and accumulated deficit	16	(45,360)	(52,186)
Net income / (loss) for the year		5,451	6,208
Total equity		101,359	84,291
Total liabilites and equity		**1,632,842**	**1,313,602**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

Anadolubank A.Ş.

Consolidated Statement of Income for the period ended 31 December 2003

(Currency - Billions of Turkish Lira in equivalent purchasing power of TL at 31 December 2003)

	Notes	01.01/31.12.2003	01.01/31.12.2002
Interest Income			
Interest on loans		111,512	85,160
Interest on investment securities		69,202	76,696
Interest on deposits in banks		15,116	69,778
Other		629	4,218
Total interest income		**196,459**	**235,851**
Interest Expense			
Interest on deposits		(114,928)	(139,783)
Interest on funds borrowed		(5,649)	(2,968)
Other		(26,715)	(16,861)
Total interest expense		**(147,292)**	**(159,612)**
Net interest income		**49,167**	**76,239**
Provision for possible loan losses	7	(6,949)	(2,874)
Foreign exchange losses, net		5,220	(30,879)
Net interest income / (expense) after provision for loan losses and foreign exchange losses		**47,438**	**42,486**
Other operating income			
Fees and commissions received		15,393	14,860
Income from equity investments		2,385	-
Other income, net		6,989	5,324
Total other operating income		**24,767**	**20,184**
Other operating expense			
Salaries and employee benefits		(24,191)	(21,163)
General and administrative expenses		(22,747)	(23,460)
Depreciation and amortization		(6,192)	(6,501)
Trading expense, net		26,464	25,302
Fees and commissions paid		(1,528)	(779)
Taxes other than on income		(6,673)	(6,404)
Total other operating expense		**(34,866)**	**(33,005)**
Income / (Loss) before taxation, minority interest and loss on net monetary position		37,338	29,665
Taxation charge			
Current	14	(4,862)	(302)
Deferred	14	(9,255)	(8,283)
Net taxation (charge) /credit		**(14,117)**	**(8,585)**
Net income / (loss) before minority interest and loss on net monetary position		23,220	21,080
Minority interest	47	48	
Net income / (loss) before loss on net monetary position		**23,268**	**21,128**
Loss on net monetary position		(17,817)	(14,920)
Net income / (loss)		**5,451**	**6,208**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

Anadolubank A.Ş.

Consolidated Statement of Changes in Equity for the period ended 31 December 2003

(Currency - Billions of Turkish Lira in equivalent purchasing power of TL at 31 December 2003)

	Share Capital	**Legal Reserves**	**Accumulated Earnings/(Deficit)**	**Total**
Balances at 31 December 2001	130,268	2,013	(53,678)	78,602
Effect of consolidated subsidiary	-	119	(636)	(516)
Net consolidated income for the year 2002	-	-	6,209	6,209
Consolidated balances at 31 December 2002	130,268	2,132	(48,105)	84,295
Transfers to legal reserves	-	(2,132)	2,132	-
Increase in share capital	-	-	-	-
- Cash	387	-	-	387
- Fund of gain on sale of fixed assets held in current year	10,613	-	-	10,613
Fixed assets revaluation fund	-	-	613	613
Net income for the period 31 December 2003	-	-	5,451	5,451
Balances at 30 June 2003	**141,268**	**-**	**(39,909)**	**101,359**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

Anadolubank A.Ş.

Consolidated Statement of Cash Flows for the period ended 31 December 2003

(Currency - Billions of Turkish Lira in equivalent purchasing power of TL at 31 December 2003)

	2003	2002
Cash flows from operating activities		
Net income / (loss)	5,451	6,208
Adjustments to reconcile net income / (loss) to net cash provided by operating activities:		
Provision for possible loan losses	6,949	(2,885)
Depreciation and amortization	6,192	6,501
Provision for retirement pay liability	(41)	297
(Decrease) and increase in deferred tax liability	9,255	(8,282)
Minority interest	(604)	(651)
Operating profit / (loss) bfore changes in net operating assets	**27,202**	**1,188**
(Increase) decrease in operating assets:		
Accrued income	1,793	(2,552)
Other assets	(1,142)	420
Increase (decrease) in operating liabilities:		
Accrued expense	675	(9,151)
Other liabilities	4,604	731
Taxation on income	4,862	302
Net cash (used for) / provided from operating activities	**10,792**	**(10,250)**
Cash flows from investing activities		
Net decrease (increase) in placements and reserve deposits	(132,503)	125,593
Net decrease in investments	4,272	155,706
Net increase in originated loans and advances	(205,266)	(97,250)
Sale (purchase) of premises, equipment and leasehold improvements, net	12,480	3,523
Net cash provided from (used by) investing activities	**(321,017)**	**187,571**
Cash flows from financing activities		
Net increase in deposits	112,476	(177,990)
Net (decrease) increase in funds borrowed	58,222	36,564
Dividends paid	-	-
Cash proceeds from capital increase	387	-
Net increase in obligations for repurchase agreements	122,852	(73,399)
Net cash (used for) provided by financing activities	**293,937**	**(214,825)**
Net (decrase) increase in cash and due from banks	10,913	(36,326)
Cash and due from banks at beginning of year	14,467	50,793
Cash and due from banks at end of year	**25,380**	**14,467**

The accompanying policies and explanatory notes form an integral part of the consolidated financial statements.

1. CORPORATE INFORMATION

General

Anadolubank Anonim Şirketi ("the Bank") was incorporated on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes and commenced operations pursuant to the permit of the Turkish Undersecretariat of Treasury dated 25 August 1997 and numbered 39692. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 80260 Bomonti-Şişli/İstanbul-TURKEY. The parent and the ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.

Nature of Activities of the Bank / Group

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

The operations of the Group consist of banking, finance, treasury, international transactions, wholesale and retail banking operations, securities trading and corporate banking. Due to a change in the Capital Market Law, starting 1997, investment banking and securities trading activities of the Bank are being carried out by the consolidated subsidiary, Anadolu Yatırım Menkul Kıymetler A.Ş. (Anadolu Yatırım).

As of 31 December 2003 the Bank had 49 (2002: 48) branches. As of 31 December 2003, the number of personnel of the Group is 1,010 (2002: 916). Anadolubank Off-Shore Limited was incorporated on 17 April 2003 in Turkish Republic of Northern Cyprus by the participation of the Bank with capital share 99.4% in order to perform banking operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

The Bank and its subsidiary which is incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Banking Law, accounting standards promulgated by the Turkish Capital Markets Board, Turkish Commercial Code and Tax Legislation. The foreign subsidiary maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiary and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of Turkish lira (respective local currencies) deferred taxation, employee termination benefits and trading securities.

Measurement Currency, Reporting Currency and Translation Methodology

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

Measurement currency of the Bank and its subsidiary, which operate in Turkey, is Turkish Lira (TL). The restatement for the changes in the general purchasing power of TL as of 31 December 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of 31 December 2003, the three year cumulative rate has been 181% based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three-year period ended 31 December 2003 are given below:

Dates	Index	Conversion Factors
31 December 2001	4951.7	1.491
31 December 2002	6478.8	1.139
31 December 2003	7382.1	1.000

The main guidelines for the above mentioned restatement are as follows;

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

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

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

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

5. Items in the statements of income are restated by applying appropriate average conversion factors except for depreciation, amortization, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortization).

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

Measurement and Reporting Currencies of Foreign Subsidiary:

The financial statement of Anadolubank Off-Shore Limited prepared in USD and converted into Turkish Lira by the period-end rate.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to 31 Decemeber 2003.

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

The consolidated financial statements of the Group include the Bank and its subsidiaries, which it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from their activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively. Inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The subsidiaries included in consolidation and its shareholding percentage at 31 December 2003 is as follows:

Company name	Nature of Activities	Country of Incorporation	Direct Ownership 2003	2002
Anadolu Yatırım	Security trading	Turkey	82.0%	82.0%
Anadolubank Off-Shore Ltd.	Banking	TRNC	99.4%	

Investments in Securities

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

Trading securities

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

Held-to-maturity securities

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

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Interest earned whilst holding held to maturity securities is reported as interest income.

Sale and Repurchase Agreements

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

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

Originated Loans and Advances

Loans and advances originated by the Group by providing money to the borrower are classified as originated loans and are carried at amortized cost less any amounts written-off and specific and general provisions.

Allowance For Possible Loan Losses

The allowance for possible loan losses is established through a provision charged to expenses. The allowance for possible loan losses comprises general and specific allowances. The specific allowance for credit losses is maintained at a level that, in management's judgement, is adequate to absorb probable losses associated with specifically identified portfolio loans, as well as estimated probable losses inherent in the remainder of the loan at the balance sheet date. Management judgement includes the following factors, among others: risks of individual credits; past experience; the volume, composition and growth of the loan portfolio; and economic conditions. Such allowances are provided in line with the regulations of the Banking Regulation and Supervision Agency in respect of "Determination of Loan Loss Reserve Requirements for Banking Loans and Advances''. Based on these regulations, a general allowance is provided amounting to 0.5% of cash loans which are not classified as non-performing and 0.1% of non-cash loans and commitments and specific allowances are provided at different rates based on the categorization of the creditworthiness of loans, on the prospects of the collectibility and types of collateral obtained.

Premises, Equipment and Leasehold Improvement

Premises, equipment and leasehold improvement are carried at restated cost less accumulated depreciation and amortization computed on a similar basis using the straight-line method. The depreciation and amortization rates were as follows:

Buildings	2%
Furniture and fixtures and office equipment	5% - 20%
Vehicles	20%
Leasehold improvements	20%
Intangibles	20%

Using an option granted by the Turkish tax laws and regulations, the Bank has revalued, in the statutory books of account, its property, plant and equipment (excluding land and current year acquisitions) and the related accumulated depreciation as of each year end by using the rates and procedures prescribed by the related legislation. Such revaluation rates were 28.5% and 59% for the fiscal years ended 31 December 2003 and 31 December 2002, respectively. In the statutory financial statements, the related increases in the net book value of assets are included under shareholders' equity as revaluation surplus. The Bank may use the revaluation fund to issue free capital shares to existing shareholders. However, if the revaluation surplus is included in an account other than the revaluation surplus account, such amount is subject to tax. In the statutory books of account depreciation is provided on the revalued amounts (except for the net revaluation applicable to buildings) and such depreciation is deductible in the computation of income subject to corporation tax. All entries related to such revaluation which were recorded in the Bank's statutory books of account have been eliminated in the accompanying financial statements as part of the restatement process referred to in Note 2.

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of premises and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

As of 31 December 2003, the buildings are carried at fair value comprising market value, based on independent real estate reports dated on 25 December 2003. The increase between the revaluation report and IAS 29 application for buildings, amounting to TL 613, is credited to accumulated deficit.

Deposits and Funds Borrowed

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

Foreign Currency Translation

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange gains and losses arising from settlement and translation of foreign currency items have been included in the accompanying statements of income. Assets and liabilities in foreign currency are translated at year-end rates published by the Bank.

The assets and liabilities of foreign subsidiary are translated at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiary is translated at period end exchange rate.

Provisions

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

Reserve for Employment Termination Benefits

Under the provisions of Turkish Labor Law, the Group is required to make certain lump-sum payments to employees whose employment ceases due to retirement or due to reasons other than misconduct or resignation. Such payments are determined on the basis of an agreed formula and are subject to certain upper limits per year of service and are recognized in the accompanying financial statements as accrued. This upper limit (ceiling) at 31 December 2003 was set at TL 1.390 (2002: TL 1.103) (per historic).

As of 31 December 2003 and 2002, the Group did not adopt IAS 19 (revised)-Employee Benefits. Had the Group applied IAS 19 (revised), the retirement pay liability would have been discounted as per provisions of the standard which would have resulted in a decrease of retirement pay liability. This adjustment would not have a significant impact on the accompanying financial statements. The Group's estimated maximum liability for such termination indemnities as of 31 December 2003 and 2002 is reflected in the accompanying balance sheets.

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or subsequently enacted by the balance sheet date. Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable (statutory) profit. Deferred tax liabilities are generally 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 from the initial recognition of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Derivative Financial Instruments

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

Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. For the purpose of these financial statements, shareholders and Habaş Group companies are referred to as related parties.

Income and Expense Recognition

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

Commission income and fee for various banking services are recorded as income when collected. Dividends are recognized when the shareholders' right to receive the payments is established.

Offsetting Financial Instruments

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 liability simultaneously.

Recognition and De-recognition of Financial Instruments

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

Cash and Cash Equivalents

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

Use of Estimates

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Amounts subject to significant estimates and assumptions are items such as the allowance for credit losses, employee termination benefits and the fair value of financial instruments. Actual results could differ from those estimates.

Fiduciary Assets

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

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

3. CASH AND DUE FROM BANKS

Cash and due from banks balances are as follows:

	31/12/03	31/12/02
Cash and checks at branches		
TL	4,018	3,100
Foreign currency	12,389	7,794
Central Bank		
TL	405	30
Foreign currency	444	180
Domestic Banks		
TL	49	2
Foreign currency	1,129	1,359
Foreign Banks		
TL	8	
Foreign currency	6,938	2,002
Total	**25,380**	**14,467**

4. PLACEMENTS WITH BANKS

Placements with banks are as follows:

	31/12/03	31/12/02
Central Bank		
TL	3	62
Foreign currency	28,617	30,218
Domestic Banks		
TL	750	6,138
Foreign currency	132,191	66,227
Foreign Banks		
TL	-	-
Foreign currency	43,728	3,675
Inter-bank placements	**70,000**	**21,089**
Reverse repos	**173**	
Total	**275,462**	**127,408**

As of 31 December 2003, the time deposits mature in July 2003 with interest rates ranging between 8%-26.5% (2002 –42% and 45%) per annum for Turkish Lira and interest rate 0.5% and 3.66% (2002 – 1.13% and 4.5%) per annum for foreign currency placements. Foreign currency balances are comprised mainly of USD and EURO. Foreign currency balances at Central Bank include one month deposits in the amount of USD 8,000,000 (2002: USD 5,097,965) and EURO 10,000,000 (2002: EURO 11,000,307). Foreign currency balances in domestic banks include overnight deposits in the amount of USD 68,450,000 and EURO 21,000,000 (2002: USD 22,000,000 and EURO 14,230,985). Foreign currency balances in foreign banks include the amount of USD 39,150,000, EURO 2,500,000 and GBP 750,000 with the maturity range between 2 and 183 days.

As of 30 June 2003, the interest rate on the inter-bank placement was 26% maturing in January 2004. The interest rate for the reverse repo was 26.5% maturing in January 2004.

5. RESERVE DEPOSITS WITH CENTRAL BANK

	31/12/03	31/12/02
Reserve deposits		
TL	14,591	24,262
Foreign currency	64,885	70,765
Total	**79,476**	**95,027**

According to Turkish Banking Law, banks are obliged to place a certain percentage of their deposits with the Central Bank excluding local inter-bank deposits. In accordance with the decree of the Central Bank published in the Offical Gazette dated 29 March 2002, No. 24710 the percentages of such deposits as of 31 December 2003 are as follows;

	Reserve Requirement	
Type of Deposits	**31-12-2003**	**31-12-2002**
Turkish Lira deposits	6%	4%
Foreign currency deposits	11%	11%

6. INVESTMENTS IN SECURITIES

Investments in securities as of 30 December 2003 and 2002 comprised:

	Effective Interest Rate (%)	31/12/03	31/12/02
Trading securities, debt instruments			
Government bonds and treasury bills	26-46	147,419	451
Foreign currency government bonds and treasury bills	3-14	5,018	14,939
Less: allowance for government bonds		(6)	
Shares			264
Less: allowance for shares			(256)
Total		**152,431**	**15,399**
Held-to-maturity securities, debt instruments			
Turkish government bonds	35	61,911	69,096
Foreign currency government bonds	5-11	356,493	448,720
Foreign currency indexed government bonds	4	72,800	114,689
Less: allowance for government bonds		(3)	
Total		**491,201**	**632,504**
Grand Total		**643,632**	**647,903**

As of 31 December 2003, securities given as collateral for borrowings comprised nominal value USD 70,300,000 Turkish government bonds with a carrying value of TL 98,527 (USD 70,586,768) kept at DemirHalkBank's custody account with Istanbul Stock Exchange Custody and Settlement Bank as guarantee for the borrowing obtained from this bank (Note 11).

As of 31 December 2003, market value of held the maturity securities with the carrying amount of TL 491,201 were TL 511,707 based on market prices ruling at the Istanbul Stock Exchange.

Legal requirements

As of 31 December 2003, government bonds and treasury bills with nominal value of USD 20,000,000 (2002: USD 10,000,000) were deposited with the Central Bank for liquidity requirement. Additionally, government bonds and treasury bills with nominal value of USD 13,000,000 (2002: USD 13,000,000) were deposited with the Central Bank for foreign currency market transactions and USD 25,000,000 (2002: USD 13,000,000) for inter-bank market transactions. Government bonds and treasury bills with nominal values of TL 18,085 (2002: TL 17,037 and USD 8,000,000) were deposited with Istanbul Stock Exchange Custody and Settlement Bank (Takasbank). As of 31 December 2003, customers' portfolio of the subsidiary comprised shares of TL 2,118 (2002: TL 17,337) treasury bills and government bonds of TL 1,392 (2002: TL 16,348) and investment funds of TL nill (2002: TL 3) kept at Istanbul Stock Exchange Custody and Settlement Bank (Takasbank) and share booked as off-balance sheet item.

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

Securities Under Repurchase Agreement

As of 31 December 2003, government bonds and treasury bills classified as held to maturity include securities of TL 172,597 (2002: TL 48,127) at cost given as collateral under repurchase agreements.

Liquidity requirements

According to Turkish banking regulations, minimum ratios of cash-on-hand, deposits and investment securities that the banks should maintain with the Central Bank of Turkey against their liabilities are as follows:

	Liquity Requiriments
TL deposits other than local interbank deposits, repo and shareholders' equity.	4% (Min) Government
Qualifying TL liabilities other than deposits	Securities
FX deposits other than local interbank deposits, repo and shareholders' equity.	1% (Min) Government
Qualifying FX liabilities other than deposits	Securities

7. ORIGINATED LOANS AND ADVANCES

The breakdown of originated loans and advances to customers is given below:

	31/12/03	31/12/02
Short-term Turkish Lira	377,449	279,178
Short-term foreign currency	172,916	94,647
Total	**550,365**	**373,826**
Medium-long-term Turkish Lira	38,269	4,448
Medium-long-term foreign currency	1,396	114
Total	**39,665**	**4,562**
Grand Total	590,029	378,388
Loans classified in non-performing loans	10,065	11,203
Less: Specific and general allowances for loan losses	(13,463)	(8,226)
Total loans, net	**586,631**	**381,365**

As of 31 December 2003, the Bank provided a general allowance of TL 3,398 (2002 – TL 2,248).

As security for the loans given the Bank usually seeks from collateral security comprising third party drafts receivable, real estate and other mortgages of various ranking, charges on commodity inventories, letters of guarantee and similar items as well as the personal guarantee of the debtors' stockholders and/or directors. Maturities of short-term loans are less than one year and interest rates applied vary between 18% and 37% (2002 - 34% and 51%) for Turkish Lira Eximbank loans; Libor+0.5%-3.75% (2002 - Libor+0.5% - 2.75%) for foreign currency Eximbank loans; 13% and 65% (2002 - 68% and 115%) for other Turkish Lira loans; 3.80% and 7.87% (2002 – 4.85% and 20%) for foreign currency indexed loans.

Movements in the general and specific allowances for possible loan losses during the two years ended 31 December 2003 and 2002 were as follows:

	31/12/03	31/12/02
Balance at the beginning of the year	8,215	7,845
Additional allowance during the year	6,949	2,874
Restatement effects	(1,375)	(1,098)
Recoveries (net)	(326)	(1,406)
	13,463	**8,215**

8. ACCRUED INTEREST INCOME AND OTHER ASSETS

These comprised the following:

	31/12/03	31/12/02
Accrued income on derivative financial instruments	762	2,555
Prepaid expenses	508	649
Fixed assets to be sold	1,791	1,397
Others	1,668	779
	4,729	**5,380**

Fixed assets to be sold represent collateralized properties acquired from debtors in the course of lending.

9. PREMISES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The breakdown of premises, equipment and leasehold improvements is as follows:

	31/12/03	31/12/02
Restated Cost		
Buildings	4,670	16,386
Office equipment and furniture	23,221	20,257
Vehicles	1,965	1,977
Leasehold improvement	11,230	11,005
Pre-operating expenses	1,479	1,112
Total	**42,565**	**50,736**
Accumulated Depreciation		
Buildings	(420)	(1,391)
Office equipment and furniture	(14,867)	(11,531)
Vehicles	(1,506)	(1,225)
Leasehold improvement	(8,159)	(6,252)
Pre-operating expenses	(1,290)	(1,013)
Total	**(26,242)**	**(21,412)**
Net Book Value	**16,323**	**29,324**

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

10. DEPOSITS

At 30 June 2003 and 2002 deposits were made up of the following categories:

	31/12/03	31/12/02
Commercial deposits		
Demand	51,809	36,550
Time	83,520	49,274
Total	**135,329**	**85,825**
Savings deposits		
Demand	22,499	9,875
Time	227,786	161,045
Total	**250,285**	**170,920**
Bank deposits		
Demand	213	1,569
Time	21,587	37,184
Total	**21,800**	**38,753**
Foreign currency deposits		
Demand	125,338	140,436
Time	694,660	679,001
Total	**819,998**	**819,437**
Total deposits	**1,227,412**	**1,114,935**

The maturity of time deposits is less than one year. As of 31 December 2003, the interest rates applied to Turkish Lira deposits vary between 22% and 50% (2002 - 35% and 50%) for time and 0% and 2% (2002 – 0% and 2%) for demand deposits.

Average interest rates applied for foreign currency time deposits varied between 0.9% and 5.22% (2002 –1% and 4.75%) for US Dollar deposits. Foreign currency demand deposits do not bear interest.

11. FUNDS BORROWED

These comprised the following

	31/12/03	31/12/02
Local banks:		
TL	6,000	4,985
Foreign currency	5,360	3,501
Total	**11,360**	**8,486**
Foreign banks:		
TL	3,831	
Foreign currency	98,331	46,814
Total	**102,163**	**46,814**
Total loans	**113,523**	**55,301**

Turkish Lira and foreign currency funds borrowed from local banks amounting to TL 11,360 (2002: TL 8,486) represent funds obtained from the Export Import Bank (Eximbank) of Turkey to finance certain export loans given to customers, with maturity not exceeding six months.

On 14 October 2003, the Bank obtained a loan facility of USD 30,000,000 (TL 41,875) and on 17 November 2003, USD 15,000,000 and EURO 10,000,000 from DemirHalkBank with maturities on 3 November 2004 and 29 June 2004, respectively. The loans were invested in nominal value USD 70,300,000 Turkish Government bonds with maturity on 1 December 2004. In accordance with the loan agreement made with DemirHalkBank the annual interest rate on the loan is 3.68%, 3.62% and 4.54%, respectively against an annual yield on the bonds of 5.26%. As collateral against this loan the Bank has pledged Turkish government bonds (explained above) for a nominal amount of USD 70,300,000 kept at DemirHalkBank's custody account with Istanbul Stock Exchange Custody and Settlement Bank.

As of 31 December 2003, the Bank obtained funds amounting to EURO 1,003,625 USD 11,197,960 from foreign banks with maturities between 120 and 373 days at interest rates between 1.40% and 4.51% as post-financing operation.

12. ACCRUED INTEREST EXPENSE AND OTHER LIABILITIES

These comprised the following:

	31/12/03	**31/12/02**
Interest and other expense accruals	1,594	918
Import transfers and payment orders	1,377	183
Taxes and duties payable	4,676	4,667
Cash collaterals and blockages	519	362
Reserve for employment termination benefits	258	243
Unrealized losses on derivatives	371	3
Others	16,027	13,168
	24,823	**19,544**

As of 31 December 2003, other expense accruals mainly comprised of the accruals on utilities and communication expenses, insurance premium accruals for saving deposits.

As of 30 June 2003, other liabilities mainly comprise payable to clearance account of TL 10,564 (2002: TL 13,168) and other sundry payables.

13. OBLIGATIONS FOR REPURCHASE AGREEMENTS

The breakdown of repurchase agreements is as follows:

	31/12/03	**31/12/02**
Obligations for repurchase agreements	158,333	35,482

Maturities of the repurchase obligations are between 2 and 7 days at effective interest rates of 19.7% and 29.7% for Turkish Lira and 14-154 day at effective interest rate of 1.74%-2.71% for USD.

14. TAXATION

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

As of 31 December 2002, in Turkey the effective corporate tax rate including the fund levied was 33%. Items exempted from corporation tax (except dividends collected) are subject to income tax at the effective rate of 11% or 19.8%. In case of dividend distributions in the form of cash, depending on public or privately owned status of the entity, 5% or 15% income tax (plus 10% additional fund) is calculated over that portion of the distributed amount which is subject to 33% corporation tax and paid to tax authorities on behalf of shareholders. In accordance with the new Tax Law No. 4842 published in the Official Gazette dated 26 April 2003, the effective corporate tax rate is set at 30%, and the 10% surcharge over the corporation tax has been cancelled as applicable to profits reported for 2003 and onwards. The corporation taxes will be paid in a single installment within the period the corporation tax return must be filed. Accordingly, the effective corporation tax base was 30% as of 31 December 2003 for the Parent Bank and other consolidated subsidiaries incorporated in Turkey. In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

In accordance with the advance tax payment regulation in Turkey, entities are required to file temporary tax returns quarterly and pay 30% of their quarterly earnings which is offset from the final tax liability computed on the current year's operating results. Accordingly, the taxation charge computed is not equal to the final tax liability appearing on the balance sheet.

Fiscal losses that are reported in the corporation tax return can be carried forward and deducted from the corporation tax base for a maximum of five consecutive years.

Turkish Tax Procedural Law does not include a procedure for final agreement of tax assessments. Tax returns must be filed within four months of the year and may be examined, together with their underlying accounting records, by the tax authorities who may revise tax computations within five years.

As of 31 December 2003, the tax expense in the accompanying financial statements includes the current and deferred tax portions as follows:

	31/12/03	31/12/02
Included in the statement of income		
Current tax charge/(credit)	4,862	302
Deferred tax charge/(credit)	9,255	8,283
Total	**14,117**	**8,585**
Included in the balance sheet		
Taxation payable on income (current)	4,862	302
Deferred tax (assets)	(1,209)	(12,727)
Deferred tax liabilities	1,926	3,097
Total	**5,579**	**(9,328)**

The current tax charge of the Bank for the year ending 31 December 2003 is computed as follows:

	31/12/03
Before tax statutory profit of the Bank	35,887
Less: Tax deductible items	77,749
Add: Disallowable items	92,067
"Tax base of the Bank (before other exemptions and deductions)"	50,205
Less: Off set of carry forward tax losses	31,205
Less: Dividend income	2,322
Less: Investment incentive	1,114
Corporate tax base (effective rate 30%)	15,564
Corporate tax	4,669
"Income tax base of tax deductible items (effective rate 19.8%)"	1,114
Income tax	221
Less: Prepaid taxes	188
Taxation charge of the Bank	4,702
Tax effect of temporary differences	9,255
Taxation charge of the consolidated subsidiary (current)	160
Taxation charge per consolidated financial statements	9,415

As of 31 December 2003 and 2002, the potential deferred tax assets (liabilities) of the Bank represents the tax effects of temporary differences, arising between the financial statements reported for IAS purposes and the statutory tax financial statements. Such differences arise due to the different treatment of certain items of income and expense included in the IAS financial statements compared to the local tax return, in accordance with applicable tax laws.

As of 31 December 2003 and 2002, the potential temporary differences giving rise to deferred income tax assets and deferred tax liabilities are summarized in the following table:

	Deferred tax base	**Deferred tax (asset)/liability**	**Deferred tax (asset)/liability**
1) Restatement effects (fixed assets to be sold)	1,169	386	375
2) Employment termination benefits	(259)	(85)	(80)
3) Restatement effect of property, plant and equipment (effect of IAS 29)	4,413	1,456	1,621
4) General loan provision disallowed during current tax calculation	(3,398)	(1,121)	(213)
5) Other provisions disallowed during current tax calculation	(10)	(3)	(85)
6) Income accruals for derivatives	258	85	841
7) Unused carry-forward tax losses			(12,089)
Deferred tax (asset)/liability, net	**2,173**	**717**	**(9,630)**

The Turkish Tax Procedural Law does not include a procedure for final agreement of tax assessments. Tax returns must be filed within four months of the year and may be examined, together with their underlying accounting records, by the tax authorities who may revise tax computations within five years.

15. SHARE CAPITAL

As of 31 December 2003 the issued share capital of the Bank comprised of authorized shares with a par value of TL 1,000,000 (full) each amounted to TL 66,000 (at historical). The composition of the paid-in share capital and the shareholders at 31 December 2003 and 2002 are shown below:

	31/12/03		**31/12/02**	
	%	**Amount**	**%**	**Amount**
Mehmet Rüştü Başaran	28.9	19,081	28.9	15,900
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş.	67.9	44,796	67.9	37,330
Güllü Başaran	1.0	661	1.0	551
Others	2.2	1,462	2.2	1,219
Share Capital	100.0	66,000	100.0	55,000
Add: Restatement adjustment		75,268		75,268
Restated share capital at the equivalent purchasing power of TL at 31 December 2002		141,268		130,268

In accordance with extraordinary general assembly decision on 31 December 2003, the Bank's historic share capital was increased from TL 55,000 to TL 66,000. The increase of TL 11,000 transferred from the fund of gain on sale of fixed assets of TL 10,613, that held in 2003 and transferred from current year income, and cash of TL 387.

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

16. RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution subject to the legal reserve requirements. The first reserve is appropriated out of statutory profits before tax at the rate of 5% until it reaches a maximum of 20% of the Bank's paid-up capital. The second reserve is appropriated at the rate of 10% of all dividend distributions in excess of 5% of the share capital. This reserve is available for distribution after it exceeds 50% of the share capital. At the General Assembly of the Bank for 2002, on 20th March 2003, the deficit, arising from adaptation of IAS 29 according to Turkish Legal Regulations, consolidated with legal reserve of the Bank in statutory books.

17. DERIVATIVES

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

The table below shows the unrealized gains and losses on derivative financial instruments, calculated by internal pricing models together with notional amounts analyzed by term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

ASSETS		**Positive Fair Value**	**Negative Fair Value**	**Notional Amount**	**Up to 3 Months**	**3-6 Months**	**6-12 Months**	**Over 1 Year**
Held-for-Trading								
	Arbitrage	-	-	-	-			
	Netting	-	(21)	88,720	88,720			
	Swap	-	-	-	-			
	FX Forward	121	-	5,880	5,880			
	TL Forward	136	-	12,628	12,628			
TOTAL		**257**	**(21)**	**107,229**	**107,229**	**-**	**-**	**-**
Held-for-Hedging								
	Arbitrage	1	-	349	349			
	Netting	-	-	-	-			
	Swap	22	-	69,266	69,266			
	FX Forward	-	-	-	-			
	TL Forward	-	-	-	-			
TOTAL		**23**	**-**	**69,615**	**69,615**	**-**	**-**	**-**

LIABILITIES		**Positive Fair Value**	**Negative Fair Value**	**Notional Amount**	**Up to 3 Months**	**3-6 Months**	**6-12 Months**	**Over 1 Year**
Held-for-Trading								
	Arbitrage							
	Netting			88,915	88,915			
	Swap							
	FX Forward			5,759	5,759			
	TL Forward			12,217	12,217			
TOTAL				**106,890**	**106,890**			
Held-for-Hedging								
	Arbitrage			348	348			
	Netting							
	Swap			69,244	69,244			
	FX Forward							
	TL Forward							
TOTAL				**69,593**	**69,593**			

As of 31 December 2003, the maturities of the forward contracts are spread between 2 January 2004 and 27 August 2004 (2002: between 2 January 2003 and 21 March 2003).

As of 31 December 2003, the breakdown of the contractual amounts of the Bank's forward contracts on the basis of contract currency units is as follows:

	31/12/02 (Foreign currency)	31/12/03 (Foreign currency)	31/12/03 (TL Period-End Rates)
Forward to buy			
EUR	20,194,156	2,186,282	3,815
USD	29,909,175	3,263,262	4,555
GBP	4,075,450	300,000	743
JPY	8,346,100		
SEK			
TL		6,097	6,097
CHF			
Forward to sell			
USD	25,399,326	2,439,316	3,405
EUR	24,136,000	2,915,365	5,088
GBP	5,147,900		
CHF			
TL		1,446	1,446
Swap to buy			
EUR	38,000,000	19,950,000	34,814
USD	20,895,998	18,060,234	25,209
GBP	3,250,000	2,860,810	7,085
CHF	1,833,500	665,000	743
JPY		108,654,000	1,415
Swap to sell			
EUR	15,000,000	8,600,000	15,008
USD	44,837,744	31,645,643	44,172
GBP	3,000,000	3,471,620	8,598
CHF	707,500		
JPY		112,595,500	1,467

18. COMMITMENTS AND CONTINGENCIES

The commitments and contingent liabilities of the Bank arising in the ordinary course of business comprise the following items as of 31 December 2003 and 2002:

	31/12/03	31/12/02
Letters of guarantee issued by the Bank	326,102	276,455
Acceptance credits and import letters of credit issued	126,353	71,583
	452,455	**348,038**

The maturities of acceptance credits and outstanding import letters of credit are less than one year.

Letters of guarantee are generally issued for indefinite terms for government agencies and for foreign banks to secure pre-finance loans.

Additionally, as of 31 December 2003 letters of guarantee of TL 1,369 were obtained by Anadolu Yatırım comprised of TL 1,161 submitted to the Istanbul Stock Exchange, TL 207 to Capital Markets Board and TL 1 to courts.

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

On the basis of the Bank's legal counsel's representation there are a number of lawsuits filed by or against the Group in the ordinary course of business. These comprise:

a) A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of USD 3,250,000 plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management do not consider that there will be any probable loss. The lawsuit matter concerns the payment on 16 August 1999 of USD 14,750,000 remittance received by Anadolubank A.Ş. and deposited to the account of a company opened in the Main Branch of Anadolubank A.Ş. in accordance with a swift (Society for Worldwide Interbank Financial Telecommunication) message received on 12 August 1999 through a correspondent bank requesting that the payment order be effected. On 26 August 1999, the correspondent bank that initially sent the swift message requested from Anadolubank A.Ş. the return of the funds claiming it to be a fraudulent transaction. On 20 May 2000 a lawsuit was filed by the correspondent bank against Anadolubank A.Ş. claiming USD 14,750,000 hitherto paid to the company(ies) together with the accrued interest charges since the remittance was sent. The legal proceedings are yet in progress and the lawsuit is not finalized as of report date. The legal proceeding was finalized in favor of the Bank for the amount of USD 11,500,000 and the lawsuit will be held remaining portion of USD 3,250,000.

b) A lawsuit was filed by certain parties against the Bank in the previous reporting period claiming the collection of remittances in the amount of EURO 230,985. A court verdict was reached on 17.09.2002 regarding which the subject EURO 230,985 must be paid to the claimants together with the accrued delay interest since the lawsuit was filed, namely 02.04.2001. The Bank's lawyers stated that the court decision will be contested upon official notification of the court verdict to the Bank. On the basis of the legal counsel's opinion, the subject amount is already blocked at the Bank and no losses are anticipated. No provision has been made in the financial statements as the Group's management do not consider that there will be any probable loss.

c) A lawsuit was filed against the Bank in the amount of TL 1.6, EURO equivalent of DEM 2,877,675 and USD 42,250 by a certain loan customer of the Bank to raise objection against the blockage put by the Bank on the customer's deposit account and to request that the deposits be paid back by the Bank. No provision is made in the financial statements as the legal proceedings are in progress and the final outcome is not known.

19. RELATED PARTY DISCLOSURES

The Bank is controlled by Mr. Mehmet Rüştü Başaran, who owns Habaş Group that comprises several companies engaged in the production and sale of industrial and medical gases, iron and steel, high pressure cylinder spiral pipes, steel pipes and other filling and distribution facilities of LPG. During the course of the business the Bank has granted loans to related parties and also received deposits from them at various terms, conducted on arms-length basis. The following balances were outstanding from related parties as of 31 December 2003 and 2002:

	31/12/03	**31/12/02**
Cash loans (denominated in TL)		570
Cash loans (foreign currency indexed)	19,011	17,978
Interest income accrual on loans		
Foreign exchange loss accrual on loans		
Foreign exchange gain accrual on forward purchase contracts		38
Foreign exchange loss accrual on forward sale transactions		
Deposits	71,580	16,596
Interest expense	3,543	14,972
Interest and commission income	981	954
Non-cash loans	2,085	
Forward sale contracts		37,735
Forward purchase contracts		37,773
Net options position		

As of 31 December 2003, cash loans of TL 19,011 given to Group companies were not collateralized (2002: TL 1,242, USD 50,000,000).

20. FINANCIAL RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party to a financial institution will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The concentration of the Bank's cash loans as to industry groups is as follows:

	31/12/03
Textiles	18.2
Food	12.5
Non-Bank financial institutions	12.3
Trade	9.7
Iron and steel	9.6
Chemicals	8.4
Petrochemicals	6.6
Consumer loans	5.9
Metals and mining	5.8
Construction	3.8
Telecommunications	1.5
Electronics	1.3
Others	4.4
Total	**100.0**

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To mitigate the risk, the Group diversifies funding sources and assets are managed with liquidity in mind, maintaining balance of cash and cash equivalents.

The table below summarizes the maturity profile of the Group's major assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by the Group to ensure sufficient liquidity is maintained.

	Up to 1 month	1 - 3 months	3 - 6 months	6 -12 months	12 + Months	Total
31 December 2003						
Cash and due from banks including placements	295,029	230	5,583			300,842
Reserve deposits with Central Bank	79,476					79,476
Loans (net)	192,854	172,069	105,663	75,646	40,399	586,631
Marketable securities portfolio	19,809	27,529	31,843	279,186	285,265	643,632
Premises, equipment and leasehold improvements, net					16,323	16,323
Accrued interest income and other assets	4,729					4,729
Deferred tax asset					1,209	1,209
Total Assets	**591,897**	**199,828**	**143,089**	**354,832**	**343,196**	**1,632,842**
Deposits	939,316	250,779	26,533	9,989	795	1,227,412
Funds borrowed from banks and interbank	5,531	7,942	51,316	48,734		113,523
Accrued interest expense and other liabilities	24,823	4,862				29,685
Obligations for repurchase agrrements	158,333					158,333
Deferred tax liability					1,926	1,926
Total Liabilities	**1,128,003**	**263,583**	**77,849**	**58,723**	**2,721**	**1,530,879**
Net liquidity gap	(536,106)	(63,755)	65,240	296,109	340,475	101,963
31 December 2002						
Cash and due from banks including placements	118,738	17,290	5,664	140	43	141,875
Reserve deposits with Central Bank	95,027					95,027
Loans (net)	160,931	82,874	73,898	25,165	38,497	381,365
Marketable securities portfolio	56,093	58	9,858	136,337	445,558	647,904
Premises, equipment and leasehold improvements, net					29,324	29,324
Accrued interest income and other assets	5,379					5,379
Deferred tax asset					12,727	12,727
Total Assets	**436,168**	**100,221**	**89,421**	**161,642**	**526,150**	**1,313,602**
Deposits	949,077	152,710	10,286	1,771	1,092	1,114,935
Funds borrowed from banks and interbank	8,486			46,814		55,301
Accrued interest expense and other liabilities	19,301		302		243	19,846
Obligations for repurchase agreements	35,482					
Deferred tax liability	3,097					3,097
Total Liabilities	**1,015,444**	**152,710**	**10,588**	**48,585**	**1,334**	**1,228,661**
Net liquidity gap	**(579,275)**	**(52,489)**	**78,833**	**113,057**	**524,815**	**84,941**

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank's exposure to foreign currency exchange rate risk at 31 December 2003, on the basis of the Bank's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table.

	USD	EUR	JPY	Other (USD)	Total (USD)
Assets					
Cash, due from banks and placements	111,987	37,800	23,810	2,001	161,471
Investments	296,452	71			296,541
Originated loans and advances, net	135,368	32,771		14	176,853
Reserve deposits	46,485				46,485
Premises, equipment and leasehold improv.	27				27
Other assets	27,861	396		14	28,370
Total Assets	**618,180**	**71,038**	**23,810**	**2,029**	**709,747**
Liabilities					
Deposits	521,237	82,589	61,277	1,825	626,888
Funds borrowed	58,685	12,117			73,834
Sundry payables					
Other liabilities	4,345	896	39	162	5,625
Total Liabilities	**584,267**	**95,602**	**61,316**	**1,987**	**706,347**
Net Balance Sheet Position	**33,913**	**(24,564)**	**(37,506)**	**42**	**3,400**
Derivatives, net	**(12,957)**	**13,846**	**(3,937)**	**(1,831)**	**(78)**
Foreign Currency Position after effect of forward transactions	**20,956**	**(10,718)**	**(41,443)**	**(1,789)**	**3,322**

Currency position

Based on statutory balance sheets as of 31 December 2003, the Bank has a net long position amounting to TL 4,637 (USD 3,322,000) (2002 - a net long position amounting to TL 875 and equivalent to USD 480,000) taking into account its foreign currency asset holdings, its liabilities and its assets and liabilities under hedging instruments. This is summarized in the following table:

Foreign currency indexed assets and liabilities are included to calculation of foreign currency position.

	2003 (USD 000)	2002 (USD 000)
Foreign currency assets	709,747	483,758
Foreign currency liabilities	(706,347)	(483,266)
Foreign currency position before effect of forward hedging transactions	3,400	492
Forward to buy	120,843	124,574
Forward to sell	(120,921)	(124,586)
Foreign currency position after effect of forward transactions	3,322	480

(Currency: Amounts expressed in Billions of TL in equivalent purchasing power at 31 December 2003 unless otherwise stated)

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Board of Directors sets limit on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily. Range of average interest rates on interest bearing assets and liabilities are disclosed in related notes.

Capital adequacy

To monitor its capital the Bank uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS) by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risks. As of 31 December 2003 the Bank's BIS Capital Ratio based on the accompanying financial statements is 13.37%, computed as follows:

	Nominal	Risk Weighted
Balance Sheet Assets		
Cash, Due from Banks and Short-Term Placements	300,842	48,541
Reserve Deposits	79,476	
Marketable Securities	643,632	
Loans	586,631	561,488
Accured Interest Income	762	762
Premises and Equipment-(Net)	16,323	16,323
Other Assets	5,175	
Total	**1,632,842**	**627,114**
Off-Balance Sheet Positions		
Commitments and Contingencies	452,455	66,179
Derivative Transactions	168,677	237
Marketable Risk	64,688	64,688
Total	**685,820**	**131,104**
Total Risk-Weighted Assets	**2,318,661**	**758,218**
Capital		
Core Capital	141,268	
Capital Base	101,359	
BIS Capital Ratios		13.37

21. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The following table summarizes the carrying values and fair values of those financial assets and financial liabilities not presented on the consolidated balance sheet at their fair values:

	Nominal Amount	Carrying Value	Fair Value
Cash, Due From Bank and Palcements with Banks	300,290	300,842	300,842
Reserve Deposits	78,672	79,476	79,476
Portfolio	600,361	643,632	664,139
Loans	576,461	586,631	586,631
Financial Assets	**1,555,784**	**1,610,581**	**1,631,088**
Deposits	1,221,597	1,227,412	1,227,412
Obligation for Repurcase Agreements	157,987	158,333	158,333
Funds Borrowed	112,457	113,523	113,523
Financial Liabilities	**1,492,041**	**1,499,268**	**1,499,268**

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

1. The fair values of due from banks and short-term bank placements are considered to be their carrying amount due to their short-term nature. The estimated fair values of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.
2. The fair values of originated loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Loans and advances are carried net of specific and other provision for impairment.
3. The fair values of investments held to maturity assets is based on amortized cost using the effective yield method, less any provision for impairment.
4. The fair value of deposits and borrowings with no stated maturity, which includes non-interest bearing deposits is the amount payable on demand.
5. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted prices is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

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