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The common stock of Tekstilbank trades on the Istanbul Stock Exchange National Market under the ticker symbol TEKST.

Tekstilbank in Brief

Tekstilbank, based in Istanbul, has USD 850 million in assets and operates through 38 branches located in all of Turkey's major cities as well as through a financial services branch in Berlin.

Tekstilbank provides a full range of corporate and commercial banking products with particular emphasis on domestic and international trade finance as well as treasury activities. All other businesses such as retail and investment banking activities complement the core competencies of the Bank.

Tekstilbank is a respected market player in each of its core pursuits. The Bank aims to understand its customers' needs and to provide them with tailor-made, high-quality products and services. The Bank's pledge to its shareholders is to sustainably build on its financial value. Tekstilbank respects its relationship with all its counterparts and is committed to the communities that it serves.

Tekstilbank's approach is based upon spontaneity and flexibility. Being results-oriented, the Bank is willing to put aside individual concerns in the spirit of teamwork to achieve success. There is an excitement at Tekstilbank that comes from innovating, creating, and striving for a better way, from sharing success with others, and from winning.

The GSD Group in Retrospect



M. Turgut Yılmaz
Founder and Chairman of GSD Holding

In early 1980s, the Turkish government adopted an export-led growth strategy by supporting export-oriented businesses, where monetary incentives were provided to exporting companies exceeding USD 100 million in annual export revenues.

Small manufacturers and members of the Garment Manufacturers' Association, under the leadership of Mr. M. Turgut Yılmaz, decided to join their forces to benefit from those incentives and established with equal ownership an independent trading house in 1986. This first trading house was called GSD Foreign Trade, the foundation of GSD Group.

This pioneering movement was followed by other small companies.

In 1990s, this successful undertaking had become one of the first Turkish exporters whose volume of goods exported annually topped half a billion dollars. Since then, GSD Foreign Trade has continued to grow, building on its strengths and demonstrating solid and stable growth. In the last decade, the average annual export volume was USD 650 million. The export volume in 2003 reached USD 830 million.

The important successes achieved in foreign trade encouraged the GSD Group to pursue avenues of growth by investing in the financial services sector.

In 1996 GSD Holding was set up as part of a restructuring project that was intended to make group-wide activities more effective and productive. GSD Foreign Trade and all of its subsidiaries were brought together under the roof of the new holding company.

Today GSD Holding provides strategic management and guidance services for the twelve companies in the Group. Its basic duties include managing group assets, identifying and implementing growth strategies and providing centralized financing.

Trade and finance, two axes of growth, will enable the Group to achieve consistent earnings growth over the years.

Tekstilbank 2003 Performance

(USD million)

**Total
Assets**
850

**Shareholders'
Equity**
79

**Net
Profit**
19

Financial Highlights

	2002	2003
Total Assets	873.7	849.7
Loans	278.8	394.9
Shareholders Equity	59.9	79.3
Deposits	620.8	555.9
Net Profit	57.7	19.2
Capital Adequacy Ratio %	11.5%	12.3%
NPL Ratio %	1.8%	0.3%

Tekstilbank's Rating

Tekstilbank was rated by Fitch Ratings in 2004 and following assessments were made:

Long-term foreign and local currency rating	B
Short-term foreign and local currency rating	B
Individual rating	D
National rating	BBB (tur)
Outlook	Stable (This is in line with the sovereign rating)

All amounts are based on independently audited financial statements prepared in accordance with IFRS.



H. Çim Güzelaydınıl
Chairman and General Manager

Notwithstanding numerous challenges, the year 2003 was a successful one for Tekstilbank.

We were challenged by a low-inflation economy and a steep decline in interest rates to a 10-year low that were coupled with global and regional political uncertainties.



Message from the Chairman and General Manager

Asset quality, always a primary focus for our Bank, continued to be a source of pride and strength during 2003.

We generated a pre-tax profit of USD 21 million and 56% of our interest earnings were composed by interest from loans, while non-interest income increased by 18% and non-interest expense decreased by 17% in 2003. Key performance ratios were commendable, with our return on assets and return on equity reaching 2.2% and 27.6%, respectively. Asset quality, always a primary focus for our Bank, continued to be a source of pride and strength during 2003. At year-end, non-performing loans amounted to only 0.3% of total loans, one of the best ratios in the Turkish banking industry today.

We, as Tekstilbank believe that the maintenance of a sound capital base remains an essential part of our strategy. In this regard, our total equity at year-end was USD 79 million and exceeded all regulatory guidelines for a "well-capitalized" institution. Our year-end capital adequacy ratio was 12.3%.

Our basic banking businesses are the foundation of our sound performance. Loan and fee growth reflects our success in connection with our customers through our commitment to relationship banking.

The Turkish economy itself supported our efforts as it continued to grow in 2003. This strong performance gave us the capacity to continue building our Bank into more than just a traditional bank by investing in strategic businesses and initiatives important to our future competitiveness.

I want to share with you what I believe are the key elements of our improved performance during this period. These elements have helped us achieve the successful 2003 results noted above and our commitment to these essentials gives me a firm reason for optimism in the years ahead.

Proceeding in a conservative manner...

The basic conservative orientation has always been a hallmark of Tekstilbank and is what underwrites the Bank's long-term stability and success.

We always target profitable revenue growth. We are in a challenging market. We have experienced staff and we practice relationship banking in a way customers appreciate. We want to take advantage of this powerful combination in order to increase our business effectively. As evidence of our success, our total loans were up more than 42% as of year-end 2003, by escalating the loans to assets ratio to 46% from 32% of last year, reflecting our continuous support for various industries. Our share in trade finance, increasing to 1.5% from 1.3% of last year, also improved the level of fee income during the year.

We are focused on loan quality. Loan quality is a matter of great importance to Tekstilbank. In the "boutique bank" approach that we pursue, we carefully examine every potential customer that applies to us and we make our lending decisions on the basis of our analysis of material findings. This is because we view every customer relationship as something of a partnership: at every stage of the lending process we consider the customer's needs and closely monitor the performance of the relationship not only between the customer and us but also between the customer and its suppliers and vendors.

Tekstilbank is an institution focused on growth, capital adequacy, and sound profitability.

We have great people. We focus on creating a culture that values integrity, flexibility, and excellence. We value the relationships we have with each other and with our customers and we work hard at pushing decision-making authority as close to customers as practicable because we believe it is that quality that gives them the best service available. Financial services is a people business and we have found that professionals are drawn to an organization that thinks this way, which makes Tekstilbank a company of choice to do business with in Turkey.

We invest for the future of the Bank as well as that of our customers. Other major successes during 2003 were the introduction of our smart Credit Card with EMV standards and Artan Kart with installment features as well as our new and enhanced web-site. This web-site is the backbone for providing greater functionality and convenience to our customers.

Tekstilbank has obtained certification for the issuance of EMV chip application that will be obligatory throughout the world by 2005. EMV is the common chip standard for Europay, MasterCard and Visa, and provides cardholders more secure shopping.

For 2004, we foresee an incrementally improved economy, a sideways-to-improved stock market, and stability in interest rates. That said and although we expect that these conditions will support economic growth in our country, we will still need to be on the lookout for any new developments that the international and geopolitical environments may engender. We will therefore continue to proceed in a conservative manner. This basic conservative orientation has always been a hallmark of Tekstilbank and is what underwrites the Bank's long-term stability and success.

Our Bank will continue to offer high-quality service in trade finance and we will remain an active player in this business line in parallel with the expanding volume of foreign trade in our country. We are further developing our relations with international financial institutions. Our Bank has tapped the international syndications market and successfully raised USD 75 million 1 year term loan facility in June 2004. We believe this will bring added impetus to our trade finance business in 2004.

Tekstilbank has set its sights on growth by providing innovative and advanced banking products and services in its core competencies. The Bank derives the strength that it needs to achieve this from its staff of professionals and from the GSD Group of which it is a member.

We are proud of the Bank's performance in 2003 and we are hopeful that 2004 will be an even better year. I would like to take this opportunity to thank our shareholders for helping us maintain our high standards, and our valued personnel for their loyalty and dedication, and our valued correspondents for their continued support and cooperation interest which are always an integral part of our success.



H. Çim Güzelaydınlı
Chairman and General Manager



The Turkish Economy

During 2003 as a whole, both exports and imports reached historically high levels. Exports increased by 30% while imports rose by 33%. Moreover, the foreign trade volume hit its historical record level of USD 116.5 billion.

Since 2002, there has been a concrete progress in the main macroeconomic indicators of the Turkish economy. Although the negative impact of Iraq War limited the speed of the recovery in 2003Q1, the quick end of the war and the Government's commitment to the IMF economic program has carried the Turkish economy to a better and brighter equilibrium in 2003. During 2003, the Turkish economy achieved an excellent fall in the inflation. Both in 2002 and 2003, consumer prices remained well below target levels. By December 2003, the CPI ended at 18.4%, below 2003 year-end's target level of 20%.

Bright dynamics by consistently improving productivity

In 2003, the Turkish economy achieved a positive growth phase along consistent and rational macroeconomic policies.

Tight fiscal and monetary policies that have been consistently implemented were the driving force in the success of the disinflation process. In line with these efforts, the economy witnessed a rapid growth from private sector investments. A strengthening Turkish Lira combined with sound economic policies justified downward inflationary expectations. Hence, improving market perceptions directed the successive short-term interest rate cuts to 26% by the year-end by the Central Bank. This also has helped the decline in the government's cost of borrowing, which has improved the upward trend in consumption and investment motives.

With the fall in interest rates, the increase in both domestic and foreign demands for Treasury bond issues brought relatively strong portfolio inflows throughout 2003. The sharp decline in interest rates has enabled the government to achieve a lower than targeted consolidated budget deficit.

Following the end of the war in Iraq and the tight implementation of the economic program, the weighted average of the Treasury's domestic borrowing costs in the primary market fell from 62% to 26%.

On the corporate side, the Turkish economy achieved more than expected. The manufacturing industry has had bright dynamics by consistently improving productivity. Furthermore, low real wages created a competitive cost structure that has had a positive impact on the foreign trade performance. The growth in total exports of the capital-intensive sectors, which are highly dependent on imported inputs, indicates the suitable ground for an outstanding foreign trade performance.

The increase in the competitiveness and improved terms of trade in exporting sectors maintained the engine for growth. In 2003, the Turkish economy achieved a positive growth phase along consistent and rational macroeconomic policies. The Gross National Product (GNP) increased by 5.9% in real terms. The source of GNP growth has come from the healthy state of the industrial, trade, transportation and communication sectors. From the expenditure side, the Gross Domestic Product (GDP) grew by 5.8% during 2003 mostly owing to the increase in private expenditures, private investments and exports.

During 2003 as a whole, both exports and imports reached historically high levels. Exports increased by 30% and amounted to USD 47.2 billion, while imports rose by 33% to USD 69.3 billion. Moreover, the foreign trade volume hit its historical record level of USD 116.5 billion. Finally, the export to import ratio is stood at 68.1% by the year-end, indicating a bright foreign trade performance.

This superb export performance of 2003 has greatly improved investment appetite. The year-end foreign trade figures indicate that import of intermediate goods (including raw materials) and capital goods both enjoyed a 32% increase in terms of USD value in 2003. The sharp surge in imports in 2003 can be attributed to robust production dynamics. Industrial production was strong in 2003, partly as a result of the increase in exports, which required a rise in imported raw materials used in production.

Strong fiscal measures boosted confidence where debt dynamics were brought under control. Turkey enjoyed a sound primary surplus in 2003, mainly sustained by revenue generating measures. The consolidated budget primary surplus for the year amounted to TL 18,793 trillion (5.3% of GNP), just surpassing the revised year-end target. Since the target for the consolidated budget primary surplus was achieved, the quality of the fiscal austerity was promising where the fall in interest expenditures was formative. Furthermore, in 2003, the public net debt stock to GNP ratio declined by 8 points to 70.5% reflecting a strong positive performance in debt dynamics.



Review of 2003

Core competencies

Tekstilbank's core competencies are in corporate banking, especially in financing corporate and commercial businesses and cash management, and in international banking with a solid reputation in servicing trade finance customers and in treasury products.

CORPORATE & COMMERCIAL BANKING

A diversified line of corporate and commercial banking products and services

In corporate and commercial banking services, Tekstilbank provides its customers with a diversified line of products and services that includes all corporate and commercial banking products, money and capital market products (treasury), cash management services, retail banking products, and corporate consultancy services.

The goals of Tekstilbank's lending policy are to contribute to the development of Turkey's economy and industries and to increase its share of the market for banking products and services.

A key element of the Bank's policy is to support the private sector rather than to invest in public-sector financial instruments. The Bank is therefore strongly committed to providing financing to industrial and commercial firms. Tekstilbank continues to stand by every company that is productive, creates value, contributes to the national economy, and is efficient.

Succeeding in a very competitive business area...

The ratio of Tekstilbank's loans to total assets was 46%, a figure that puts it several points above the sectoral average of 34%.

The Bank has prepared itself for the process of transformation through which the Turkish economy is now going. In an economic climate where inflation has fallen to single-digit figures, banking products and service requirements will increase as well as diversify. Tekstilbank sees corporate banking as an area of business that will continue to expand, nourishing the Bank's own growth and progress.

Strengthening relationships with corporate and commercial customers

In 2003, Tekstilbank focused on strengthening its relationships with its corporate and commercial customers. The Bank now serves more than 5,000 corporate and commercial customers.

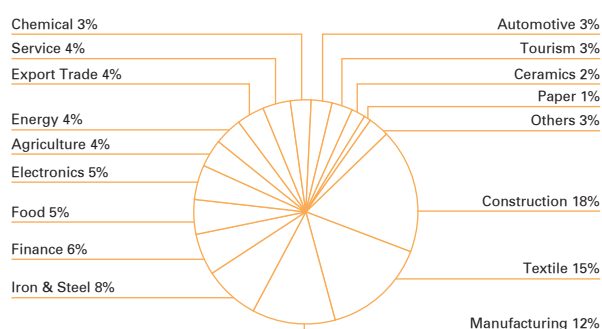
Medium-sized companies make up 68% of Tekstilbank's loan portfolio, with the remainder consisting of large scale blue-chip firms (28%) and international and state-owned corporate customers (4%). The portfolio is well diversified, is not overly concentrated in any particular sector or group, and has minimum related-party exposure, over the years.

Tekstilbank achieved high real growth rates in loans, both TL and FX, as well as in non-cash lending. Total loans increased 42% from USD 279 million to USD 395 million in 2003 while non-cash facilities also increased 30% from USD 431 million to USD 561 million.

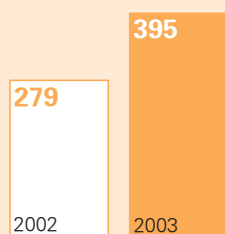
Tekstilbank handled 1.5% of Turkey's foreign trade in 2003. A well-respected international reputation has been a major element of the Bank's success in this competitive business area.

By providing comprehensive service for its customers, Tekstilbank expects to maintain and even increase its share of the country's foreign trade in 2004, a year in which further growth is expected in the Turkish economy and in exports.

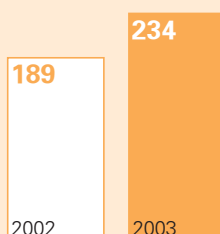
Loan Portfolio by Economic Sectors in 2003



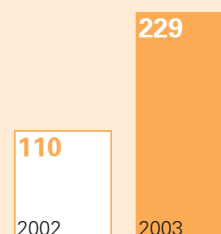
Loans
(USD million)



TL Cash Loans
(TL trillion)



FC Cash Loans
(USD million)



Commitment, partnership, and credit quality in lending

Tekstilbank maintained credit relationships with its customers even during the worst of Turkey's recent economic crisis, remaining faithful to its unwavering principle of basing corporate customer relationships on mutual trust and partnership.

This strategy further strengthened the Bank's image as an institution that is a solution provider, foresees customers' needs, and stands by them. The ratio of Tekstilbank's loans to total assets was 46%, a figure that puts it several points above the sectoral average of 34%.

Tekstilbank believes that successful lending is based on a thorough knowledge of customers' needs in conjunction with a rapid, prudent, and reliable credit approval process. Careful screening based on qualitative and quantitative criteria reduced the proportion of NPLs to 0.3% for loans granted within the last year.

In 2004, Tekstilbank will continue to gain more business. A closer focus and emphasis on corporate and commercial customers will enable the Bank to generate higher business volumes paralleling economic developments in Turkey.

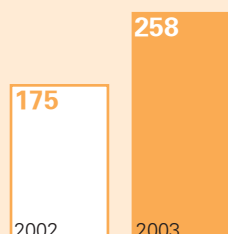
An expanding volume of business in cash management

In 2003, Tekstilbank continued to supply its customers with technology-intensive cash management products and services.

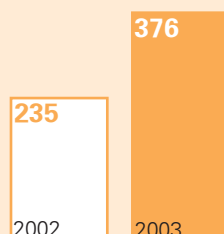
Tekstilbank's goal is to take its place in the front ranks of its sector by providing its corporate and commercial customers with high value-added services that reduce their burden of making payments and collections while also supporting their own in-house accounting activities.

In 2003, new additions to the Bank's panoply of cash-management products included Artan Hesap, designed to allow bank customers to automatically invest their unused cash resources in shares in the Tekstilbank Type B Liquid Mutual Fund; internet banking modules for corporate and retail customers; salary payments; and electronic payment systems.

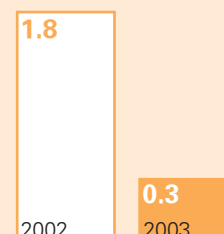
TL Non-Cash Loans
(TL trillion)



FC Non-Cash Loans
(USD million)



NPL Ratio
(%)



At the beginning of 2003, the total volume of interbank check clearances involving Tekstilbank was worth TL 1,079 trillion; by December of the year, that figure increased to TL 1,820 trillion. Such an increase in the volume of clearances is an important indicator of the health of the national economy; equally important, it is also a sign of Tekstilbank's clout in the market not only for credit but also for cash management services.

Alternative delivery channels: Improving service quality and reducing the cost base

In order to strengthen its presence in the market, Tekstilbank attaches the utmost importance to alternative delivery channels. Apart from its branch network, the Bank serves its customers through its internet branch, its ATMs, and its Call Center.

The internet branch, which serves both corporate and retail customers, handled 52,486 transactions amounting to TL 61 trillion for 1,810 retail customers and 19,618 transactions amounting to TL 296 trillion for 542 corporate customers throughout 2003.

Tekstilbank's internet banking targets are shaped around the idea of continuously updating and developing its services, enabling the Bank to meet the financial needs of all customer segments and thus strengthening its position in this area. The Bank views internet applications as an area of opportunity and growth in the near-term future of banking.

Another component of Tekstilbank's alternative delivery channel is its network of automated teller machines (ATM). The functions of the ATMs were enhanced in 2003 and the network was equipped with features that allow holders of cards issued by other "Common Point" members to access their accounts and make cash withdrawals from participating 2,100 ATMs located all over Turkey.

A significant increase in trading volumes

Noteworthy increases were achieved in the trading volumes of spot and forward foreign currency transactions, with the Bank capturing a market share of 2.3% in 2003.

TREASURY

An active player in capital and money markets

In 2003, Tekstilbank continued to play an active and influential role in capital and money markets.

During the year, the Bank adhered to a customer-oriented approach while keeping currency and interest risks at minimum. In a year that witnessed positive macroeconomic developments, satisfactory results were achieved through rapid and correct analyses. The Treasury Department, backed by a state-of-the-art technological infrastructure, increased profitability by using various treasury products and effective pricing combined with risk management standards.

The Treasury Marketing Unit achieved a significant increase in trading volumes thanks to high-quality services provided to corporate and high net-worth retail customers. The increased demand in the market for treasury products resulted in fierce competition in marketing and diversification.

Noteworthy increases were achieved in the trading volumes of spot and forward foreign currency transactions, with the Bank capturing a market share of 2.3% in foreign currency transactions last year.

The securities software that Tekstilbank developed last year contributed significantly to the Bank's volume and profitability increases in fixed-income securities transactions. Additionally, quicker and better-updated information flow to marketing units was achieved through more effective delivery channels. This resulted in increased service quality while further strengthening our market position. In 2003, Tekstilbank's market share in fixed-income securities transactions was 0.9%.

Tekstilbank also offers its corporate and private customers trading services in Istanbul Stock Exchange markets through its investment banking subsidiary, Tekstil Securities. As of year-end 2003, the Bank had 18 trading halls in operation.

In the years ahead, Tekstilbank is determined to increase its market share through a customer satisfaction focused approach and thanks also to its competitive and flexible pricing, to its ability to quickly adapt, and to the expertise and reputation it has acquired in international markets.

USD 75 million with participating 26 prominent banks

Tekstilbank has tapped the international markets for a general syndicated term loan facility in order to meet the pre-export financing needs of its selected customers.

INTERNATIONAL BANKING

A respected name in international markets

The main goal of the International Banking Department can be summarized as making Tekstilbank the first point of contact for its current and potential clientele as well as for all financial institutions engaged in trade finance activities in Turkey.

In order to render the highest quality services to its niche corporate and commercial customers, Tekstilbank has further strengthened its position in international markets thanks to the continued support and interest of its widespread correspondent network around the world.

The majority of our correspondents are located in Europe and the USA, a reflection of Turkey's long-standing foreign trade patterns. At the same time however, relationships with banks in the Middle East, Africa, and the Far East are being continuously strengthened in line with the needs of our customers.

The major strengths of the Bank's international banking activities center on close and intensified relationships, quick response times, high service quality, and an adherence to the principle of reciprocity.

The Bank continued to give special emphasis to acting as an intermediary institution for medium and long-term ECA-backed facilities for its selected customers under its prudent credit policies. Nourished by Turkey's expanding trade, Tekstilbank continued to channel a wider range of business and therefore achieved a notable success in maximizing credit line utilizations.

Tekstilbank has tapped the international markets for a general syndicated term loan facility in order to meet the incoming demand of pre-export financing needs of its selected customers. The launched amount of USD 40 million for a tenor of 1 year has been oversubscribed in a very short period of time and successfully closed as USD 75 million with participating 26 prominent banks.

RISK MANAGEMENT

Administrative and support functions

For the Bank, standardization in administrative and support functions is a priority. The aims are to improve quality, increase efficiency, boost capacity, and ensure continued job satisfaction among employees.

The importance of effective risk management

In today's financial markets, risk is not just increasing but also becoming more diversified. In the wake of every incident that results from a failure to appropriately measure and manage risk, a debate arises over what measures need to be taken to prevent its recurrence. Until recently, the two basic methods employed in risk measurement were the ratio approach and the volume approach; but both have begun to prove inadequate, especially as derivative products and off-balance products have proliferated.

The transformation that the Turkish economy is undergoing and the success achieved in combating inflation has encouraged banks to return to their core function as being suppliers of funding for the non-financial parts of the economy. This has squeezed profit margins however while also highlighting the need for effective risk management.

Recent changes in Turkish banking law have forced banks to install and improve risk assessment and risk management systems.

A bank committed to risk control procedures

Tekstilbank has been one of the pioneering banks in Turkey in the area of risk management. The Bank's commitment to risk management is not just to improve the quality or speed up its services but also to fulfill the duties and responsibilities incumbent upon it for the transparency and stability of the banking system as a whole, as provided for in the BIS and Basel rules.

For this reason everyone at Tekstilbank, from the General Manager to those in the lowest echelons, is determined to make whatever efforts are needed to mobilize the Bank's material and human resources in order to have the most advanced and reliable risk management system possible.

A sound and prudent bank management culture

Tekstilbank is an institution committed to developing and implementing risk management and internal audit mechanisms that comply fully with national and international norms.

The traditional policy of Tekstilbank is based upon a sound and prudent bank management culture that complies fully with international standards, corporate governance principles and ethical values of the banking profession.

The Bank's senior staff regularly reviews strategic goals and decisions, analyzing the risks in financial markets, lending and liquidity as well as managerial and implementation issues. Tekstilbank seeks to reduce exposure to market risks by eliminating mismatches in term, currency and interest rates. At the same time, the Bank avoids any focus related to a particular customer type, sector or geographical region. This conservative approach is reflected in Tekstilbank having one of the lowest non-performing loans ratios in the Turkish banking industry in 2003.

Tekstilbank is an institution committed to developing and implementing risk management and internal audit mechanisms that comply fully with national and international norms.

Credit Risk

Financial instruments contain an element of risk that the counterparts may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored through reference to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies or industry. The Bank has in place effective credit evaluation, allocation, disbursement and monitoring procedures, and senior management supports these control procedures. The credit risk is generally diversified due to a wide customer base and a wide sectoral spread.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when and/or where required. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market Risk

Market risk is the risk of loss composed of interest rate, equity and foreign exchange risks, regarding the assets and liabilities of the Bank's on and off balance sheet, arising from changes in the value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. Market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the number, estimated by using various statistical methods, that expresses the maximum loss for a given confidence interval and holding period that a bank may be exposed to as a result of changes in the value of its portfolio due to fluctuations in interest rates, foreign exchange rates and equity prices.

Value at Risk is calculated on a daily basis by employing internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR, a one-tailed 99% confidence level is used regarding a one-day holding period.

Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk management is held by the Operational Risk Committee, which was established in 2001.

An operational risk loss database was developed in 2001 and loss information related to 2002 and 2003 exists on this database. The Committee continuously collects loss data.

Major areas that the Operational Risk Committee develops are:

- Determination of operational risk points and prevention of exposures
- Making the Bank employees conscious of operational risk.
- Loss database
- Information security
- Workplace safety
- Contingency planning, business continuity planning
- Operational risk measurement
- Best compliance with all national and international rules and regulations, especially Basel II standards

HUMAN RESOURCES & TRAINING

A human resources policy that supports a growing business

With high levels of commitment and participation, Tekstilbank's staff have a strong sense of loyalty to the Bank and to one another. The Bank encourages teamwork and it has a relatively flat organizational structure that avoids hierarchy by delegating more responsibilities to mid management.

Tekstilbank employs a staff of qualified, capable, and well-educated individuals painstakingly chosen from a large pool of candidates and exposed to intensive training programs throughout their banking careers. The Bank fills vacant positions through promotions from within its existing personnel. By means of an open performance evaluation system, the performance of all staff members is assessed twice a year.

The regular and systematic upgrading of employees' professional skills and knowledge is as important for their own personal satisfaction as it is for ensuring customer-focused, high-quality service. During 2003, the Tekstilbank Training Department continued to plan training activities in line with the Bank's needs, developing and implementing programs that enable the Bank to achieve its aims while supporting employees in their individual efforts to achieve their career goals.

In 2003, Tekstilbank inaugurated its Management Trainee Recruitment Process once again for filling marketing positions in branches and other vacant positions in the Head Office. In 2004, another Management Trainee Recruitment Process will also be launched.

A staff of qualified, capable, and well-educated individuals

With high levels of commitment and participation, Tekstilbank's staff have a strong sense of loyalty to the Bank and to one another.

Personnel statistics	2002	2003
Number of personnel		
Head Office	302	343
Branches	538	565
Total personnel	840	908
Average age of personnel	32	32
Training statistics		
Number of programs	110	130
Average training time (work days)	1	3.5
Educational levels of personnel in 2003		
MBA or PhD	25	32
University graduate	481	509
High school graduate	286	322
Other	48	45
Number of personnel fluent in foreign languages	275	315

New systems going into operation

In the area of information technologies, 2003 was a year full of intensive and fast-paced activity.

INFORMATION TECHNOLOGIES

New technologies shaping the future of products and services

In the area of information technologies, 2003 was a year full of intensive and fast-paced activity.

A project was initiated to renovate the existing mainframe and computer park of Tekstilbank.

The objectives of this project were to:

- Replace old servers and disk boxes with new technology
- Upgrade the Credit Card Center's computer park
- Set up the Business Continuity Project and Disaster Recovery Center (DRC)

Paralleling the improvements in hardware, there were important innovations in the main system on which the basic banking software package operates. A powerful processor was installed, increasing speed while also providing an architecture to support future growth and expansion.

New systems went into operation at the end of 2003. Credit Card Center servers were upgraded and the DRC trial was completed. The DRC has been functioning since the last week of March 2004. The failure recovery interval on the DRC will be approximately half an hour.

Lotus Notes, our enterprise messaging and business workflow applications service, was transformed into the Teksport-Tekstilbank Enterprise Portal as of April 2004. Web-based applications are currently being developed.

A pilot web-based project on our banking software, Telesto, has been completed in conjunction with the Business Continuity Project and DRC. Improvements on certain modules and the transition to the web platform will be completed by the end of 2004.

Third-party software packages for offshore banking and securities have been replaced with new ones developed in-house.

New SWIFT integration software co-developed with a third party has been activated and has already resulted in huge cost savings. All new software has been integrated into the IT system, allowing for a dynamic structure.

With new features added to the internet banking system, ATM network and the Call Center, we continued to enhance productivity and customer service quality.

Upcoming major projects in 2004 will be applying IBAN (International Banking Account Number) standards to the account coding structure, transiting to YTL (New Turkish Lira), and revising securities and investment banking software in accordance with new regulations.



Our Subsidiaries

Tekstil Securities

Tekstil Securities was established in 1996 as a Tekstilbank subsidiary.

In 2003, the company bolstered its respected presence among the Turkish brokerage houses thanks to the high quality service offered through its headquarter and its 18 dealer rooms—6 in Istanbul and 12 in various cities of Anatolia.

Tekstil Securities continued to be a major player in the stock market with a transaction volume of TL 3.2 quadrillion handled at the Istanbul Stock Exchange. This figure ranks the Company 30th among 120 brokerage houses with a market share of 1.1%.

Having adopted a customer-oriented and professional service approach, the key to Tekstil Securities' success is prioritizing customer satisfaction and mutual trust thus creating long-lasting beneficial relationships.

Parallel to the developments at the ISE, Tekstil Securities further strengthened its technological infrastructure in 2003 and switched to the EX-API system enabling remote access and trading without brokers.

The Euro Textile Bank Offshore Ltd.

The Euro Textile Bank (ETB) Offshore Limited was established in 1992 in the Turkish Republic of Northern Cyprus.

Wholly owned by Tekstilbank and with a paid-in capital of USD 6.5 million, ETB operates as an offshore bank.

As at the end of 2003, ETB's shareholders' equity and total assets reached USD 6.5 million and USD 35 million, respectively.

Board of Directors



H. Çim Güzelaydınlı
Chairman and General Manager



Ergün Aral
Deputy Chairman



Ali Erdem Yörükoğlu
Member of the Board



Akgün Türer
Member of the Board



Tefik Tözün Tarman
Member of the Board



İsmail Sühan Özkan
Member of the Board

Executive Management



H. Çim Güzelaydınlı
Chairman and General Manager

H. Çim Güzelaydınlı holds a BA and MA in Business Administration from Boğaziçi University. She has 17 years of experience in the finance sector. She joined Tekstilbank in 1993 as Group Head for Investment Banking and went on to serve as General Manager of Tekstil Factoring from 1994-2002. In 2002, she was appointed as General Manager of Tekstilbank. In March 2004, she was appointed as Chairman. She also serves as a Board Member of GSD Holding, Tekstil Factoring and Tekstil Securities.



Sencan Derebeyoğlu
Assistant General Manager
Information Technologies and Operations

Sencan Derebeyoğlu is a graduate of Boğaziçi University with BSc and MSc degrees in Mechanical Engineering and holds a master's degree in Banking from Marmara University. He has 20 years of experience in private sector and banking. He joined Tekstilbank in 1992.



Esra Akçalı
Assistant General Manager
Treasury

Esra Akçalı is a graduate of Boğaziçi University, Department of Business Administration. She has 15 years of experience in banking. She joined Tekstilbank in 1992.



Nuriye Dizdar
Assistant General Manager
Financial Control and Planning

Nuriye Dizdar is a graduate of Istanbul University, Department of Political Sciences. She has 15 years of experience in banking. She joined Tekstilbank in 2002.



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

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İstanbul - Turkey

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To the Board of Directors of
Tekstil Bankası Anonim Şirketi

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

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

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

March 5, 2004
Istanbul, Turkey

CONSOLIDATED BALANCE SHEET

As at December 31, 2003

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

ASSETS

	Notes	2003	2002
Cash and balances with the Central Bank	4	218,761	10,526
Deposits with banks and other financial institutions	4	6,395	15,738
Other money market placements	4	57,671	23,621
Reserve deposits at the Central Bank	5	77,132	77,148
Trading securities	6	70,706	158,499
Investment securities	6	279	286
Originated loans and advances	7	630,678	789,926
Derivative financial instruments	15	3,191	10,244
Premises and equipment	8	70,327	75,200
Intangible assets	9	3,535	4,363
Deferred tax asset	14	21,322	27,081
Other assets	10	26,057	26,891
Total assets		1,186,054	1,219,523

LIABILITIES AND EQUITY

Deposits from other banks	11	7,573	18,856
Customers' deposits	11	775,967	866,576
Other money market deposits	11	112,369	95,561
Funds borrowed	12	139,928	120,286
Derivative financial instruments	15	792	3,728
Other liabilities and provisions	13	38,558	30,605
Income taxes payable	14	162	320

Total liabilities		1,075,349	1,135,932
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Minority interest

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Share capital issued	16	122,500	122,500
Adjustment to share capital		-	17,080
Currency translation differences		(282)	(564)
Legal reserves and accumulated profits (deficit)	17	(11,517)	(55,428)

Total equity		110,701	83,588
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Total liabilities and equity		1,186,054	1,219,523
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CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2003

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

	Notes	2003	2002
Interest income			
Interest on originated loans and advances		141,817	166,992
Interest on securities		28,539	36,130
Interest on deposits with banks and other financial institutions		1,118	1,317
Interest on other money market placements		272	37,337
Other interest income		6,562	23,040
Total interest income		178,308	264,816
Interest expense			
Interest on deposits		(68,435)	(118,253)
Interest on other money market deposits		(40,730)	(54,623)
Interest on funds borrowed		(9,687)	(13,638)
Other interest expense		(115)	(176)
Total interest expense		(118,967)	(186,690)
Net interest income		59,341	78,126
Provision for possible loan losses	7	(160)	(2,124)
Net interest income (expense) after provision for possible loan and lease (factoring) receivables losses		59,181	76,002
Foreign exchange gain (loss)		5,487	15,531
Net interest income after foreign exchange gain (loss) and provision for possible loan, lease and factoring receivables losses		64,668	91,533
Other operating income			
Fees and commissions income		10,679	9,624
Income from banking services		4,996	5,306
Trading income (loss)		6,307	8,980
Other income	21	4,054	8,846
Total other operating income		26,036	32,756
Other operating expense			
Fees and commissions expense		(2,587)	(2,992)
Salaries and employee benefits	20	(25,282)	(26,020)
Depreciation and amortization	8, 9	(9,025)	(9,923)
Taxes other than on income		(1,532)	(2,794)
Other expenses	21	(19,985)	(30,983)
Total other operating expense		(58,411)	(72,712)
Profit (loss) from operating activities		32,293	51,577
Income (loss) from associates		-	92
Profit (loss) from operating activities before income tax		32,293	51,669
Income tax	14	(2,859)	20,808
Monetary gain (loss)		(2,603)	8,087
Net profit (loss) from ordinary activities		26,831	80,564
Minority interest		-	-
Net profit (loss)		26,831	80,564
Earnings per share			
Basic	18	219	696

The accompanying policies and explanatory notes on pages 37 through 75 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2003

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

	Notes	Share capital	Adjustment to share capital	Currency translation differences	Legal reserves and accumulated profits (deficit)	Total
At January 1, 2002 (as previously reported)		80,000	303,666	2,176	(408,078)	(22,236)
Effect of changes in indices	2	-	(10,398)	-	11,472	1,074
At January 1, 2002 (restated)		80,000	293,268	2,176	(396,606)	(21,162)
Accumulated losses netted off	16	-	(286,253)	-	286,253	-
Currency translation differences		-	-	(2,740)	-	(2,740)
Net profit for the year		-	-	-	80,564	80,564
Issue of share capital		42,500	10,065	-	(25,639)	26,926
At December 31, 2002		122,500	17,080	(564)	(55,428)	83,588
Currency translation differences		-	-	282	-	282
Accumulated losses netted off	16	-	(17,080)	-	17,080	-
Net profit for the year		-	-	-	26,831	26,831
At December 31, 2003		122,500	-	(282)	(11,517)	110,701

The accompanying policies and explanatory notes on pages 37 through 75 form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2003

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

	2003	2002
Cash flows from operating activities		
Interest received	175,393	302,460
Interest paid	(120,581)	(192,091)
Dividend received	-	92
Fees and commissions received	10,679	9,624
Income from banking services	4,996	5,306
Trading income (loss)	6,307	8,980
Recoveries of loans previously written off	1,211	1,303
Fees and commissions paid	(2,587)	(2,992)
Cash payments to employees and other parties	(24,730)	(25,684)
Cash received from other operating activities	6,677	10,363
Cash paid for other operating activities	(21,470)	(33,298)
Income taxes paid	(320)	(8,182)
Cash flows from operating activities before changes in operating assets and liabilities	35,575	75,881
Changes in operating assets and liabilities		
Net (increase) decrease trading securities	92,840	(146,397)
Net (increase) decrease in reserve deposits at the Central Bank	(158)	9,730
Net (increase) decrease in originated loans and advances	154,419	71,477
Net (increase) decrease in factoring receivables	-	47,777
Net (increase) decrease in minimum lease payments receivable	-	34,650
Net (increase) decrease in other assets	834	13,718
Net increase (decrease) in deposits from other banks	(11,283)	(169,234)
Net increase (decrease) in customers' deposits	(89,697)	(582,795)
Net increase (decrease) in other money market deposits	16,808	64,398
Net increase (decrease) in factoring payables	-	(9,738)
Net increase (decrease) in other liabilities	7,475	(20,298)
Net cash from operating activities	206,813	(610,831)
Cash flows from investing activities		
Purchases of held to maturity securities	(279)	(286)
Proceeds from redemption of held to maturity securities	286	11,900
Purchases of premises and equipment	(3,124)	(9,030)
Proceeds from the sale of premises and equipment	434	3,531
Purchase of intangible assets	(634)	(828)
Proceeds from the sale of intangible assets	-	30
Net cash provided by (used in) investing activities	(3,317)	5,317
Cash flows from financing activities		
Proceeds from funds borrowed	136,130	116,417
Repayments of funds borrowed	(116,417)	(172,110)
Proceeds from issue of share capital	-	26,926
Net cash provided by (used in) financing activities	19,713	(28,767)
Effect of net foreign exchanges difference and monetary gain (loss) on cash and cash equivalents	9,621	14,351
Net increase in cash and cash equivalents	223,209	(634,281)
Cash and cash equivalents at beginning of year (Note 4)	49,875	669,805
Cash and cash equivalents at end of year (Note 4)	282,705	49,875

The accompanying policies and explanatory notes on pages 37 through 75 form an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

1. CORPORATE INFORMATION

General

Tekstil Bankası A.Ş. (a Turkish joint stock company – Tekstilbank, the Bank) is incorporated in Turkey. Certain ordinary shares of the Bank, representing 17.71% of the total, are listed on the Istanbul Stock Exchange since May 1990. The address of the headquarter and registered office of the Bank is Istanbul, Turkey.

The registered office address of the Bank is located at Büyükdere Caddesi, No. 63, Maslak 34398 Istanbul/Turkey. The Bank was originally incorporated on April 29, 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul and included in GSD Group.

The consolidated financial statements of the Bank were authorized for issue by the management on March 5, 2004. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue. The parent and the ultimate parent of the Bank is GSD Holding A.Ş.

Nature of Activities of the Bank/Group

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

The operations of the Group consist of corporate and retail banking services, international transactions and securities trading in capital markets, which are conducted mainly with local customers.

The Bank provides banking services through 38 (2002: 35) branches and 908 (2002: 840) employees excluding the subsidiaries as of December 31, 2003 in Turkey.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiary maintains its books of account and prepare its statutory financial statements in U.S. Dollars and in accordance with the regulations of the countries in which they operate. In accordance with the accounting and reporting standards issued by BRSA effective July 1, 2002 and October 1, 2002, the Bank is required to apply restatement for the changes in the general purchasing power of Turkish lira and other standards which aim to align statutory accounting standards with IFRS, in its statutory financial statements. The financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of deferred taxation (IAS 12) and employee termination benefits (IAS 19).

Adjustments on 2002 Financial Statements

In relation to new regulatory reporting requirements issued by the BRSA, which also requires application of IAS 29 ("Financial Reporting in Hyperinflationary Economies"), wholesale price indices to be used for such restatement have also been issued by BRSA. Such indices for the years prior to 1994 are different from the wholesale price indices used for restatement in the previously issued IFRS financial statements. The cumulative effect of such change in conversion factors is to decrease "Adjustment to Share Capital" and "Accumulated Deficit" balances by, TL 10,398 and TL 11,472, respectively.

Measurement and Reporting Currency and Translation Methodology

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

Measurement currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The restatement for the changes in the general purchasing power of TL as of December 31, 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of December 31, 2003, the three year cumulative rate has been 181% (2002: 227%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three year period ended December 31, 2003 are given below:

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

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

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2003.
- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2003 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property transferred to share capital from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity (except for the statutory revaluation adjustment which is eliminated) are restated by applying the relevant conversion factors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

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

Measurement and Reporting Currencies of Foreign Subsidiary:

As of December 31, 2003 and 2002, the foreign subsidiary The Euro Textile Bank Ltd. has adopted USD as its measurement and reporting currency.

The foreign subsidiary is regarded as a foreign entity since it is financially, economically and organizationally autonomous.

Basis of Consolidation

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

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

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		2003	2002
Tekstil Menkul Değerler A.Ş. (Tekstil Menkul)	Istanbul/Turkey	99.92	99.92
The Euro Textile Bank Ltd. (Euro Textile Bank)	Lefkosa/Cyprus	99.99	99.99

In the year 2002, the Group disposed of 99.99% and 88% of its share of Tekstil Finansal Kiralama Anonim Şirketi and Tekstil Factoring Hizmetleri Anonim Şirketi, respectively.

The principal activities of the consolidated subsidiaries are as follows:

Euro Textile Bank - Commercial bank, which deals mainly with trade and commodity finance.

Tekstil Menkul - Rendering brokerage and investment banking services to customers in line with the rules of the Capital Market Board of Turkey.

Foreign Currency Translation

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

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

Dates	TL (full)/USD	TL (full)/EUR
December 31, 2001	1,439,567	1,268,115
December 31, 2002	1,593,750	1,660,890
December 31, 2003	1,395,835	1,745,072

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

Premises and Equipment

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

The initial cost of premises and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period in the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of premises and equipment.

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

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

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

Intangible Assets

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

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

Investments

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

Trading Securities

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

Originated Loans and Advances to Government

Debt securities that are purchased from government at original issuance and not classified as trading are classified as originated loans and advances and carried at amortized cost using the effective yield method less any impairment in value. Interest earned on such securities is reported as interest income. Such securities are classified as "originated loans and advances" in the balance sheets.

Available-for-Sale Securities

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

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

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

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

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

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

Repurchase and Resale Transactions

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 other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

Offsetting

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

Recognition and Derecognition of Financial Instruments

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

Cash and Cash Equivalents

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

Originated Loans and Advances to Customers

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

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

Provisions for Possible Loan Losses

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectable amounts in the Group's loan and receivable portfolio and losses under guarantees and commitments. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan; such loans are considered impaired and classified as "loans in arrears". The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

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

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

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If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan losses expense. Unwinding of the discount is treated as income and remaining provision is then reassessed.

Deposits and Funds Borrowed

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

Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

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

Provisions

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

Leases

The Group as Lessee

Finance leases

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

Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

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Operating leases

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

Income and Expense Recognition

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

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

Income Tax

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

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except for taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Derivative Financial Instruments

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

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

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

Fiduciary Assets

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

Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. SEGMENT INFORMATION

Segment information is prepared on the following bases:

Business segments

Year ended December 31, 2003:

The Group conducts the majority of its business activities in the banking area. Since the portion of the brokerage company, which is subject to consolidation as of December 31, 2003, within the total consolidated assets is 0.3%, segment information is not provided.

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Year ended December 31, 2002:

	Banking	Factoring	Brokerage	Eliminations	Group
Net interest income	62,078	14,120	1,928	-	78,126
Provision for possible loan, lease and factoring receivables losses	(2,124)	-	-	-	(2,124)
Foreign exchange gain/loss	15,725	(194)	-	-	15,531
Other operating income	30,226	947	1,827	(244)	32,756
Other operating expense	(67,786)	(2,404)	(2,766)	244	(72,712)
Profit (loss) from operating activities	38,119	12,469	989	-	51,577
Income (loss) from associates	92	-	-	-	92
Income tax	25,308	(4,134)	(366)	-	20,808
Monetary gain (loss)	15,562	(6,396)	(1,079)	-	8,087
Net profit (loss)	79,081	1,939	(456)	-	80,564
Other segment information					
Segment assets	1,230,943	-	3,651	(15,071)	1,219,523
Unallocated assets	-	-	-	-	-
Total assets	1,230,943	-	3,651	(15,071)	1,219,523
Segment liabilities	1,150,546	-	457	(15,071)	1,135,932
Unallocated liabilities	-	-	-	-	-
Total liabilities	1,150,546	-	457	(15,071)	1,135,932
Capital expenditures					
Tangible fixed assets	8,986	-	44	-	9,030
Intangible fixed assets	828	-	-	-	828
Investment properties	-	-	-	-	-
Depreciation	869	-	6	-	875

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

Geographical segments:

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

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4. CASH AND CASH EQUIVALENTS

	2003	2002
Cash on hand	9,338	10,371
Balances with the Central Bank	209,423	155
Cash and balances with the Central Bank	218,761	10,526
Deposits with banks and other financial institutions	6,395	15,738
Interbank placements	57,671	23,621
Other money market placements	57,671	23,621
Cash and cash equivalents in the balance sheet	282,827	49,885
Less: Time deposits with original maturities of more than three months	-	-
Less: Income Accruals	122	10
Cash and cash equivalents in the cash flow statement	282,705	49,875

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

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with the Central Bank	24	209,399	18.81%	0.93% -0.53%	87	68	22.00%	1.58% -0.84%
Deposits with banks and other financial institutions	4	6,391	-	1.00-1.00%	9,312	6,426	45.00%	2.53%
Interbank placements	57,671	-	26.00%	-	-	23,621	-	1.00%-1.13%
Total	57,699	215,790			9,399	30,115		

5. RESERVE DEPOSITS AT THE CENTRAL BANK

	2003	2002
Turkish lira	10,226	12,936
Foreign currency	66,906	64,212
Total	77,132	77,148

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to reserve a certain portion of their liability accounts as specified in the related decree. Such reserves are deposited with the Central Bank.

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

Effective from August 2001 and 2002, the Central Bank has started to give interest for the Turkish lira and foreign currency reserves deposited, respectively. As of December 31, 2003, the interest rates applied for Turkish lira and foreign currency reserve deposits are 18.81% and 0.93%-0.53% (December 31, 2002: 22.00% and 0.84%-1.58%), respectively.

6. INVESTMENTS IN SECURITIES

Trading Securities

	2003		2002	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Trading securities at fair value				
Debt instruments				
Turkish government bonds	58,044	25.51-26.47	10,376	45.88-55.72
Turkish treasury bills	10,098	24.83-26.74	9,807	43.80-56.06
Foreign currency government bonds	1,097	1.95-2.06	134,930	3.63-5.25
Eurobonds issued by the Turkish government	1,467	4.56-7.28	1,488	8.07-11.24
	70,706		156,601	
Others				
Mutual funds	-	-	105	-
Equity securities (listed)	-	-	1,793	-
Precious metals	-	-	-	-
	-		1,898	
Total trading securities	70,706		158,499	

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Investment Securities

	2003		2002	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Available for sale securities at fair value				
Debt instruments				
Turkish treasury bills	279	53.57	286	67.48
	279		286	

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

	2003	2002
Trading securities	60,354	291
Originated loans and advances (Note 7)	57,992	68,074

As of December 31, 2003, the carrying value and the nominal amounts (in historical terms) of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for legal requirements and as a guarantee for stock exchange and money market operations are TL 3,670 and TL 3,800 (2002: TL 334,717 and TL 351,741), respectively.

7. ORIGINATED LOANS AND ADVANCES

	2003					
	Amount			Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	220,600	233,848	83,549	23.20-60.00	3.00-11.30	4.04-12.00
Loans to government (*)	-	4,402	75,029	-	8.26-8.26	10.18-10.52
Consumer loans	3,259	-	1,415	37.67-64.78	-	7.06-16.77
Credit cards	10,506	436	-	83.00	30.00	-
Total loans	234,365	238,686	159,993			
Loans in arrears	1,719	150	-			
Less: Reserve for possible loan losses	4,235	-	-			
	231,849	238,836	159,993			

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	2002					
	Amount			Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	172,156	165,049	32,912	39.22-98.85	2.11-12.55	1.67-10.37
Loans to government (*)	24,710	284,445	91,611	52.37	8.51-8.51	10.41-10.74
Consumer loans	4,610	-	831	34.48-77.54	-	14.03-28.32
Credit cards	11,794	681	-	95.00	30.00	-
Total loans	213,270	450,175	125,354			
Loans in arrears	7,141	22	-			
Less: Reserve for possible loan losses	6,036	-	-			
	214,375	450,197	125,354			

(*) Loans to government comprise government bonds that are purchased from government at original issuance.

Movements in the reserve for possible loan losses:

	2003	2002
Reserve at beginning of year	6,036	11,491
Provision for possible loan losses	2,696	2,568
Recoveries	(2,536)	(444)
Provision net of recoveries	160	2,124
Loans written off during the year	(901)	(3,592)
Monetary gain/loss	(1,060)	(3,987)
Reserve at end of year	4,235	6,036

As of December 31, 2003, loans and advances on which interest is not being accrued, amounted to TL 1,869 (2002: TL 7,163). There is no uncollected interest accrued on impaired loans.

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8. PREMISES AND EQUIPMENT

	Land and buildings	Leased assets	Motor vehicles	Furniture, office equipment and leasehold improvements	Total
At January 1, 2003, net of accumulated depreciation	61,060	1,652	1,751	10,737	75,200
Additions	94	1,746	500	784	3,124
Disposals	-	-	(61)	(373)	(434)
Transfers	-	-	-	(626)	(626)
Depreciation charge for the year	(1,306)	(509)	(504)	(4,618)	(6,937)
At December 31, 2003, net of accumulated depreciation	59,848	2,889	1,686	5,904	70,327
At December 31, 2002					
Cost	64,767	1,931	3,700	48,784	119,182
Accumulated depreciation	(3,707)	(279)	(1,949)	(38,047)	(43,982)
Net carrying amount	61,060	1,652	1,751	10,737	75,200
At December 31, 2003					
Cost	64,859	3,678	3,235	39,738	111,510
Accumulated depreciation	(5,011)	(789)	(1,549)	(33,834)	(41,183)
Net carrying amount	59,848	2,889	1,686	5,904	70,327

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9. INTANGIBLES

	Software licenses and other
At January 1, 2003, net of accumulated amortization	4,363
Additions	634
Disposals	-
Transfers from leasehold improvements	
Cost	1,520
Accumulated depreciation	(894)
Amortization charge for the year	(2,088)
At December 31, 2003, net of accumulated amortization	3,535
At December 31, 2002	
Cost	9,420
Accumulated amortization	(5,057)
Net carrying amount	4,363
At December 31, 2003	
Cost	11,574
Accumulated amortization	(8,039)
Net carrying amount	3,535

10. OTHER ASSETS

	2003	2002
Asset held for resale	23,974	24,842
Prepaid rent expenses	239	122
Office supply inventory	112	136
Advances given	63	30
Others	1,669	1,761
	26,057	26,891

Asset held for resale are stated at cost less reserve for impairment of TL 4,867 (2002: TL 3,576) based on the valuations made by independent appraisal firms.

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The movement in impairment is as follows:

At January 1, 2002	685
Provision for impairment	2,891
At December 31, 2002	3,576
At January 1, 2003	3,576
Provision for impairment	1,291
At December 31, 2003	4,867

11. DEPOSITS

Deposits from other banks

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	3	70	-	-	1	107	-	-
Time	7,500	-	29.67	-	5,128	13,620	52.12-55.19	1.36-1.51
Total	7,503	70			5,129	13,727		

Customers' deposits

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	3,702	25,937	-	-	3,479	39,143	-	-
Time	70,314	389,404	19.67 – 45.31	0.50-6.14	81,955	360,411	26.55-57.17	1.00-7.17
	74,016	415,341			85,434	399,554		
Commercial and other								
Demand	52,126	48,140	-	-	22,691	38,864	-	-
Time	76,131	110,213	19.67 – 45.31	0.50-6.14	36,449	283,584	26.55-57.17	1.00-7.17
	128,257	158,353			59,140	322,448		
Total	202,273	573,694			144,574	722,002		

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Other money market deposits

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	1,490	-	24.60-27.10	-	8,809	-	43.70-44.00	-
-Due to banks	110,879	-	29.66-29.66	-	58,264	-	43.70-44.00	-
	112,369	-			67,073	-		
Interbank deposits	-	-	-	-	28,488	-	51.52-52.88	-
Total	112,369	-			95,561	-		

12. FUNDS BORROWED

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term								
Fixed interest	16,715	112,115	21.00-50.06	1.29-6.27	14,913	94,742	36.87-58.80	1.60-6.39
Floating interest	-	-	-	-	-	-	-	-
Medium/long term								
Fixed interest	-	9,116	-	1.29-6.27	-	9,279	-	1.60-6.39
Floating interest	-	-	-	-	-	-	-	-
Finance lease obligations	-	1,982	-	8.12	-	1,352	-	11.24
Total	16,715	123,213			14,913	105,373		

Repayments of medium/long term borrowings are as follows:

	2003		2002	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2004	9,116	-	9,279	-
2005	-	-	-	-
2006	-	-	-	-
Thereafter	-	-	-	-
	9,116	-	9,279	-

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	2003	2002
Finance lease repayment schedule		
Not later than 1 year	1,318	975
Later than 1 year and not later than 5 years	850	511
Later than 5 years	-	-
Total minimum finance lease obligations	2,168	1,486
Less amounts representing finance changes	186	134
Present value of minimum finance lease obligations	1,982	1,352
Representing finance lease liabilities, net	1,982	1,352
Current	1,195	861
Non-current	787	491
	1,982	1,352

13. OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions

	2003	2002
Transfer orders	27,370	17,432
Taxes other than on income	3,656	3,928
Employee termination benefits	1,641	1,450
Other various accruals	950	1,508
Advances taken	753	3,294
Others	4,188	2,993
	38,558	30,605

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 1,390 and TL 1,436 as of December 31, 2003 and December 31, 2002 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2003 and 2002, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

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

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

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

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

At January 1, 2002	1,754
Interest cost	140
Paid during the year	(227)
Increase during the year	336
Monetary gain/loss	(553)
At December 31, 2002	1,450
At January 1, 2003	1,450
Interest cost	102
Paid during the year	(183)
Increase during the year	552
Monetary gain/loss	(280)
At December 31, 2003	1,641

14. INCOME TAXES PAYABLE

General Information

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

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

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

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

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

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

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

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

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

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

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	2003	2002
Consolidated income statement		
Current income tax		
Current income tax charge	(165)	(4,500)
Deferred income tax		
Relating to origination and reversal of temporary differences	(470)	25,308
Relating to reduction in income tax rates	(2,224)	-
Income tax reported in consolidated income statement	(2,859)	20,808

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

	2003	2002
Net profit/loss from ordinary activities before income tax	32,293	51,669
At Turkish statutory income tax rate of 30% as of December 31, 2003 (2002: 33%)	(9,688)	(17,051)
Income not subject to tax	313	420
Recognition/utilization of tax loss carryforwards	(2,700)	25,069
Effect of restatement and other	9,216	12,370
Income tax	(2,859)	20,808

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Deferred income tax

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

	Consolidated Balance Sheet	
	2003	2002
Deferred income tax liabilities		
Restatement of premises and equipment and intangible assets (including leased assets)	-	6,907
Gross deferred income tax liabilities	-	6,907
Deferred income tax assets		
Deferred tax on tax loss carry forward	19,300	25,069
Loss on securities valuation	1,522	8,561
Employee termination benefits	500	358
Gross deferred income tax assets	21,322	33,988
Net deferred income tax liability	-	-
Net deferred income tax asset	21,322	27,081

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

	2003	2002
Balance at January 1	27,081	1,610
Deferred income tax recognized in income statement	(2,694)	25,308
Monetary gain/loss	(3,065)	163
Balance at December 31	21,322	27,081

Deferred income tax liabilities have not been established for the withholding and other taxes that would be payable on the unremitted earnings of certain subsidiaries incorporated in Turkey, as it is not certain whether such amounts will be permanently reinvested or received in cash. Such unremitted earnings totaled TL 1,398 at December 31, 2003 (2002: TL (1,510)) at nominal values.

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15. DERIVATIVES

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

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

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

	2003								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading									
Forward purchase contract	249	201	62,597	51,037	11,560	-	-	-	-
Forward sale contract	791	-	61,999	50,651	11,348	-	-	-	-
Currency swap purchase	-	441	34,008	34,008	-	-	-	-	-
Currency swap sale	369	-	33,904	33,904	-	-	-	-	-
Futures purchase contract	1,782	150	83,441	-	83,441	-	-	-	-
Futures sales contract	-	-	81,960	-	81,960	-	-	-	-
Option purchase contract	-	-	4,240	4,240	-	-	-	-	-
Option sale contract	-	-	4,220	4,220	-	-	-	-	-
	3,191	792	366,369	178,060	188,309	-	-	-	-
2002									
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading									
Forward purchase contract	2,413	676	102,515	50,790	51,725	-	-	-	-
Forward sale contract	1,135	2,268	102,082	50,734	51,348	-	-	-	-
Currency swap purchase	892	30	23,116	20,864	2,252	-	-	-	-
Currency swap sale	39	652	22,849	20,596	2,253	-	-	-	-
Futures purchase contract	5,765	102	162,917	-	162,917	-	-	-	-
Futures sales contract	-	-	157,991	-	157,991	-	-	-	-
	10,244	3,728	571,470	142,984	428,486	-	-	-	-

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16. SHARE CAPITAL

	2003	2002
Number of common shares, TL 1,000 (in full TL), par value		
Authorized 122,500 million; Issued and outstanding	122,500	122,500
122,500 million in 2003 and 2002	million	million

As of December 31, 2003 and 2002, the Bank's historical subscribed and issued share capital was TL 122,500 (historical terms).

There is no increase in share capital of the Bank during 2003. Information regarding the share capital increases during 2002 is as follows:

Date of increase	Amount of increase	Cash	Reserves
30.04.2002	20,000	20,000	-
31.12.2002	22,500	21,272	1,228

The nominal amounts added into share capital as of December 31, 2002 are shown in the statement of changes in equity as a transfer from current and prior year income into share capital.

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

	2003		2002	
	Amount	%	Amount	%
GSD Holding A.Ş.	91,622	74.79	104,403	74.79
Akın Tekstil A.Ş.	4,900	4.00	-	-
Akın Holding A.Ş.	-	-	7,678	5.50
Edip İplik San. ve Tic. A.Ş.	4,288	3.50	2,792	2.00
Other shareholders	21,690	17.71	24,707	17.71
	122,500	100.00	139,580	100.00
Restatement effect	-		(17,080)	
	122,500	100.00	122,500	100.00

As allowed by the BRSA, the Bank has set off its accumulated deficit through deduction from its legal reserves, retained earnings and adjustment to share capital in 2002 and 2003 at the respective amounts of TL 286,253 and TL 17,080.

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17. LEGAL RESERVES AND ACCUMULATED PROFITS (DEFICIT)

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of December 31, 2003, the Group's legal reserves, which were included within the legal reserves and accumulated deficit balance amount to TL 1,350 (2002: TL 1,185).

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

Dividends

There are no dividends declared and authorized in 2003. The profit appropriation for 2003 will be resolved in the annual general meeting of the shareholders to be held in March 2004.

18. EARNINGS PER SHARE

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

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

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

	2003	2002
Net profit/(loss) attributable to ordinary shareholders for basic earnings per share	219	696
Weighted average number of ordinary shares (in billions) for basic earnings per share	122.5	115.8

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

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19. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by GSD Holding A.Ş. which owns 74.79% (2002: 74.79%) of ordinary shares, and included in GSD Group of companies. For the purpose of these consolidated financial statements, shareholders and GSD Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management.

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

The following transactions have been entered into with related parties:

Related party	Placements with bank	Cash loans	Non-cash loans	Fund lent under securities resale agreements	Funds borrowed	Deposits taken	Notional amount of derivative transactions	Interest income	Other operating income	Other operating expense	
Shareholders	2003	29	5,102	-	-	3,309	944	1	2	59	12
	2002	4,404	358	-	-	47	-	9	35	55	16
Others	2003	11,426	30,726	-	-	3,003	-	825	378	155	272
	2002	3,530	22,980	-	-	5,129	-	785	195	154	55

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20. SALARIES AND EMPLOYEE BENEFITS

	2003	2002
Staff costs		
Wages and salaries	19,099	19,743
Other fringe benefits	5,631	5,941
Provision for employee termination benefits	552	336
Total	25,282	26,020

The average number of employees during the year is:

	2003	2002
The Bank	861	775
Subsidiaries	47	50
Total	908	825

21. OTHER INCOME/OTHER EXPENSES

Other income

	2003	2002
Collections from loans written off in prior years	1,211	1,303
Fund management income	267	357
Gain on sale of participation	-	6,339
Others	2,576	847
Total	4,054	8,846

Other expenses

	2003	2002
Rent expense	3,578	4,658
Portal expenses	3,042	3,077
SDIF premium	2,679	6,239
Computer usage expenses	765	1,580
Loss on sale of fixed assets	338	1,158
Loss on sale of participation	-	504
Provision for impairment	1,291	2,891
Various administrative expenses	8,292	10,876
Total	19,985	30,983

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22. COMMITMENTS AND CONTINGENCIES

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

	2003	2002
Letters of guarantees	524,423	384,145
Letters of credit	193,090	157,006
Acceptance credits	15,607	12,275
Prefinancing given as guarantee	2,094	1,901
Other guarantees	47,994	46,865
Total non-cash loans	783,208	602,192
Other commitments	30,821	2,976
Credit card limit commitments	51,663	-
	865,692	605,168

Litigations

A customer has sued the Bank with the claim that his deposit money has been withdrawn from his account with false documents. The amount is 1,299,213 Australian Dollars (approx. TL 1,352). The trial is in the initial stage and no provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

Other

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

As of December 31, 2003 and 2002, the total value of the investment funds managed by the Group amounted to TL 17,667 and TL 8,475 respectively.

23. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board who is assigned as Risk Supervisor heads the Risk Management Group. The Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Group reviews the latest figures and projections for the Bank's profit and loss accounts and balance sheet, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

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The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports those control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves.

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

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

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Sectoral break down of cash and non-cash loans is as follows:

	2003		2002	
	Cash	Non-cash	Cash	Non-cash
Textiles	105,083	95,508	75,311	53,499
Government	75,955	-	398,303	-
Finance	19,161	65,262	30,015	74,717
Construction	46,594	215,456	16,660	134,925
Food	39,698	28,481	31,918	12,965
Export trade	21,301	32,434	9,922	38,748
Tourism	24,200	16,154	11,698	3,098
Iron & Steel	30,746	49,227	25,613	64,985
Service	27,820	19,116	36,334	16,606
Electronics	26,604	36,380	12,582	19,077
Metal	9,695	13,452	4,557	14,571
Energy	5,580	50,027	7,488	48,034
Agriculture	29,182	27,347	3,428	15,524
Chemical	25,876	18,108	18,425	30,521
Automotive	21,520	20,569	7,634	9,526
Manufacturing	77,102	81,667	27,915	55,306
Paper	6,154	5,110	3,305	4,979
Others	16,888	7,291	38,869	2,792
Corporate loans	609,159	781,589	759,977	599,873
Consumer loans	15,118	1,619	17,167	2,319
Interest accruals	8,767	-	11,655	-
Loans in arrears	1,869	-	7,163	-
Provision for possible loan losses	(4,235)	-	(6,036)	-
	630,678	783,208	789,926	602,192

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the ISE Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently.

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Regarding maturity mismatch risk in the balance sheet, the maximum limits have been set by the Board of Directors.

Major part of the liquidity has been maintained by the saving deposits in the Bank. Additionally, the volume of saving deposits has retained a stable path during the period. On the contrary, the Bank executes the strategy of increasing long-term loans from international markets rather than loans from domestic secondary market.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 years	Total
As at December 31, 2003						
Assets						
Cash and balances						
with the Central Bank	218,761	-	-	-	-	218,761
Deposits with banks						
and other financial institutions	6,395	-	-	-	-	6,395
Other money market placements	57,671	-	-	-	-	57,671
Reserve deposits at the Central Bank	77,132	-	-	-	-	77,132
Trading securities	872	973	23,489	36,365	9,007	70,706
Investment securities	-	279	-	-	-	279
Originated loans and advances	155,323	151,717	212,959	62,958	47,721	630,678
Derivative financial instruments	1,072	2,119	-	-	-	3,191
Premises and equipment	-	-	-	-	70,327	70,327
Intangible assets	-	-	-	-	3,535	3,535
Deferred tax asset	-	-	-	-	21,322	21,322
Other assets	-	197	-	1,035	24,825	26,057
Total assets	517,226	155,285	236,448	100,358	176,737	1,186,054
Liabilities						
Deposits from other banks	7,573	-	-	-	-	7,573
Customers' deposits	654,308	94,150	16,817	10,412	280	775,967
Other money market deposits	112,369	-	-	-	-	112,369
Funds borrowed	14,375	40,256	60,559	23,951	787	139,928
Derivative financial instruments	643	149	-	-	-	792
Other liabilities and provisions	35,884	948	-	-	1,726	38,558
Income taxes payable	-	-	162	-	-	162
Total liabilities	825,152	135,503	77,538	34,363	2,793	1,075,349
Net liquidity gap (*)	(307,926)	19,782	158,910	65,995	173,944	110,705
As at December 31, 2002						
Total assets	232,858	125,492	230,132	83,915	547,126	1,219,523
Total liabilities	830,291	168,902	82,645	19,319	34,775	1,135,932
Net liquidity gap (*)	(597,433)	(43,410)	147,487	64,596	512,351	83,591

(*) Minority interest and total equity are not included in net liquidity gap line.

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Market Risk

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated February 8, 2001.

"General market risk" is the risk of loss composed of "interest rate risk", "equity position risk" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the number, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Approach, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results have been reported to the Senior Level Risk Committee and Asset-Liability Committee in regular periods. By regarding the VaR results, the risk of maturity mismatch has been examined in the Asset-Liability Management Committee and the necessary measures have been taken by the ALCO.

The adequate amount of capital that banks shall maintain against losses which may result from existing and potential risks, on a consolidated and unconsolidated basis especially for the General Market Risk and Specific Risk, has been calculated by employing the Standard Approach and reported on a monthly basis regarding the provisions of "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net asset position in foreign currencies, almost entirely in US Dollar, EURO and Turkish Lira.

The Group's foreign currency position risk is measured by "Standard Approach" and Internal Models. Level of share capital requirement is calculated by using Standard Approach.

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The concentrations of assets, liabilities and off balance sheet items:

	Turkish Lira	US Dollars	Euro	Japanese Yen	Others	Total
As at December 31, 2003						
Assets						
Cash and balances with the Central Bank (or central banks)	3,930	212,278	2,311	-	242	218,761
Deposits with banks and other financial institutions	4	2,714	2,333	90	1,254	6,395
Other money market placements	57,671	-	-	-	-	57,671
Reserve deposits at the Central Bank (or central banks)	10,226	30,891	36,015	-	-	77,132
Trading securities	68,142	1,892	672	-	-	70,706
Investment securities	279	-	-	-	-	279
Originated loans and advances	231,849	294,657	98,141	5,265	766	630,678
Derivative financial instruments	3,191	-	-	-	-	3,191
Premises and equipment	70,327	-	-	-	-	70,327
Intangible assets	3,535	-	-	-	-	3,535
Deferred tax asset	21,322	-	-	-	-	21,322
Other assets	25,825	192	-	-	40	26,057
Total assets	496,301	542,624	139,472	5,355	2,302	1,186,054
Liabilities						
Deposits from other banks	7,503	50	20	-	-	7,573
Customers' deposits	202,273	394,711	173,337	134	5,512	775,967
Other money market deposits	112,369	-	-	-	-	112,369
Funds borrowed	16,715	105,303	17,529	381	-	139,928
Derivative financial instruments	792	-	-	-	-	792
Other liabilities and provisions	16,898	8,682	11,884	-	1,094	38,558
Income taxes payable	162	-	-	-	-	162
Total liabilities	356,712	508,746	202,770	515	6,606	1,075,349
Net on-balance sheet position	139,589	33,878	(63,298)	4,840	(4,304)	110,705
Off-balance sheet position	(18,601)	(42,509)	63,462	(4,860)	4,711	2,203
Net notional amount of derivatives	(18,601)	(42,509)	63,462	(4,860)	4,711	2,203
Non-cash loans	257,964	367,779	141,413	1,391	14,661	783,208
At December 31, 2002						
Total assets	380,755	764,758	68,286	1,508	4,216	1,219,523
Total liabilities	277,148	607,768	238,353	150	12,513	1,135,932
Net on balance sheet position	103,607	156,990	(170,067)	1,358	(8,297)	83,591
Off-balance sheet position	-	(165,616)	163,689	(1,340)	8,893	5,626

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As of December 31, 2003, the net short foreign currency position of the Banking Group at an amount of TL 8,080 (2002: TL 14,390) is composed of the net short on balance sheet position of TL 28,884 (2002: TL 20,016) and net long off balance sheet position of TL 20,804 (2002: TL 5,626).

Interest Rate Risk

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
As at December 31, 2003							
Assets							
Cash and balances with the Central Bank	218,761	-	-	-	-	-	218,761
Deposits with banks and other financial institutions	6,395	-	-	-	-	-	6,395
Other money market placements	57,671	-	-	-	-	-	57,671
Reserve deposits at the Central Bank	77,132	-	-	-	-	-	77,132
Trading securities	872	973	23,489	36,365	9,007	-	70,706
Investment securities	-	279	-	-	-	-	279
Originated loans and advances	263,666	118,115	191,277	47,332	10,288	-	630,678
Derivative financial instruments	1,072	2,119	-	-	-	-	3,191
Premises and equipment	-	-	-	-	-	70,327	70,327
Intangible assets	-	-	-	-	-	3,535	3,535
Deferred tax asset	-	-	-	-	-	21,322	21,322
Other assets	1,868	-	-	-	-	24,189	26,057
Total assets	627,437	121,486	214,766	83,697	19,295	119,373	1,186,054

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	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
Liabilities:							
Deposits from other banks	7,573	-	-	-	-	-	7,573
Customers' deposits	654,308	94,150	16,817	10,412	280	-	775,967
Other money market deposits	112,369	-	-	-	-	-	112,369
Funds borrowed	14,375	40,256	60,559	23,951	787	-	139,928
Derivative financial instruments	643	149	-	-	-	-	792
Other liabilities and provisions	-	-	-	-	-	38,558	38,558
Income taxes payable	-	-	-	-	-	162	162
Total liabilities	789,268	134,555	77,376	34,363	1,067	38,720	1,075,349
On balance sheet interest sensitivity gap	(161,831)	(13,069)	137,390	49,334	18,228	-	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	(161,831)	(13,069)	137,390	49,334	18,228	-	-

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
As at December 31, 2002							
Assets							
Cash and balances with the Central Bank	155	-	-	-	-	10,371	10,526
Deposits with banks and other financial institutions	15,738	-	-	-	-	-	15,738
Other money market placements	23,621	-	-	-	-	-	23,621
Reserve deposits at the Central Bank	77,148	-	-	-	-	-	77,148
Trading securities	2,155	1,016	73,917	79,922	1,489	-	158,499
Investment securities	-	-	286	-	-	-	286
Originated loans and advances	192,210	388,017	184,612	1,748	22,297	1,042	789,926
Derivative financial instruments	3,023	7,221	-	-	-	-	10,244
Premises and equipment	-	-	-	-	-	75,200	75,200
Intangible assets	-	-	-	-	-	4,363	4,363
Deferred tax asset	-	-	-	-	-	27,081	27,081
Other assets	-	-	-	-	-	26,891	26,891
Total assets	314,050	396,254	258,815	81,670	23,786	144,948	1,219,523
Liabilities							
Deposits from other banks	18,856	-	-	-	-	-	18,856
Customers' deposits	688,068	133,752	31,503	13,194	59	-	866,576
Other money market deposits	95,561	-	-	-	-	-	95,561
Funds borrowed	21,007	32,732	50,823	6,125	9,599	-	120,286
Derivative financial instruments	2,819	909	-	-	-	-	3,728
Other liabilities and provisions	144	-	-	-	-	30,461	30,605
Income taxes payable	-	-	-	-	-	320	320
Total liabilities	826,455	167,393	82,326	19,319	9,658	30,781	1,135,932
On balance sheet interest sensitivity gap	(512,405)	228,861	176,489	62,351	14,128	-	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	(512,405)	228,861	176,489	62,351	14,128	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events. Operational risk management is being performed by Operational Risk Committee, which has been established in 2001.

Operational Risk Committee categorized operational risk as follows: (This categorization is being taken into consideration while collecting loss data.)

- Internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption and system failures
- Execution, delivery and process management

Operational risk loss database has been developed in 2001 and loss information related to 2002, 2003 years exist at this database. Committee continues to collect loss data.

Major areas that Operational Risk Committee works on are:

- Determination of operational risk points and prevention of exposures
- Making the Bank employees conscious of operational risk.
- Loss database
- Information security
- Workplace safety
- Contingency planning, business continuity planning
- Operational risk measurement
- Best compliance with all national and international rules and regulations, esp. Basel II standards

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2003, the Bank's capital adequacy ratio on an unconsolidated basis is 12.23% (2002: 13.34%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

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

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

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

	Carrying amount		Fair value	
	2003	2002	2003	2002
Financial assets				
Originated loans and advances to customers	551,247	389,160	550,836	392,016
Investments securities-originated loans and advances to governments	79,431	400,766	87,596	421,196
	630,678	789,926	638,432	813,212
Financial liabilities				
Deposits from other banks	7,573	18,856	7,573	18,856
Customer deposits	775,967	866,576	775,874	866,867
Funds borrowed (excluding finance lease obligations)	137,946	118,934	138,180	119,139
	921,486	1,004,366	921,627	1,004,862

Fair values of remaining financial assets and liabilities carried at cost, including deposit with banks and other financial instruments, balances with the Central Bank, reserve deposits, other money market placements, deposits from other banks and other money market deposits, finance lease payables are considered to approximate their respective carrying values due to their short-term nature.

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

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

Currency	Originated loans and advances		Deposits		Funds borrowed	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
	Interest Rates Applied (%)					
Turkish lira	35.00	62.34	28.28	52.37	-	52.83
US\$	7.50	7.40	3.76	3.59	2.49	2.50
EURO	5.80	7.80	4.22	4.53	4.33	3.59

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E. GALLÉ 1846 – 1904

Emile Gallé, the famous French artist, is the founder of Art Nouveau style and the great contributor to the Modern Renaissance of the French Art of Glassmaking. He has worked in his father's furniture and ceramics workshop until he set up his own glass studio in 1873.

In 1878, his impressive glassworks attracted great attention at the Paris Exhibition. After 1890s, he was influenced by Japanese Arts and used plant forms and figures in his worldwide famous glassworks.

Gallé has implemented different methods of "glass markings" in his free style Art Nouveau works containing asymmetric and symbolic elements.

Towards the end of the 19th century, more than 300 people were working in his workshop which was still open after his death until 1913. He also created furniture designs.

The glassworks by Emile Gallé used in this annual report are taken from a private collection.

