

**THE CENTRAL BANK
OF THE REPUBLIC OF TURKEY**

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
31 DECEMBER 2003 AND 2002

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
INDEPENDENT AUDITORS' REPORT

To The Central Bank of
The Republic of Turkey
Ankara

1. We have audited the accompanying balance sheets of the Central Bank of the Republic of Turkey A.Ş. (the "Bank") as of 31 December 2003 and 2002, and the related statements of income, shareholders' equity and cash flows for the years then ended, all expressed in the equivalent purchasing power of Turkish Lira as at 31 December 2003. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits 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 audits provide a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at 31 December 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards.

DRT DENETİM REVİZYON TASDİK
YEMİNLİ MALİ MÜŞAVİRLİK A.Ş.

Member Firm of **DELOITTE TOUCHE TOHMATSU**

Levent YAVEROĞLU

Zeki KURTÇU

İstanbul, 9 March 2004

<u>ASSETS</u>	<u>Note</u>			Convenience	Convenience
		2003	2002	Translation	Translation
		TL Billion	TL Billion	2003	2002
				USD Million	USD Million
Cash and amounts due from banks	4	1,636,000	2,275,571	1,172	1,630
Gold reserves	5	2,234,170	2,449,040	1,601	1,755
Placements with banks & financial institutions	6	2,767,142	4,430,299	1,982	3,174
Trading securities	7	72,131,469	81,244,536	51,676	58,205
Loans (net)	8	175,373	811,576	126	581
Available for sale investments	9	20,787	8,909	15	6
Premises & equipment (net)	10	137,867	151,015	99	108
Sundry debtors & other assets		57,025	227,228	41	163
TOTAL ASSETS		79,159,833	91,598,174	56,712	65,622

<u>LIABILITIES</u>	<u>Note</u>			Convenience	Convenience
		2003	2002	Translation	Translation
		TL Billion	TL Billion	2003	2002
				USD Million	USD Million
Currency in circulation	11	10,675,528	8,700,211	7,648	6,233
Liabilities to Turkish Treasury	20	59,839	121,910	43	87
Due to banks & other financial institutions	12	22,563,224	24,366,925	16,165	17,457
Deposits by citizens abroad	13	26,183,270	28,881,557	18,758	20,691

Deposits by public sector		5,533,000	4,817,661	3,964	3,451
Deposits by other institutions		1,991,789	1,990,406	1,427	1,426
Liabilities for securities sold under repurchase agreements		433,645	2,365,372	311	1,695
Liabilities to International Monetary Fund	14	10,253,511	15,116,551	7,346	10,830
Corporate tax liability	18	-	-	-	-
Provisions	15	78,363	47,877	56	34
Sundry creditors & other liabilities		988,130	901,311	708	646
Deferred tax liability (net)	18	-	406,509	-	291
TOTAL LIABILITIES		78,760,299	87,716,290	56,426	62,841
<u>SHAREHOLDERS' EQUITY</u>					
Share capital	16	40,615	40,615	29	29
Accumulated profit		358,919	3,841,269	257	2,752
TOTAL SHAREHOLDERS' EQUITY		399,534	3,881,884	286	2,781
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		79,159,833	91,598,174	56,712	65,622
COMMITMENTS AND CONTINGENCIES	21	223,379,467	174,810,688	160,033	125,237
				Convenience Translation	Convenience Translation
		2003	2002	2003	2002
	Note	TL Billion	TL Billion	USD Million	USD Million
<u>INTEREST INCOME</u>					
Interest income from bank placements		77,496	163,638	56	117
Interest income from marketable securities		4,872,750	7,339,523	3,491	5,258
Interest income from loans		27,768	132,348	20	95
Other interest income		83	102	-	-
		4,978,097	7,635,611	3,567	5,470
<u>INTEREST EXPENSE</u>					
Interest expense on deposits by citizens abroad		(1,796,245)	(2,526,963)	(1,287)	(1,810)
Interest expense related to banks, financial institutions and other institutions		(4,051,474)	(5,587,118)	(2,903)	(4,003)
		(5,847,719)	(8,114,081)	(4,190)	(5,813)
NET INTEREST EXPENSE		(869,622)	(478,470)	(623)	(343)
<u>NON-INTEREST INCOME</u>					
Income from open market operations (net)		-	869,982	-	623

Foreign exchange gains (net)	-	1,582,413	-	1,134
Dividend received	3,211	5,178	2	4
	3,211	2,457,573	2	1,761
<u>NON- INTEREST EXPENSE</u>				
Expense from open market operations (net)	(1,042,032)	-	(747)	-
Foreign exchange losses (net)	(1,049,601)	-	(752)	-
Commission expense (net)	(44,936)	(215,592)	(32)	(154)
Other non-interest expense	(28,114)	(313,053)	(20)	(224)
	(2,164,683)	(528,645)	(1,551)	(378)
GENERAL ADMINISTRATIVE EXPENSE	17			
	(414,625)	(448,880)	(297)	(322)
INCOME/(EXPENSE) BEFORE MONETARY LOSS & TAXATION	(3,445,719)	1,001,578	(2,469)	718
LOSS ON NET MONETARY POSITION	(381,219)	(1,553,844)	(273)	(1,113)
LOSS BEFORE TAXATION	(3,826,938)	(552,266)	(2,742)	(395)
TAXATION	356,766	(281,464)	256	(202)
NET LOSS	<u>(3,470,172)</u>	<u>(833,730)</u>	<u>(2,486)</u>	<u>(597)</u>

	<u>Share Capital TL Billion</u>	<u>Accumulated Profit TL Billion</u>	<u>Total TL Billion</u>
At 1 January 2002	40,615	9,058,998	9,099,613
Dividends paid	-	(4,383,999)	(4,383,999)
Loss for the year	-	(833,730)	(833,730)
At 31 December 2002	<u>40,615</u>	<u>3,841,269</u>	<u>3,881,884</u>
Dividends paid	-	(12,178)	(12,178)
Loss for the year	-	(3,470,172)	(3,470,172)
At 31 December 2003	<u><u>40,615</u></u>	<u><u>358,919</u></u>	<u><u>399,534</u></u>

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES	-	-
Net loss for the year	(3,470,172)	(833,730)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,722	23,235
Provisions for loan losses	30,287	43,163
Retirement pay provision and other provisions	33,303	30,203

CHANGES IN OPERATING ASSETS/LIABILITIES		
Gold reserves	214,870	(172,369)
Marketable securities	9,113,067	11,023,103
Placements with banks	1,663,157	5,847,916
Loans	605,916	1,765,430
Other assets	170,203	(129,442)
Other liabilities	84,002	18,656
Currency in circularization	1,975,317	824,708
Due to banks	(1,803,701)	(4,491,044)
Deposits	(3,913,292)	4,716,585
Corporate tax	-	(525,133)
Deferred tax	(406,509)	199,218
NET CASH PROVIDED FROM OPERATING ACTIVITIES	4,315,170	18,340,499
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in equity participations	(11,878)	(392)
Additions to tangible fixed assets (net)	(5,574)	(5,115)
NET CASH USED IN INVESTMENT ACTIVITIES	(17,452)	(5,507)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receivables of Treasury	(62,071)	384,373
Liabilities to International Monetary Fund	(4,863,040)	(15,692,162)
Dividends paid	(12,178)	(4,383,999)
NET CASH USED IN FINANCING ACTIVITIES	(4,937,289)	(19,691,788)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(639,571)	(1,356,796)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,275,571	3,632,367
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,636,000	2,275,571

1. ACTIVITIES OF THE BANK

The Central Bank of the Republic of Turkey A.Ş. (the “Bank”) was incorporated in Turkey in 1931. It is established in the form of a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in Law Number 1211 of the Central Bank of the Republic of Turkey (the “Central Bank Law”). The Head Office of the Bank is located in Ankara. The Bank now operates a nationwide network of 21 branches, 4 foreign representatives and 1 liaison office abroad. The number of personnel as at 31 December 2003 is 4,774.

2. BASIS OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of Presentation of Financial Statements

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with Turkish Commercial Practice and Tax Legislation and Law Number 1211 of the Central Bank of the Republic of Turkey (the “Central Bank Law”). According to the 57th and 58th articles of the Central Bank Law, the accounting period of the Bank is the calendar year. The Bank submits to Prime Ministry, prior to

the General Assembly meeting, the balance sheet and income statement along with the annual report to be prepared as of the end of each calendar year. The balance sheet is published in the Official Gazette.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention with adjustments and reclassifications for the purposes of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). In the opinion of the Bank's management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the period have been made in the accompanying financial statements.

Inflation Accounting

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

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

Inflation Accounting (cont'd)

IFRS 29 became applicable to financial statements in 1990. One characteristic that necessitates the application of IFRS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey exceeded 181 % for the three years ended 31 December 2003, based on the wholesale price index announced by the Turkish State Institute of Statistics. IFRS 29 requires that financial statements be stated in terms of the measuring unit current at the balance sheet date and corresponding figures for previous periods are restated in the same terms by applying a general price index. The restatement adjustments are based on the nationwide wholesale price index ("WPI") published by Turkish State Institute of Statistics (1994=100).

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

	<u>Index</u>	<u>Conversion Factor</u>
31 December 2001	4,951.7	1.4908
31 December 2002	6,478.8	1.1394
31 December 2003	7,382.1	1.0000

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

<u>Year:</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Currency Devaluation against US \$	(14.6)%	13.5%	114.3%	24.4%	72.7%
WPI Inflation	13.9%	30.8%	88.5%	32.7%	62.9%

In the accompanying financial statements figures are presented in TL Billion. At the year end exchange rate TL 1 billion corresponds to US \$ 716.42.

The principal adjustments related with inflation accounting are as follows :

- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.

2. BASIS OF FINANCIAL STATEMENTS (cont'd)

- Non-monetary assets and liabilities and the components of shareholders' equity are restated by applying, to the initial acquisition cost and any accumulated depreciation, the relevant conversion factors reflecting the increase in the WPI from the date of acquisition or initial recording to the balance sheet date. Revaluations made on any other basis in the statutory records are eliminated.
- All items in the statements of income are restated by applying the relevant conversion factors.
- The effect of general inflation on the Bank's net monetary position is included in the statements of income as monetary gain or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Accounting Convention

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank maintains its accounting records and prepares its statutory accounts in accordance with Turkish legislation and the Central Bank Law. Where these regulations differ from IFRS, certain accounts have been reclassified, combined, and in some cases recomputed, in order to comply with IFRS. As a result, in the conversion of the accounts from Turkish statutory requirements to IFRS, significant adjustments have been made to the Bank's statements of operations, assets, liabilities and shareholders' equity for the purposes of these financial statements.

3.2 Income and Expense Recognition

Interest and other income and expenses are recognized on the accrual basis. All income and expense items are restated in equivalent purchasing power at the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Foreign Currency Items

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

Assets and liabilities denominated in foreign currencies are translated at year end exchange rates.

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

3.4 Convenience Translation of Financial Statements

For the convenience of the reader, the balance sheet and income statement of the Bank present translations of certain Turkish Lira amounts into US Dollars of the Turkish Lira bid rate announced by the Bank. Such convenience translations are not intended to comply with the provisions of IFRS 21 (“The Effects of Changes in Foreign Exchange Rates”) or Financial Accounting Standards Board Statement 52 (“Foreign Currency Translation”) for the translation of financial statements in a highly inflationary economy.

3.5 Gold Reserves

Gold is valued at the market value based on the prices quoted on the London stock-exchange as of 31 December 2003 and on the basis of the equality of 1 ounce = 31.1035 grams.

3.6 Trading Securities

The Bank’s securities portfolio primarily represents Government Bonds and Treasury Bills issued by foreign governments and international financial institutions and issued by the Turkish Treasury. The securities portfolio also includes purchases of securities under agreements of resale (reverse repo) and repurchases of securities under agreements of sale (repo).

Securities of foreign governments and other financial institutions are stated with the market value.

3. SIGNIFICANT ACCOUNTING POLICIES (cont’d)

3.6 Trading Securities (cont’d)

Turkish Government securities traded on the stock exchange are valued based upon the prices quoted on the Istanbul Stock Exchange while non-traded ones are valued based on the prices quoted in the Official Gazette.

Income on purchases of securities under agreements of resale (“reverse repo”) arranged with other banks in Turkey is accrued on a straight-line basis over the period to maturity.

The carrying value of foreign currency denominated securities is translated into Turkish Lira at the exchange rates ruling at the balance sheet date.

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

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

Securities held for trading:

Securities held for trading are those acquired principally for the purpose of providing intra-day liquidity to the system whenever needed. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. Gains or losses on held for trading securities are included in net profit or loss for the period in which they arise.

Securities available for sale:

Available-for-sale securities are participations of the Bank and are stated at cost less any provision for impairment where necessary. The cost of a participation is its original cost in foreign currency, translated at the exchange rate ruling at the balance sheet date.

3.7 Premises and Equipment

Premises and equipment are carried at restated cost less restated depreciation.. Premises and equipment are depreciated on a straight-line basis using rates which write off the assets over their expected useful lives. The main amortization rates used are:

Buildings	2%
Vehicles	20%
Furniture and fittings	20%
Leasehold and leasehold improvements	lease term or 20%

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Impairment

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

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

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

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

3.9 Provision for Employee Termination Benefits

Under Turkish legislation as supplemented by union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. A provision is maintained for the estimated present value of the accrued obligation to employees for such payments, in respect of their service up to the balance sheet date.

International Financial Reporting Standard No. 19 (revised) "Employee Benefits" ("IFRS 19") has been applied in the accompanying financial statements, including the following:

- An expected inflation rate and an appropriate discount rate are determined, the net of these being the real discount rate. This real discount rate is used to discount future retirement obligations to their present value at the balance sheet date.
- The anticipated rate of forfeitures is considered.

3.10 Related Parties

For the purpose of the accompanying financial statements the main shareholder of the Bank, the Turkish Treasury, is referred to as a "Related Party" in this report.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.11 Taxation and Deferred Taxes

Taxes on income for the year comprise of current tax and the change in deferred taxes. The Bank accounts for current and deferred taxation on the results for the period, in accordance with IFRS 12 (Revised).

Provision is made in the financial statements for the Bank's estimated liability to Turkish corporation tax on its results for the year. The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed.

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred income tax assets and liabilities are also offset.

3.12 Securities under Resale or Repurchase Transactions

Purchases or sales of securities under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of securities under agreements of repurchase ("Repos") are presented in the balance sheet under securities portfolio and the corresponding counterparty liabilities are presented separately in the balance sheet. The net gain or loss on repo transactions is accrued over the period till maturity date. Purchases of securities under agreements of resale ("reverse repos") are included in trading securities and interest income on such transactions is accrued on a straight line basis over the period to maturity.

3.13 Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards 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 financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Fair Values of Financial Instruments

The term financial instrument includes both financial assets and financial liabilities. Financial instruments are fundamental to the Bank's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Bank. Financial instruments create,

modify or reduce the liquidity, credit and market risks of the Bank's balance sheet.

Fair value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate market value. Accordingly, the estimates presented herein may not necessarily be indicative of the amounts the Bank could realize in a current market exchange.

The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature.

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

Placements with financial institutions: The carrying amount is a reasonable estimate of fair value.

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

Deposits: Fair value of public sector deposits, banking sector deposits and citizens abroad deposits are considered to approximate their respective carrying values due to their short term nature.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Risk Management

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk.

Liquidity risk

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

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

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The Bank carries credit risk mainly for loans granted and the interbank transactions for which the Bank acts as intermediary and is liable to counter-parties. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorised at Board level or at appropriate levels of management depending on the size of the proposed commitment. The Bank places strong emphasis on obtaining sufficient collateral from borrowers.

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Market risk

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Market risk is the risk that changes in the level of interest rates, currency exchange rates or the price of securities and other financial contracts, will have an adverse financial impact. Since the primary objective of the Bank is to achieve and maintain price stability, it determines at its own discretion the monetary policy that it will implement and the monetary policy instruments that it is going to use in order to achieve and maintain price stability. The main risks within the Bank's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Bank's balance sheet is denominated in currencies other than the Turkish Lira (principally the US dollar and Euro-zone currencies).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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3.15 Risk Management (cont'd)

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Operational risk

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

3.16 Offsetting

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

4. CASH AND AMOUNTS DUE FROM BANKS

	<u>2003</u>	-	<u>2002</u>
	TL Billion	-	TL Billion
Cash balances – Foreign currencies ("FC")	983,062		1,204,817
Cash balances – Turkish Lira ("TL") – Coins	7,378		9,806
Current accounts with banks	645,560		1,060,948
	<u>1,636,000</u>		<u>2,275,571</u>

5. GOLD RESERVES

	<u>2003</u>	-	<u>2002</u>	-	<u>2003</u>	-	<u>2002</u>
	TL Billion	-	TL Billion	-	Troy Ounces	-	Troy Ounces
Gold bullion in standard form	2,174,039		2,382,786		3,732,820		3,732,819
Gold in other forms	60,131		66,254		103,245		103,792
	<u>2,234,170</u>		<u>2,449,040</u>		<u>3,836,065</u>		<u>3,836,611</u>

2,650,284 troy ounces of gold in standard form includes gold held with correspondents.

TL 6,471 Billion of gold in other forms is kept in the Bank on behalf of the Turkish Treasury (31 December 2002: TL 7,092 Billion).

6. PLACEMENTS WITH BANKS & FINANCIAL INSTITUTIONS

	<u>2003</u>	<u>2002</u>
	<u>TL Billion</u>	<u>TL Billion</u>
Time deposits	936,396	1,022,820
Interbank transactions-FC	1,758,775	3,064,019
Interbank transactions-TL	-	1,253
Other deposits	70,958	339,350
Accrued interest	1,013	2,857
	<u>2,767,142</u>	<u>4,430,299</u>

6. PLACEMENTS WITH BANKS & FINANCIAL INSTITUTIONS (cont'd)

Time deposits are presented below:

<u>31 December 2003</u>	<u>Maturity</u>	<u>Interest Rate</u>
488,500,000 USD	02 January 2004 – 7 January 2004	0.92% - 1.10%
107,500,000 EURO	02 January 2004 – 7 January 2004	2.07% - 2.21%
27,000,000 GBP	02 January 2004	3.61%
 <u>31 December 2002</u>		
895,869,238 USD	01 January 2003 – 06 January 2003	0.63% - 1.17%
252,500,000 EURO	01 January 2003 – 07 January 2003	2.88% - 3.26%

Inter-bank transactions are placements among banks in Turkey for which the Bank acts as intermediary and is liable to counter-parties. Therefore, placements are recorded in the balance sheet as receivables from, and liabilities to, domestic banks.

7. TRADING SECURITIES

	<u>2003</u>	<u>2002</u>
	<u>TL Billion</u>	<u>TL Billion</u>
Foreign government bonds & treasury bills	43,457,595	45,217,627
Turkish Government bond & treasury bills	27,645,066	32,863,902
Securities sold with agreements to repurchase (repo)	433,000	2,359,177
Other marketable securities	594,742	793,534
Accrued interest	1,066	10,297
	<u>72,131,469</u>	<u>81,244,536</u>
Due within one month	5,894,911	5,994,786
Due within one-three months	10,642,468	6,926,020
Due within one year	23,334,027	30,115,521
Due within one-five years	18,189,540	15,672,001
Due over five years	13,475,781	21,742,675

	71,536,727	80,451,003
Other marketable securities	594,742	793,534
	<u>72,131,469</u>	<u>81,244,536</u>

Foreign government bonds & treasury bills are the reserves of the Bank held in foreign institutions. These securities can be liquidated when needed. The portfolio is held mainly to enable the Bank to provide price stability in the market.

7. TRADING SECURITIES (cont'd)

Other marketable securities belongs to the Turkish Defense Fund and recorded in the "Trading portfolio" in the asset side and in the "Deposits by public sector" in the liability side of the balance sheet.

The nominal values and maturities of the securities are presented below:

<u>Foreign Currency</u>	<u>Maturity</u>	<u>2003</u> <u>Nominal Value</u>	<u>2002</u> <u>Nominal Value</u>
USD	< 1 month	1,900,000,000 USD	1,350,000,000 USD
	< 3 month	3,139,900,000 USD	1,300,000,000 USD
	< 1 year	9,280,300,000 USD	9,618,400,000 USD
	< 5 year	7,000,000 USD	102,600,000 USD
	> 5 year	48,800,000 USD	161,800,000 USD
		14,376,000,000 USD	12,532,800,000 USD
EURO	< 1 month	1,611,500,000 EURO	1,779,258,376 EURO
	< 3 month	3,600,000,000 EURO	2,315,750,000 EURO
	< 1 year	5,940,650,000 EURO	6,180,865,129 EURO
	< 5 year	2,129,500,000 EURO	587,000,000 EURO
	> 5 year	-	200,500,000 EURO
		13,281,650,000 EURO	11,063,373,505 EURO
SDR	< 5 year	4,080,390,000 SDR	4,352,525,000 SDR
		4,080,390,000 SDR	4,352,525,000 SDR
TL	< 5 year	5,399,063 TL Billion	2,733,550 TL Billion
	> 5 year	12,624,096 TL Billion	18,262,715 TL Billion
		18,023,159 TL Billion	20,996,265 TL Billion

8. LOANS (NET)

2003

2002

	<u>TL Billion</u>	<u>TL Billion</u>
Domestic loans	6,556	500,661
Foreign loans	166,347	286,709
Overdue loans	1,774,973	2,340,565
	<u>1,947,876</u>	<u>3,127,935</u>
Accrued interest	2,470	24,207
Total Loans	<u>1,950,346</u>	<u>3,152,142</u>
Less: Provisions	(1,774,973)	(2,340,566)
Total loans (net)	<u><u>175,373</u></u>	<u><u>811,576</u></u>

9. AVAILABLE FOR SALE INVESTMENTS

The Bank's participations are as follows as of 31 December 2003:

<u>Investee</u>	Ownership %	2003	2002
		<u>TL Billion</u>	<u>TL Billion</u>
S.W.I.F.T	0.02	20	18
Bank for International Settlements- BASEL	1	20,767	8,891
		<u>20,787</u>	<u>8,909</u>

10. PREMISES AND EQUIPMENT (NET)

	2003	2002
	<u>TL Billion</u>	<u>TL Billion</u>
Land	21,304	21,304
Buildings (net)	98,237	97,933
Immovables (net)	18,326	31,778
Premises and equipment (net)	<u>137,867</u>	<u>151,015</u>

11. CURRENCY IN CIRCULATION

	2003	2002
	<u>TL Billion</u>	<u>TL Billion</u>
Balance at 1 January	8,700,211	7,875,502
Inflation effect of carrying opening balances	(1,064,589)	(1,856,313)
Banknotes issued into circulation	59,642,285	51,135,136
Banknotes withdrawn from circulation and destroyed	(56,602,379)	(48,454,114)
Balance at 31 December	<u>10,675,528</u>	<u>8,700,211</u>

12. DUE TO BANKS & OTHER FINANCIAL INSTITUTIONS

2003	2002
<u>TL Billion</u>	<u>TL Billion</u>

Compulsory reserve deposits from banks and private financial institutions	9,503,436	10,387,737
Current accounts of banks	4,882,175	5,006,277
Deposits of banks	7,826,450	8,550,124
Deposits of foreign banks	85,412	121,783
Other accounts	2,042	1,084
Accrued interest	263,709	299,920
	<u>22,563,224</u>	<u>24,366,925</u>

Compulsory reserve deposits represent the amount deposited by banks which is based on a proportion of all deposits taken from customers, other than domestic interbank deposits, according to banking regulations in Turkey.

13. DEPOSITS BY CITIZENS ABROAD

Deposits by citizens abroad consist of deposits by Turkish citizens living outside of Turkey.

The breakdown of the deposits by foreign currency type is as follows:

<u>Foreign Currency Type</u>	<u>Foreign Currency Balance</u>	31 December 2003 <u>TL Billion</u>
EUR	12,702,448,907	22,166,688
USD	1,313,465,074	1,833,381
CHF	117,576,531	131,303
Other	7,127,010	17,015
Accrued interest		2,034,883
-	-	<u>26,183,270</u>

13. DEPOSITS BY CITIZENS ABROAD (cont'd)

<u>Foreign Currency Type</u>	<u>Foreign Currency Balance</u>	31 December 2002 <u>TL Billion</u>
EUR	12,278,610,934	23,832,569
USD	1,202,396,600	2,239,330
CHF	124,489,137	165,907
Other		16,044
Accrued interest	-	2,627,707
-	-	<u>28,881,557</u>

Maturities vary between one to three years. Interest rates for USD and EURO with one year and two years maturity are for one year USD deposits 2.25%, for two year USD deposits 2.75% and for one year EURO deposits 2.5%, for two year EURO deposits 3%. For deposit accounts having higher balances, interest rates become 4%, 4.75% and 5.5% for USD, 5%, 5.75% and 6.5% for EURO and maturities are one, two and three years, respectively.

14. LIABILITIES TO INTERNATIONAL MONETARY FUND

The bank is designated as "the depository institution" to regulate the relations of Turkey with the IMF.

Turkey has purchases from the General Resource Account of the IMF, based on Stand By Arrangements signed as of December 1999, 2000 and 2002. Stand-by arrangements support short-term balance of payments needs within a given period, such as one to two years. Turkey's purchases include a Supplemental Reserve Facility, short term financing in excess of the above normal access limits for those members experiencing severe balance of payments difficulties arising from a sudden loss of market confidence. General Resource Account borrowings are determined by the IMF based on the quota of the debtor country. Turkey's quota is 964,000,000 SDR, last updated in 1999.

The borrowings from the International Monetary Fund (IMF) are denominated in Special Drawing Rights (SDR), an international reserve asset created by the IMF in 1969.

<u>Borrowings from general resources of IMF</u>	31 December 2003	31 December 2002
	SDR	SDR
Stand-by arrangements	4,911,827,500	5,954,960,000
Supplementary reserve facility	-	-
Credit tranche - earthquake aid	-	-
	<u>4,911,827,500</u>	<u>5,954,960,000</u>

14. LIABILITIES TO INTERNATIONAL MONETARY FUND (cont'd)

According to IMF arrangements, the TL equivalent of the granted SDR amount is recorded in the balance sheet of the Bank as a liability. As of the year end, the TL liability is adjusted for SDR currency rate changes. The TL liability to IMF is TL 10,253,511 Billion as at 31 December 2003.

<u>Borrowings from SDR department</u>	31 December 2003	31 December 2002
	SDR	SDR
Net cumulative allocation	112,307,000	112,307,000
SDR holdings	(20,462,352)	(23,010,542)
	<u>91,844,648</u>	<u>89,296,458</u>

SDR allocation is an extension to each member from the SDR department. Each member has the right to use this asset with a charge but no obligation to pay it back. This amount has not been booked, whereas accrued charges are booked.

In the year 2001, 7,584,579,154 SDR of IMF borrowings were lent to the Treasury against securities issued by the Treasury with coupon payment dates, maturities and interest rates the same as the IMF charge payments. The payable is presented in the liability side of the balance sheet as "Liabilities to International Monetary Fund" while securities are followed in the "Trading Securities" in assets. The Treasury has made payment on Government Bonds in a total amount of 2,959,919,154 SDR in the February 2002 period, 272,135,000 SDR in the May 2002 period, 77,882,500 SDR in the October 2003 period and 194,252,500 SDR in the November 2003 period. As of 31 December 2003, the balance on this account is 4,080,390,000 SDR.

25,927,519 SDR (TL 53,540 Billion) charge expense and 206,226 SDR (TL 323 Billion) remuneration income is accrued as of 31 December 2003.

15. PROVISIONS

Retirement Pay Provision:

Lump sum payments are made to all employees who retire from the Bank or whose employment is terminated for reasons other than misconduct.

Under the definitions contained in International Financial Reporting Standard No 19, "Employee Benefits" the Turkish retirement pay system is an unfunded defined benefit scheme. Consequently IFRS 19 requires that a provision be built up for employees' accrued entitlement as calculated actuarially.

In the accompanying financial statements TL 48,673 Billion provision has been made on an estimated basis in compliance with International Financial Reporting Standard No 19.

16. SHARE CAPITAL

<u>Shareholders</u>	2003		2002	
	<u>TL Billion</u>	%	<u>TL Billion</u>	%
Turkish Treasury	14	55	14	55
T.C. Ziraat Bankası A.Ş.	5	19	5	19
Other	6	26	6	26
	25	100	25	100
Effect of inflation	40,590		40,590	
	<u>40,615</u>		<u>40,615</u>	

According to 5th article of the Central Bank Law, the capital of the bank is TL 25 billion and is divided into 250,000 shares, with a value of TL 100,000 each. The capital may be increased with the approval of the Government. The shares are divided into (A), (B), (C), and (D) shares. The (A) group shares belongs solely to the Turkish Treasury while (B) shares belong to national banks, (C) shares belong to banks other than the national banks and to companies possessing certain privileges and (D) shares belong to Turkish commercial institutions and to legal and real persons of Turkish nationality.

The Bank's reserves at historical cost as of 31 December 2003 and 31 December 2002 are as follows:

	31 December <u>2003</u>	31 December <u>2002</u>
Reserves	2,477,947	2,460,974

17. GENERAL ADMINISTRATIVE EXPENSE

	<u>2003</u> <u>TL Billion</u>	<u>2002</u> <u>TL Billion</u>
Payroll expense	259,378	270,119
Doubtful receivable provisions	30,287	43,163
Banknote printing expense	47,380	48,445
Depreciation expense	18,722	23,235
Other	58,858	63,918
	<u>414,625</u>	<u>448,880</u>

18. TAXATION

The Bank is subject to corporation and income withholding taxes. Provision is made in the accompanying

financial statements for the estimated charge based on the Bank's results for the period.

Corporation tax is applied at the rate of 30% on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received, other exempt income and investment incentives utilized. In 2002 and prior years, a 10% surcharge of funds contribution on corporate tax was calculated, raising the effective tax rate to 33%. However, there will be no funds surcharge on corporate and income taxes declared subsequent to 1 January 2004 for the 2003 taxation period.

In addition to corporate taxes, companies should also calculate income withholding taxes and funds on any dividends distributed, except for companies which include dividends received in their corporate income taxes declared. The rate of withholding income tax was announced as 10% starting from 24 April 2003. Starting from 1 January 2004, there will be no funds surcharge on dividends distributed. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

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

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Provision is allocated for the deferred tax assets if the utilization is not probable.

18. TAXATION (cont'd)

a) Balance sheet:

	2003 <u>TL Billion</u>	-	2002 <u>TL Billion</u>
Corporate tax	-		33,386
Prepaid taxes	(13,780)		(33,386)
	<u>(13,780)</u>		<u>-</u>
Deferred tax asset	-		(24,624)
Deferred tax liability	(-)	-	431,133
	<u>-</u>		<u>406,509</u>

b) Income statement

	2003 <u>TL Billion</u>	2002 <u>TL Billion</u>
Corporate tax charge	-	33,386
Deferred tax charge (benefit)	-	248,078
	<u>-</u>	<u>281,464</u>

The deferred taxes on major temporary differences as at the balance sheet are as follows:

	2003 <u>TL Billion</u>	2002 <u>TL Billion</u>
Fixed assets indexation	-	(15,714)
Retirement pay provision	(14,602)	(8,910)
Transfer of valuation account to income statement	(217,043)	431,133
Prior year losses	(446,370)	-
Effect of IFRS 39 adjustments	23,055	-
Deferred tax (assets) / liabilities	(654,960)	406,509
Provision related to deferred tax	654,960	-
Net deferred tax (assets) / liabilities	<u>-</u>	<u>406,509</u>

19. MATURITY ANALYSIS OF THE BALANCE SHEET

Maturities of assets and liabilities as at 31 December 2003:

	<u>Demand TL Billion</u>	<u>Up To 1 Month TL Billion</u>	<u>From 1 Month To 3 Months TL Billion</u>	<u>From 3 Months To 1 Year TL Billion</u>	<u>1 Year and More Than 1 Year TL Billion</u>	<u>Total TL Billion</u>
ASSETS						
Cash and amounts due from banks	1,636,000					1,636,000
Gold reserves	2,234,170					2,234,170
Placements with banks & financial institutions		2,767,142				2,767,142
Trading securities		6,489,653	10,642,468	23,334,027	31,665,321	72,131,469
Loans (net)			30,829	24,273	120,271	175,373
Available for sale investments	20,787					20,787
Premises & equipment	137,867					137,867
Sundry debtors & other assets	13,544	8,228	14,881	254	20,118	57,025
Total	<u>4,042,368</u>	<u>9,265,023</u>	<u>10,688,178</u>	<u>23,358,554</u>	<u>31,805,710</u>	<u>79,159,833</u>
LIABILITIES						
Currency in circulation	10,675,528					10,675,528
Liabilities to Turkish Treasury	6,470	53,313			56	59,839
Due to banks & other financial institutions	2,042	22,561,182				22,563,224
Deposits by citizens abroad					26,183,270	26,183,270
Deposits by public sector	5,533,000					5,533,000
Deposits by other institutions	1,991,789					1,991,789
Liabilities for securities sold under repurchase agreements	433,645					433,645
Liabilities to International Monetary Fund					10,253,511	10,253,511
Provisions	78,363					78,363
Sundry creditors & other liabilities	41,463	12,819			933,848	988,130

Share capital	40,615					40,615
Accumulated profit					358,919	358,919
Total	<u>18,802,915</u>	<u>22,627,314</u>	<u>-</u>	<u>-</u>	<u>37,729,604</u>	<u>79,159,833</u>

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

19. MATURITY ANALYSIS OF THE BALANCE SHEET (cont'd)

Maturities of assets and liabilities as at 31 December 2002:

	Demand TL Billion	Up To 1 Month TL Billion	From 1 Month To 3 Months TL Billion	From 3 Months To 1 Year TL Billion	1 Year and More Than 1 Year TL Billion	Total TL Billion
ASSETS						
Cash and amounts due from banks	2,275,571					2,275,571
Gold reserves	2,449,040					2,449,040
Placements with banks & financial institutions		4,430,299				4,430,299
Trading securities		6,788,319	6,926,020	30,115,521	37,414,676	81,244,536
Receivable from Turkish Treasury						-
Loans (net)			533,045	32,385	246,146	811,576
Available for sale investments	8,909					8,909
Premises & equipment	151,015					151,015
Sundry debtors & other assets	7,487	4,516	5,993	168,745	40,487	227,228
Total	<u>4,892,022</u>	<u>11,223,134</u>	<u>7,465,058</u>	<u>30,316,651</u>	<u>37,701,309</u>	<u>91,598,174</u>
LIABILITIES						
Currency in circulation	8,700,211					8,700,211
Liabilities to Turkish Treasury	4,381	110,373			7,156	121,910
Due to banks & other financial institutions	1,084	24,365,841				24,366,925
Deposits by citizens abroad					28,881,557	28,881,557
Deposits by public sector	4,817,661					4,817,661
Deposits by other institutions		1,990,406				1,990,406
Liabilities for securities sold under repurchase agreements	2,365,372					2,365,372
Liabilities to International Monetary Fund					15,116,551	15,116,551
Corporate tax liability						-
Provisions	47,877					47,877
Sundry creditors & other liabilities	901,311					901,311
Deferred tax liability					406,509	406,509
Share capital	40,615					40,615
Accumulated profit					3,841,269	3,841,269
Total	<u>16,878,512</u>	<u>26,466,620</u>	<u>-</u>	<u>-</u>	<u>48,253,042</u>	<u>91,598,174</u>

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

20. RELATED PARTY TRANSACTIONS AND BALANCES

The accompanying financial statements include the following related party transactions and balances.

<u>Turkish Treasury</u>	2003 <u>Billion TL</u>	2002 <u>Billion TL</u>
<u>Receivables</u>		
Securities portfolio		
Treasury Bills	19,129,285	24,127,492
Treasury Bills indexed to foreign currency	8,516,521	11,099,688
Gold reserve	6,471	7,092
	27,652,277	35,234,272
<u>Liabilities</u>		
Gold reserve	6,471	7,092
Taxes payable	51,066	110,342
Other payables	2,302	4,476
	59,839	121,910
Prepaid temporary tax	13,780	200,847
Corporate tax	-	33,386
Deposits by Treasury (*)	3,807,319	2,959,323
<u>Income</u>		
Income from open market operations	736,905	1,822,351
<u>Expenses</u>		
Special transaction tax and training support share	50	33

(*) It is followed in Deposit by public sector account in the balance sheet.

21. COMMITMENTS AND CONTINGENCIES

	2003 <u>TL Billion</u>	2002 <u>TL Billion</u>
Securities in custody	218,668,130	169,876,874
Securities held as collateral	4,711,337	4,933,814
	<u>223,379,467</u>	<u>174,810,688</u>

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

Total foreign currency assets	59,879,339	67,193,784
Total foreign currency liabilities	(54,710,381)	(64,064,640)
Net foreign currency position	5,168,958	3,129,144