The Çalıkbank difference

Çalıkbank 2003 Annual Report

ÇALIK
YATIRIM BANKASI

A master violinist owes his success essentially to his innate talent. When choosing the strings for his violin he will prefer a brand whose performance and quality he believes in. As a professional and an artist he will insist on using the same brand. The reason is quite simple: **details that may seem small can create big differences.**

For years, the Turkish banking industry has been making a continuous effort to offer the classical functions of banking at the same level of quality available in advanced countries. But what about niche markets?

Since the day it began operations, Çalıkbank has been a bank that has acted out of the knowledge that subordinate areas of activity are at least as important as its main products and services.

The strategies that it has developed in this direction have made it possible for Çalıkbank not only to enter new business areas which have yet to be discovered but also for the Bank to succeed in them as well.

And that is the Çalıkbank difference.

In this report

Corporate profile

TL 40 trillion shareholders' equity

Founded in 1999, Çalıkbank is today one of Turkey's most respected investment banks.

Taking a customer-focused approach in everything that it does, Çalıkbank is at the service of corporate and commercial customers in high added-value business lines such as:

- **foreign trade financing**
- **leasing and factoring**
- **project finance**
- **developing e-commerce platforms in commodity markets**
- **risk management consultation.**

Keeping an eye on sustainable growth, performance, financial quality, and profitability in all its activities, Çalıkbank's chart-line of success continued to rise in 2003.

Çalıkbank is a subsidiary of Çalık Holding, the flagship of a multi-sector group. The Bank distinguishes itself by virtue of its quality, customer satisfaction, personal approach to serve, and ability to make effective use of technology.

Çalıkbank's performance is monitored continuously. Our superior technological infrastructure makes it possible for us to keep track of our risks, our returns, and our investment alternatives on a day-to-day basis and to optimize our placement decisions to the maximum degree possible. The table below shows the main categories of the performance metrics that we monitor. They are presented here to give the reader an idea of Çalıkbank's position in the market and of its financial strength.

TL 66 trillion
total assets

TL 7 trillion
net profit

Principal financial indicators and ratios for 2002 and 2003

ÇALIKBANK FINANCIAL INDICATORS*	TL billion 2003	TL billion 2002	USD thousand 2003	USD thousand 2002
CREDITS AND LOANS (NET)	26,902	4,663	19,186	2,501
MARKETABLE SECURITIES PORTFOLIO	12,468	10,177	8,892	5,457
LEASING RECEIVABLES	13,782	23,294	9,829	12,492
SHAREHOLDERS' EQUITY	40,394	33,338	28,809	17,878
TOTAL ASSETS	66,194	65,804	47,209	35,288
INTEREST INCOME	13,368	15,146	9,534	8,122
INTEREST OUTLAYS	612	825	436	442
PROFIT BEFORE TAX AND MONETARY LOSSES	13,639	13,123	9,727	7,037
NET PROFIT	7,056	5,723	5,032	3,069

PRINCIPAL RATIOS

	2003	2002
CAPITAL ADEQUACY		
BIS RATIO	42.33%	52.61%
BALANCE SHEET:		
Loans/Total assets	61.46%	42.49%
Liquidity ratio	392.40%	335.25%
INCOME STATEMENT:		
Average return on assets	14.25%	9.31%
Average return on capital	25.52%	18.78%
LOAN QUALITY:		
Non-performing loans/Total net credits	0.0%	0.0%
Non-performing loans /Total assets	0.0%	0.0%

*Purchasing power on 31.12.2003. The above figures are inflation adjusted. The difference between these figures and the ones in the 2002 annual report stems from the restatement made to eliminate the effects of inflation.

Message from the Board of Directors

Çalıkbank's race to achieve its corporate goals continues without letup.

In this race, it is the difference in our approach that emerges as Çalıkbank's most important competitive advantage.

On the basis of generally accepted performance criteria as well as our own budget targets, **Çalıkbank posted successful results in 2003.**

At the same time that our placements diversified, Çalıkbank continued to carefully preserve the balance between its risks, to deepen its customer relations, and to grow.

Success

We are pleased to report that Çalıkbank has completed yet another successful year. As we foresaw in our annual report for 2002, in 2003 our Bank:

- continued to register sound financial results
- achieved stable and solid growth in all its business lines
- successfully dealt with slimmer profit margins and tougher competition.

On the macroeconomic front

Positive news coming from the macroeconomic front in 2003 was a source of good cheer for our country's businessmen, exporters, and bankers as well as for the whole country.

As we anticipated at the end of 2002, the Turkish economy in 2003 began to send out welcome signals that it was emerging from its deepest and most pervasive crisis in recent memory. As economic growth was being achieved and fiscal discipline was being strictly adhered to, the volume of our country's foreign trade surpassed the hundred billion dollar mark for the first time in history.

Our country's reputation in international markets continued to rise despite a volatile international conjuncture, terror, and regional instabilities. Turkey's substantially reduced country risk was responsible for significant improvements in the cost of borrowing by both public sector and private entities.

Banking

Since 1999, the year in which we set foot in the financial services sector, our industry has been through many upheavals and has undergone the greatest structural transformation in its history. Everyone's perceptions about the banking industry from lawmaker to customer have been altered dramatically.

And that change has been for the good. Issues such as ethics, corporate governance, and the legal responsibilities of bankers in their professional conduct are now being addressed in the ways which banking demands and which are recognized in developed economies. The time has come now to ensure that our industry works–and continues to work–according to the newly defined rules. Let us never forget that the banking sector is expected to shoulder very important duties in making economic growth sustainable.

Çalıkbank

On the basis of all the various performance criteria that we monitor continuously in the conduct of day-to-day affairs as well as of all our budget targets, Çalıkbank posted successful results in 2003. Unquestionably the greatest architects of this success were our Bank's team and the Board of Directors who provided them with valuable guidance in the form of insights and strategies.

The diversification in our placements has continued and we have achieved an optimal balance in our exposure and risks. The total volume of all placements in different business categories amounted to TL 140 trillion in 2003, up from TL 90 trillion in 2002. This year-on 56% increase in our placements also represents an important step that we have taken towards our growth goal, which may be summarized as increasing the number of customers the Bank has access to as well as the number of banking transactions it performs.

In 2003 the Bank's average return on assets was 14.25% while its average return on equity was 25.52%

Message from the Board of Directors

AHMET ÇALIK
CHAIRMAN

NACİ AYHAN
VICE CHAIRMAN

HALUK ULUSOY
MEMBER

25.5% average return on equity

These results confirm our view that our Bank has settled into a pattern of sustainable growth. Since the day it was founded, Çalıkbank has:

- achieved real growth in every year for four years in a row
- consistently shown a profit
- demonstrated exemplary balance sheet performance.

These results also prove not only the soundness of our strategies but also their validity under market conditions of every kind.

The Çalıkbank difference

What is the source of the Çalıkbank difference?

We touched briefly on what the Çalıkbank difference was in the introduction to this report. As to the source of that difference, the first thing is that Çalıkbank serves customers in areas in which it is specialized. Another important factor to which we owe both our distinctiveness and our success is our human resources. Finally, the strength and corporate culture coming from 22 years of experience complement the Çalıkbank difference and round it out.

Ever since it was founded, Çalıkbank has taken a different view of banking from its competitors, striving to be a bank that is open to innovative ideas, that values customers above everything else, that is customer-focused, and that seeks to grow along with its customers.

A corporate strategy focusing on a variety of areas of specialized banking ranging from e-commerce platforms to internet banking has clinched that difference, making us a bank that supports its customers with innovative products and services that have never been available in our country before.

By blending our corporate philosophy that encourages innovative thinking throughout the Bank with the vast real-sector experience of the Çalık Group, we are preparing the groundwork for the innovations that will make our tomorrows. The point that we have reached through this process makes Çalıkbank particularly strong in niche markets and increases the Bank's resilience to withstand external shocks that may arise from volatile market conditions.

The economic climate in our country today is encouraging.

Çalıkbank continues to take advantage of the opportunities presented by the economic environment and by its target markets while always remaining faithful to balanced policies that are mindful of risk.

MEHMET AYHAN BOLAY
MEMBER

M. ERTUĞRUL GÜRLER
MEMBER

A. BENGÜ ÇOLAKOĞLU (ERDOĞMUŞ)
MEMBER, ACTING GENERAL MANAGER

Tomorrows

The accuracy and tenability of our expectations about the coming year in previous annual reports further strengthen our confidence in our strategies and in our corporate governance competencies. As we foresaw in last year's report, 2003 did indeed prove to be a difficult year for both our economy and our industry; but it was also a year full of opportunities, new undertakings, and activities promising much for the future.

A similar case can be made on a corporate basis as well. We achieved all of the targets that we set for ourselves last year.

Looking now to the future, the coming years are not going to be easy for us but to the same degree they will also be full of opportunities and challenges. The dynamic conditions of global and national markets demand that we change our habits and redefine corporate success as the ability to manage change, performance, service, and profitability as a seamless whole.

We have the utmost faith in the Turkish economy and in its internal dynamics. In keeping with that conviction, Çalıkbank will continue to grow and to provide those who choose to work with it with original, high-quality products and services.

As we bring this year's assessment to a close, we wish to recall with grief and respect the memories of all our colleagues and citizens who lost their lives in the tragic terrorist attacks that took place in İstanbul in late 2003. We wish that this great and strong country of ours and its people never have to experience such pain again.

Our thanks go out to all those who have chosen Çalıkbank to be their trusted business partner.

On behalf of the Board of Directors

Ahmet Çalık
Chairman

Çalıkbank Management's assessment of 2003

During 2003, Çalıkbank once again successfully implemented its strategies of keeping its cost base low while maintaining a high degree of added-value creation.

Çalıkbank has a problem-free loan portfolio.

Once again in 2003, the Bank had no non-performing loans. Throughout the year, Çalıkbank carefully managed its loan portfolio, making its principal and interest collections on time and without encountering any problems in loan performance.

A. BENGÜ ÇOLAKOĞLU (ERDOĞMUŞ)
BOARD MEMBER, ACTING GENERAL MANAGER

PEKHAN İŞİPEK
ASSISTANT GENERAL MANAGER

GÖKHAN GÜNGÖR
ASSISTANT GENERAL MANAGER

Sustainable growth

2003 was a year of growth for both the global economy and the Turkish economy. Developments experienced on both fronts as well as rapidly changing sociopolitical balances around the world threw up many new business opportunities. While the global appearance of markets remained structurally volatile, the US dollar fell to new lows against the no longer fledgling euro. Meanwhile on the world's political agenda, the most crucial items were terrorism, the Middle East, and Iraq.

Developmental policies rooted in a foundation of sustainable growth made it possible for the Çalık Group to make solid progress in its activities in both national and international markets during 2003. Our Bank for its part continued its successful approach of keeping its cost base low while maintaining a high level of added value in its production. The Bank achieved satisfactory operational and financial results owing to solid performance on a service platform shaped by current technology.

Çalıkbank continued to grow in all its core business lines and to provide customers with high-quality and specially designed products and services. Focusing on bringing areas of business in which there are potential synergies together with one another, Çalıkbank significantly increased the breadth and depth of its corporate and commercial customer base by giving particular attention to marketing activities. By the end of the year, the Bank was supplying more products and services to many more customers than it was at the beginning.

To sum up, 2003 was a year in which Çalıkbank achieved all of the targets and goals that it had set for itself.

The building blocks of success

• Çalıkbank deepened its relationships with its corporate and commercial customers in 2003. The Bank gave priority to marketing and product/service promotional activities while always remaining faithful to the conservative and prudent approach to business that it has adhered to since its founding. The customer base accessed by the Bank was diversified on both a sectoral and numerical basis.

• As of year-end 2003, the Bank had arrived at an optimal balance from the standpoint of its exposure to group versus non-group risks in the overall volume of its placements. Achieving this ideal balance based on ratios carefully observed in the industry is an important success for the Bank's shareholders, management, and staff.

• Another point regarding our placement policy and its consequences is that once again the Bank had no non-performing loans on its books in 2003. Çalıkbank successfully kept a watchful eye on its loan portfolio all year long, collected all its principal and interest receivables in full and on time, and encountered absolutely no problems whatsoever from the standpoint of loan performance.

• According to its 31 December 2003 balance sheet, Çalıkbank's loan portfolio was worth a total of TL 40.7 trillion. The Bank's placements in 2003 amounted to TL 140 trillion.

• Paralleling expectations in 2002, the Bank's factoring business line achieved significant growth in 2003. International factoring deals were done and the Bank's numerical and volume targets were surpassed.

• Factoring is a business line in which Çalıkbank plans to grow even more. The increase in international factoring is expected to continue in 2004. International factoring will gain additional

Çalıkbank Management's assessment of 2003

Çalıkbank's non-interest income covered all of its non-interest expenses in 2003.

This is a result that is extremely important in view of the sector's criteria.

USD 1.7 billion volume of insurance agency transactions

impetus paralleling the growing volume of Turkey's foreign trade. Çalıkbank is determined to continue developing its correspondent relationships and to provide its customers with high-quality, rapid service in international factoring. A number of projects aimed at achieving this are currently in progress.

• There was also significant growth in the Bank's commodity markets business in 2003. A new product in the form of cotton-based loans was launched. The first of these loans were extended to customers in Urfa under a pilot project developed jointly with Kotonline.

• Çalıkbank's non-interest income covered all of its non-interest expenses in 2003. This success is something that is aspired to in the sector and is the acid test of genuine banking activity.

• The most important gains in non-interest income in 2003 were achieved in the Bank's insurance agency revenues. Çalıkbank is an agent for three different insurers: AXA OYAK, Koç Allianz, and Güneş Sigorta. In 2003 the Bank sold policies worth a total of USD 1,678 million from which it received agency commissions amounting to over a million dollars. Çalıkbank regards its activities as an insurance agent as complementing its other synergetic business lines.

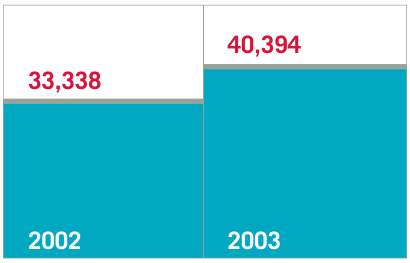
New market realities

In 2003 the banking market in Turkey resembled a playing field whose rules had been utterly transformed: inflation was subsiding, low interest rates dominated money markets, and capital markets–most notable the İstanbul Stock Exchange–were on a steady rising trend. All these factors forced banks to take a close interest in their money and capital market activities and new strategies were developed and applied in light of new market realities.

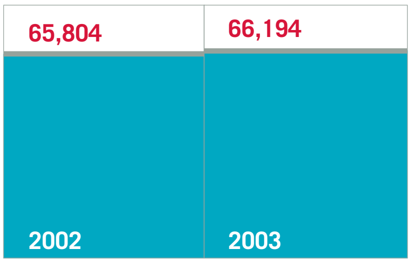
Since the day it was founded, Çalıkbank has always regarded money and capital markets as sources of sustainable income. The Bank gives great importance to liquidity management and took care to remain as liquid as possible in 2003 as well. It pursued a policy of carefully managing the maturity match of its assets and liabilities through short-term, profitable placements.

The risk management approach that was introduced in 2002 and whose basic goal is to effectively and carefully manage

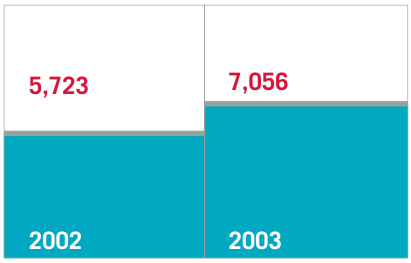
Shareholders' Equity **TL Billion**



Total Assets **TL Billion**



Net Income **TL Billion**



its corporate and commercial customers' assets continued to be an instrument that Çalıkbank used intensively in its customer asset management services. Under the heading of these services, which represent an important source of the Bank's income, the elements of risk that its domestic and foreign trade customers are likely to be exposed to at different stages of transactions are first identified, recommendations are made, and solutions are applied in line with the customer's preferences.

Çalıkbank will continue to grow in the area of money and capital markets and to distinguish itself with its solution-focused products.

An optimized balance sheet

In 2003 Çalıkbank succeeded in increasing the number of its active customers by 35%. This increase in the number of customers lead to growth in the Bank's consolidated business volume, interest income, and non-interest fees and commissions.

Çalıkbank offers its corporate and commercial customers a complete gamut of classical and original credit products; leasing, factoring, and commodity market products; and electronic banking products. A growing and diversifying portfolio contributed greatly to raising Çalıkbank's balance-sheet performance to the highest level achieved in the last four years.

At the same time that the Bank's cost base was being optimized, placements to customers were balanced to the mutual satisfaction of all participants, and all of the Bank's balance sheet and profit/loss ratios were in perfect order. This entirely positive picture further strengthens Çalıkbank's position in the sector while putting its view of the future and business plans on an even sounder footing.

The new products of innovative ideas

In its approach to business, Çalıkbank seeks out the ways in which different business activities complement one another. It takes a synergistic view in other words and makes all its corporate decisions with this in mind. Çalıkbank takes pains to be a company that comes up with innovative solutions.

This approach is particularly evident in commodity markets, which Çalıkbank sees as having huge potential. Taking advantage of the strength and shared experience that its principal stockholder Çalık Holding has built up over the course of 22 years in the real sector and in commodity markets, the Bank launched its cotton-based loans in 2003.

Under a project developed jointly with Agromarket, a Çalıkbank subsidiary, merchants engaged in trading cotton in the Urfa region were targeted and the first cotton-based loans were extended in 2003. These commodity loans are generally on three-month terms and their aim at the outset is to finance cotton trading.

The security covering these loans is the cotton itself. The cotton is subjected to quality control and placed in safekeeping in a custodian's warehouse. The goods are released for sale with the Bank's approval. This process creates suitable conditions particularly for ginners and merchants who want to keep their cotton stocks on hand for a specific period of time. Sales through the custodian furthermore are easier to make to spinning mills because the quality of the cotton is assured.

Kotonline gained fresh vigor and impetus in 2003 and the portal has become a frequently cited reference in cotton trading. The price index announced daily

Çalıkbank Management's assessment of 2003

Credit insurance: an advantageous product for exporters

by Kotonline is now guiding cotton trading in our country. There has been a significant increase in the number of virtual shops registered by the portal: all the biggest cotton merchants in Turkey have opened trading shops on Kotonline. After an overhaul in 2003, there was a big increase in the trading and participation rates on Kotonline.

Another product launched by Çalıkbank in 2003 was credit insurance. Started as a pilot project in order to meet our exporting customers' needs for credit in the best possible way, Çalıkbank insures its customers' export receivables against risks in what is one of the very few examples of genuine credit insurance existing in Turkey today.

Another aspect of this product that provides insurance coverage for all the risks that a customer might be exposed to in the conduct of an export transaction is that Çalıkbank can also provide cash financing as well by converting the insured risk into cash.

In view of the expanding volume of foreign trade in our country and the even higher levels that it is hoped will be attained, the Bank regards its credit insurance product as an important business line that will grow and be making a significant contribution to its income base.

A competent team

Our team is foremost among the basic factors that create the Çalıkbank difference. The currency and continuity of competencies are the elements most looked out for in our team.

A significant amount of time and effort continued to be spent at Çalıkbank in 2003 for the purposes of enriching the professional skills of the Bank's human resources, developing their abilities to relate to customers, and encouraging leadership. Çalıkbank training programs are based on the principle of enabling employees to be customer-focused at all times. Career progression at Çalıkbank is based on merit, performance, and contribution to the Bank's success.

Teamwork is encouraged in all activities though personal creativity is also valued and is certainly to be rewarded. Corporate experience shows that the best and most appropriate results are achieved through teamwork.

Job dedication and task concentration are very high among Çalıkbank personnel.

Çalıkbank is gearing up for a number of long-term ventures in investment banking.

A macroeconomic environment characterized by low inflation will give birth to a financial market in which all business circles will be migrating towards combinations of longer tenors and lower costs. Çalıkbank regards this new situation as a market opportunity in which to develop its investment banking products and services. As a first stage of this endeavor, the Bank set up a Project Finance Department.

This is a vital and most precious source of energy contributing to the Bank's success on every front.

The year ahead

The year ahead will probably be full of surprises but it will also be full of opportunities. As our country continues to tread resolutely on the path of development and growth, there will be important new prospects for businesses, for our Group, and for our Bank.

As a hub of stability in a part of the world fraught with risks, Turkey's exports will continue to grow and the country will attract increasingly more foreign investment inflows. This situation will further increase the importance of niche markets.

Çalıkbank has the ability to serve existing and new customers in the context of the new prospects and opportunities that markets will throw up and to rapidly make whatever changes in strategies and in our product/service mix that are needed to do this. These are changes that demand flexibility in a company and Çalıkbank is ready for them.

The Project Finance Department that was in the formative stages at the end of 2003 has become operational in 2004. The basic function of this new department will be to provide the full range of banking support needed for our customers' investment projects. Project consultation and project finance are areas of business that we believe will gain importance in the near future.

Changing market conditions will make it necessary for our bank to cooperate more extensively and more intensively with money and capital markets outside Turkey. We are continuing our preparations in line with this trend at full speed. We are also continuing our work on the Bank's credit rating, one of the prime requisites of a bank in the international arena.

Since it was founded, our Bank has taken great pains to maintain all its records of account in accordance with the principles of transparency and clarity stipulated by IAS and to be in perfect compliance with all the audits required by law. In 2004, Çalıkbank plans to have itself examined by a world-respected rating agency and to receive and announce its risk rating.

We will continue to work with an increasingly greater number of corporate customers and commercial firms active in our country's domestic markets. This increase does not mean however that Çalıkbank will sacrifice anything of its selective and meticulous customer relations. Being a business partner of companies that will further enhance our overall loan quality will remain our basic placement goal. Insurance and factoring are two other areas of corporate business in which we intend to grow during 2004.

Our physical and virtual structures are already such as to allow us to serve many more customers and to perform many more banking operations at the same speed and with the same quality.

- **Our belief in what we do**
- **Our innovative approach**
- **Our customer-focused service attitude**
- **Our human resources' job dedication**
- **Our brand and market position**

in short,

THE ÇALIKBANK DIFFERENCE

will carry us to success in 2004 and for years afterwards...

Çalık Holding:
A world class multi-sectoral company

Çalık Holding is the leader of a group of companies whose members are active in textiles, construction, energy, finance, marketing, and trade.

Çalık Holding's subsidiaries compete strongly in international markets, have consolidated assets worth nearly a billion dollars, and employ more than 12,000 people.

22 years of experience **in industry and trade**

Group companies have been the authors of many firsts in the form of the partnerships and industrial facilities in which it is involved in Turkmenistan, a country that has been selected as its area of expansion. With a dynamic structure whose foundations rest on social values and universal principals, Çalık Group companies pursue sustainable growth. With 17 companies active in different countries, consolidated assets worth nearly a billion dollars at year-end 2003, and employing more than 12,000 people, Çalık Holding heads a multi-sectoral, internationally competitive group whose members have respect and sensitivity for people, the environment, and social values. Çalık Holding continues to advance rapidly as a global company by diversifying its areas of activity into different sectors and different countries.

A pioneering innovator and author of many firsts, Çalık Holding is:
• the biggest industrial enterprise in eastern Turkey
• the first manufacturer of denim cloth in CIS countries
• the first Turkish company to construct fertilizer plants, paper factories, and cement mills abroad on a turnkey delivery basis
• the first Turkish group in the textile industry to receive a national credit rating (BBB tur)

The dynamic structure of the Çalık Group is rooted in its social values. It develops its future-embracing approaches with the outlook of a global company whose actions are governed by universal principles.

The Çalık Group's areas of activity
The Group pursues its activities with an approach that is based on a sound corporate structure, ongoing investments in Turkey and abroad, and a strong focus on growth and success.

A global name in **denim cloth manufacturing**, the Group's integrated textile complexes in Turkey and Turkmenistan give it the strength to compete at the world level in a wide variety of **textile** products ranging from cotton yarns to ready-to-wear garments.

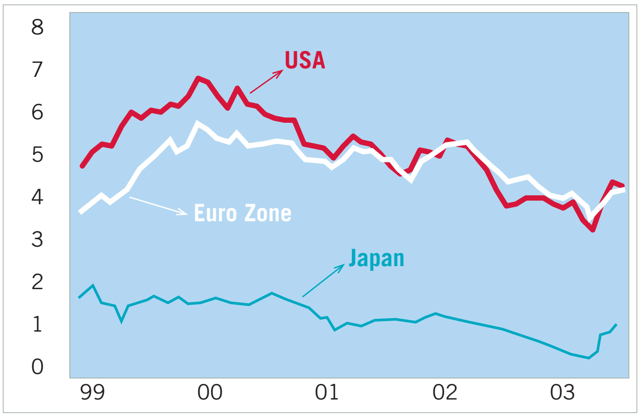
Under the heading of its activities in the **construction industry**, Çalık Holding builds turnkey-delivery industrial facilities for a wide range of applications and needs such as textiles, cement, paper, fertilizer, and energy. Çalık Holding is also involved in the construction of housing, hospitals, schools, business centers, social facilities, and roads. The majority of the Group's construction activities are currently being undertaken in Turkmenistan by its subsidiary GAP İnşaat. The Company's construction project portfolio is worth over a billion dollars.

Çalık Enerji, the Group's subsidiary in the **energy** sector is active in three basic areas: natural gas and petroleum, electricity production, and telecommunications. Last year the Company brought three electrical power plants on line in Turkmenistan with a total power output of about 400 MW. In the bidding on Bursagaz, the first privatization of a municipally owned natural gas company in Turkey, Çalık Enerji submitted the highest bid (USD 120 million) and the sale has been approved by the High Privatization Board.

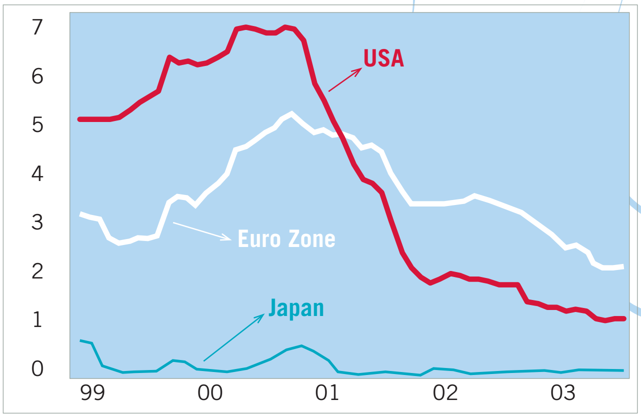
Çalıkbank is the Group's sole venture into **financial services**. Çalık Group companies individually and collectively take the view that the world and the environment are held in trust by the present and should be turned over to future generations in a healthier, more beautiful, and more productive condition. In keeping with this view, achieving sustainable development in harmony with nature and with the social and cultural values of the different geographies in which it is active is one of Çalık Holding's most fundamental goals.

Global developments
The global economy began signaling strong growth in 2003.

Long-term interest rates (10 years) %



Short-term interest rates (3 months) %



Estimated increase in aggregate GNP worldwide put at 3.3% in 2003

Low growth performance among the developed countries in particular during the first half-year precluded any possibility of a achieving a high rate of global growth last year. Projections put the rate of growth in the world economy at about 4% in 2004 and 2005, just a tad above the 3.8% average during 1996-2000.

Growth continues to change all year long and varies from region to region

Low rates of growth achieved in 2003 by Canada, Norway, Switzerland, Australia, Brazil, Mexico, and South Africa make any predictions about 2004 difficult. Foremost among the countries for which high rates of growth are projected for 2003 and 2004 are Poland, the US, Japan, the CIS, and China.

International trade figures for 2003 sending mixed signals about a recovery.

Figures from the first seven months of the year indicate that the aggregate volume of world imports was up 3.2% over the same period of the previous year. The worldwide trade in goods in 2003 is likely to have increased around 4.5% overall. This is expected to pick up speed and rise by 7.2% and 8% a year in 2004 and 2005 respectively.

Factors to support global growth

The chief factors supporting growth are regulatory macroeconomic policies and, to a lesser extent, the fiscal support associated with disinflation. Also important however are stronger equity markets, the progress achieved in reforms in a number of countries, and a general climate of confidence that is returning as a result of these developments.

On the other hand, OPEC's oil prices since the middle of May 2003 have been above targets and this is having a neutralizing effect on growth. In the period immediately ahead, we are likely to see a stepwise decline in oil prices, which should support the global recovery.

Accommodative macroeconomic policies and supportive financial conditions

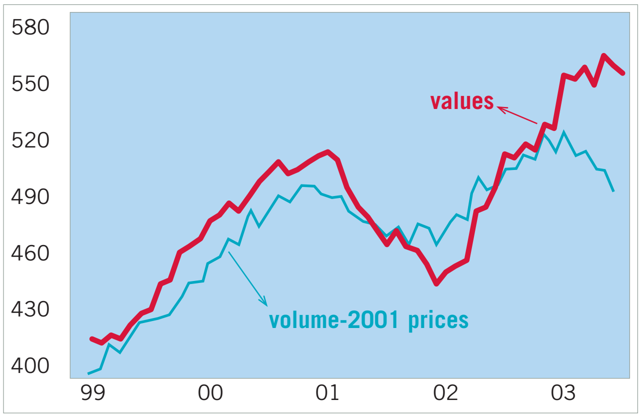
US fiscal policy remains strongly expansionary, despite a scaling down of the President's original package of tax cuts by the US Congress. In the EU, fiscal policy has been accommodative by letting the automatic stabilisers work during the period of slow growth.

Meanwhile, disinflation has allowed policy makers to bring nominal interest rates to historically low levels across the world economy, injecting ample liquidity into the financial system. The level of real rates (short-term as well as long-term) is also very low; the US real short-term rate has been negative since October 2002. In the US and Europe, the output gap is expected to increase at least up to 2004, putting downward pressure on wages and prices. Therefore, it can be expected that monetary conditions will remain conducive to growth. In this respect, the recent steepening in the yield curve might prove to be a temporary event.

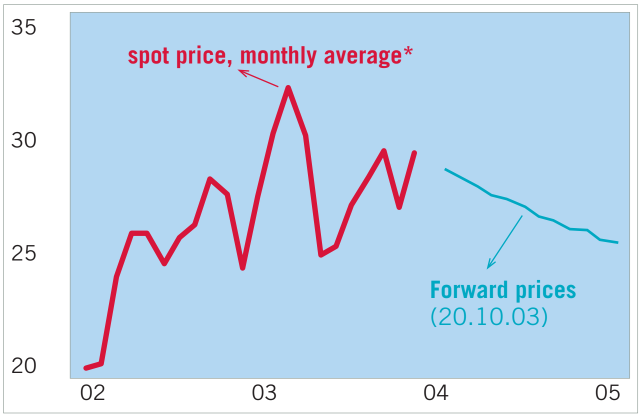
Asset market developments

After the end of hostilities in Iraq, international investors' perceptions of risk quickly turned positive. This change made itself evident in significant cutbacks in the price levels on debt instruments floated by emerging-market countries and corporate issuers.

World trade indicators USD billion



Brent oil USD/barrel



*The average for October covers the period 1-20 October.

Oil prices began to drop rapidly with the start of the war in Iraq.

As of the end of April 2003, the price of a barrel of Brent crude bottomed out at $23.30. In the wake of the hostilities, oil prices began rising again, peaking for the year at $31 a barrel around the middle of October.

A surfeit of market liquidity and portfolios overly loaded with highly-rated assets encouraged investors to turn to assets offering higher rates of return, particularly in the second quarter of the year. Despite this change in investor preferences however, the demand for safe assets remained strong all year long, a situation that led to the observed rise in stock prices. To sum it up in a nutshell, financing conditions have improved since what they were at the beginning of 2003.

This is likely to encourage global recovery: it has certainly been to the benefit of corporate issuers in the US and EU. Stronger asset markets result in higher household income, the natural consequence of which is greater household consumption and spending. At the same time, upwardly moving assets markets also lead to increased investment.

Petroleum prices far from supporting the global recovery

Oil prices declined sharply when the war in Iraq began. Brent oil prices bottomed out at USD 23.3 per barrel at end-April 2003. Since then, prices have been on an upward trend, peaking at USD 31 per barrel at mid-October.

This rise in the price level was essentially due to a number of supply side factors. For one thing, petroleum production in Iraq was unable to return to its expected levels even though the oil fields and their infrastructure were almost completely unscathed. No less influential however were political uncertainties in two other major producers (Venezuela and Nigeria), very low stock levels in the US, and an OPEC decision to cut back production.

Projections put oil prices in a stepwise decline to about USD 24 until the second half of 2005. This decline will be a reflection of the fact that supply is and will continue to outstrip demand. But lower oil prices will support the global recovery and increased production levels among non-OPEC producers will further strengthen the positive effect that the lower prices have on the recovery.

Progress made by various countries engaged in their own structural reforms could help in the effort to correct global imbalances. If this progress is meaningful and its benefits are apparent, the short-term effect will be to strengthen the climate of confidence; in the medium term, it will have a great impact by supporting further growth. This assessment is particularly true in the case of the structural reforms being undertaken in economies outside the US.

Nevertheless, in a short-term perspective, growth in the US is forecast to continue to outperform its counterpart in most other regions. Global imbalances are expected to widen further, with the risk of a fall in the exchange rate of the US dollar.

Developments in the Turkish economy

Determined and systematic efforts to achieve sustainable economic stability in the Turkish economy continued relentlessly throughout 2003.

CPI 18.4%
WPI 13.9%

Determined and systematic efforts to achieve a condition of sustainable stability in the Turkish economy continued without letup in 2003. Two immediate results of these efforts were an improvement in the general appearance of the business environment such that both national and international investors were quick to respond favorably to it on the one hand and, on the other, an improvement in the country's risk premium.

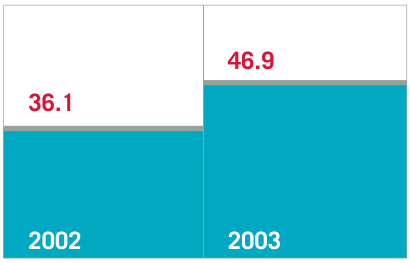
Figures put GNP growth in 2003 at 5.9%. Export sectors were the most important locomotives of the manufacturing industry production index with the most consistent growth being observed in automotives and in machinery and equipment.

According to the Industry Output Index, while overall output in industrials was up 8.8%, on an individual sectoral basis the actual changes varied considerably with manufacturing coming in first at 9.4% followed by utilities at 8.5%. Output in the mining industries on the other hand was actually down 3.4%. In 2003, manufacturers reported an overall capacity utilization rate of 78.7%.

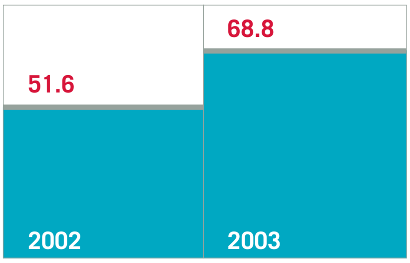
For the first time in years, inflation was actually lower than the official "targets": consumer prices were up 18.4% at year end having been targeted at 20% while the 13.9% increase in the wholesale price index was three and a half points less than the 17.4% that had been expected.

The decline in the general level of inflation also had an impact on foreign currency prices with the result that there was a strong movement away from foreign currency assets to Turkish lira assets in 2003. Strong central bank reserves combined with consistent money and exchange rate policies played important roles in achieving this singular confidence

Export USD Billion



Import USD Billion



When the hostilities in Iraq did not last as long as had been feared they would, market expectations turned sanguine.

in the Turkish lira. At year-end 2002, foreign currency reserves stood at USD 26.8 billion; twelve months later they amounted to USD 33.6 billion, a 25.5% increase.

With market conditions in which inflationary expectations were significantly dampened, short-term interest rates dropped steadily and consistently as inflation continued to abate and the Central Bank lowered overnight rates from 44% to 26%. Responding to the Treasury's tight money and fiscal policies, real interest rates dropped to 28% in December and this contraction was accompanied by an evident–albeit modest–recovery in domestic demand.

With the Iraq war ending much sooner than had been expected, market expectations quickly turned positive. The Turkish lira actually appreciated 25% as compared with the consumer price index and the euro/dollar parity favored the euro at the expense of a weak dollar all year long. Yet because the increase in domestic demand was restrained, the impact of these developments on Turkish exports was minimal. In 2003, Turkey's exports were up 30% as compared with the previous year and were worth USD 46.9 billion. During the same period, the rise in imports, which were valued at USD 68.8 billion, was 33.3%.

Consolidated budget revenues in 2003 amounted to TL 140 quadrillion while the budget deficit weighed in at TL 39.8 quadrillion. In December, the primary budget balance yielded its first deficit (TL 1.4 quadrillion) in a long time but the overall primary budget surplus for the year was still a respectable TL 18.8 quadrillion. In light of these results, the primary budget surplus exceeded 5% of GNP, which was a point and a half below the 6.5% target that had been set for the year.

The total stock of consolidated budget debt in 2003 reached USD 202.7 billion. At this point it seems certain that the ratio of total public debt to GNP is going to top last year's 82% level. This result once again shows how important it is to reduce the existing burden of debt in order to achieve permanent and sustainable relief for the economy.

Çalık Yatırım Bankası A.Ş.

Independent Auditors' Report

To the Board of Directors of
Çalık Yatırım Bankası A.Ş.
İstanbul

OPINION OF INDEPENDENT AUDITORS

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

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

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

DRT Yeminli Mali Müşavirlik A.Ş.

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.
Member of Firm **DELOITTE TOUCHE TOHMATSU**

İstanbul, 17 February 2004

ÇALIK YATIRIM BANKASI A.Ş.
BALANCE SHEETS
AS AT 31 DECEMBER 2003 AND 2002

ASSETS	Note	**31 December 2003 TL Billion**	31 December 2002 TL Billion
LIQUID ASSETS		**390**	1,060
BALANCES WITH THE CENTRAL BANK	4	**2,451**	2,662
BALANCES WITH BANKS	5	**5,090**	2,475
INTERBANK FUNDS SOLD	6	**3,806**	19,693
SECURITIES PORTFOLIO (NET)	7		
- Held for trading		**12,422**	10,177
- Available for sale		**46**	-
- Held to maturity		**-**	-
		12,468	10,177
LOANS (Net)	8	**26,902**	4,663
LEASING RECEIVABLES (Net)	9	**13,782**	23,294
PREMISES AND EQUIPMENT (Net)	10	**796**	1,090
OTHER ASSETS	11	**509**	690
TOTAL ASSETS		**66,194**	65,804

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

ÇALIK YATIRIM BANKASI A.Ş.
BALANCE SHEETS
AS AT 31 DECEMBER 2003 AND 2002

LIABILITIES	Note	**31 December 2003 TL Billion**	31 December 2002 TL Billion
BORROWINGS	12	**16,476**	25,855
FUNDS OBTAINED IN EXCHANGE FOR SECURITIES SOLD UNDER REPURCHASE AGREEMENTS		**3,397**	853
TAXES AND DUES PAYABLE		**124**	81
CORPORATE TAX	13	**2,765**	1,282
SUNDRY CREDITORS	14	**1,624**	2,013
PROVISIONS	15	**228**	25
OTHER LIABILITIES	16	**407**	365
DEFERRED TAX LIABILITY (Net)	13	**779**	1,992
TOTAL LIABILITIES		**25,800**	32,466
SHAREHOLDERS' EQUITY			
Share Capital	17	**34,791**	34,791
Legal Reserves		**1,085**	802
Accumulated Losses		**(2,538)**	(1,962)
Transfers to Share Capital		**-**	(6,016)
Net Income for The Year		**7,056**	5,723
TOTAL SHAREHOLDERS' EQUITY		**40,394**	33,338
COMMITMENTS AND CONTINGENCIES	22	**-**	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**66,194**	65,804

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

ÇALIK YATIRIM BANKASI A.Ş.
STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

INCOME STATEMENT	Note	**2003 TL Billion**	2002 TL Billion
INTEREST INCOME			
Interest on Loans		**4,546**	3,909
Interest on Interbank Funds Sold		**5,313**	7,242
Interest on Securities Portfolio		**1,461**	2,761
Interest Received from Banks		**1,492**	146
Interest on Financial Leases		**556**	1,088
		13,368	15,146
INTEREST EXPENSE			
Interest on Interbank Funds Borrowed		**(134)**	(33)
Interest on Borrowings		**(441)**	(600)
Other Interest Expenses		**(37)**	(192)
		(612)	(825)
NET INTEREST INCOME		**12,756**	14,321
Provision for Loans and Lease Contract Losses		**(15)**	-
NET INTEREST INCOME AFTER PROVISIONS		**12,741**	14,321
NET FOREIGN CURRENCY GAINS/(LOSSES)		**(223)**	1,098
NET SECURITIES TRADING GAINS		**2,217**	281
NET TRADING INCOME		**14,735**	15,700
OTHER OPERATING INCOME	18	**3,086**	1,433
OTHER OPERATING EXPENSES	19	**(4,182)**	(4,010)
INCOME BEFORE MONETARY LOSS		**13,639**	13,123
MONETARY LOSS		**(4,867)**	(5,976)
INCOME BEFORE TAXATION		**8,772**	7,147
TAXATION	13	**(1,796)**	(656)
EQUITY IN UNAPPROPRIATED NET LOSS OF ASSOCIATE	7	**80**	(768)
NET INCOME		**7,056**	5,723

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

ÇALIK YATIRIM BANKASI A.Ş.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Share Capital TL Billion	Legal Reserves TL Billion	Accumulated Losses TL Billion	Net Income For the Year TL Billion	Total TL Billion
Balance as of 31 December 2001	28,775	449	(4,132)	2,523	27,615
Cash Increase in Capital	-	-	-	-	-
Transfers to Reserves	-	353	(353)	-	-
Transfers to Share Capital	6,016	-	(6,016)	-	-
Transfers to Accumulated Losses	-	-	2,523	(2,523)	-
Net Income for the Year	-	-	-	5,723	5,723
Balance as of 31 December 2002	**34,791**	**802**	**(7,978)**	**5,723**	**33,338**
Cash Increase in Capital	**-**	**-**	**-**	**-**	**-**
Transfers to Reserves	**-**	**283**	**-**	**(283)**	**-**
Transfers to Share Capital	**-**	**-**	**-**	**-**	**-**
Transfers to Accumulated Losses	**-**	**-**	**5,440**	**(5,440)**	**-**
Net Income for the Year	**-**	**-**	**-**	**7,056**	**7,056**
Balance as of 31 December 2003	**34,791**	**1,085**	**(2,538)**	**7,056**	**40,394**

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

ÇALIK YATIRIM BANKASI A.Ş.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	31 December 2003 TL Billion	31 December 2002 TL Billion
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**7,056**	5,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**356**	472
Increase/(decrease) in provisions for loan losses	**15**	-
Increase/(decrease) in retirement pay provisions	**8**	-
Increase/(decrease) in other provisions	**195**	(8)
Increase/(decrease) in deferred taxes	**(1,213)**	(807)
Increase in taxes and dues	**1,483**	82
Net (income)/loss of associate	**(80)**	768
Net cash (used in) operating activities	**7,820**	6,230
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase)/decrease in marketable securities	**(2,279)**	(6,483)
(Increase)/decrease in loans and financial leases	**(12,610)**	(3,934)
(Additions) to tangible and intangible fixed assets (net)	**(62)**	(300)
(Increase)/decrease in accrued interest and other assets	**13,643**	1,911
Net cash (used in) investing activities	**(1,308)**	(8,806)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) in borrowings	**(17,257)**	(5,875)
Increase/(decrease) in accrued expenses and other liabilities	**10,075**	3,483
Increase in paid-up capital	**-**	6,028
Dividends paid	**-**	-
Net cash provided from financing activities	**(7,182)**	3,636
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(670)**	1,060
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,060**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**390**	1,060

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

ÇALIK YATIRIM BANKASI A.Ş.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

1. ACTIVITIES OF THE BANK

Çalık Yatırım Bankası A.Ş. (the "Bank") was incorporated in Turkey in August 1999. Since then it has functioned as an investment bank. The Bank is located in Merter/İstanbul. The Bank does not have branches and is not licensed to receive deposits.

The Shareholders and distribution of shares as of 31 December 2003 and 2002 are as follows:

31.12.2003

NAME OF SHAREHOLDER	**% of Shares**	**Number of Shares**	**Nominal value of Shares TL Billion**
Çalık Holding A.Ş.	**91.5**	**12,352,500**	**12,353**
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	**4.5**	**607,500**	**607**
Ahmet Çalık	**2**	**270,000**	**270**
Mahmut Çalık	**1**	**135,000**	**135**
Ali Akbulut	**1**	**135,000**	**135**
TOTAL	**100**	**13,500,000**	**13,500**

31.12.2002

NAME OF SHAREHOLDER	% of Shares	Number of Shares	Nominal value of Shares TL Billion
Çalık Holding A.Ş.	91.5	12,352,500	12,353
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	4.5	607,500	607
Ahmet Çalık	2	270,000	270
Mahmut Çalık	1	135,000	135
Ali Akbulut	1	135,000	135
TOTAL	100	13,500,000	13,500

The Bank has cooperation with Gap Pazarlama, Koç.Net and Tariş in their project of e-commerce in Agromarket. The established company, which is 44.27% owned by the Bank, engages in e-sales of cotton. The Bank has another cooperation with Şekerbank T.A.Ş. and Çalık Holding A.Ş. in their project of investing in domestic or foreign oriented banks in Çalık-Şeker Konsorsiyum Yatırım A.Ş. The share of the Bank in this company is 24%.

The Bank is involved in corporate services such as financial leasing, lending, trade finance and factoring, mainly with the related parties, Çalık Group of companies. The Bank employs 26 people as of 31 December 2003 (24 as of 31 December 2002).

2. BASIS OF FINANCIAL STATEMENTS

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

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

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

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

ÇALIK YATIRIM BANKASI A.Ş.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

Inflation Accounting
In the accompanying financial statements, adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, in accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies".

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

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

	Index	Conversion Factor
31 December 2000	2,626.0	2.811
31 December 2001	4,951.7	1.491
31 December 2002	6,478.8	1.139
31 December 2003	**7,382.1**	**1.000**

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

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

The principal adjustments are as follows:
- All amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated by applying a general price index (the WPI). Corresponding figures for previous periods are similarly restated.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date. Monetary items are money held and items to be received or paid in money.
- Non-monetary assets and liabilities and the components of shareholders' equity are restated by applying, to the initial acquisition cost and any accumulated depreciation, the relevant conversion factors reflecting the increase in the WPI from the date of acquisition or initial recording to the balance sheet date. Revaluations made on any other basis in the statutory records are eliminated.
- All items in the statements of income are restated by applying the relevant conversion factors.
- The effect of general inflation on the Bank's net monetary position is included in the statements of income as monetary gain or loss.
- The financial statements for 2002 have been similarly recomputed and indexed to 31 December 2003 money values.

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 IFRS. Effect has been given in the financial statements to adjustments and reclassifications, which have not been entered in the general books of account of the Bank maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

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

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

ÇALIK YATIRIM BANKASI A.Ş.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

3.3 Foreign Currency Items
Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions.

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

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

3.4 Securities Portfolio
The Bank's securities portfolio primarily represents Government bonds and Treasury bills which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices.

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

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

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

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

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

Securities available for sale:
Available-for-sale securities are those that are not (a) held-to-maturity investments, or (b) securities held for trading. Subsequent to acquisition, available for sale securities are valued at their fair value if reliably measurable. Otherwise, they are accounted for at amortized cost. Gains or losses on available for sale securities are included in net profit or loss for the period in which they arise.

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

The investment in associate is accounted for under the equity method.

3.5 Premises and Equipment
Premises and equipment, including the related depreciation have been indexed and are expressed in the period-end purchase value of the Turkish Lira.

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

Vehicles	20%
Furniture and Fittings	20%
Leasehold Improvements	20%
Intangibles	20%

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

ÇALIK YATIRIM BANKASI A.Ş.
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

3.6 Computer Software Development Costs

The Bank generally recognizes computer software development costs as expenses when incurred. However, if it is probable that future economic benefits will flow to the Bank, to the extent that expenditures can reliably be measured and attributable to the asset, development costs incurred are incorporated into the initial cost of computer software. All other subsequent expenditure associated with the maintenance of the existing computer software is recognized as expense in the period in which it is incurred.

Computer software development costs capitalized as assets are amortized on a straight-line basis over their expected useful lives, generally five years.

3.7 Retirement Pay Provision

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

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

3.8 Loan Loss Provisions

Loans are financial instruments originated by the Bank and accounted for at amortized cost in accordance with IAS 39. Based on its evaluation of the current status of the loans granted, the Bank makes specific loan loss provisions, which it considers are adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known. The loan loss provisions and the general loans provision follow the requirements as specified by Turkish Banking regulations. In accordance with the prevailing provisioning legislation, Banks in Turkey should also appropriate 0.5% general provision for cash loans and other receivables and 0.1% general provision for non-cash loans.

The Bank classifies any loan, which is overdue or where management considers the borrower has lost its creditworthiness into overdue loans. The Bank ceases to recognize income on overdue loans and receivables.

3.9 Taxation and Deferred Taxes

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

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

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

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

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

3.10 Securities Under Resale or Repurchase Transactions

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

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

3.12 Finance and Operating Leases

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

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

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

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

3.13 Fair Values of Financial Instruments
The term financial instruments include both financial assets and financial liabilities, and also derivatives. Financial instruments are fundamental to the 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. The Bank trades in financial instruments for customer facilitation and as principal.

The Bank accounts for financial instruments on a trade date basis. After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, except for loans and receivables originated by the enterprise and not held for trading, held-to-maturity investments and any financial asset that does not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Those financial assets that are excluded from fair valuation and that have a fixed maturity are measured at amortized cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are reviewed periodically for impairment.

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

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

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

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

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

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

Interbank funds: Estimated fair values of Interbank funds borrowed and sold are the amounts payable on demand at the reporting date.

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

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

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

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

3.14 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. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

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

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

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

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

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

Market risk
Market risk is the risk that changes in the level of interest rates, currency exchange rates or the price of securities and other financial contracts will have an adverse financial impact. The primary risks within the 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).

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

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Operational risk
Operational risk arises from the potential for financial loss or reputation damage as a result of inadequate systems (including systems breakdown), errors, poor management, 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.

3.15 Cash and Cash Equivalent Items
Cash and cash equivalent items seen in the statement of cash flows consist of liquid assets.

3.16 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.

3.17 Derivatives
In the normal course of business, the Bank is a party to forward (derivatives) transactions. Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss. The Bank has not entered into any transactions which are accounted as hedges.

Derivative financial instruments including foreign exchange contracts are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.18 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 which are expected to arise from future use of the asset.

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

Management of the Bank believes that there is no indication of internal or external factors implying any impairment of its assets.

3.19 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. BALANCES WITH THE CENTRAL BANK

	31 December 2003 TL Billion	31 December 2002 TL Billion
Demand deposits – Turkish Lira ("TL")	**-**	52
Time deposits – Foreign Currency ("FC")	**660**	2,610
Required reserves – Turkish Lira ("TL")	**80**	-
Required reserves – Foreign Currency ("FC")	**1,711**	-
Total Balances with Central Bank	**2,451**	2,662

As at 31 December 2003, the time deposits with the Central Bank denominated in foreign currency, mature at most in 2 days and earn interest rates ranging between 0.40% to 0.80% per annum (31 December 2002, 0.55% to 1.43% per annum). The Bank keeps required reserves in blocked accounts at the Central Bank according to the regulations set by the Banking Regulation and Supervision Agency.

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5. BALANCES WITH BANKS

	31 December 2003 TL Billion	31 December 2002 TL Billion
Domestic Banks		
Time deposits – TL	**4,501**	-
Banks Abroad		
Demand deposits – FC	**589**	718
Time deposits – FC	**-**	1,757
Total Balances with Banks	**5,090**	2,475

As at 31 December 2003, the balances with domestic banks mature in 3 days and earn interest rates at 26.5% and 26%. (31 December 2002, the balances with banks abroad, mature in 3 days and earn interest at rate 3.15% per annum.)

6. INTERBANK FUNDS SOLD

As of 31 December 2003, Interbank funds sold amounting to TL 3,806 Billion (31 December 2002: TL 19,693 Billion) represent TL placements made through Interbank transactions governed by the Turkish Central Bank maturing within 3 days with the interest rates of 26% (31 December 2002: 7 days with the interest rate of 45%).

7. SECURITIES PORTFOLIO (NET)

	31 December 2003 TL Billion	31 December 2002 TL Billion
Held for Trading:		
Government bonds and Treasury bills	**8,694**	9,314
Securities with repurchase agreements	**3,728**	863
Less: Diminution in value of securities portfolio	**-**	-
	12,422	10,177
Available for Sale:		
Government bonds and Treasury bills	**-**	-
Securities with repurchase agreements	**-**	-
Affiliates	**46**	-
Less: Diminution in value of securities portfolio	**-**	-
	46	-
Held to Maturity:		
Government bonds and Treasury bills	**-**	-
Less: Diminution in value of securities portfolio	**-**	-
Total Securities Portfolio (Net)	**12,468**	10,177

The Bank has 2 investments, one of which is a cooperation with Gap Pazarlama, Koç.Net and Tariş in their project of e-commerce in Agromarket and the other one is Çalık-Şeker Konsorsiyum Yatırım A.Ş.. Agromarket has established a web site "www.kotonline.com" to engage in e-sales of cotton. The site is the first e-cotton platform of Turkey and the Near East. The site has started its operations in December 2000, and has been the first B2B online cotton sales Portal. The other investment of the Bank is Çalık-Şeker Konsorsiyum Yatırım A.Ş. which was established on 30 December 2003 to invest in banks established in Turkey or abroad.

In the accompanying financial statements, the available for sale asset consists of the 44.27% participation in Agromarket amounting to TL 34 Billion and 24% participation in Çalık-Şeker Konsorsiyum Yatırım A.Ş. amounting to TL 12 Billion. (31 December 2002: full provision for Agromarket was made and the net book value was zero).

Both of the investments are accounted for using the equity method. The equity in appropriated net income of associate amounting to TL 80 Billion for Agromarket is reflected in the statement of income (31 December 2002: TL 768 Billion net loss for Agromarket). Çalık-Şeker Konsorsiyum Yatırım A.Ş. has not generated any significant income or loss from its operations as of 31 December 2003 so that neither income nor loss from this investment has been reflected in the accompanying statement of income.

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Marketable securities are initially booked at cost. Government bonds and treasury bills traded on stock exchanges are valued at weighted average market prices as at the balance sheet date in the current year financial statements; Government bonds and treasury bills traded on stock exchanges but not traded as at the balance sheet date are valued at weighted average market prices of the last transaction date. Valuation for Government Bonds and Treasury Bills, which are not traded on a stock exchange, is made based on the prices announced by the Turkish Central Bank.

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

The blocked securities kept in the Central Bank, İMKB Takas ve Saklama Bankası A.Ş. (stock exchange settlement bank) for the purposes of trading guarantee on Interbank and reverse repurchase markets as at 31 December 2003 amounted to TL 11,706 Billion (31 December 2002: TL 7,421 Billion).

Securities portfolio includes TL 3,397 Billion (31 December 2002: TL 853 Billion) securities sold with agreement to repurchase ("repo") as at the balance sheet date. The Bank recorded TL 7 Billion as income on securities with repo agreements being the period end income accrual. (31 December 2002: TL 13 Billion)

Maturity analysis of government bonds and, treasury bills as at 31 December 2003 and 31 December 2002 are as follows:

31 December 2003 (TL Billion)	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**Over 12 months**	**Total**
Government Bonds	**-**	**-**	**-**	**-**	**-**	**-**
Treasury Bills	**-**	**1,056**	**-**	**10,840**	**526**	**12,422**
Total		**1,056**		**10,840**	**526**	**12,422**

31 December 2002 (TL Billion)	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 12 months	Total
Government Bonds	-	-	-	2,756	-	2,756
Treasury Bills	-	-	5,094	2,327	-	7,421
Total	-	-	5,094	5,083	-	10,177

8. LOANS (NET)

	31 December 2003 TL Billion	31 December 2002 TL Billion
SHORT TERM LOANS		
Secured export loans – (TL)	**15,988**	3,042
Factoring receivables	**1,536**	395
Other secured loans	**9,194**	1,077
OVERDUE LOANS	**15**	-
TOTAL LOANS	**26,733**	4,514
Less: Provisions		
Specific loan loss provisions	**(15)**	-
TOTAL PROVISIONS	**(15)**	-
Accrued Interest	**184**	149
TOTAL LOANS (NET)	**26,902**	4,663

The Bank mainly extends short-term loans to customers with maturities within one year. Interest rates charged for Turkish Lira loans varied between 26.5%-41.1%, (2002: 47.5%-70%). Other secured loans consist of foreign currency indexed loans of TL 132 Billion as of 31 December 2003 (31 December 2002: TL 43 Billion). Interest rates charged for foreign currency indexed loans varied between 5.3%-11.5%. (2002: 9.04% -9.31%).

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Loans can be analyzed by currency as follows:

Currency	**31 December 2003 TL Billion**	31 December 2002 TL Billion
Turkish Lira	**26,902**	4,663
US Dollars	**-**	-
	26,902	4,663

Sectoral analysis of loans is as follows:

Sector	**31 December 2003 %**	31 December 2002 %
Trade	**55**	67
Construction	**13**	-
Electricity	**4**	-
Finance	**6**	9
Textile	**11**	5
Mining	**-**	9
Other	**11**	10
	100	100

Since the Bank is an investment bank and the investment banks have a right to provide factoring facilities, the Bank began to use this opportunity in 2002 and continued factoring operations in 2003. The Bank follows those transactions under the loan portfolio.

9. LEASING RECEIVABLES (NET)

Years	**31 December 2003 TL Billion**	31 December 2002 TL Billion
2003	**-**	8,451
2004	**5,524**	6,143
2005	**5,060**	5,735
2006	**3,316**	3,795
2007	**554**	643
Gross lease receivable	**14,454**	24,767
Less: Unearned interest income	**(672)**	(1,473)
	13,782	23,294

Foreign Currency Type	**31 December 2003 Amount**	**FC Rate**	**Equivalent in TL Billion**
US$	**2,366**	**1,402,150**	**3**
EURO	**5,166,499**	**1,761,942**	**9,103**
CHF	**4,723,999**	**1,131,587**	**5,346**
TL (Billion TL)	**2**	**1**	**2**
TOTAL			**14,454**

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10. PREMISES AND EQUIPMENT (NET)

	31 December 2003 TL Billion	31 December 2002 TL Billion
Machinery and Equipment	**481**	473
Furniture and Fixtures	**198**	125
Vehicles	**255**	253
Intangibles	**1,360**	1,389
Leasehold Improvements	**253**	253
Others	**21**	21
Premises and Equipment	**2,568**	2,514
Less: Accumulated Depreciation	**(1,772)**	(1,424)
Premises and Equipment (Net)	**796**	1,090

11. OTHER ASSETS

	31 December 2003 TL Billion	31 December 2002 TL Billion
Prepaid Expenses	**28**	35
Transitory Accounts	**222**	129
Advances Given	**259**	444
Others	**-**	82
	509	690

12. BORROWINGS

	31 December 2003 TL Billion	31 December 2002 TL Billion
Financial:		
Domestic Banks - Foreign Currency	**2,804**	2,797
Foreign Banks - Foreign currency	**8,626**	13,501
	11,430	16,298
Non-Financial:		
Payables to Suppliers	**5,046**	9,557
	5,046	9,557
	16,476	25,855

Financial borrowings: TL 2,804 Billion of the borrowings are from domestic banks (2002: TL 2,797 Billion), that bear interest rates ranging 1.25% to 1.35%, (2002: 1.5% to 1.72%) and mature on 2 January 2004 (2-3 January 2003) and TL 8,626 Billion of the borrowings are from foreign banks (2002: TL 13,501 Billion), that bear variable interest rates ranging 2.65% to 6%, (2002: 3.4% to 6%) maturing in June 2005 to March 2007. (2002: June 2005 to March 2007)

The non-financial part of borrowings is long-term payables to suppliers regarding purchases of machinery and equipment, which are subject to leasing transactions.

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13. TAXATION

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

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

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

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

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

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

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

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

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

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

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

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

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

Balance Sheet: Corporate Tax

	31 December 2003 TL Billion	31 December 2002 TL Billion
Corporate taxes and funds	**2,765**	1,282
Advance taxes	**-**	-
	2,765	1,282
Deferred tax liability	**779**	1,992

a) Income Statement: Taxation

	31 December 2003 TL Billion	31 December 2002 TL Billion
Current income tax	**2,765**	1,282
Deferred tax charge/(benefit)	**(969)**	(626)
	1,796	656

b) Temporary differences subject to deferred tax:

	31 December 2003 TL Billion	31 December 2002 TL Billion
Restatement of fixed assets	**-**	616
Retirement pay provision	**(34)**	(25)
Leasing adjustment	**4,168**	9,155
Reversal of forward accrual	**-**	314
General loan losses provision	**(195)**	-
	3,939	10,060

c) Components of deferred tax (asset)/liability:

(Effective tax rate 19.8%)	**31 December 2003 TL Billion**	31 December 2002 TL Billion
On restatement of fixed assets	**-**	122
Retirement pay provision	**(7)**	(5)
Leasing adjustment	**825**	1,812
Reversal of forward accrual	**-**	63
General loan losses provision	**(39)**	-
	779	1,992

d) Movement of deferred tax (asset)/liability:

	31 December 2003 TL Billion	31 December 2002 TL Billion
Opening balance at 1 January	**1,992**	2,798
Monetary (gain)/loss	**(244)**	(180)
Current year benefit	**(969)**	(626)
Closing balance at 31 December	**779**	1,992

e) Current income tax can be reconciled to the profit per the statement of income as follows:

	31 December 2003 TL Billion
Reconciliation of Taxation	
Profit before Taxation, after Monetary Loss	**8,772**
Tax at the domestic income tax rate of 19.8%	**1,737**
Tax effect of restatement of non monetary items per IAS 29	**2,563**
Tax effect of adjustments	**(3)**
Investment incentive	**(2,644)**
Tax effect of expenses that are not deductible in determining taxable income	**53**
Taxation per Income Statement	**1,796**

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14. SUNDRY CREDITORS

	31 December 2003 TL Billion	31 December 2002 TL Billion
Payables to Compulsory Government Funds	**25**	11
Customer Accounts (*)	**1,467**	1,973
Others	**132**	29
	1,624	2,013

(*) As at 31 December 2003, TL 1,068 Billion comprised of non-interest bearing payables to Group companies (2002: TL 1,973 Billion).

15. PROVISIONS

	31 December 2003 TL Billion	31 December 2002 TL Billion
PROVISION FOR RETIREMENT		
At 1 January	**25**	33
Provision for the year	**16**	-
Indexation effect (net)	**(8)**	(8)
At Period End	**33**	25
GENERAL LOAN LOSS PROVISION		
At 1 January	**-**	-
Provision for the year	**195**	-
Indexation effect (net)	**-**	-
At Period End	**195**	-
TOTAL PROVISION	**228**	25

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. The amount payable is 30 days gross pay for each year of eligible service. The rate of pay that is ruling at 31 December 2003 is subject to a maximum of TL 1,389,950,000.

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

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

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

16. OTHER LIABILITIES

	31 December 2003 TL Billion	31 December 2002 TL Billion
Payment Orders	**106**	150
Transitory Accounts	**301**	215
	407	365

ÇALIK YATIRIM BANKASI A.Ş.
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

17. SHARE CAPITAL

Shareholders	%	31 December 2003 Paid-Up Capital TL Billion	%	31 December 2002 Paid-Up Capital TL Billion
Çalık Holding A.Ş.	**91.5**	**12,353**	91.5	12,353
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	**4.5**	**607**	4.5	607
Ahmet Çalık	**2.0**	**270**	2.0	270
Mahmut Çalık	**1.0**	**135**	1.0	135
Ali Akbulut	**1.0**	**135**	1.0	135
	100	**13,500**	100	13,500
Effect of inflation		**21,291**		21,291
		34,791		34,791

18. OTHER OPERATING INCOME

	2003 TL Billion	2002 TL Billion
Income from Fees and Commissions on Loans	**947**	336
Income from Banking Services	**1,538**	412
Other	**601**	685
	3,086	1,433

19. OTHER OPERATING EXPENSES

	2003 TL Billion	2002 TL Billion
Personnel Expenses	**1,602**	1,558
Taxes and Dues Paid	**308**	255
Depreciation and Amortization	**356**	472
Commission Expenses	**97**	85
Administrative Expenses and Other	**1,819**	1,640
	4,182	4,010

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20. MATURITY ANALYSIS OF THE BALANCE SHEET

Maturities of assets and liabilities as at 31 December 2003:

	On 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	Undistributed	Total TL Billion
ASSETS							
Liquid Assets	390	-	-	-	-	-	390
Balance with the Central Bank	661	1,790	-	-	-	-	2,451
Balances with Banks	590	4,500	-	-	-	-	5,090
Interbank Funds Sold	-	3,806	-	-	-	-	3,806
Securities Portfolio (Net)	-	-	1,057	10,841	524	46	12,468
Loans (Net)	-	22,070	983	3,849	-	-	26,902
Leasing Receivables (Net)	-	432	777	3,947	8,626	-	13,782
Premises and Equipment (Net)	-	-	-	-	-	796	796
Other Assets	-	-	-	-	-	509	509
Total	1,641	32,598	2,817	18,637	9,150	1,351	66,194
LIABILITIES							
Borrowings	-	3,213	788	3,906	8,569	-	16,476
Funds Obtained in Exchange of Securities Sold	-	-	795	2,602	-	-	3,397
Taxes and Dues Payable	-	124	-	-	-	-	124
Corporate Tax	-	-	-	2,765	-	-	2,765
Sundry Creditors	-	-	-	-	-	1,624	1,624
Provisions	-	-	-	-	-	228	228
Other Liabilities	-	-	-	-	-	407	407
Deferred Tax Liability (Net)	-	-	-	-	-	779	779
Total	-	3,337	1,583	9,273	8,569	3,038	25,800
SHAREHOLDER'S EQUITY							
Share Capital	-	-	-	-	-	34,791	34,791
Legal Reserves	-	-	-	-	-	1,085	1,085
Accumulated Profit/(Loss)	-	-	-	-	-	4,518	4,518
Total	-	-	-	-	-	40,394	40,394
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	-	3,337	1,583	9,273	8,569	43,432	66,194

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Maturities of assets and liabilities as at 31 December 2002:

	On 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	Undistributed	Total TL Billion
ASSETS							
Liquid Assets	1,060	-	-	-	-	-	1,060
Balance with the Central Bank	51	2,611	-	-	-	-	2,662
Balances with Banks	718	1,757	-	-	-	-	2,475
Interbank Funds Sold	-	19,693	-	-	-	-	19,693
Securities Portfolio (Net)	-	-	-	10,177	-	-	10,177
Loans (Net)	-	3,685	978	-	-	-	4,663
Leasing Receivables (Net)	-	430	1,755	5,534	15,575	-	23,294
Premises and Equipment (Net)	-	-	-	-	-	1,090	1,090
Other Assets	-	-	-	-	-	690	690
Total	1,829	28,176	2,733	15,711	15,575	1,780	65,804
				-			
LIABILITIES							
Borrowings	-	3,056	934	6,074	15,791	-	25,855
Funds Obtained in Exchange of Securities Sold	-	853	-	-	-	-	853
Taxes and Dues Payable	-	81	-	-	-	-	81
Corporate Tax	-	-	-	1,282	-	-	1,282
Sundry Creditors	-	-	-	-	-	2,013	2,013
Provisions	-	-	-	-	-	25	25
Other Liabilities	-	-	-	-	-	365	365
Deferred Tax Liability (Net)	-	-	-	-	-	1,992	1,992
Total	-	3,990	934	7,356	15,791	4,395	32,466
SHAREHOLDER'S EQUITY							
Share Capital	-	-	-	-	-	34,791	34,791
Legal Reserves	-	-	-	-	-	802	802
Accumulated Profit/(Loss)	-	-	-	-	-	(2,255)	(2,255)
Total	-	-	-	-	-	33,338	33,338
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	-	3,990	934	7,356	15,791	37,733	65,804

21. RELATED PARTY TRANSACTIONS AND BALANCES

The accompanying financial statements include the following balances due from or due to related parties:

	31 December 2003 TL Billion	31 December 2002 TL Billion
Due from related parties:		
Loans	**15,689**	2,720
Leasing receivables (net)	**13,780**	22,545
Non-cash loans:	**46,873**	35,060
Due to related parties:		
Sundry creditors	**1,009**	1,973

	31 December 2003 TL Billion	31 December 2002 TL Billion
Transactions with related parties:		
Interest income on financial leases	**551**	1,088
Interest income on cash loans	**2,317**	2,931
Commission income	**500**	252
Rent expenses	**(116)**	(150)
Other administrative expenses	**(36)**	(32)

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22. COMMITMENTS AND CONTINGENCIES

	31 December 2003 TL Billion	31 December 2002 TL Billion
Letters of guarantee (TL)	**16,650**	10,104
Letters of guarantee (FC)	**23,207**	6,698
Acceptance credits (FC)	**13,908**	16,789
Letters of credit (FC)	**4,269**	4,739
	58,034	38,330

The non-cash exposures to group companies comprise 82% (2002: 91%) of the total balance, amounting to TL 47,616 Billion (2002: TL 35,060 Billion).

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

	31 December 2003 TL Billion	31 December 2002 TL Billion
Total foreign currency assets	**17,355**	29,793
Forwards (buy)	**-**	622
Total foreign currency liabilities	**(17,830)**	(28,525)
Forwards (sell)	**-**	(622)
Net foreign currency position	**(475)**	1,268

The Bank does not expect any counter parties to fail to meet their obligations arising on off balance sheet transactions.

23. INVESTMENT INCENTIVES

The Bank has obtained investment incentive certificates from the Under Secretariat of Turkish Treasury for its various investments in direct financing leases. Such incentives include exemptions from custom duties on machinery and equipment to be imported and investment allowances at 40% on the approved capital expenditures if the investment incentives have been obtained after April 2003. The Bank's investment incentives have all been obtained before April 2003 for which the effective investment allowances and exemptions from custom duties on machinery and equipment to be imported are 100% as per the prior tax legislation applicable on such incentives.

Investment allowance is deductible from taxable profits for the purposes of corporation tax calculations. Such allowances are recognized over the term of the related lease contracts unless the utilization of the allowances per statutory tax computation exceeds the term of the lease contract.

24. SUBSEQUENT EVENTS

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

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