Albaraka Türk Özel Finans Kurumu Anonim Şirketi

Financial Statements
Together With
Report of Independent Auditors
December 31, 2003

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ERNST & YOUNG

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To the Board of Directors of
Albaraka Türk Özel Finans Kurumu Anonim Şirketi:

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

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

2002 was the first year the Institution prepared its financial statements in accordance with International Financial Reporting Standards (IFRS). As of December 31, 2002, the reserves for; loans in arrears that are attributable to the participation accounts, legal cases related to a third party claim, and a tax dispute and impairment in premises and assets held for resale are not provided. The financial impact of such reserves not provided as of December 31, 2002, which is approximately TL 36 trillion, has been reflected on the financial statements as of December 31, 2003 as they were either paid or provided for, based on the developments in 2003.

In our opinion, except for the effect of the matters mentioned in the third paragraph above on the current year income statement, the financial statements present fairly, in all material respects, the financial position of Albaraka Türk Özel Finans Kurumu Anonim Şirketi as of December 31, 2003, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

March 29, 2004
İstanbul, Turkey

Albaraka Türk Özel Finans Kurumu Anonim Şirketi

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

ASSETS

	Notes	2003	2002
Cash and balances with the Central Bank	3	**34,451**	29,957
Deposits with banks and other financial institutions	3	**68,196**	102,997
Reserve deposits at the Central Bank	4	**82,116**	89,870
Investments in associates, net	5	**30,336**	-
Sales receivables, net	6,15	**825,537**	792,635
Financing investments	7	-	2,914
Premises and equipment, net	8	**22,550**	20,654
Other assets	9	**20,701**	24,407
Total assets		**1,083,887**	1,063,434

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	2003	2002
Current and saving accounts	10	**201,988**	153,062
Participation accounts	10,15	**761,800**	798,754
Other liabilities and provisions	11	**31,794**	27,671
Deferred tax liability	12	-	6,619
Total liabilities		**995,582**	986,106
Paid-in share capital	13	**169,412**	143,734
Legal reserves and accumulated deficit	14	**(81,107)**	(66,406)
Total shareholders' equity		**88,305**	77,328
Total liabilities and shareholders' equity		**1,083,887**	1,063,434

The policies and explanatory notes on pages 6 through 26 form an integral part of the financial statements

Albaraka Türk Özel Finans Kurumu Anonim Şirketi

INCOME STATEMENT
For the year ended December 31, 2003
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Notes	2003	2002
Profit share income	15		
Profit share income on trade finance funded by equity and current accounts		**13,063**	7,681
Profit share income on trade finance funded by participation accounts		**63,356**	49,020
Profit share income on financial leases		**35,698**	14,824
Profit share income on retail finance funds		**12,027**	1,439
Profit share income on others		**14,825**	7,047
Total profit share income		**138,969**	80,011
Profit share expense	15		
Profit share expense on trade finance		**(60,985)**	(50,580)
Profit share expense on financial leases		**(23,424)**	(21,679)
Profit share expense on profit / loss sharing funds		**(2,599)**	(14)
Profit share expense on special funds		**(99)**	(117)
Total profit share expense		**(87,107)**	(72,390)
Net profit share income		**51,862**	7,621
Provision for impairment in sales receivables	6	**(30,504)**	(8,189)
Net profit share income / (loss) after provision for impairment in sales receivables		**21,358**	(568)
Foreign exchange gain / (loss), net		**1,556**	4,825
Net profit share income after provision for impairment in sales receivables and foreign exchange gain / (loss), net		**22,914**	4,257
Other operating income			
Fees and commission income		**14,601**	10,079
Other income	16	**5,782**	6,858
Total other operating income		**20,383**	16,937
Other operating expense			
Salaries and employee benefits		**(14,006)**	(11,739)
Fees and commission expense		**(1,018)**	(2,447)
Taxes and duties		**(3,927)**	(2,479)
Depreciation and amortization	8	**(3,372)**	(2,286)
Administrative and other expenses	16	**(23,172)**	(17,301)
Total other operating expense		**(45,495)**	(36,252)
Loss from operating activities before income tax and monetary gain / (loss)		**(2,198)**	(15,058)
Income tax credit	12	**5,809**	2,003
Monetary (loss) / gain		**(4,726)**	18,556
Net (loss) / profit		**(1,115)**	5,501

The policies and explanatory notes on pages 6 through 26 form an integral part of the financial statements.

Albaraka Türk Özel Finans Kurumu Anonim Şirketi

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2003
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Share Capital	Adjustment to Share Capital	Legal reserves and accumulated deficit	Total
Balances, at January 1, 2002	26,500	104,599	(71,907)	59,192
Share capital increase				
- Cash proceeds	10,000	2,635	-	12,635
- Increase from revaluation fund	4,500	(4,500)		-
Net income for the year	-	-	5,501	5,501
Balances, at December 31, 2002	**41,000**	**102,734**	**(66,406)**	**77,328**
- Increase from revaluation fund	21,750	(21,750)	-	-
- Cash proceeds	11,750	342	-	12,092
-Increase from retained earnings	11,500	28	(11,528)	-
Net loss for the year	-	-	(1,115)	(1,115)
-Increase from gain on assets held for resale	2,000	58	(2,058)	-
Balances, at December 31, 2003	**88,000**	**81,412**	**(81,107)**	**88,305**

The policies and explanatory notes on pages 6 through 26 form an integral part of the financial statements.

Albaraka Türk Özel Finans Kurumu Anonim Şirketi

CASH FLOW STATEMENT

For the year ended December 31, 2003

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

	2003	2002
Cash flows from operating activities		
Profit share received	**135,721**	87,661
Profit share paid	**(86,468)**	(86,879)
Fees and commissions received	**14,601**	10,079
Cash payments to employees	**(14,006)**	(11,739)
Income taxes paid	**-**	-
Cash (paid for) other operating activities	**(17,869)**	(14,135)
Cash flows from operating activities before changes in operating assets and liabilities	**31,979**	(15,013)
Changes in operating assets and liabilities		
Net (increase)/decrease in reserve deposits at Central Bank	**7,754**	(8,791)
Net (increase)/decrease in sales receivables and financing investments	**(26,740)**	(135,211)
Net (increase)/decrease in investments in associates	**(30,336)**	-
Net (increase)/decrease in other assets	**3,706**	11,852
Net increase/(decrease) in current and saving and participation accounts	**11,333**	184,197
Net increase/(decrease) in other liabilities	**(4,501)**	(1,523)
Net cash provided by/(used in) operating activities	**(6,805)**	35,511
Cash flows from investing activities:		
Purchases of premises and equipment	**(6,421)**	(5,037)
Disposals of premises and equipment	**604**	809
Net cash provided by/(used in) investing activities	**(5,817)**	(4,228)
Cash flows from financing activities:		
Repayments of funds borrowed	**-**	(20,372)
Proceeds from issue of share capital	**(25,678)**	(12,635)
Net cash provided by/(used in) financing activities	**(25,678)**	(33,007)
Effect of net foreign exchange differences and monetary gain/(loss) on monetary items	**7,993**	45,615
Net increase/(decrease) in cash and cash equivalents	**(30,307)**	43,891
Cash and cash equivalents at beginning of the year	**132,954**	89,063
Cash and cash equivalents at end of the year	**102,647**	132,954

The policies and explanatory notes on pages 6 through 26 form an integral part of the financial statements.

1. CORPORATE INFORMATION

Albaraka Türk Özel Finans Kurumu Anonim Şirketi (a Turkish corporation – the Institution) started its operations in February 1985 in Turkey after obtaining an operating permit from the Central Bank of Turkey by letter number 10912 dated January 21, 1985, under the name of Albaraka Türk Özel Finans Kurumu A.Ş. The Institution's head office is located at Büyükdere Caddesi No:78 Mecidiyeköy 80290 İstanbul/Turkey. The Institution operates as a special finance house and is involved in collecting and utilizing funds together with other banking services such as collection of checks and notes, dealing in the foreign exchange market, issuing letters of guarantee, and various export and import services.

As a special finance house, the Institution gathers deposits from customers through two different types of accounts:

a) *Current Accounts:*

These are sight deposit accounts, which may be withdrawn whenever requested by the depositor. Holders of current accounts are paid neither interest nor profit.

b) *Participation Accounts:*

Such accounts are opened with the understanding that such account depositors will participate in the profit or loss resulting from the investment activities of the Institution, instead of receiving a predetermined return on their deposits.

The Institution utilizes the funds in four different ways:

a) *Trade finance:*

The Institution provides mainly production support in the form of purchases in cash from third parties and resale on a credit basis. The goods traded range from raw material to machinery & equipment used in the production process.

b) *Consumer loans:*

The Institution also provides consumer loans to certain individuals in need of financial support. This process also involves direct purchase of a good or service from third parties to resell on credit basis.

c) *Project Financing, Profit & Loss Sharing Projects:*

The Institution makes loans to companies as well as individuals by participating in the profit or loss arising from a certain project, or a part of a project, or shares the profit or loss which may result from trading of certain goods.

d) *Financial Leasing*

The Institution leases movables and immovables under a contract providing for its retention of ownership as required by Turkish Tax Procedures Code.

As of December 31, 2003, the Institution employs 414 people (2002-374) and operates with 27 branches (2002-24) .

The financial statements of the Institution are authorized for issue by the management on March 29, 2004. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements of the Institution have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee (IASC) interpretations that remain in effect. The financial statements have been prepared on the historical cost convention.

The Institution maintains its books of account and prepares its statutory financial statements in accordance with accounting policies based on the Turkish Banking Law, Turkish Tax Law and the Turkish Commercial Code. While preparing the statutory financial statements, the Institution uses accounting principles and standards which are determined in compliance with the regulations that are, to the extent possible, based on Article 13 of the Turkish Banking Law. The financial statements have been prepared from the statutory financial statements of the Institution and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise the effects of restatement for changes in the general purchasing power of Turkish lira, accounting for leasing transactions, deferred taxation, employee termination benefits and measurement of financial instruments.

Reclassifications of Comparative Figures

The Institution has made certain reclassifications to the 2002 financial statements to be consistent with the current year presentation. Such reclassifications relate to other assets and other liabilities.

Changes in Accounting Principles

The Institution adopted IAS 39 - *Financial Instruments: Recognition and Measurement,* effective January 1, 2001. The effects of adopting IAS 39 were reported in the previous year's financial statements.

Measurement and Reporting Currency

Measurement and reporting currency of the Institution is TL. The restatement for changes in the general purchasing power of TL as of December 31, 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. As of December 31, 2003, the three-year cumulative rate has been 181.1% (2002 – 227.3%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such indices and conversion factors as of the end of the years ended December 31, 2003, 2002 and 2001 are given below:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- the financial statements of prior year, including monetary assets and liabilities reported therein, are restated in their entirety to the measuring unit current at December 31, 2003.

- monetary assets and liabilities in the balance sheet as of December 31, 2003 are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

- the inflation adjusted share capital amount has been derived by indexing cash contributions and transfers from statutory retained earnings from the date they were contributed.

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

- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).

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

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

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey. All differences are taken to the income statement as foreign exchange gain / (loss).

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

Dates	USD / TL (full)	EUR / TL (full)
December 31, 2001	1,445,000	1,281,734
December 31, 2002	1,654,000	1,730,000
December 31, 2003	1,399,000	1,768,000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and Equipment

Premises and equipment is stated at cost less accumulated depreciation and any impairment in value.

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

Buildings	30
Furniture and fixture	5
Machinery and equipment	3
Vehicles	4
Leasehold improvements	5

The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the income statement.

Assets acquired in exchange for uncollected sales receivables and held for sale are stated at cost less any impairment in value.

Investments in Associates

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. As of December 31, 2003 the Institution maintains only available- for- sale securities portfolio, as explained below:

Available- for- sale securities

Institution's available- for- sale securities portfolio comprises share certificates that are initially recorded at cost which is the fair value of the consideration given for them, including transaction costs and are subsequently stated at fair value based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost. Any changes in the carrying value of the share certificates during the year are charged or credited to the statement of income.

As of December 31, 2002 the Institution does not have any investment securities.

Recognition and Derecognition of Financial Instruments

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

Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank, deposits with banks and other financial institutions with an original maturity of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sales Receivables

The following is a brief explanation of the product types classified in accordance with IAS 39.

Product Type	Classification as per IAS 39
1- Istisnaa (Financial Leasing)	Originated Loans and Receivables
2- Murabaha (Trade Finance)	Originated Loans and Receivables
3- Musharaka (Project Financing)	Available for sale

Trade Finance is mainly selling a commodity on credit. These originated investments are measured at amortized cost in the financial statements without regard to the Institution's intent to hold them to maturity and are recognized when cash is advanced to borrowers.

Based on the above explanation, the Institution's existing investments are mainly originated investments (funds) generated directly by the Institution which are periodically reviewed and tested for any indication of impairment in its outstanding values.

Provisions for Possible Sales Receivables Losses

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

The Institution ceases to recognize income on such funds after transfer to funds in arrears accounts, which are included in sales receivables in the financial statements and on the funds for which the recoverable amount is determined primarily by reference to the fair value of collateral.

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

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

As a Special Finance House, the Institution's accounting treatment for the allowance for fund losses depends on the source of the fund itself. Allowance for the losses in funds that are entirely financed by the Institution's equity or by current and saving accounts (self-financed funds) are reflected wholly in the income statement as a provision expense. The allowance for the funds in arrears that are funded by the corresponding participation accounts (jointly financed funds) is reflected in the income statement as a provision expense to the extent the Institution has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such funds is reflected ultimately in the participation accounts as a loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Participation Accounts

Participation accounts are initially recognized at cost. After initial recognition, all profit share liabilities are recognized considering the part of attributable profit on funds granted which are subsequently measured at amortized cost using the effective yield method, including the amounts repaid and losses attributable. Amortized cost is calculated by taking into account any discount or premium on settlement. Losses attributable to participation accounts result from jointly-financed transactions and are distributed among such accounts according to each party's contribution to the joint investment. Gain or loss is recognized in the income statement when the liability is derecognized or impaired as well as through the amortization process.

Employee Termination Benefits

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

In the financial statements, the Institution reflects a liability calculated using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Institution's experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the average current market yield at the balance sheet date on government bonds.

The Institution does not have a pension fund for its employees.

Provisions

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

As a Special Finance House, the Institution's accounting treatment for the provisions depends on the source of the related asset. Provisions for the assets that are entirely financed by the Institution's equity or current and saving accounts are reflected wholly in the income statement as a provision expense. Provisions for the assets that are funded by the corresponding participation accounts are reflected in the income statement as a provision expense to the extent the Institution has participated in the profit or loss, which may arise from such asset. The remaining portion of the provision for such assets is reflected ultimately to the participation accounts as a loss (Note 11). Consequently, all the provisions are partially reflected in the income statement as a provision expense to the extent that the related assets are funded through the Institution's equity or current and saving accounts, while the other part of the provision is reflected in the relevant participation accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for Leases

Finance leases as lessee

Finance leases, which transfer to the Institution substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

Finance leases as lessor

As a special finance house, the Institution is also involved in financial leases (as a lessor). The Institution presents leased assets as a receivable equal to the net investment in the lease. Profit share income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized immediately as expenses.

Income and Expense Recognition

Profit share income and expense are recognized in the income statement for all funds utilized on an accrual basis using the effective yield method based on the actual purchase price. Profit share income is suspended when loans become doubtful of collection, such as when overdue by more than 90 days, or, when the borrower defaults if earlier than 90 days. Such income is excluded from profit share income until received.

Commission income and fees for various banking services (such as granting letters of guarantees, letters of credit and money transfers) are recorded as income at the date of collection.

Profit share income from Trade Finance receivables are recognized at the time of contract if the sale is for cash or on credit not exceeding the current financial period. Credit sales, which will be paid for either by means of one payment due after the current financial period or by installments over several future financial periods are recognized on an accrual basis.

Income Tax

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

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

Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fiduciary Assets

Assets held by the Institution in fiduciary or agency capacities for its customers are not included in the balance sheets, since such items are not assets of the Institution.

Use of Estimates

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

3. CASH AND CASH EQUIVALENTS

	2003	2002
Cash on hand	**23,035**	19,223
Balances with the Central Bank	**11,416**	6,880
Cash in transit	**-**	3,854
Cash and balances with the Central Bank	**34,451**	29,957
Demand deposits with local banks	**38,956**	39,208
Demand deposits with foreign banks	**28,335**	52,023
Current accounts in special finance houses	**905**	11,766
Deposits with banks and other financial institutions	**68,196**	102,997
Cash and cash equivalents in the balance sheet	**102,647**	132,954

4. RESERVE DEPOSITS AT THE CENTRAL BANK

	2003	2002
- Turkish lira	**5,974**	3,505
- Foreign currency	**76,142**	86,365
Total	**82,116**	89,870

According to the regulations of the Central Bank of Turkey (the Central Bank), the Institution is obliged to reserve a certain portion of its deposits. Such reserves are deposited with the Central Bank.

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

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

5. INVESTMENTS IN ASSOCIATES

	2003		2002	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Available for sale securities at fair value :				
Equity instruments- not listed				
BİM Birleşik Mağazaları Anonim Şirketi (*)	30,322	-	-	-
International Islamic Rating Agency	14	-	-	-
Total available for sale securities	30,336	-	-	-

(*) These equity shares were previously pledged by the institution against the sales receivables from BALSU Group Companies (BALSU) as a collateral. In 2003, the Institution has taken over the equity shares in return of the sales receivables from BALSU.

6. SALES RECEIVABLES

	Total		Jointly financed (*)		Self financed (**)	
	2003	2002	**2003**	2002	**2003**	2002
Trade finance receivables	**510,038**	399,113	**414,810**	373,691	**95,228**	25,422
Financial leasing receivables, net of unearned profit share	**164,982**	204,688	**142,715**	195,253	**22,267**	9,435
Profit/Loss Sharing receivables	**18,212**	44,440	**16,415**	41,271	**1,797**	3,169
Credit Card receivables	**6,174**	5,623	**-**	-	**6,174**	5,623
Individual finance receivables	**76,281**	18,113	**65,986**	17,318	**10,295**	795
Loans in arrears	**69,945**	160,087	**62,895**	154,001	**7,050**	6,086
	845,632	832,064	**708,262**	781,534	**137,370**	50,530
Reserve for possible sales receivables losses	**(36,822)**	(52,908)	**(33,208)**	(49,546)	**(3,614)**	(3,362)
Sales receivables, net	**808,810**	779,156	**675,054**	731,988	**133,756**	47,168
Value adjustments	**16,727**	13,479	**12,142**	10,844	**4,585**	2,635
Total sales receivables, net	**825,537**	792,635	**687,196**	742,832	**138,341**	49,803

(*) Investments jointly financed by the participation accounts.
(**) Investments exclusively financed by the Institution.

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

6. SALES RECEIVABLES (continued)

Movements in the reserve for possible sales receivables losses were as follows:

	2003	2002
Reserve at beginning of year	**52,908**	52,007
Provision for impairment	**30,504**	8,189
Losses attributable to participation accounts	**12,476**	9,836
Recoveries and write-off	**(46,570)**	(13,937)
Monetary gain (*)	**(12,496)**	(3,187)
Reserve at end of year	**36,822**	8,189

(*) Includes also the foreign exchange gain/loss incurred on reserve for receivables in arrears.

7. FINANCING INVESTMENTS

As of December 31, 2002, financing investments comprise advances given in Turkish lira to subcontractors for assets to be leased to customers.

8. PREMISES AND EQUIPMENT

	Buildings	Furniture& Fixtures	Motor Vehicles	Equipment	Leasehold Improvements	Total
At January 1, 2003, net of accumulated depreciation	16,166	602	362	2,927	597	20,654
Additions	2,145	907	789	2,268	312	6,421
Disposals, net	-	-	(44)	-	-	(44)
Impairment	(1,109)	-	-	-	-	(1,109)
Depreciation charge for the year	(928)	(283)	(325)	(1,659)	(177)	(3,372)
At December 31, 2003, net of accumulated depreciation	16,274	1,226	782	3,536	732	22,550
At December 31, 2002						
Cost	25,921	3,373	2,274	8,255	2,274	42,096
Accumulated depreciation	(9,525)	(2,771)	(1,912)	(5,328)	(1,677)	(21,212)
Net carrying amount	16,166	602	362	2,927	597	20,654
At December 31, 2003	**27,386**	**4,246**	2,606	**10,409**	**2,585**	**47,862**
Cost						
Accumulated depreciation	**(10,453)**	**(3,020)**	(1,824)	**(6,873)**	**(1,853)**	**(24,023)**
Accumulated impairment	**(1,109)**	**-**	-	-	**-**	**(1,109)**
Net carrying amount	**16,274**	**1,226**	782	**3,536**	732	**22,550**

As of December 31, 2003, the accumulated impairment loss of TL 1,109 represents the write-down of buildings to recoverable amount based on their expertise values.

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

9. OTHER ASSETS

Other assets comprise the following:

	2003	2002
Assets held for resale, net (*)	14,743	19,568
Transitory accounts	3,762	2,622
Prepaid expenses	530	-
Others(**)	1,666	2,217
Total	20,701	24,407

(*) Represent buildings and other fixed assets held for sale which were taken over from customers who have defaulted in payments of sales receivables. Reserve for impairment of TL 867 is provided based on the results of appraisal reports.

(**) Mainly includes receivables from banking services and expenditures made for loan customers.

10. CURRENT AND SAVING AND PARTICIPATION ACCOUNTS

	2003	2002
CURRENT AND SAVING ACCOUNTS		
Local currency deposits:		
Commercial and saving deposits	56,935	39,367
Foreign currency deposits:		
Commercial and saving deposits	145,053	113,695
Total current and saving accounts	201,988	153,062
PARTICIPATION ACCOUNTS		
Local currency deposits:		
Commercial and saving deposits	188,303	72,564
Foreign currency deposits:		
Commercial and saving deposits	568,484	701,816
Participation accounts	756,787	794,380
Value adjustments	5,013	4,374
Total participation accounts	761,800	798,754
Total	963,788	951,816

The Institution mainly collects deposits from local companies and local individuals.

Participation accounts include the gain or loss resulting from the investment activities of the Institution and there is no predetermined return on these accounts when depositing money.

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

11. OTHER LIABILITIES AND PROVISIONS

	2003	2002
Various payables (*)	**14,854**	10,293
Payment orders	**4,097**	8,238
General provisions	**4,092**	2,790
Taxes and duties payable	**3,623**	2,371
Employee termination benefits	**3,060**	2,646
Others	**2,068**	1,333
Total	**31,794**	27,671

(*) Includes mainly the payables to IMKB Takas ve Saklama Bankası A.Ş. and to member firms for credit card transactions and cash guarantees received.

12. INCOME TAXES

General Information

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

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

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

Effective from April 24, 2003, investment incentive certificates will not be required to utilize an investment deduction in calculating the corporate income tax base. No withholding taxes will apply to the investment deduction however the deduction will be limited to 40%.

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

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

12. INCOME TAXES (continued)

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

In 2003 and prior years corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code without any adjustment for inflation accounting.

With Law No. 5024 published on December 30, 2003 related with changes in Procedural Tax Code, Income Tax Law and Corporation Tax Law, starting from January 1, 2004, taxable income will be derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31,2003 balance sheet will not be subject to corporation tax, and similarly accumulated deficits arising from such application will not be deductable for tax purposes. Moreover, accumulated tax loss carryforwards related to 2003 and prior periods will be utilized at their historical (nominal)values in 2004 and future years.

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

Provision for taxes per income statement is given below:

	2003	2002
Corporation and income taxes- current	-	-
Deferred tax credit (charge)	5,809	2,003
Income tax credit	5,809	2,003

The institution has no current taxes due to the investment incentives.

Deferred income tax assets and liabilities as of December 31, 2003 and 2002 are attributable to the following items:

	Balance Sheet	
	2003	2002
Deferred income tax asset / (liability)		
Investment incentives	4,713	2,901
Restatement effect on premises and equipment	1,961	(2,304)
General reserve for possible loan losses	1,351	921
Employment termination benefits	1,010	873
Other temporary differences ,net	(5,869)	(9,010)
Net deferred income tax assets / (liability)	3,166	(6,619)
Allowance for deferred tax asset	(3,166)	-
Deferred tax asset/(liability)	-	(6,619)

As of December 31, 2003, no deferred tax asset has been recognized by the Institution for the amount above and also for the deferred tax asset effect of the leasing contracts of the Institution, not reflected above. The unrecognized deferred tax assets will be re-assessed at the next balance sheet date by the Institution and will be recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

12. INCOME TAXES (continued)

Movement of net deferred tax (liability) / asset is:

	2003	2002
Balance at January 1	**(6,619)**	(10,955)
Deferred income tax recognized in income statement	**5,809**	2,003
Monetary gain	**810**	2,333
Balance at December 31 ,2003 and 2002	**-**	(6,619)

13. SHARE CAPITAL

	2003	2002
Number of common shares, TL100, 000 (full TL) par value (authorized and issued)	**880,000,000**	410,000,000

As of December 31, 2003 and 2002, the Institution's historical subscribed and issued share capital was TL 88,000 and TL 41,000 respectively .

Movements in share capital (in numbers and in historical TL) of the Institution during 2003 are as follows:

	2003		2002	
	Number	TL	Number	TL
At January 1	**410,000,000**	**41,000**	265,000,000	26,500
Shares issued in				
- cash	**117,500,000**	**11,750**	100,000,000	10,000
- bonus shares issued out of revaluation fund	**217,500,000**	**21,750**	45,000,000	4,500
- bonus shares issued out of gain on sale of buildings and participation	**135,000,000**	**13,500**	-	-
At December 31	**880,000,000**	**88,000**	410,000,000	41,000

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

13. SHARE CAPITAL (continued)

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

	2003		2002	
	Amount	**%**	Amount	%
Albaraka Banking Group	**59,535**	**67.65**	-	-
Albaraka Investment & Development Co.	-	-	22,275	54.33
Islamic Development Bank	**8,650**	**9.83**	4,030	9.83
Mustafa Latif Topbaş	**4,284**	**4.87**	2,303	5.62
Fazıla Topbaş	**1,293**	**1.47**	695	1.69
Esra Topbaş	**1,293**	**1.47**	695	1.69
Other Foreign Shareholders	**6,325**	**7.19**	7,491	18.27
Other Domestic Shareholders	**6,620**	**7.52**	3,511	8.57
Historical Amount	**88,000**	**100.00**	41,000	100.00
Restatement effect	**81,412**		102,734	
Restated Amount	**169,412**	**100.00**	143,734	100.00

In 2003, the shares of Albaraka Investment & Development Co. and the most of other shareholders have been transferred to Albaraka Banking Group.

14. LEGAL RESERVES AND ACCUMULATED DEFICIT

Legal Reserves

As per Turkish Commercial Code, accumulated profits as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Company is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid up share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued share capital, without limit. It may be used to absorb losses.

Reserves held by the Institution as per the statutory financial statements (in historical terms) are as follows:

	2003	2002
Legal reserves	**5,021**	5,021
Accumulated losses	**(9,266)**	(10,344)
Current period income	**17,874**	1,078

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

15. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. For the purpose of these financial statements, shareholders and Topbaş Group companies are referred to as related parties. Related parties also include individuals who are principal owners, management and members of the Group's Board of Directors and their families.

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

The following transactions have been entered into with related parties:

Related party		Sales receivables	Participation accounts	Non-cash loans	Profit share income	Profit share expense
Topbaş Group	2003	**37,267**	**26,326**	**861**	**6,838**	**531**
	2002	32,247	42,235	7,557	3,007	1,366
Islamic Development Bank	2003	-	**26,995**	-	-	**956**
	2002	-	31,465	-	-	1,048
Others	2003	-	**4,474**	-	-	**622**
	2002	-	525	-	-	137
Total	2003	**37,267**	**57,795**	**861**	**6,838**	**2,109**
	2002	32,247	74,225	7,557	3,007	2,551

Directors' Remuneration

The executive members of the Board of Directors have received TL 58 during 2003 (2002 - None).

16. OTHER INCOME AND ADMINISTRATIVE AND OTHER EXPENSES

Other Income comprise the following ;

	2003	2002
Stamp tax	**3,490**	1,651
Gain on assets held for resale (*)	**-**	2,276
Other (**)	**2,292**	2,931
Total	**5,782**	6,858

(*) Gain from sale of assets held for sale which were taken over from customers who have defaulted in payments of sales receivables.

(**) Mainly includes expenditures made on behalf of credit customers which were subsequently collected.

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

16. OTHER INCOME AND ADMINISTRATIVE AND OTHER EXPENSES (continued)

Administrative and other expenses comprise the following;

	2003	2002
Tax expense related with Tax Amnesty Law (*)	**5,123**	-
Advertising expenses	**3,649**	3,441
Provision for impairment in premises and assets held for resale	**1,976**	-
Rent expenses	**1,320**	1,303
Loss on assets held for resale	**929**	-
Provision for employee termination benefits	**764**	959
Tax penalty	**-**	3,418
Other various expenses	**9,411**	8,180
Total	**23,172**	17,301

(*) Because of tax lawsuit and dispute with tax office, the Institution applied to benefit from Tax Amnesty Law on March 27, 2003 and April 7, 2003. Due to agreement with tax office, the institution paid TL 5,123.

17. COMMITMENTS AND CONTINGENCIES

In the normal course of its banking activities, the Institution undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include letters of guarantee and letters of credit.

The following is a brief summary of significant contingencies and commitments as of December 31, 2003 and 2002 :

	2003	2002
Letters of guarantee issued by the Institution	**56,440**	52,603
Commitments	**65,084**	75,326
Total	**121,524**	127,929

Letters of Guarantee -- are mainly issued on behalf of customers who entered into jurisdications in domestic market

Commitments -- are payment commitments to banks arising from international trade transactions of domestic importers and credit cards.

Commitments Relating to Investment Encouragement Certificates

The Institution has obtained investment incentive certificates from the Undersecretariat of Treasury for its various investments in financing leases. Such incentives include exemptions from custom duties on machinery and equipment to be imported and investment allowances of 40% to 100% of the approved capital expenditures.

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

17. COMMITMENTS AND CONTINGENCIES (continued)

Investment allowances take the form of a deduction from statutory taxable profits for the purposes of corporation tax calculation. In the financial statements, tax benefits relating to such allowances are recognized to the extent of the taxable differences that give rise to deferred tax liabilities after taking into consideration the other temporary differences (Note 12).

Litigation

As of December 31, 2003, there is one pending lawsuit filed against the Institution with a claim of US$250,000. The Institution has not reflected any provision in the financial statements considering the expectation of management based on advice from the legal counsel, that the case will be finalized in favor of the Institution.

18. FINANCIAL RISK MANAGEMENT

Credit risk

Financial instruments contain an element of risk that the counterparts may be unable to meet the terms of the agreements. This risk is monitored by reference to credit ratings and is managed by limiting the aggregate risk to any individual counterparty. The Institution's credit risk is concentrated in Turkey where the majority of the activities are carried out.

The concentration of the Institution's cash and non-cash loans exposure to industry groups is as follows;

	2003		2002	
	Cash	**Non-cash**	Cash	Non-cash
Textile	**184,898**	**10,097**	184,279	14,115
Food	**105,266**	**10,056**	80,364	18,503
Service	**86,380**	**9,473**	52,030	9,821
Construction	**62,153**	**17,849**	53,817	24,945
Chemical	**48,329**	**7,162**	51,513	7,594
Machinery	**45,147**	**6,039**	42,241	7,259
Manufacturing	**44,474**	**8,183**	43,202	9,342
Transportation	**37,135**	**6,779**	41,308	9,464
Metal	**34,620**	**5,178**	41,263	202
Energy	**22,682**	**5,033**	28,693	231
Paper	**12,702**	**5,111**	21,052	269
Mining	**4,689**	**5,106**	1,864	6,977
Finance	**3,408**	**5,010**	3,798	359
Technology	**1,349**	**5,068**	2,816	236
Corporate loans	**693,232**	**106,144**	648,240	109,317
Consumer loans	**76,281**		18,113	
Credit card receivables	**6,174**		5,623	
Interest accruals	**16,727**		13,479	
Loans in arrears	**69,945**		160,087	
Provision for possible loan losses	**(36,822)**		(52,908)	
	825,537	**106,144**	792,635	109,317

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

18. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Institution within the normal terms of trade. To manage the risk, the financial liabilities of large customers are regularly assessed by the Institution. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. Depending on the results of liquidity risk assessments and analyses, the Institution does not permit the liquid assets, to be lower than 8% of deposit balances.

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

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Unallocated	Total
As at December 31, 2003							
Assets							
Cash and balances with the Central Bank	34,451	-	-	-	-	-	34,451
Deposits with banks and other financial institutions	68,196	-	-	-	-	-	68,196
Reserve deposits at the Central Bank	-	-	-	-	-	82,116	82,116
Investment in associates	-	-	-	-	-	30,336	30,336
Sales receivables ,net	149,800	99,855	212,224	220,093	93,715	49,850	825,537
Financing investments	-	-	-	-	-	-	-
Premises and equipment	-	-	-	-	-	22,550	22,550
Other receivables and assets	-	-	-	-	-	20,701	20,701
Total assets	252,447	99,855	212,224	220,093	93,715	205,553	1,083,887
Liabilities:							
Current and saving accounts	201,988	-	-	-	-	-	201,988
Participation accounts, net	547,786	152,894	56,107	-	-	5,013	761,800
Other liabilities and provisions	-	3,623	-	-	-	28,171	31,794
Deferred tax liability	-	-	-	-	-	-	-
Total equity						88,305	88,305
Total liabilities and equity	749,774	156,517	56,107	-	-	121,489	1,083,887
Net liquidity gap	(497,327)	(56,662)	156,117	220,093	93,715	84,064	-
As at December 31,2002							
Total assets	550,064	38,216	54,423	159,315	-	261,416	1,063,434
Total liabilities and equity	689,802	177,653	65,610	-	-	130,369	1,063,434
Net liquidity gap	(139,738)	(139,437)	(11,187)	159,315	-	131,047	-

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

18. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Exchange rate risk indicates the possibilities of the potential losses that the Institution is subject to due to the exchange rate movements in the market. The Institution does not enter into any derivative contracts to hedge its foreign exchange exposure. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated asset and liabilities.

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

	Turkish Lira	US Dollars	Euro	Others	Total
As at December 31, 2003					
Assets					
Cash and balances with the Central Bank	15,776	11,888	6,761	26	34,451
Deposits with banks and other financial institutions	14,245	32,562	20,291	1,098	68,196
Reserve deposits at the Central Bank	5,974	49,633	26,509	-	82,116
Investment in securities	30,322	14	-	-	30,336
Sales receivables ,net	259,541	363,345	202,651	-	825,537
Premises and equipment	22,550	-	-	-	22,550
Other receivables and assets	19,918	783	-	-	20,701
Total assets	368,326	458,225	256,212	1,124	1,083,887
Liabilities					
Current and saving and participation accounts	248,442	468,798	245,998	550	963,788
Other liabilities and provisions	24,170	5,119	2,477	28	31,794
Total equity	88,305	-	-	-	88,305
Total liabilities and equity	360,917	473,917	248,475	578	1,083,887
Net on-balance sheet position	7,410	(15,691)	7,737	544	-
Off-balance sheet position	-	-	-	-	-
At December 31, 2002					
Total assets	190,578	622,511	247,753	2,592	1,063,434
Total liabilities and equity	226,633	589,350	244,514	2,937	1,063,434
Net on balance sheet position	(36,055)	33,161	3,239	(345)	-
Off-balance sheet position	-	-	-	-	-

Interest Rate Risk

The Institution is exposed indirectly to interest rate risk because of the non-interest bearing structure of its financial statements. The Institution utilizes funds with a pre-determined profit rate and receives deposit on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Institution, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Institution.

18. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

To monitor the adequacy of its capital, the Institution uses ratios established by Banking Regulation and Supervision Agency (BRSA) and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Institution's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. For the year ended December 31, 2003 and 2002, the Institution's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Fair values of sales receivables are considered to approximate their carrying values as the profit shares applicable to those receivables are in line with market rates which are sensitive to interest rates and due to short-term nature of these receivables. The fair value of the whole fund portfolio is estimated by assessing the risk components of the portfolio

Fair values of participation accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other financial assets and liabilities, fair value is estimated to approximate carrying value due to their non-interest bearing structures.

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