


ALBARAKA TURKISH FINANCE HOUSE
ANNUAL REPORT 2002



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“Kilim”: The Turkish word for a rug. The “kilim” of Aksaray region is woven from sheep wool and coloured by madder, known as alizarin. The so called “hands on the waist” pattern used in weaving represents abundance (which means Albaraka) and fertility.

2002

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From emotions to art, from art to life



KILİM

THE MESSAGE OF A KILİM



What's a "kilim" all about?
How does it express itself?
What on earth is it to us?
Where does it stand?

It goes without saying, that to know what's behind a "kilim" a careful eye and to be all ears is a must; after all, all is there, it's self-explanatory.

Traces of centuries old bygone years are indeed all too well carved in its colours, patterns, loops and material up to the point evidencing the very soul, that has given life to it, and the very places it had stayed, and the very lands it had settled.

The very Turkish spirit with its whole-life variations, running down through the very times of its heyday is seen as been all absorbed by our good old "kilim"



THE MESSAGE OF A KILİM

"Kilim": An Elegance of a Thousand Years

Looking back to the past we witness, that the Turkish nomads of the Central Asia were known to be the first to weave "kilim". Involved in husbandry, these nomads were using the sheep's wool or goat's hair as the very raw material of the "kilim". The colouring was done by madder also known as alizarin. The nomads used these "kilim" in various ways; such as, inside their tents as

upholstery or sometimes as a cradle blanket for the babies or as a saddlebag on the horses or in times of cold winter nights as a kind of a packsaddle to spread of the horses. This type of weaving used by the nomads, that had migrated from Central Asia to Iran, Anatolia and the Caucasia is still being continued today with its same beauty. However the Turkish "kilims" are well distinguished from the others, owing to their patterns, lively colours and varieties and are renowned worldwide.



We have woven "kilim".
Still doing so.

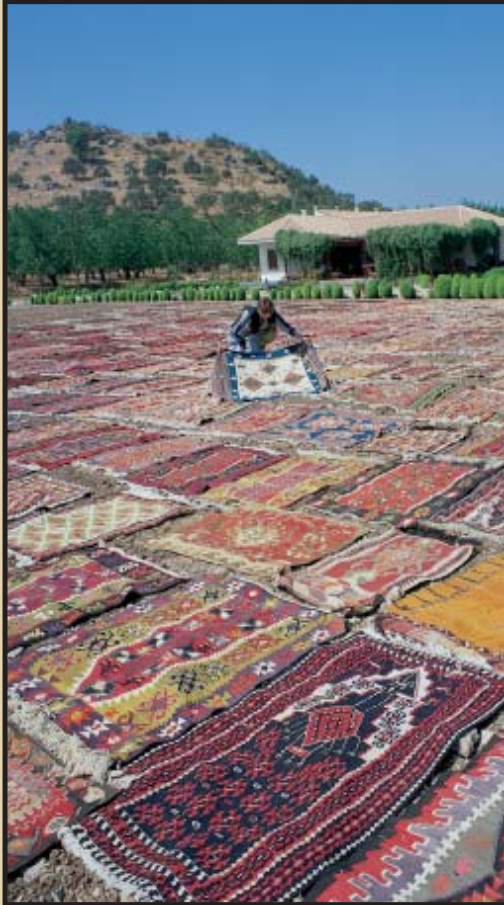
Indeed that is very important in witnessing the ongoing life.

Well after all who is to be the patron of life.
Is this not more important?

After all isn't our very lives, our own "kilim"?
Yes indeed! We, the very ourselves are inherent in every "kilim" of which is woven loop over loop, colour over colour and pattern over pattern with the very inspiration coming deep inside from our very heart reflecting our very soul. Each "kilim" tells a story, the actual story of our nation; it tells our people's craftsmanship, it tells our people's feelings, it tells our people's yearnings, it tells our people's abstractive capabilities, it tells our people's finesse, delicacy, refinedness in coping with the everyday needs, and perhaps above all, it tells our people's identity and civilisation.



THE MESSAGE OF A KILİM



There is no need to go back far to the past or to go wondering around much.

After all that is Anatolia.

Here are our good old Anatolian "kilims". With their hanging yellow amber eaves, with their stretching and spreading chain of bean patterns all over, with their reckless and diagonal passages resembling transition from childhood to youth, with their red tone nearing to that of the earth and the relaxing tune of the blue, all this is Anatolia running throughout from Uşak to Van, from Ladik to the horizons of Siirt, from multi-coloured Maraş to Taurus plateaux. A falcon looking over the castle of Kars or the reflection of the Erciyes Mountain over the Kayseri plain. A Bünyan, a Fethiye or perhaps an Eşme wedding.

Each everywhere in every corner that we step our foot on or where it meets the eye.

Modest well it may be, but yet with strong personality and dignified they all stand.

A ballad from the inner Anatolia, and a touching O God! remark of the east.

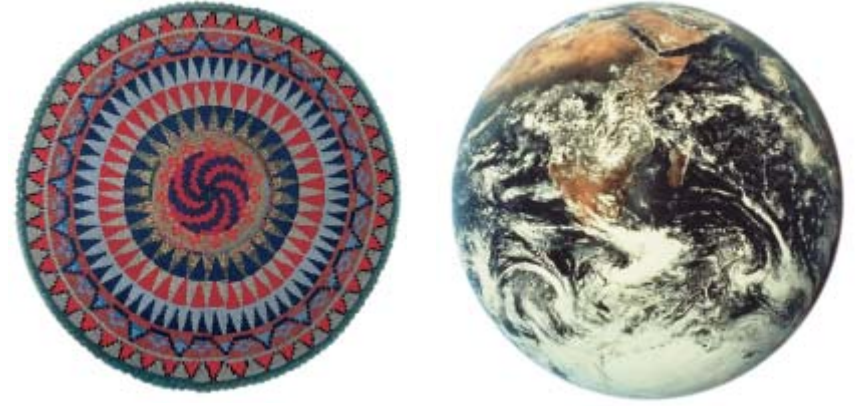
Standstill and just listen, you'll surely hear the whole lot of the Turkish poetry running through.

O "kilim"! our good old "kilims", a mark of our distinguished craftsmanship, a striking example of our very riches.

An emotional anthology, an all run through. The best of the art from the people, that of our very people.

Above all, it is the very life itself, it is all there, everlasting

It is struggle. It is the past and the future.



ALBARAKA TÜRK
LOCAL YET MUCH UNIVERSAL AS "KİLİM"

Now finally, a few words about Albaraka Turkish Finance House, shortly ALBARAKA TÜRK itself; It is an intermingling of the new and the old; it is the very contemporary face of our people, yet as deeply rooted as the good old "kilim".

At every branch there you find the total finesse, delicacy and perfection of a "kilim" at its utmost. At every branch there you find the very integrity, totality, wholeness, completeness of a "kilim" at its utmost.

Every morning a door opens ajar, as to life and as to serving, identical to laying a "kilim". ALBARAKA TÜRK has marked itself with a unique identity among all the finance houses, just like a "kilim", it has been welcoming, embracing all within its reach. It has been sparing no effort in serving clients whenever needed

The young, skilled, perfectionist and productive hands that had been weaving "kilim" until formerly, now still are showing the same tour de force, but this time in banking. They are offering their services in leasing, imports, exports, participation accounts, transfers, foreign exchange, in all varieties as colour over colour, loop over loop. In every corner of the country, so as to name few; in Bursa, Konya, Istanbul, Kayseri, İzmir and it stretches afar to many parts of Anatolia.

Yes indeed, the drive for serving is running in full course.



ALBARAKA TÜRK



ABDUL LATIF OMAR GHURAB
Chairman

Chairman's Letter

It is my pleasure to present to you the 18th Annual Report of Albaraka Turkish Finance House (ALBARAKA TÜRK) for the year ended 31st December 2002.

The year 2002 witnessed a relatively considerable recovery of the Turkish economy from the severe crisis conditions of the previous year, as manifested in a visible deceleration in inflation rate and an estimated Gross National Product (GNP) growth of as high as nearly 8 percent.

Despite continued difficulties in the Turkish Economy, in general, and in the banking sector, in particular, ALBARAKA TÜRK maintained its long-term targets of further expansion and diversification in its business activities. In the light of its high future potential in the Turkish market, in mid-ALBARAKA TÜRK made a strategic move to retail banking where it plans to increase the share of retail financing in the total portfolio up to around 30 percent over the next few years; the results we have already obtained in a considerably short period of time, are quite encouraging.

In the year 2002; we opened two more branches in the two economically most active areas of Istanbul, thus bringing the total number of our branches to 24 throughout Turkey. In addition to our "bricks-and-mortar" branches, we also continue to invest in "Alternative Distribution Channels", in order to better serve our customers on a 7 days/24 hours basis. Accordingly, our internet branch (internet banking) which was started in mid-2002, and our recently launched Call Center (telephony banking), appear to have received a considerable welcome as the number of our customers' using these facilities are growing fast; preparations for installing ATMs (Automated Teller Machines) are also about to be finalized, and this service will soon be rendered to the use of our customers.

The pre-tax company profit of 2002 according to IAS was TRL 7 trillion and 14 billion. With the purpose of strengthening our capital base, we continue to raise our capital. On 24th April 2003, the General Shareholders' Assembly decided to raise the paid up capital from TRL 41 trillion to TRL 60.5 trillion. A further increase in paid-up capital to TRL 88 trillion is also planned during the course of year 2003.

In closing, I hope that the year 2003 would bring new opportunities and successes to Turkey and to Albaraka Turkish Finance House.

With my profound regards,



ABDUL LATIF OMAR GHURAB
Chairman





FEHMI AKIN
General Manager

General Manager's Letter

Outward orientation and structural transformation of the Turkish economy during the last twenty years had led to radical changes in the way of thinking and aspirations of the Turkish community as widening its horizons. Keeping in step with the constant fast-pace of the developed world in their run for realising the "information society" has become a common goal nearly in the every section of the Turkish community.

Though yet being far from producing "information" itself, we are more than willing and assertive in applying the ways and means of "information" in our lives and enterprises alike. Today Turkey's transformation from an "industrial" to an "information" society, though with some delay is taking place at an identically fast-pace to that of the modern world.

In the past, information and technological breakthrough had been taking place in every hundred years. Now this period has been reduced to ten and even to five years. Each new breakthrough in "information technology" is forcing change and restructuring in businesses, markets and all sectors of the economy.

Finance is the leading sector among all the rest of the sectors in which the need for such a change at constant fast-pace is utmost felt and where competition and what is more survival depends solely by keeping in step with such a pace. The ageing traditional technologies and corporate structures together with the fast running-out traditional business ways and means inherent in this sector have led the long standing goal of offering services at the "fastest-pace, highest quality and at lowest cost" to become a basic indispensable objective, where all the technological breakthrough has been geared to achieving this prime objective as much as possible.

The specific role of the interest-free finance houses in the economy has been pronounced by the financial developments taking place in the world economy. Today the number of countries where interest-free banking is being practiced has reached sixty, worldwide.

Since 1985 ALBARAKA TÜRK has succeeded in introducing a different approach to the Turkish finance sector by offering a new model and understanding which it represents. For the new term it has determined, its initial principal objective as to offer speedwise, qualitywise and costwise the most favourable means in its services as to match the exact needs of its clients. Consequently it has selected the most appropriate structuring as a top priority.

Albaraka Turk, which has always been a step ahead of its competitors in adjusting itself to the changing conditions, has also been able to match the demands of the "information society" with great efficiency. Needless to say that, in responding to the contemporary banking demands of its clients as quickly and perfectly as possible,

ALBARAKA TÜRK is showing the due care for the technological and human resources development.

ALBARAKA TÜRK's investments in technology comprises a wide spectrum consisting of: Branch modernisation, the constituting of state-of-the-art distribution channels such as the internet and call centres, the constant updating of the equipment and the operational systems.

Our activities concerning the development of the human resources include:

The employment of highly-qualified staff, the in-house training of the staff concerning the contemporary developments within the sector, the contemporary financial approaches, ways and means, equipment and operational matters.

Maxims such as "To be better than the day before" and "To provide the best service to the client" are the founding principles of Albaraka. It is in the light of these, Albaraka Turk in the new term is determined to multiply its service range, its ways and means to reach clients, to increase the quality and the pace of its services.

ALBARAKA TÜRK's new vision is set as to become the top player as a regional foreign trade bank between Turkey and the countries in the Gulf, Middle East and North Africa where ALBARAKA TÜRK's major shareholder ABG (Dallah AlBaraka Group) banks are operating. The main strategy in attaining this target is to play an active and effective role in the foreign trade taking place between Turkey and the regional countries and in so doing to utilise the Group's formidable synergy. On the other hand; in the year 2002 ALBARAKA TÜRK has established its individual banking unit in order to cater for the individual financial needs in housing, business and vehicles. Albaraka Turk's main target concerning the individual banking is to raise the share of the funds of this type of financial instrument up to 50% of the total funds in five years time.

As ALBARAKA TÜRK, our foremost effort would be constantly to increase our service quality and to diversify our product and service range and in so doing to provide the best quality and services rightfully deserved by our clients and shareholders alike. Fortified by the support and confidence of our customers, our main target would be to continue as being one of the leading institutions as in the past.

Indeed, our aim in this fast-paced world is to respond to our clients' demands today and tomorrow in the best possible manner, and to provide the clients with "six sigma" services which they rightfully deserve, certainly all this is to be done within the principles of interest-free banking.



FEHMI AKIN
General Manager



TURKISH ECONOMY



THE TURKISH ECONOMY 2002

The year 2002 witnessed a relatively considerable recovery from the severe crisis conditions in the previous year, with further recovery anticipated for the year 2003.

(a) Following a record-level contraction of as high as 9.5 percent in the year 2001, the Gross National Product (GNP) grew by around 7.8 percent (according to provisional estimates) in 2002. Main contributors to the growth in 2002 were industrial output growth followed by commerce and agriculture, whilst the construction sector, traditionally a key sector in the economic activity, continued its stagnant state.

(b) The exchange rate (TRL against hard currencies) has been following a rather interesting course since February 2001 when the exchange rate was left to free float. There has been substantial oscillation in the exchange rate going up as high as 1.7 million TRL to a US Dollar and then coming down to 1.3 million TRL, exposing economic agents, especially importers and exporters and those whose activity is related to foreign currency, to uncertain and highly unpredictable future prospects, even over a reasonably short-term planning horizon. Judging from other countries' experiences, however, such a wide-band swing in the exchange

rate in the form of an "over-shooting" and "under-shooting", is an expected phenomenon in the process of transition from an essentially managed exchange rate regime to a complete free floating. As a future expectation, we are of the opinion that Turkey has chosen a "right" exchange rate regime under which we may not anticipate unduly sharp future oscillations of the same nature and magnitude in the exchange rate and in which the destabilizing impact of the speculative end of the market is largely mitigated.

(c) Perhaps the most visible macroeconomic improvement in the current year, has been on the inflation front. Current inflation rate going up as high as 92 percent (according to wholesale prices) and 73 percent (according to consumer prices) by the first month of 2002, mainly as a result of sharp devaluation of the local currency, has since been on a persistently declining trend. By the end of December 2002, the annual rate of inflation was observed to have declined to 32.6 percent and 26.4 percent, respectively, according to wholesale and consumer prices.

(d) According to the 2002 year results, the current account performance appears to be better than initially expected. Whilst there is an obvious increase in the trade deficit,

TURKISH ECONOMY



current account yielded a small surplus in the year 2002. Export revenues rose by 12.0 percent whilst imports were up by 22.8 percent. Together with a fairly balanced situation in the capital account and a 7-8 billion US dollar rise in the Central Bank's (official) foreign reserves there exists no major and unmanageable pressure on the exchange rate, that may originate from the balance of payments.

(e) The local financial markets, displaying a rather cautious stance in the wake of the November elections have reacted to the election outcomes very positively, driving the unacceptably high risk premiums down to more reasonable levels, if not yet to international norms. There had been a substantial fall in market interest rates almost by 30 percentage points in nominal terms, a rally which was stopped and somewhat reversed with the outbreak of war in Iraq, with the prevailing interest rates floating still above the targeted levels.

(f) The year 2002 was another rather difficult year for the banking system, in terms of low business volume, declining spreads, increased competition and expected adjustment problems during transition from a high-inflation to lower-inflation state. The Banking Regulation and Supervision

Agency now puts a greater emphasis on strong capital base for banking institutions.

(g) According to the latest available statistics of the State Institute of Statistics (based on Household Labour Survey), "open unemployment" rate furthered from 8.0 percent in Q3 of the previous year to 9.9 percent in the corresponding quarter of the current year. Open unemployment problem is more pronounced in urban areas (14%) as compared to rural areas (4.6%) where disguised unemployment is traditionally more pervasive.

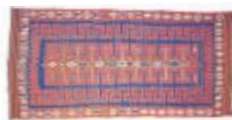
There are reasons to look into the year 2003 optimistically, in view of the long desired political stability with the formation of the new majority government, the government's announced firm commitment to the previously signed IMF accord and visible improvement in the economic fundamentals since the last crisis. Whilst the expected negative impacts of the war in Iraq may have some repercussions on the economic targets for the year 2003, perhaps requiring some upward adjustment in the inflation target, a successful public debt management in the current year will substantially contribute to putting the economy back on a more stable long term growth path.



277x180 cm * Balkeisir-Mantia



337x185 cm * Southeast Anatolia



382x181 cm * Afyon-Kütahya



160x112 cm * Balkeisir-Mantia



210x164 cm * Balkeisir



226x161 cm * Balkeisir

WORLD ECONOMY



THE WORLD ECONOMY IN THE YEAR 2002

We had just left behind a year to be remembered for its geopolitical risks and stagnant economy. According to the International Monetary Fund (IMF) data, the global economic growth rate for the year 2002 has been realised at 2.8 percent falling behind the estimates of the previous year. According to the Economic Development and Cooperation Organisation (OECD) report, the average economic growth rate of the thirty biggest economies had been 1.5 percent in the year 2002.

As it has always been the case, the performance of the U.S. economy had played a determining role concerning the trend of the global economy. The U.S. economy which had left behind the year 2001 with a negative climate due to the 11 September attack had also deeply felt the negative effects of the geopolitical risks that had appeared with the fear of war as from the second half of year 2002. In addition to

the above, fears over the fragility of the U.S. economy had triggered the depreciation of the US Dollar at a rate of 14 percent against the Euro in the year 2002. While a decrease in consumption and investment had been observed, certain accounting scandals lived through certain U.S. companies had rocked the U.S. stock exchanges.

The determination of the U.S. economic administration in continuing the policy of a "strong dollar" has been driving to the prevailing opinion in the international markets in that the US Dollar is overvalued. It is thought that the continual decrease in the consumption and investment coupled with the effect of increase in the oil prices would inevitably lead to a stagnant U.S. economy. These fears coupled with an increase in the current account's deficit is causing to a loss of confidence in the US Dollar. It is expected that the decreasing domestic demand in the U.S. economy



189x148 cm * Çanakkale-Balkesir



209x142 cm * Çanakkale-Balkesir



202x152 cm * Çanakkale



445x159 cm * Kütahya



124x104 cm * Kayseri



199x135 cm * Northern Anatolia

WORLD ECONOMY



would continue in 2003 and the positive effect of the tax rebate due for the year 2002 as to revive the U.S. economy may have a limited effect due to a war. It is expected that the U.S. economy which had grown by 2.3 percent in the year 2002 would grow at 2.6 percent in 2003, however the counter effects of a possible war may decrease the growth rate.

At the Euro Zone the year 2002 had started with the common currency unit, the Euro, replacing the national currencies of the member states. According to the OECD data the Euro Zone had recorded a 0.8 percent growth in the year 2002, falling far behind the U.S. economic growth rate. The inflation rate had been realised as 2.2 percent in the year 2002. It is expected that the economic growth rate for the year 2003 would reach 1.8 percent while the inflation for the same year would be reduced to 1.9 percent. The

negative signs are coming up from Germany, the most strong economy of the region, signalling for difficult times ahead for the Euro Zone. The unemployment rate in Germany for the year 2002 had reached 9.7 percent and the lowest growth rate since the year 1993 with a rate of 0.2 percent was observed. Especially the increasing budget deficits threaten the German economy and this situation also strengthens the negative expectation at the Euro Zone.

On the other hand, some analysts are expressing a certain expectation for an economic revival, that would occur with the participation of the ten states to the EC, stating that by then, EC would become the largest trading union occurred until now. However on the contrary it is expected that such an enlargement would bring in a burden with significant difficulties, namely where eight out of ten states are ex-Eastern Block states, the differences and the contrasts

WORLD ECONOMY



between the Euro Zone and them would not be overcome easily. This point of view argues that even a short-term recession may be forthcoming to the Zone due to this enlargement.

Concerning the other top players of the world economy, negative expectations are surpassing in Japan. Negative inflation rate had been surpassing for the last three years. The inflation rate for the year 2002 had been -1 percent while the figure for the year 2003 is expected to be -1.6 percent. Apart from the decreases in investments, a 5.5 percent rate of unemployment is also an indicator of a recession. Though Japan is trying to balance out the over production by exporting abroad, this attempt is countered by global stagnancy and increasing competition by means of cheap labour abroad. The finance sector has been adversely affected by the general recession and the problems occurring during the paying back of the credit loans in relation to the

fall in profits. Decreasing loan facilities due to increasing risks has speeded up bottlenecks in the economy.

The Asian economies are coming up strongly as being the driving force behind the global growth. In the year 2002 the regional economies has shown a 5.6 percent growth rate, a higher rate compared to the other regions. In this region China is the top economic player, followed by Indonesia, Malaysia and Singapore which are also showing positive signs.

The evaluation of the World Bank for 2003 indicates that the risk of the global recession is due to continue. The World Bank report indicates that while the regional differences in the economic growth are worthwhile to note, attention is drawn to the decreasing foreign direct investments (FDI) to the developing countries.



196x127 cm * Afyon



151x124 cm * Balıkesir-Çanakkale



169x129 cm * Denizli

WORLD ECONOMY



The OECD experts are estimating revival of the global economy from the second half of the 2003 onwards. While it is expected that Asian economies would play an important role in the revival, signs of danger would continue to come from Latin America.

While IMF is expecting an economic growth at a rate of 3.7 percent, OECD's estimates show a 2.2 percent economic growth for the first thirty economies for the year 2003. While IMF is stating that the impact of the sudden decreases in the world stock exchanges would be much destructive while the instability of the U.S. Dollar carries risks. It is expected that in the year 2003, Euro would protect its already gained value vis-à-vis the U.S. Dollar, where the US Dollar / Euro parity would be above 1.

As a result in the year 2003 the world economy would run a period under the pressure of a static global economy derived from the year 2002. However there is a possibility that the referred pressure may be relaxed or may disappear altogether paving the way for an economic revival.

SOURCES:

- The European Central Bank (2003) Monthly Bulletin - January 2003
- International Monetary Fund (2002) Global Financial Stability Report Market Developments and Issues
- International Monetary Fund (2002) World Economic and Financial Outlook
- World Bank (2003) Global Economic Prospects and the Developing Countries



378x146 cm * Ekişehir

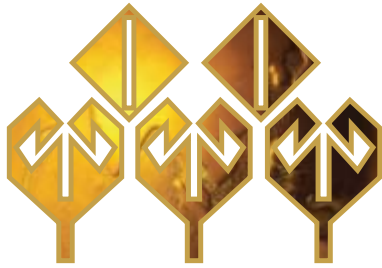


455x173 cm * Ekişehir



155x94 cm * Ekişehir

ALBARAKA TURKISH FINANCE HOUSE



ALBARAKA TURKISH FINANCE HOUSE IN BRIEF

Albaraka Turkish Finance House, shortly ALBARAKA TÜRK is the first interest-free finance house in Turkey. It had completed its establishment by the year 1984 and started operating since the beginning of the year 1985. The operations of Albaraka Turk is subject to common Bank's Act Nr.4389. Albaraka Turk has been initiated by Dallah Albaraka Group, one of the most prominent group's in the Middle East, Islamic

Development Bank (IDB) and a local industrial group having served the Turkish economy for more than a half of a century. In the present shareholding structure the foreign shareholders hold 82.43 percent and the local shareholders hold 17.57 percent of the shares respectively. The shareholding structure of ALBARAKA TÜRK itself is the very guarantee of confidence and high standing.

THE SHAREHOLDING STRUCTURE OF ALBARAKA TURKISH FINANCE HOUSE

Foreign Shareholders	% 82,43
Dallah Albaraka Group	% 64,42
The Islamic Development Bank	% 9,83
Alharthy Family	% 5,00
Other Foreign Shareholders	% 3,18
Local Shareholders	% 17,57

* As of December 31st, 2002

ALBARAKA TURKISH FINANCE HOUSE



Albaraka Turk generates funds by means of current accounts and profit and loss participation accounts, and in return allocates these funds in the ways of retail financing, trade financing, leasing and project based profit/loss partnerships to the retail and the corporate clients as to meet their financial requirements, in so doing it provides gains for the national economy. Albaraka Turk is authorised as to conduct all types of national and international banking operations.

Albaraka Turk has set-up its vision as to become the regional top player in offering financial products and services between Turkey and the countries in the Gulf, Middle East and North Africa where Albaraka Turk's major shareholder DBG (Dallah

Albaraka Group) banks are operating. It is also offering fast-paced, high quality and secure foreign trade (import, export and foreign exchange) intermediary services by means of its web of more than 140 correspondent banks based in more than 40 countries worldwide spreading from Singapore to the United Kingdom, from South Africa to China, from Australia to Morocco. Albaraka Turk is also becoming strong in retail banking, and sparing no effort in adding value to its shareholders, employees, clients, community and to the environment by being a universal bank. It has total of 24 branches where 9 branches are located in Istanbul and 15 branches are spread around important industrial and trading centres.



198x118 cm * Eskigbir



128x105 cm * Eskigbir



172x127 cm * Eskigbir



450x180 cm * Konya-Nigde



422x154 cm * Anadolu



365x159 cm * Nigde-Aksaray

BOARD OF DIRECTORS

B O A R D O F D I R E C T O R S

Chairman	: Abdul Latif Omar GHURAB
Vice Chairman	: Yalçın ÖNER
Member	: Dr. Naji Mohyuddin NAZER
Member	: Dr. Abdul Razzak KAMEL
Member	: Faisal Abdulaziz AL ZAMEL*
Member	: Osman AKYÜZ
Member	: Fehmi AKIN

* Appointed upon demising of Dr. Morteza GHAREHBAGHIAN.

GENERAL MANAGEMENT

G E N E R A L M A N A G E M E N T

General Manager	: Fehmi AKIN
Senior Deputy General Manager	: Dr. Adnan BÜYÜKDENİZ
Deputy General Manager	: Ahmet ERTÜRK
Deputy General Manager	: Salim ALKAN
Deputy General Manager	: Fahrettin YAHŞI
Senior Legal Counsellor	: Nihat BOZ
Head of Auditing Group	: Mitat AKTAŞ
Information Technology Manager	: Temel HAZİRÖĞLU
Corporate Banking Manager	: Yüksel GÖRGEÇ
Retail Banking Manager	: Bülent TABAN
International Division Manager	: Mehmet Emin ÖZCAN
Marketing Manager	: Mehmet Ali VERÇİN
Financial Affairs Manager	: Ahmet OCAK
Operations Manager	: Mahmut Esfa EMEK



213x132 cm * Konya



429x139 cm * Konya



441x184 cm * Konya



427x167 cm * Konya



438x141 cm * Konya



404x168 cm * Ankara-Tokat

SERVICES



SERVICES RENDERED

1. Fund Generation**A- Current Accounts**

These are sight deposit accounts that may be withdrawn in whole or part whenever requested by the depositor. Such accounts may be opened either in local or foreign currencies. Holders of current accounts are neither paid any profit nor any sort of money under whatever name, they are only paid the principal. Holders of current accounts are being offered all types of banking services (such as money orders, transfers, collection of cheques/promissory notes etc.) Current accounts are fully underwritten by Albaraka Turk.

B- Profit / Loss Participation Accounts

These are time deposit accounts in Turkish Lira, US Dollar and Euro currencies and are opened on the basis of profit

and loss participation whereby the funds thus collected are directly used in interest-free financing of trade and industry and the due profit shares are paid out to the account holders. Participation accounts may be opened for 1 month, 3 months, 6 months, 1 year or longer terms.

Participation accounts can be opened at Albaraka Turk branches, and where our branches are not available, they can be opened through our correspondent bank branches. Also, the principal and the profit shares could be collected from the same branches by the clients. All Akbank branches currently are offering correspondent bank services nationwide. Clients residing abroad can open Participation accounts through our below referred correspondent banks.



157x104 cm * Kayseri



530x175 cm * Antalya



278x155 cm * Konya-Elkizehir

SERVICES

**a) For Euro currency**

The Bank of New York, Frankfurt
Account Nr: 0049 609710
Commerzbank AG, Frankfurt
Account Nr: 400 886 3078 01
Citibank AG, Frankfurt
Account Nr: 411/5041/016

b) For US Dollar

The Bank of New York, New York
Account Nr: 890-0033-150

Citibank N.A., New York
Account Nr: 36112821

The transfers for the Participation accounts sent through

the correspondent banks abroad or locally are operative as of the day they are credited to the accounts. The due profit shares relating the Participation accounts are calculated every weekend at the end of each Friday working hours. The due profit shares are announced on the daily newspapers as of the beginning of each week.

2. Fund Utilisation**A-Corporate Finance**

Albaraka Turk, as per its founding principles which does not deal in Treasury Bills, government securities and any other similar financial instruments, from the establishment date onwards, utilizes its sources in meeting the requirements of trade and industry. In connection to this, by means of a well experienced team of experts knowing trade and industry inside out, it had built a very selective credit loans portfolio,



328x145 cm * Anatolia



311x176 cm * Balikesir



375x164 cm * Antalya

SERVICES



and thus was able to survive successfully from all the economic crises that had hit the local economy in the recent years. Albaraka Turk, in evaluating the corporate marketing and the credit loan requests is using the most advanced and universal banking techniques; by taking into account the factors of security, organisation and productivity, it runs a selective process on segmental basis so as to enable risk diversification and to increase productivity.

As Albaraka Turk our basic aim in the corporate banking, amid the constant change and high competition at the financial markets, is to offer our clients project-based solutions in providing them with more effective and productive financial means responding to their respective banking needs and to build long run relations with them.

The fund utilisation methods offered in relation to the corporate finance are as follows:

• Finance For Production

Financing is provided to the enterprises applying to buy raw / finished or semi-finished materials, machinery and equipment for their operations. Albaraka Turk purchases the goods in cash from third parties on behalf of the enterprise and sells to the enterprise on credit basis.

• Leasing

In accordance with the Financial Leasing Act no. 3226, Albaraka Turk procures movable and immovable goods and leases them. Period of the leasing contract should not be less than 4 years (for some types of goods this period may be decreased to 2 years). After collecting the installment proceeds in accordance with a pre-set schedule between Albaraka Turk and its client, the ownership of the leased goods are transferred to the client at the end of the contract period.



265x95 cm * Antalya-Iparta



375x160 cm * Hatay-Sivas



449x186 cm * Sivas-Gaziantep



SERVICES

• Profit / Loss Participation

This is the means to provide funds to persons and enterprises in return for participating to their profit / loss which may occur from their all or particular activities or from buying / selling of a particular good. In order to provide funds to persons and enterprises in return for profit / loss participation, Albaraka Turk signs a "Profit-Loss Participation Investment" contract with them, and participates to profit / loss at the rate determined in the contract. The due share and the guarantees to be received by Albaraka Turk relating to the profit / loss participation would be indicated very clearly in the referred contract.

• Trading on Documents Against Goods

In accordance with the Incoterms and current regulations on foreign exchange regime, Albaraka Turk can buy documents representing import goods against cash in order to resell to the party using the funds on deferred payment

basis at a higher price based on a contract made between Albaraka Turk and the party using the funds.

• Documentary Credits

Albaraka Turk effects all types of operations of its clients relating to the documentary credits such as, issuing letters of guarantee as locally or internationally, letters of credit for imports, confirming letters of credit for exports, accepting avalisation. All this is being realised within the framework of the Banking Law and the related regulations and the corporate banking principles.

B- Retail Finance

This is the means where Albaraka Turk pays sellers for the goods or services on behalf of buyers by debiting the buyer. The funds are available only for retail use by persons and not for any business purposes. These operations include:



348x152 cm * Kutahya-Konya

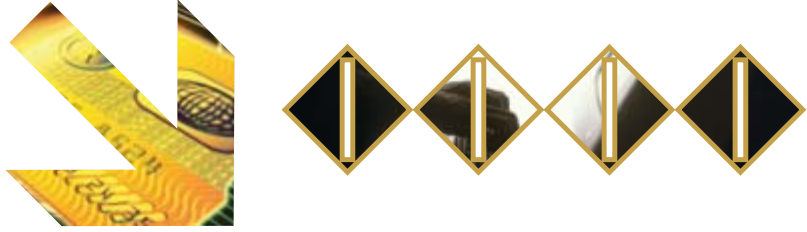


329x164 cm * Gaziantep-Malatya-Sivas



93x88 cm * Gaziantep-Malatya

SERVICES



- Housing Finance
- Vehicle Finance
- Consumer Finance

3 - International Services

Albaraka Turk, like other banks, is authorised to give all types of intermediary services on foreign trade and foreign exchange.

All types of import payment methods and procedures such as letters of credit, cash against documents, cash against goods, cash payments, acceptance credits and transit trade are carried out within the framework of international banking rules and practices by highly qualified staff using the most advanced banking means and opting only for client satisfaction.

Albaraka Turk is also assertive in export services, as this trade is vital to the Turkish economy. Albaraka Turk is offering intermediary services for all types of export

operations. It has a widespread international correspondent banking network.

Albaraka Turk is one of the very few Turkish banks adding confirmation to the export letters of credit coming from Afro-Asian region, especially such countries like Algeria, Egypt, Sudan. ALBARAKA TÜRK's major shareholder DBG (Dallah Albaraka Group)'s banks are operating in a very wide geography including North Africa and the Middle East. These include Banque Al Baraka d'Algerie in Algeria, B.E.S.T Bank in Tunisia, Egyptian Saudi Finance Bank in Egypt, Jordan Islamic Bank in Jordan, Al Baraka Bank in Lebanon, Albaraka Islamic Investment Bank and Al Amin Bank in Bahrain and Albaraka Bank Ltd. in South Africa. All the referred banks provide a formidable synergy to Albaraka Turkish Finance House in foreign trade.

ALBARAKA TÜRK offers fast, high quality and secure foreign trade (export and import) and international banking services through its network of more than 140 correspondent



179x99 cm * Sivaz-Gaziantep

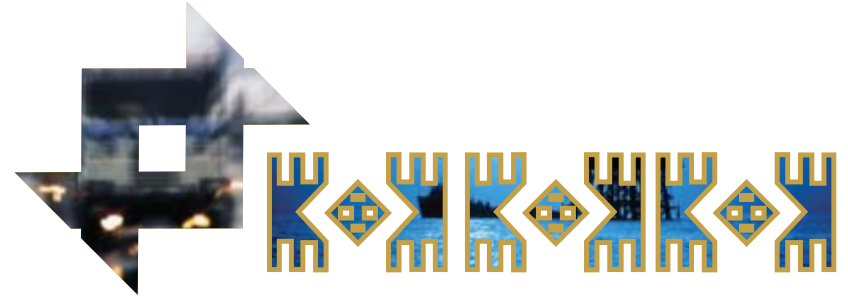


188x137 cm * Erzurum



209x147 cm * Bayburt

SERVICES



banks in more than 40 countries, ranging from, Singapore to United Kingdom, South Africa to China, Australia to Kazakhstan and including renowned banks on its list such as The Bank of New York, Citibank NA, Commerzbank AG, IntesaBCI SpA, UniCredito Italiano SpA, Societe Generale, Lloyds TSB Bank plc.

4 - Other Services

A- Credit Cards

Albaraka Turk credit cards are used in many areas as many as in 220 countries. On the other hand, as another area of credit cards, ALBARAKA TÜRK is offering POS services for the members through ABATPOS possessing POS terminal.

B- Alternative Distribution Channels

Technological developments, clients' willingness for faster and easier services have extended the financial services beyond the bank branches. Alternative distribution channels (ATM, Internet, Call Centre) allowing the banking services

to be extended beyond the physical branch are also used at our Institution.

At our individual Internet branch our clients are able to receive non-stop services for the 365 days of a year and 24 hours a day without coming up to our branches. The services include EFT, transfers, foreign currency buying/selling, credit card payments, opening participation account, cheque operations, payment orders, paying bills.

C- Other services

- Issuing of cheques
- Rendering services for collection of cheques and bills
- Buying / selling of foreign currencies
- Local / international transfers
- Automatic payment services
- Insurance services
- Safe deposit boxes



218x169 cm * Erzurum-Kars



337x215 cm * Kars



337x215 cm * Kars

2002 ACTIVITIES

**Fund Collection**

During the year 2002, funds collected by Albaraka Türk under "Special Current Accounts" and "Profit ad Loss Participation Accounts" have shown around 124.90% increase in Turkish Lira terms. As of end of 2002 the total funds collected by Albaraka Türk have reached 835.35 trillion Turkish Lira. Foreign currency accounts constitute about 86% of these funds. Special current accounts by 145.89% rise have reached 134.333 billion Turkish Lira, constituting about 16% of the total funds. Profit and loss participation funds by 43.55% increase as compared to the previous year have reached 701 trillion Turkish Lira.

ALBARAKA TÜRK's fund collection activities are being run through:

a- The Head Office, Karaköy, Kadıköy, Bakırköy, Bayrampaşa, Fatih, Ümraniye, Sultanhamam and İkitelli branches, whereas, Ankara and Siteler branches in Ankara and in addition to these, Izmir, Bursa, Konya, Kayseri, Adana, Gaziantep, Samsun, Malatya, Kahramanmaraş, Izmit, Adapazarı, Antalya and Balıkesir branches;

b- Akbank branches nationwide

c- Correspondent banks abroad



309x143 cm * Kars



205x146 cm * Van-Hakkari



226x170 cm * Van-Hakkari

2002 ACTIVITIES

**FUND COLLECTION (MILLION TL)**

	2002	2001
1. Local Currency Deposits	114,989,186	51,128,966
Current Accounts	31,982,988	17,124,274
Participation Accounts	83,006,198	34,004,692
2. Foreign Currency Deposits	720,360,174	491,854,376
Current Accounts	102,350,008	37,506,661
Participation Accounts	618,010,166	454,347,715
US\$ Accounts	436,675,920	333,276,077
EUR Accounts	181,334,246	121,071,638
Total Deposits	835,349,360	542,983,342
Foreign Currency Rates	: 31.12.2002	31.12.2001
1 US\$: 1,654,000 TL	1,445,000 TL
1 EUR	: 1,730,000 TL	1,281,734 TL



229x91 cm * Van-Hakkari



328x121 cm * Kars



337x134 cm * Kars-Van

2002 ACTIVITIES

**Fund Utilisation**

In spite of the slowdown in the industrial and commercial sectors and the stagnation in the economic life, that has started by the end of the year 2000 and has been continuing in the year 2002 to some extent, Albaraka Türk has continued its fund utilisation activities. Albaraka Türk by allocating all its funds under management to the most productive sectors within the economy, rather chose direct means of contributing to the National economy. Though as previously, priority in the year 2002 had been given to trade finance, a significant part of the resources had been allocated to the financial leasing projects as well.

In the year 2002 the funds had been utilised in finance for production by 64.9%, in financial leasing by 28.3% and in profit and loss sharing projects by 6.8%. Similar to previous years priority was given to participation deposit funds in fund utilisation rather than shareholder's equity.

a) Finance For Production

Trade Finance placements have been increased by 140.53% in the year 2002, constituting 81.97% of the total funds.

b) Financial Leasing

Leasing transactions have been increased by 39.56% in the year 2002, constituting 9,44% of the total funds.

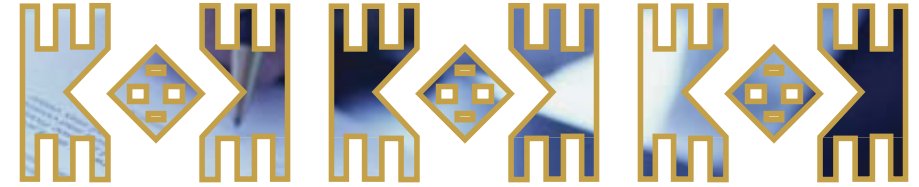
c) Profit and Loss Sharing Projects

The profit and loss sharing projects realised in the year 2002, constituting 8,55 % of the total funds.

d) Retail Finance

In order to supply finance for personal needs, special emphasis has been given to retail finance in the year 2002. We have employed this instrument for individual clients in 2002, which has reached a satisfactory level and will continue its growth trend in the future.

2002 ACTIVITIES

**FUNDS UTILISED (MILLION TL)**

	2002	2001
Finance For Production	373,984,099.-	152,910,112.-
Financial Leasing	43,052,973.-	52,010,057.-
Profit and Loss Sharing Projects	39,002,160.-	121,002,685.-
Others	200,006.-	2,672,058.-

International Banking Services

Also in the year 2002 Albaraka Türk has rendered a wide range of international banking services to its clients. As of December 31, it was maintaining 44 accounts with foreign

banks in 10 different currencies. By the end of the year 2002 the number of the correspondent banks abroad has reached 95. The international banking activities of Albaraka would be summarised under:

Transactions (Thousand US\$)	2002	2001
Exports	159,901.-	122,698.-
Imports	277,247.-	100,765.-
Invisible Transactions	229,814.-	242,145.-



143x119 cm * Kars



345x155 cm * Antalya



183x178 cm * Antalya



210x164 cm * Balıkesir



209x142 cm * Çanakkale-Balıkesir



198x118 cm * Ekişli



AUDITORS' REPORT



Convenience translation of a report and financial statements originally issued in Turkish

**ALBARAKA TURKISH FINANCE HOUSE
AS OF DECEMBER 31, 2002
TOGETHER WITH AUDIT REPORT**

1. We have been engaged to audit the accompanying balance sheet of Albaraka Turkish Finance House (the Institution) as of December 31, 2002, and the related statements of income, cash flows and shareholders' equity for the year then ended. 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.
2. Except for the issue discussed in the fourth paragraph below, we conducted our audit in accordance with the generally accepted auditing principles, bases and standards and accounting principles as required by the Banking Law No. 4389. 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. The financial statements of the Institution for the year ended December 31, 2001 were audited by A.A. Aktif Analiz Serbest Muhasebecilik Mali M¼pavirlik A.Þ. who ceased operations as of September 13, 2002 and whose report dated March 16, 2002, expressed a qualified opinion on those statements concerning as the Institution has not provided a reserve of TL 28,087 billion, relating to the share of the total reserve attributable to the participation accounts, that the mortgage values were taken into consideration in the reserve calculation of the loans in follow-up instead of expertise values of the land and

property mortgages, that the Institution has not provided a reserve of TL 64,875 billion representing the remaining net balance of the loans in arrears after deducting the amount of TL 28,087 billion of loss attributable to the participation accounts and that the collection of the related amounts depend on the ability of those customers' finding sources to pay back or on the liquidation of the existing collaterals.

4. As discussed in greater detail in the Note 14 a and b, the Institution has not provided a reserve for the amount of TL 29,170 billion which comprises the distributable losses and represents the share of the total reserve of TL 73,186 attributable to the participation accounts. These distributable losses should be reflected to the relevant accounts till December 31, 2004, in accordance with the temporary clause of the Banking Regulation and Supervision Agency (BRSA) Decree on the "Changes Relating to the Decree on the Principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions Shall be Set Aside by Banks and to the Provisions to be Set Aside" published in the Official Gazette number 24980 on December 31, 2002. Within the context of this decree, the Institution's management is planning to reflect any losses that may arise subsequent to a review of the loans in follow-up portfolio every six months, in equal installments during the period to December 31, 2004. As updated expertise values for the collaterals were not available as of December 31, 2002, the mortgage values of these collaterals have been considered in the reserve for loan losses calculation. Taking the expertise values of the land and property mortgages into consideration could lead to an amount of specific reserve different than the amount stated in the accompanying balance sheet as of December 31, 2002.
5. The Institution's management expects a total liability of USD 250,000 resulting from the legal case discussed in detail in Note 13 b, but has not provided a reserve for the litigation in its accompanying financial statements prepared as of December 31, 2002.

Audýt Report

6. As discussed in detail in Note 13 a, tax impositions of TL 372 billion, TL 610 billion, TL 975 billion, and TL 1,773 billion for the years 1995, 1996, 1997, and 1998, respectively, were made concerning with the Value Added Tax liability of the Institution. The Institution has not reflected any provision for these tax impositions in the financial statements, considering that these impositions will be cancelled and the remaining tax and penalty will not be paid and the ones that are paid will be compensated.

7. Based on our audit, except for the effect of the matters discussed in paragraphs four to six above, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Albaraka Turkish Finance House as of December 31, 2002 and the results of its operations and cash flows for the year then ended, in conformity with the related accounting principles discussed in detail in Part I, Section A, Note 21 and generally accepted by Private Finance Houses, and consistently applied with the prior year accounting principles. The specified accounting principles and standards are determined in compliance with the principles and standards that are, to the extent possible, based on Article 13 of the Banking Law, considering that the Special Finance Houses are not subject to the "Accounting Application Regulations" based on Article 13 named as "Accounting and Recording Systems" of the Banking Law 4389 and related communiqués as indicated in the statement dated October 17, 2002 and numbered BDDK.DZM. 2/13-1-11856.

Without further qualifying our audit opinion, we draw attention to the following matters:

8. As discussed in Section I, Note 8 and Section II, Note 16, the Institution's foreign currency net general position / equity ratio calculated based on the accompanying financial statements and in accordance with BRSA "Regulation on Measurement and Application

Audýt Report

of Foreign Currency Net General Position / Equity Standard Ratio on Consolidated and Unconsolidated Basis for Banks" dated January 31, 2002 published in the Official Gazette No. 24657, exceeds the standard ratio stated in the mentioned regulation. Had IAS 17, International Accounting Standard related with the accounting of leasing transactions, been applied on the mentioned financial statements, the above mentioned ratio would not exceed the standard ratio.

Güney Serbest Muhasebecilik
Mali Müþavirlik Anonim Þirketi
An Affiliated Firm of Ernst & Young International

Esra Peri
Engagement Partner



March 10, 2003
Istanbul, Turkey

**ALBARAKA TURKISH
BALANCE SHEET AS OF**
**FINANCE HOUSE
DECEMBER 31, 2002**

(BILLIONS OF TURKISH LIRA)

Assets				Lıyablı İtjes			
		CURRENT PERIOD (31/12/2002)	PRIOR PERIOD (31/12/2001)			CURRENT PERIOD (31/12/2002)	PRIOR PERIOD (31/12/2001)
I- Cash		20,253	9,099	I - Deposits	[Note 5]	835,349	542,983
A. Cash in Local Currency	2,987		2,275	A. Current Accounts		134,333	54,631
B. Cash in Foreign Currency	13,884		6,824	B. Participation Accounts		701,016	488,352
C. Cash in Transit	3,382		-	II - Bank borrowings			13,665
II- Banks		96,432	50,642	III - Profit share payables	[Note 6]	12,082	14,618
A. Central Bank	6,038		1,743	IV - Duties, fees & taxes payable	[Note 7]	2,081	1,714
B. Other Banks	90,394		48,899	V - Various payables		9,033	6,425
1. Local Banks	44,737		30,229	A. Cash Guarantees Received		3,210	2,665
2. Foreign Banks	45,657		18,670	B. Customer Expenses Received		-	-
III- Reserve Requirements	[Note 2]	78,873	54,386	C. Payables		-	-
IV- Funds Used	[Note 3]	456,239	328,595	D. Cash Collaterals		63	178
A. Short Term		348,535	255,984	E. Other		5,760	3,582
B. Medium and Long Term		107,704	72,611	VI - Reserves		4,207	3,391
V- Loans In Arrears (Net)		99,038	92,962	A. Retirement Pay Liability		1,445	1,128
A. Loans in Follow-up		143,054	127,847	B. General Reserve for Possible Loan Losses		2,449	1,950
B. Reserve For Loans in Follow-up (-)		(44,016)	(34,885)	C. Other Reserves		313	313
VI- Profit Share Discounts And Accruals		11,830	5,586	VII - Other Liabilities	[Note 8]	8,086	4,650
A. Profit Share Accruals		3,339	4,228	VIII - Shareholders' Equity		113,266	50,070
B. Profit Share Discounts		8,491	1,358	A. Paid-in Capital		41,000	26,500
VII- Various Receivables		1,946	3,535	1) Nominal Capital		41,000	26,500
A. Receivables from Banking Services		874	3,024	2) Unpaid Capital (-)		-	-
B. Prepaid Taxes		-	-	B. Legal Reserves		2,277	2,277
C. Other		1,072	511	1) Class I and II Legal Reserves		2,277	2,277
VIII- Fixed Assets [Net]		216,667	91,633	2) Other Legal Reserves		-	-
A. Movables		9,239	4,632	C. Reserve for Possible Losses		2,744	2,744
B. Immovables		20,348	12,668	Revaluation Fund	[Note 9]	66,618	29,847
C. Capitalized Expenses		625	163	E. Gain on Sale of Fixed Assets to be Used in Share Capital Increase		11,925	-
D. Fixed Assets under Financial Leasing		320,851	156,281	F. Loss		(11,298)	(11,298)
E. Accumulated Depreciation (-)		(107,015)	(45,080)	1) Current Period Loss		-	(11,298)
F. Reserve for Financial Leasing Assets (-)		(37,387)	(46,325)	2) Accumulated Deficit		(11,298)	-
G. Assets to be Sold		10,006	9,294	IX - Net Income		2,032	954
IX- Other Assets	[Note 4]	4,858	2,032	A. Current Period Income		1,078	-
				B. Retained Earning		954	954
Total Assets		986,136	638,470	Total Liabilities		986,136	638,470
				Off Balance Sheet Commitments			
				I - Letters of Guarantee		46,167	35,434
				II - Letters of Credit		43,608	20,888
				III - Acceptance Credits		6,166	1,758
				IV - Promises		16,336	7,858
				Total		112,277	65,938

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

Note: On application of the International Accounting Standard 17 in relation with the accounting for leases (IAS 17), the net profit is calculated as TL 7.014.- as of December 31, 2002 whereas the figure appeared as TL 200.- as of December 31, 2001.

Income Statement

**ALBARAKA TURKISH
INCOME STATEMENT AS OF**
**FINANCE HOUSE
DECEMBER 31, 2002**

(BILLIONS OF TURKISH LIRA)

Income Statement

	CURRENT PERIOD (31/12/2002)	PRIOR PERIOD (31/12/2001)		CURRENT PERIOD (31/12/2002)	PRIOR PERIOD (31/12/2001)
I - Profit Share Income	142,685	86,727	IV - Other Income	145,115	40,236
A. Profit Share Income From Local Currency Funds Used	48,731	30,994	A. Fees and Commissions Received	7,848	4,707
1) Trade Finance Funds	32,890	11,988	1) Non-cash Funds	1,142	721
2) Profit / Loss Funds	274	3,450	2) Other	6,706	3,986
3) Financial Leasing Funds	14,483	15,556	B. Foreign Exchange Gains [Note 10]	133,554	33,421
4) Individual Finance Funds	1,084	-	C. From Other Operations [Note 11]	3,713	2,108
5) Special Funds	-	-	V - Other Expenses	237,030	109,507
B. Profit Share Income From Foreign Currency Funds Used	88,673	54,575	A. Fees and Commissions Paid	1,830	697
1) Trade Finance Funds	14,460	6,875	1) Non-cash Funds	365	113
2) Profit / Loss Funds	21	3,216	2) Other	1,465	584
3) Financial Leasing Funds	73,830	44,085	B. Foreign Exchange Losses [Note 12]	150,222	65,874
4) Individual Finance Funds	245	-	C. Personal Expenses	9,072	7,904
5) Special Funds	117	399	D. Rent Expenses	1,008	809
C. Other Profit Shares	5,281	1,158	E. Depreciation Expenses	50,969	21,354
II - Profit Share Expense	49,692	28,754	F. Taxes and Funds	1,923	672
A. Profit Shares Paid To Local Currency Participation Accounts	23,151	12,711	G. Provisions For Doubtful Receivables	6,832	7,752
1) Trade Finance and Individual Finance Funds	21,029	8,777	H. Other Provisions	205	517
2) Profit / Loss Funds	-	2,205	I. Provision For Retirement Pay Liability	317	91
3) Financial Leasing Funds	2,122	1,729	J. Other Expenses	14,652	3,837
4) Special Funds	-	-	VI - Net Other Income / (Expense) [IV - V]	(91,915)	(69,271)
B. Profit Shares Paid To Foreign Currency Participation Accounts	26,541	16,043	VII - Income / (Loss) Before Tax [III + VI]	1,078	(11,298)
1) Trade Finance and Individual Finance Funds	11,496	5,412	VIII -Tax Provision	-	-
2) Profit / Loss Funds	16	2,545	IX - Net Income / (Loss) [VII - VIII]	1,078	(11,298)
3) Financial Leasing Funds	14,935	7,726			
4) Special Funds	94	360			
III - Net Profit Share Income	92,993	57,973			

NOTES TO THE FINANCIAL STATEMENTS (TL Billion)

1. Basis of Preparation of Financial Statements

As stated on the paper No. BDDK.DZM.2/12-1-11856 on 17 October 2002, the Institution is not subject to the "accounting application regulations" and related decrees published in the Official Gazette No. 24793 (reiterated) on 22 June 2002, because of being a special finance house.

Therefore, the Institution maintains its books of account and prepares its statutory financial statements in accordance with the accounting policies based on the Turkish Banking Law, Turkish Tax Law and the Turkish Commercial Code. While preparing the Following financial statements, the Institution worked in compatibility with the Accounting principles and standards as possible as in accordance with the regulations valid due to the Article 13 of the Banking Law which include the special accounts and basis' of accounting which are unique to the special financial houses. The accompanying financial statements are prepared basing on the historical cost method, and are not stated in terms of the measuring unit current at the balance sheet date (inflation accounting).

The Institution has not reflected the effects of the application of the International Accounting Standard 17 in relation with the accounting for leases (IAS 17) in the accompanying financial statements prepared as of December 31, 2002 and 2001.

If IAS 17 had been applied on the mentioned financial statements, the net profit on the end of the period would increase by TL 5,937, and the Equity including the period profit, past periods profits and revaluation funds would decrease by TL 40,392 (2001 - net loss would decrease by TL 11,498).

2. Reserve Requirements

6% of Local Currency (TL) Deposits and 11% of Foreign Currency (FC) Deposits are blocked with the Central Bank.

3. Advances

This figure comprises of the outstanding advances placed by the House.

The details are:

	2002	2001
Trade Finance	353.353	152.910
Medium and Long Term	39.002	121.003
Retail Finance	20.632	-
Financial Leasing	162.595	116.508
Financial Leasing Unearned Income	(119.543)	(64.498)
Other	200	2.672
	456.239	328.595

4. Other Assets

	2002	2001
Temporary Accounts	4.829	1.964
Other	29	68
	4.858	2.032

5. Funds Collected

The figures comprise of TL and foreign currency current accounts and participation profit/loss accounts.

Participation profit/loss accounts are substantially different from conventional deposits with commercial banks. Participation funds are collected on the basis of "profit and loss sharing" principle. Neither the principal nor any predetermined rate of return is guaranteed to deposit-holders. Such accounts do not constitute a fixed liability for the House and can thus be regarded as quasi-capital.

The Current and participation accounts opened by real persons are subject to the security fund.

6. Profit-Share Payable

The share of profit (in TL, US\$ and EUR) accrued to Participation Accounts held with the House, payable at their maturities.

7. Duties, Fees & Taxes Payable

Liabilities accrued but not yet due.

8. Other Liabilities

	2002	2001
Payment Orders	7.230	3.497
Temporary Accounts	856	1.153
Unearned Income	273	650
Other	583	503
	8.086	4.650

9. Revaluation Fund

Fixed assets were revalued upwards by 59 % (2001: 53,2 %) and the surplus arising therefrom was credited to Revaluation Reserve Fund of the House, as detailed below:

	2002	2001
Surplus from Movables	31.417	21.800
Surplus from Immovables	13.280	7.883
Brought Forward from 2000	21.921	164
	66.618	29.847

10. Foreign Exchange Profit

	2002	2001
Profit from Foreign Currency Translations	(16.957)	(32.767)
Income from Foreign Exchange Differences	5	8
Profit from Foreign Currency Dealings	284	306
	(16.668)	(32.453)

11. Other Operational Revenues

This account includes commissions from foreign operations, non-cash facilities and communication services provided to customers, cheque book fees, advance taxes, rent and other general administrative revenues.

12. Foreign Exchange Loss

Foreign Exchange Loss consists of loss from foreign currency translations.

13. Contingent gains and losses that can not be estimated and which have a significant impact on the financial statements

a) During the tax inspection on the suppliers that sold certain products to the Institution in 1995 and 1996 upon the requests and choices of its customers, it was claimed that the books and the accounting records of these suppliers had not been adequate for a tax inspection and the products sold had not pertained to these suppliers. In relation with this matter Mecidiyeköy Tax Office imposed TL 372 billion, TL 610 billion, TL 975 billion, and TL 1,773 billion for the years 1995, 1996, 1997, and 1998, respectively, concerning with the Value Added Tax liability of the Institution. The Institution filed a lawsuit against this application claiming that the taxpayers of this liability were the referred suppliers and the mentioned tax imposition was not correct. The cases concerning the year 1996 and 1998 were finalized in favor of the Institution and appealed by the defendant. Although the Institution paid the amount of TL 372 billion in year 2001, and TL 3,000 billion in year 2002, for the case concerning the year 1995; it has not reflected any provision for the principal, probable tax penalty and the delay interest charge accumulated for the mentioned cases in the accompanying financial statements considering the probability that these cases may be finalized in favor of the Institution, and that the paid amounts may be compensated.

b) As a result of the seizure applied by the Institution in a joint action with six other banks, for the goods of a Turkish company because of the default on repayment of a loan given to this company, the legal action commenced against the banks by the German sup-

plier asserting rights over a part of the imported goods and claiming USD 3,662,973 and TL 5 billion for compensation and damages, which was originated in Ankara and, except for one, had then been transferred to Istanbul. The case in Ankara has been concluded against the other bank and that bank has paid the total claim stated above and has initiated a new case in Istanbul against all other banks including the Institution for the compensation of its losses resulting from this payment. As of September 16, 2002, the case was concluded against the Institution with the resolution No. 2002/850. The Institution's management expects a total liability of USD 250,000 resulting from the mentioned case, but has not provided a reserve for the litigation in its accompanying financial statements prepared as of December 31, 2002.

14. Other issues that may affect the financial statements materially and necessary to be disclosed for the clarity of the financial statements

a) The Institution has profit shares payable amounting to TL 34,137 billion and losses attributable to the participation accounts amounting to TL 29,170 billion. The Institution has not provided reserve for the amount of TL 29,170 billion which comprise of the distributable losses attributable to the participation accounts. TL 12,082 billion of the mentioned profit shares payables amount is followed under the account Profit Shares Payable in the accompanying balance sheet prepared as of December 31, 2002; whereas the rest TL 22,055 billion is followed in off-balance sheet accounts parallel to the changes in accounting policies in terms of periodicity. Institution's management reflected a portion of the specific reserve provided for the non-performing loans, in the accompanying income statement as Institution's share, and attributed the rest to the participation pools and hence to the participation accounts, as stated in the relevant decree. The above mentioned distributable losses in an amount of TL 29,170 billion should be reflected to the relevant accounts till December 31, 2004, in accordance with the temporary clause of the BRSA Decree on the "Changes Relating to the Decree on the Principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions Shall be Set Aside by Banks and to the Provisions to be Set Aside" published in the Official Gazette number 24980 on December 31, 2002.

b) As of December 31, 2002 the Institution calculated a reserve amounting to TL 73,186 billion for the total cash risk of TL 143,054 billion and TL 313 billion for the total non-cash risk of TL 1,030 billion, for its customers that cannot fulfill their payment commitments, in accordance with the BRSA Decree on the "Principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions Shall be Set Aside by Banks and to the Provisions to be Set Aside" published in the Official Gazette number 24448 on June 30, 2001 and BRSA Decree "Suggesting changes on the Decree Principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions Shall be Set Aside by Banks and to the Provisions to be Set Aside" (Decree) published in the Official Gazette number 24657 on January 31, 2002, considering the liquidation possibility of non-cash loans. As of December 31, 2002 the Institution's share of TL 6,832 billion (excluding evaluation losses) of the reserve amount mentioned above was reflected in the accompanying income statement. However, the Institution has not provided reserve for the amount of TL 29,170 billion, the share of the total reserve of TL 73,186 attributable to the participation accounts in the Profit Shares Payable account. The Institution could not determine the expertise values of the land and property mortgages as of the date of this report and hence considered their mortgage values in the calculation of the specific reserves mentioned above.

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