

ANNUAL REPORT

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2003



**AKBANK**  
International

AKBA  
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# Report of the Supervisory Board

We are pleased to present the financial statements of Akbank International N.V. prepared by the Executive Board and audited by Ernst & Young, Accountants, for the year ending 31<sup>st</sup> December 2003.

When compared with 2002, the macroeconomic outlook in emerging markets and particularly in Turkey was quite favorable. In Turkey, inflation reduced, foreign trade volume outperformed anticipated levels, economic growth continued and interest rates fell significantly.

In its first full year of operations, Akbank International N.V. continued its asset build-up and total assets reached EUR 211,994,000 compared to previous year's figure of EUR 40,939,000. The BIS ratio at the end of the year under review was 28%.

In 2003, the Supervisory Board had six official meetings with the Executive Board being present. Topics discussed at the meetings included the Bank's performance with an emphasis on risk management, the Bank's business strategy, and the economic developments in Turkey and in the Euro zone.

In 2003, Mr. Frederik B. Deiters and Mr. Eyüp Engin were elected by the Shareholder as Supervisory Board members replacing Mr. Hendrik Maarten Scheeffter and Mr. I. Ethem Tuncel.

We were happy to welcome on 7<sup>th</sup> December 2003 Dr. Rolf Sutter to the Executive Board as a member, replacing Mr. B. Haverkorn van Rijsewijk. We are sure that Dr. Sutter will further contribute to the further success of the bank.

We have examined the financial statements for 2003, and propose to the Annual General Meeting of Shareholders to adopt the financial statements for the year 2003 as presented, and to discharge the Executive Board and the Supervisory Board of responsibility in respect of the management and supervision for the past year. On adoption of the profit appropriation contained therein, the whole of the result will be deducted from Other Reserves.

We would like to express our appreciation to the members of the Executive Board and staff of Akbank International N.V. for their dedication and efforts during the year.

Rotterdam, 9<sup>th</sup> April 2004

Supervisory Board

# Report of the Executive Board

## Review of 2003

Akbank International N.V. incorporated in The Netherlands and following the receipt of a banking licence in November 2001 had its official opening in May 2002.

2003 was the first full year of operations for Akbank International N.V. During 2003, the technical and personnel infrastructure was completed in order to meet the business requirements. Special emphasis was placed to risk management and the implementation of the Dutch Central Bank's Regulation on Organization and Control (ROC). The initial work was undertaken to implement the Basel II Accord.

In line with our strategy, the paid up capital of the bank was increased from EUR 25 million to EUR 50 million in September 2003. This confirmed the commitment of our shareholder to further strengthening the Bank.

Under our strategy to focus on trade and investment flows between Turkey and Europe, a conservative policy was followed. With controlled asset growth, we invested the growing liquidity in lower-risk instruments.

Our successful entry into the Dutch retail savings market helped to establish a solid retail-funding base for the bank. We are establishing a branch in Amsterdam to further develop our activities in retail business during the coming year. Expanding our correspondent banking network has supported the liability side of the business.

We considered 2003 as a year of significant progress to achieving our pre-determined course of development. Being still in the build-up phase, start-up costs, resulted in the bank reflecting a loss. During the coming year, we aim to achieve sustainable profitability and efficiency in our services available to our customers.

Finally, we would like to express our gratitude to our business partners for the trust and our shareholder for the support, which they have given and our appreciation to our staff for their hard work and dedication.

Rotterdam, 9<sup>th</sup> April 2004

Executive Board

Mrs. K. Banu Özcan  
Dr. Rolf Sutter

## Balance Sheet as at 31<sup>st</sup> December 2003

(After proposed result appropriation)

	<b>2003</b> <i>EUR 1,000</i>	<b>2002</b> <i>EUR 1,000</i>
<b>Assets</b>		
Cash	812	270
Short-dated government paper	500	500
Banks	119,404	16,994
Loans to the private sector	5,555	-
Interest bearing securities	66,527	18,647
Property and equipment	2,089	1,761
Prepayments and accrued income	17,107	2,767
<b>Total assets</b>	<b>211,994</b>	<b>40,939</b>
<b>Liabilities</b>		
Banks	44,025	6,007
Funds entrusted	116,134	9,796
Other liabilities	1,157	1,005
Accruals and deferred income	3,393	695
	164,709	17,503
Paid-in and called-up capital	50,000	25,000
Other reserves	<u>-/- 2,715</u>	<u>-/-1,564</u>
Shareholder's equity	47,285	23,436
<b>Total liabilities</b>	<b>211,994</b>	<b>40,939</b>
<b>Contingent Liabilities</b>		
Confirmed irrevocable letters of credit	1,502	2,512

## Profit and Loss Account for 2003

	<i>EUR 1,000</i>	<i>EUR 1,000</i>
Interest income	6,867	1,542
Interest expense	<u>-/-4,111</u>	<u>-/-155</u>
<i>Interest</i>	2,756	1,387
Commission income	484	131
Commission expense	<u>-/- 15</u>	<u>-/-7</u>
<i>Commission</i>	469	124
Result on financial transactions	-/- 21	
Other revenue	4	26
<i>Other income</i>	<u>-/-17</u>	<u>26</u>
<b>Total income</b>	<b>3,208</b>	<b>1,537</b>
<b>Expenses</b>		
<i>Operational Expenses</i>		
• Staff costs	2,573	1,495
• Other administrative expenses	<u>2,064</u>	<u>1,720</u>
	4,637	3,215
Depreciation	<u>341</u>	<u>182</u>
<b>Total expenses</b>	<b>4,978</b>	<b>3,397</b>
<b>Operating result before taxation</b>	<b>-/- 1,770</b>	<b>-/- 1,860</b>
Tax on results of ordinary activities	<u>619</u>	<u>651</u>
<b>Result after tax</b>	<b><u>-/- 1,151</u></b>	<b><u>-/- 1,209</u></b>

## Cash Flow Statement for 2003

	<b>2003</b>	<b>2002</b>
	<i>EUR 1.000</i>	<i>EUR 1.000</i>
<b>Net cash flow out of profit</b>		
Net result	-1,151	-1,209
Unrealised revaluation result	-9,538	0
Depreciation	341	182
	<u>-10,348</u>	<u>-1,027</u>
<b>Net cash flow out of banking activities</b>		
- Due from banks, excluding demand account	-45,855	8,099
- Due to banks, excluding demand accounts	37,410	5,765
- Saving, deposit and current accounts	106,338	9,797
- Other assets	-4,802	-2,571
- Other liabilities	2,849	1,554
	<u>95,940</u>	<u>22,644</u>
<b>Net cash flow out of investment activities</b>		
Investments in:		
- Investment portfolio	-47,880	-19,148
- Trade finance	-60,462	0
- Property and equipment	-669	-1,890
	<u>-109,011</u>	<u>-21,038</u>
<b>Net cash flow out of financing activities</b>		
Issue of new capital	25,000	0
	<u>25,000</u>	<u>0</u>
<b>Net cash flow</b>	<b>1,581</b>	<b>579</b>
Cash balance on January 1	-894	-315
Cash balance on December 31	<u>2,475</u>	<u>894</u>
	<u><b>1,581</b></u>	<u><b>579</b></u>

## Equity Report 2003

The changes in shareholders equity during 2003 and 2002 were:

	2003		2002	
	<i>EUR 1.000</i>	Movement	<i>EUR 1.000</i>	Movement
Paid-in and called-up capital	50,000	25,000	25,000	-
Other reserves	<u>-2,715</u>	<u>-1,151</u>	<u>-1,564</u>	<u>-1,209</u>
Shareholders equity:	47,285	23,849	23,436	-1,209

The total equity equals the presently available equity.

## Capital Adequacy

The BIS ratio of the bank as at 31<sup>st</sup> December 2003 is 27.96%.

	2003	2002
Total capital available	47,285	23,436
*Minimum capital required excluding additional requirement for country risk	13,529	4,500
*Solvency ratio including additional requirements for country risk	27.96%	41.66%
*Solvency ratio excluding additional requirement for country risk	104.82%	374.82%

The minimum required BIS ratio is 8%.

The tier 1 capital of the bank equals the total capital available.

\*The Dutch Central Bank (DNB) requires additional solvency due to country risks of 200% from all Turkish banks.

# Notes to the Financial Statements

## General

The financial statements have been prepared in conformity with generally accepted accounting principles in the Netherlands. The financial information will be included in the financial statements of Akbank TAŞ, incorporated in Turkey, the 100% shareholder of the bank. Where necessary, the amounts reported in the financial statements are based on estimates and assumptions.

## Currency conversion

Assets and liabilities denominated in foreign currencies and financial instruments hedging these assets and liabilities have been converted into euros at the spot rates of exchange prevailing at balance sheet date. Revaluation gains or losses have been accounted for in the profit and loss account.

Results on transactions denominated in foreign currencies are converted at the rates prevailing on the transaction date or, insofar as accruals and deferrals are involved, on daily basis.

## Valuation and determination of results

Except where otherwise stated, assets and liabilities are recorded at cost, less any allowance deemed necessary. The effects of transactions and other events are recognised when they occur. Revenues and expenses are recognized in the year to which they relate.

Premiums and discounts are accounted for in prepayments and accrued income or accruals and deferred income respectively, and are attributed to the accounting periods throughout the remaining terms of the underlying items.

Interest-earning securities on which a large part or all of the interest receivable or payable is settled on redemption are included at either purchase price or discounted value on issue plus accrued interest.

Where financial instruments are used to hedge risks associated with designated assets or liabilities, the valuation and determination of results on these instruments are effected in accordance with the policies applied to the hedged items. Transactions are qualified as hedges if they are identified as such and there is a substantial correlation between the hedging results and the results of the positions being hedged. Results on the settlement of the hedge are accounted for in the same period as gains or losses on the settlement of the hedged position.

Where loan-related fees exceed initial expenses, the excess is accounted for as interest in the period concerned.

## Financial and other fixed assets investments

Interest-earning securities held in the investment portfolios are stated at redemption value. Results on sales are credited to the income statement in the year the investments are sold. Net capital gains on interest-bearing securities realized prior to redemption date in connection with replacement operations are recognized as interest over the remaining average portfolio duration.

## Property and equipment

Refurbishments and fixtures and fittings are fully depreciated using the straight-line method over their estimated useful life with a maximum of ten years. Equipment, computer installations and software purchased from third parties are stated at cost less straight-line depreciation over the estimated useful life. Property in Amsterdam is depreciated over 30 years with an estimated residual value amounting to EUR 145,264.00.

**Taxes**

In determining the effective tax rate, all timing differences between pre-tax profit determined on the basis of Akbank International N.V. accounting policies and the taxable amount in accordance with tax legislation, are taken into account. Deferred tax liabilities are discounted to their present value on the basis of the net interest. Deferred tax assets are accounted for only if there is sufficient assurance that they are collectable.

**Income and expenses**

Income and expenses are attributed to the period in which they arise or in which the service was provided.

**Cash flow statement**

The cash flow statement gives details of the source of liquid funds, which became available during the year and the application of the liquid funds over the course of the year. The cash flows are analysed into cash flows from banking activities, investment activities and financing activities. Cash balances include cash in hand and current accounts with banks.

## Notes to the Balance Sheet as at 31<sup>st</sup> December 2003

	<b>2003</b> <i>EUR 1,000</i>	<b>2002</b> <i>EUR 1,000</i>
<b><u>Assets</u></b>		
<b>Cash</b>	<b>812</b>	<b>270</b>
Cash in hand and demand deposit with Dutch Central Bank		
<b>Short-dated government paper</b>	<b>500</b>	<b>500</b>
Dutch Treasury Certificates held for collateral purposes by the Dutch Central Bank. The remaining maturity is 6 months.		
<b>Banks</b>	<b>119,404</b>	<b>16,994</b>
This item comprises of nostro accounts, loans and advances to credit institutions and central banks.		
Breakdown:		
• Receivable on demand	29,515	867
• < 3 months	21,576	3,600
• => 3 months < 12 months	64,759	12,527
• => 12 months	3,554	-
<i>Inter-company balances included in above specification:</i>	<i>1,591</i>	<i>-</i>
<b>Loans to the private sector</b>	<b>5,555</b>	<b>-</b>
Breakdown:		
• => 3 months < 12 months	3,174	-
• => 12 months	2,381	-

	<b>2003</b> <i>EUR 1,000</i>	<b>2002</b> <i>EUR 1,000</i>
<b>Interest bearing securities</b>	<b>66,527</b>	<b>18,647</b>

This item comprises Turkish Government Bonds

Breakdown:

• => 1 month < 3 months	32,517	8,534
• => 3 months < 6 months	-	5,113
• => 6 months < 12 months	-	5,000
• => 1 year < 2 years	13,750	-
• => 2 years < 3 years	13,260	-
• => 3 years	7,000	-

Movements in the portfolio:

Balance sheet as at 1 <sup>st</sup> January	18,647
Purchased during book year	59,072
Redemptions during book year	-11,192
Balance sheet as at 31 <sup>st</sup> December	<u>66,527</u>

<b>Property and equipment</b>	<b>2,089</b>	<b>1,761</b>
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With the exception of the property, all assets are fully depreciated over the estimated economic life of the asset using the straight-line method.

Property (Residual value EUR 145)	30 years
Refurbishments, Fixtures and fittings	10 years
Computer hard- and software head office	5 years
Computer hard- and software branches	3 years

	Property	Equipment	Total 2003	Total 2002
Book value as at 1 <sup>st</sup> January	-	1,761	1,761	54
Adjustment previous year *		-226	-226	
Additions	631	264	895	1,889
Disposals	-	-	-	-
Depreciation	-11	-330	-341	-182
Book value as at 31 <sup>st</sup> December	<u>620</u>	<u>1,469</u>	<u>2,089</u>	<u>1,761</u>
Accumulated depreciation	<u>11</u>	<u>481</u>	<u>492</u>	<u>188</u>

\*The accounting principals regarding fixed assets were changed in 2003. The valuation of fixed assets is now ex-VAT. This change resulted in an adjustment to the book value 2002 of EUR -226.

	<b>2003</b> <i>EUR 1,000</i>	<b>2002</b> <i>EUR 1,000</i>
<b>Prepayments and accrued income</b>	<b>17,107</b>	<b>2,767</b>
• Accrued interest	3,816	1,240
• Deferred tax and VAT receivable	1,693	988
• Unrealised revaluation results	9,526	358
• Other advanced payments	2,072	181
 <b><u>Liabilities</u></b>		
<b>Banks</b>	<b>44,025</b>	<b>6,007</b>
This item includes the borrowings from the shareholder and other financial institutions and loro accounts.		
• Payable on demand	851	243
• Within 1 month	40,000	1,000
• = > 1 month < 3 months	1,587	4,764
• = > 3 months < 6 months	1,587	-
<i>Inter-company balances included in above specification:</i>	<i>9,351</i>	<i>243</i>
 <b>Funds entrusted</b>		
Includes current accounts and savings and time deposits placed by customers.	<b>116,134</b>	<b>9,796</b>
• Payable on demand	41,663	7,180
• Within 1 month	4,015	
• = > 1 month < 3 months	9,282	
• = > 3 months < 6 months	33,980	
• = > 6 months < 12 months	5,403	2,616
• = > 12 months	21,791	
 <b>Other liabilities</b>	 <b>1,157</b>	 <b>1,005</b>
Creditors and income tax	347	169
Other liabilities	810	836
 <b>Accruals and deferred income</b>	 <b>3,393</b>	 <b>695</b>
Accrued interest payable	2,230	19
Interest and commission received in advance	1,163	188
Other deferred income	-	488

	<b>2003</b> <i>EUR 1,000</i>	<b>2002</b> <i>EUR 1,000</i>
<b>Shareholder's equity</b>	<b>50,000</b>	<b>25,000</b>

The authorised share capital amounts to EUR 100 million, and consists of 2,000,000 shares with a nominal value of EUR 50 per share of which 1,000,000 shares have been issued and are fully paid up.

The changes during the reporting period were as follows:

• Balance as at 1 <sup>st</sup> January	25,000	-
• Paid up during the year	25,000	-
• Balance 31 <sup>st</sup> December	<u>50,000</u>	<u>25,000</u>

<b>Other reserves</b>	<b>-2,715</b>	<b>- 1,564</b>
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The changes in this item were as follows:

• Balance as at 1 <sup>st</sup> January	-1,564	-355
• Proposed Result appropriation	-1,151	-1,206
• Balance as at 31 <sup>st</sup> December	<u>-2,715</u>	<u>-1,564</u>

### **Commitments and contingencies**

#### *Rentals.*

The annual amount of rental commitments to third parties with respect to the office amounts to EUR 401,000.00

#### *Lease contract.*

In July 2002 the bank arranged a 3-year lease contract related to the central computer hardware and – software. Total amount involved ex-VAT was EUR 257,934.00

### **Foreign Exchange Risk**

The foreign currency position of the bank per 31<sup>st</sup> December can be specified as follows:

	Spot	Forward	Total
EUR 1,000,000	+ 89	- 89	0

### **Interest rate risk**

The bank is exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

## Credit risk

All loans, advances and contingent commitments to banks and corporate clients are unsecured. The geographical distribution of loans, advances and contingent commitments is 78.8% Turkey and 21.2% European Union. The industrial distribution is 94.4% financial, 4.4% trade and 1.2% automotive industry.

## Market risk

When determining the capital adequacy requirement, both the existing and future credit risk is taken into account. To this end the current potential loss, i.e. the positive replacement value based on the market conditions at balance sheet date, is increased by a percentage of the relevant notional amount, depending on the nature and the remaining term of the contract. This method takes into account the possible adverse development of the positive replacement value during the remaining term of the contract.

*Amounts in EUR 1,000*

	Notional amount			Total	Positive replacement value
	< 1 year	1- 5 years	> 5 years		
<b>Derivatives</b>					
<b>Currency contracts</b>					
OTC					
<i>Forwards</i>	98,722	-	-	98,722	9,653
<b>Credit Equivalent</b>		<b>Non weighted 2003</b>	<b>Weighted 2003</b>		
<b>Currency contracts</b>					
OTC					
<i>Forwards</i>		987	197		

## Fair value of financial instruments

The fair value of interest-earning securities is considered to be EUR 69,244,444.80.

The fair value of financial instruments, including cash, due from banks, short term placements, and other financial deposits, funds borrowed (short-term) and other financial liabilities plus the respective accrued interests are considered to approximate their carrying values due to their short term nature.

## Notes to the Profit and Loss account 2003

	<b>2003</b> <i>EUR 1,000</i>	<b>2002</b> <i>EUR 1,000</i>
<b>Net interest income</b>	<b>2,756</b>	<b>1,387</b>
<ul style="list-style-type: none"> <li>• Income from investment portfolio</li> <li>• Income from deposits</li> <li>• Income from trade finance</li> <li>• Other interest income</li> <li>• Interest paid on bank borrowings</li> <li>• Interest paid on savings accounts</li> <li>• Other interest paid</li> </ul>	3,857 616 1,433 961 -332 -3,769 -10	1,010 490 - 42 -97 -22 -36
<b>Net commission income</b>	<b>469</b>	<b>124</b>
<ul style="list-style-type: none"> <li>• Remittances</li> <li>• Transfers</li> <li>• Letters of credit</li> <li>• Other</li> <li>Commission expenses</li> </ul>	165 65 139 115 -15	96 30 3 2 -7
<b>Other Income</b>	<b>-17</b>	<b>26</b>
Result on other financial transactions	-21	-
Other revenue	4	26
<b>Operating expenses</b>	<b>4,637</b>	<b>3,215</b>
This item can be broken down as follows:		
<ul style="list-style-type: none"> <li>• Staff costs               <ul style="list-style-type: none"> <li>○ Salaries</li> <li>○ Pension and other social security costs</li> </ul> </li> <li>• Other administrative expenses</li> </ul>	2,273 300 2,064	1,280 215 1,720
	<b>4,637</b>	<b>3,215</b>
<b>Taxes</b>	<b>619</b>	<b>651</b>
Tax receivable for the financial year in respect of the ordinary operating income as stated in the profit and loss account.		

	<b>2003</b>	<b>2002</b>
	<i>EUR 1,000</i>	<i>EUR 1,000</i>

**Operating expenses (continued)**

The remuneration of the Executive Board is as follows:

Mrs. K. B. Özcan	202	179
Mr. R. J. Sutter	17	-
Mr. H. B. Haverkorn van Rijsewijk*	383	157

\*Includes EUR 253,454.75 severance payment.

The remuneration of the Supervisory Board is as follows:

Mr. D. Long	14	9
Mr. F. B Deiters	11	-
Mr. H.M. Scheffer	4	12

The bank has not granted any loans, advances or guarantees to members of the Executive Board or to members of the Supervisory Board.

Total number of full time employees per 31 <sup>st</sup> December	27	26
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## Auditor's Report

### Introduction

We have audited the financial statements of Akbank International N.V., Rotterdam, for the year 2003. These financial statements are the responsibility of the company's Board of Executive Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

### Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. 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 Board of Executive Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2003 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Amsterdam, 9<sup>th</sup> April 2004

**Ernst & Young Accountants**

# Profit Appropriation

## Introduction

The Executive Board proposes to add the net result of EUR – 1,151,000 to the other reserves. After result appropriation the other reserves will amount to EUR - 2,715,000. The result appropriation has been proposed in conformity with article 25 of the Articles of Association, which states (translation from the original Dutch text):

### *Article 25*

1. The company may only make distributions to the shareholders and other rightful claimants for the profit available for distribution to the extent that the own equity exceeds the amount of the paid-up capital and called part of the capital plus the reserves that must be maintained by law.
2. Once per year the general meeting of the shareholders decides which part of the profit, appearing out of the profit and loss fixed by the general meeting of the shareholders, will be used for allocation to the other reserves.
3. The, related to the last paragraph, remaining profit shall be at the disposal of the general meeting of the shareholders.

## Decision

The Supervisory Board agrees with the proposal of the Executive Board.

# Corporate Information.

## *Supervisory Board*

**Mr. Mehmet Akin Kozanoğlu,**

Chairman of the Board, in function since December 2000

**Mr. Denis Long**

Member of the Board since May 2002

**Mr. Hendrik Maarten Scheeffe**

Member of the Board until May 2003

**Mr. Frederik B. Deiters**

Member of the Board since May 2003

**Mr. I. Ethem Tuncel**

Member of the Board until October 2003

**Mr. Eyup Engin**

Member of the Board since November 2003

## *Executive Board*

**Mrs. K. Banu Özcan**

Managing Director since October 2001

**Mr. Hans Boudewijn Haverkorn van Rijsewijk**

Managing Director until October 2003

**Mr. Rolf J. Sutter**

Managing Director since December 2003

## *Addresses*

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