TÜRKİYE VAKIFLAR BANKASI T.A.O.

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
31 DECEMBER 2002 AND 2001

TO THE BOARD OF DIRECTORS
TÜRKİYE VAKIFLAR BANKASI T.A.O.
ANKARA

OPINION OF INDEPENDENT AUDITORS

1. We have audited the accompanying consolidated balance sheets of Türkiye Vakıflar Bankası T.A.O. (the "Bank") and its participations (together, the "Group") as of 31 December 2002 and 2001 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in the equivalent purchasing power of the Turkish Lira at 31 December 2002. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. Except for limitations set out in paragraph 4 below, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. The Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi in the year 2000 for a consideration of USD 103,500,000, from a borrower experiencing financial difficulty. During 2001 the Bank transferred this shareholding to a newly established participation, Vakıf Enerji ve Madencilik A.Ş., for the same consideration. Güney Ege Enerji Limited Şirketi holds the operating rights for Yatağan, Yeniköy and Kemerköy thermal power generation plants which are within the scope of the privatization programme. Commencement of operation of these power plants were heavily dependent on the conclusion of administrative procedures with the direction of Council of Ministers' decisions. As at 21 January 2003, with the decision of Council of State, the decision of the Council of Ministers for the holding of the the operating rights of these plants is aborted. The Bank informed us that the Ministry of Energy will be going to court to appeal. In case that the outcome of the appeal is negative, the value of the partcipation should be determined by considering the similar decisions of International Arbitration Board that the Bank will apply and we are unable to form a conclusion as to the amount of any provision which may be needed against the carrying value of this participation as of the reporting date, which

is accounted at an indexed cost of 161,474 Billion TL cost in the accompanying financial statements.

4. Complete and accurate information on the original cost of some of the Group's properties capitalized before 1980 was not available, to enable the calculation of their restated (indexed) cost. Accordingly, instead of restated cost, professional valuations have been used for such properties, determined by a firm of property valuers which is a majority-owned participation of the Bank. We do not express any opinion on the accuracy of the values determined by the property valuer, since this is outside our area of expertise. Additionally, we have tested the accuracy and completeness of the information for fixed assets indexation on a sampling basis, but these tests are not necessarily sufficient to detect any errors in the restated carrying value of fixed assets as a whole.

5. At 31 December 2002, TL 17,005 Billion of cash loans extended to public and private sector customers are overdue or not complying with rescheduling agreements. Off balance sheet commitments to those loan customers totalled TL 30,663 Billion. No provision has been provided for these loans.

6. In our opinion, except for such adjustments as may be necessary in respect of the matters discussed in the paragraphs above, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2002 and 2001 and the consolidated results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

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

7. The Bank has changed the fair value estimate for some of the government bonds in the trading portfolio in 2002. As at 31 December 2001 these bonds are valuated with the Turkish Central Bank (TCMB) rate, while as at 31 December 2002, these are valuated by applying the ratio of TCMB foreign exchange rate and TCMB price to Bank foreign exchange rate. As a result of this change, the profit of the Group is realized TL 18,971 Billion lower than it would have been if the accounting estimate has not been changed as, TCMB foreign exchange rate is 1.80% higher than the Bank's rate.

Ankara, 7 April 2003

DRT DENETİM REVİZYON TASDİK
YEMİNLİ MALİ MÜŞAVİRLİK A.Ş.
Member Firm of **DELOITTE TOUCHE TOHMATSU**

TÜRKİYE VAKIFLAR BANKASI T.A.O.

INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2002 AND 31 DECEMBER 2001
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2002)

Assets	Note	31.12.2002 TL Billion	31.12.2001 TL Billion
Liquid Assets	4	101,368	103,057
Balances With The Central Bank	5a	272,840	339,913
Balances With Banks	6	506,795	598,023
Interbank Funds Sold		124,115	325,973
Trading Securities Portfolio	7a	4,745,827	4,203,152
Reserve Deposits at the Central Bank	5b	691,829	642,534
Loans (Net)	8	3,848,448	5,036,887
Trade Receivables	9	59,814	63,358
Sundry Debtors	10	49,890	87,217
Equity Participations (Net)	11	315,419	301,305
Held to Maturity Securities	7b	1,662,617	1,004,169
Premises & Equipment (Net)	12	1,320,673	1,182,284
Other Assets	13	115,054	121,594
TOTAL ASSETS		13,814,689	14,009,466

TÜRKİYE VAKIFLAR BANKASI T.A.O.

INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2002 AND 31 DECEMBER 2001
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2002)

Liabilities	**Note**	**31.12.2002 TL Billion**	**31.12.2001 TL Billion**
Deposits			
Demand		1,651,409	1,792,908
Time		8,165,226	7,383,116
Expense accruals on deposits		67,443	83,144
	14	9,884,078	9,259,168
Commitments to Repurchase Securities		174,071	1,170,120
Interbank Funds Borrowed		-	158,214
Borrowings Funding Loans	15	1,609,730	1,291,183
Securities Issued	16	339,786	335,799
Funds	17	177,590	226,013
Trade Payables	18	46,762	59,312
Deposits and Advances Taken for Imports		138,659	166,506
Sundry Creditors	19	58,935	73,813
Taxes and Dues Payable	20a	116,603	256,602
Provisions	21	328,628	368,825
Other Liabilities		141,317	128,799
		13,016,159	13,494,354
MINORITY INTEREST	23	232,388	247,580
SHAREHOLDERS' EQUITY			
Share Capital	24	1,323,082	1,323,082
Revaluation Fund		111,599	90,505
Retained Earnings		(868,539)	(1,146,055)
		566,142	267,532
TOTAL LIABILITIES AND EQUITY		13,814,689	14,009,466
COMMITMENTS AND CONTINGENCIES	29	6,517,792	4,094,256

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.

INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2002 AND 31 DECEMBER 2001 (expressed in the equivalent purchasing power of Turkish Lira at 31 December 2002)

	Note	12 months 31.12.2002 TL Billion	12 months 31.12.2001 TL Billion
Interest Income - Banking	25	2,212,916	3,446,139
Interest (Expense) – Banking	26	(1,879,119)	(3,029,166)
Net Interest Income – Banking		333,797	416,973
Loan Loss Provision (Expense)		(101,521)	(674,650)
NET INTEREST INCOME AFTER LOAN LOSS PROVISIONS		232,276	(257,677)
Non-Interest Income	27	816,906	997,281
Non-Interest (Expense)	28	(929,401)	(1,561,714)
Income from Associates		6,133	11,108
INCOME BEFORE TAX AND MONETARY (LOSS)		125,914	(811,002)
Taxation	20b	37,079	(125,827)
INCOME BEFORE MONETARY (LOSS)		162,993	(936,829)
Monetary Gain/(Loss)		174,618	(74,993)
NET INCOME/(LOSS)		337,611	(1,011,822)
Less: Minority Share of Net Income/(Loss)		20,183	(32,350)
Net (Loss)/Income Attributable to T.Vakıflar Bankası T.A.O. Shareholders		317,428	(979,472)
Earnings/(Loss) Per Share		925	(2,856)

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 31 DECEMBER 2001
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2002)

	Paid in Capital Billion TL	Revaluation Fund Billion Billion TL	Retained Earnings Billion TL	Total Billion TL
As at 31.12.2000	1,232,935	60,078	(86,080)	1,206,933
Increase in capital:				
Cash	23,415			23,415
Transfer from reserves	66,732		(66,732)	-
Changes in minority			3,764	3,764
Dividends paid			(17,535)	(17,535)
(Loss) for the year			(979,472)	(979,472)
Disposals from revaluation fund		(10,056)		(10,056)
Additions to revaluation fund		40,483		40,483
As at 31.12.2001	1,323,082	90,505	(1,146,055)	267,532
Increase in capital:				
Cash				
Transfer from reserves				
Changes in minority			(26,579)	(26,579)
Dividends paid			(13,333)	(13,333)
Profit for the period			317,428	317,428
Additions to revaluation fund (net)		21,094		21,094
As at 31.12.2002	1,323,082	111,599	(868,539)	566,142

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 31 DECEMBER 2001
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2002)

	31.12.2002 TL Billion	31.12.2001 TL Billion
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net income/(loss) for the period	317,428	(979,472)
Adjustments to reconcile net income to net Cash provided by operating activities:		
Depreciation and amortization	40,266	46,705
Provision for retirement pay	(1,034)	(10,491)
Insurance technical provisions and other provisions	(39,163)	(28,599)
Loan provisions	(70,896)	520,874
(Decrease)/Increase in taxation on income	(139,999)	52,515
(Increase) in reserve deposits at Central Bank	(49,295)	(37,855)
(Decrease) in interbank funds borrowed	(158,214)	(336,825)
Decrease/(Increase) in other assets	249,269	(27,174)
Net cash provided from/(used in) operating activities	148,362	(800,322)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) in marketable securities	(1,201,123)	(713,460)
Decrease in loans	1,259,335	1,313,748
(Increase)/decrease in equity participations	(14,114)	42,572
Additions to premises and equipment	(178,655)	(102,912)
Net cash (used in)/provided from investing activities	(134,557)	539,948
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	624,910	282,532
(Decrease) in securities under repo agreement	(996,049)	(253,938)
Increase in loans used	318,547	121,832
(Decrease) in funds borrowed	(48,423)	(124,082)
Increase in securities issued	3,987	20,633
(Decrease)/Increase in other liabilities	(21,664)	10,229
Change in minority interest	(41,771)	23,168
Increase in share capital	-	23,415
Cash dividends paid	(13,333)	(17,535)
Net cash (used in)/provided from financing activities	(173,796)	86,254
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(159,991)	(174,120)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,040,994	1,215,114
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	881,003	1,040,994

continued

1. THE BANK

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ('the Bank') was founded on January 15, 1954 in accordance with special legal regulations. The Bank has the legal form of a joint stock company pursuant to the Banks' Act, with headquarters located in Ankara. Vakıfbank provides retail, commercial, and investment banking services through its network of 298 branches, 3 finance centers, and 4 mobile branches distributed throughout Turkey. Internationally, Vakıfbank has subsidiaries in Austria, France, and Cyprus, and a branch in New York.

2. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements are prepared in accordance with International Accounting Standards (IAS). The main accounting policies used in the preparation of the financial statements are presented below:

Presentation of Financial Statements

The Bank maintains its books of account in Turkish Lira and prepares its statutory financial statements in accordance with the reporting requirements of Banking Law, the Uniform Chart of Accounts issued in accordance with Banking Law, Turkish Commercial Practice and Tax Legislation. The Bank's equity participations maintain their books of account and prepare their statutory financial statements in accordance with regulations prevailing in their area of specialization, Commercial Practice and Tax Regulations. The accompanying financial statements are based on the statutory records with adjustments and reclassifications, including restatement for the changes in the general purchasing power of the Turkish Lira, for the purpose of fair presentation in accordance with statements of International Accounting Standards (IAS) issued by the International Accounting Standards Board.

The statutory records are maintained under the historical cost basis of accounting, without regard either to changes in the general level of prices or to increases in specific prices of assets held, except to the extent that property, plant and equipment may be revalued annually.

Inflation Accounting

In the accompanying financial statements, adjustments have been made to compensate for the effect of inflation on the value of the Turkish Lira, in accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies".

2. BASIS OF FINANCIAL STATEMENTS (continued)

The adjustments are based on the State Institute of Statistics Wholesale Price Index:

	Index	Conversion Factor
31 December 1999	1,979.5	3.273
31 December 2000	2,626.0	2.467
31 December 2001	4,951.7	1.308
31 December 2002	6,478.8	1.000

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

Year:	2002	2001	2000	1999	1998	1997
Currency Deflation US $	14%	114%	24.3%	72.7%	52.7%	90.5%
WPI Inflation	30.8%	88.5%	32.7%	62.9%	54.3%	90.9%

The principal adjustments are as follows:

- The revaluation of tangible fixed assets under the provisions of the Turkish Tax Procedures Law, as made in the Bank's accounting records, has been eliminated and revaluation based on the State Institute of Statistics Wholesale Price Index has been substituted. This change has been effected for vehicles, furniture, equipment, fixed assets acquired through bad loans and leasehold improvements. Land and buildings are stated at valuation. Complete and accurate information on the original cost of some of the Bank's properties capitalized before 1980 was not available, to enable the calculation of their restated (indexed) cost. Accordingly, instead of restated cost, professional valuations have been used for such properties, determined by a firm of property valuers which is a majority-owned participation of the Bank. Additionally, the Banking Regulation and Supervision Agency (BRSA) has accepted property valuations for additional buildings for the purpose mentioned in above resulting in a revaluation fund of 60,422 Billion TL for which the effects have been reflected in the accompanying financial statements.

- Income statement items have been indexed to year-end money values, based on quarterly data, and provision expenses and depreciation have been restated.

- The gain or loss on net monetary position has been calculated.

- Balance sheet and income statement items for the year 2001 has also been calculated in the same way and indexed to year-end 2002 money values.

continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

Change of Index in 2001

The WPI has been periodically re-based in past years, most recently in 1994. Accordingly, to prepare indices in a continuous sequence from 1970 to 2001, as required for inflation accounting, it is necessary to create a composite index from the 1994-based index and previous indices. The composite index announced by the Banking Regulation and Supervision Agency (BRSA) to be applied in Turkish banks' reporting to the BRSA for 2001 differs, for years prior to 1994, from the composite index that had been used for the IAS financial statements of Türkiye Vakıflar Bankası T.A.O. and other Turkish banks in prior years. To achieve consistency with the reporting to BRSA, in the accompanying financial statements the BRSA's version of the WPI has been used, which represents a change from the index used in previous years. The change affects the carrying values of premises & equipment, share capital and equity participations, being the balance sheet items which include components originating before 1994. The prior year figures for 2000 and 1999 have been restated to apply the BRSA version of the index, so far as practicable (the data consolidated from subsidiaries in 1999 and for the Bank's carrying value of participations in 1999 uses the former index).

Consolidation

- Türkiye Vakıflar Bankası T.A.O below holds a controlling shareholding in the following banks, financial sector institutions and companies (in those cases where the shareholding is less than 50%, control is nevertheless effectively exercised, usually because the minority shareholders include shareholders of the Bank):

	Sector	Türkiye Vakıflar Bankası Ownership (%)	Auditors
Güneş Hayat Sigorta A.Ş.	Insurance	30.34	D&T
Güneş Sigorta A.Ş.	Insurance	35.35	PWC
Vakıf Deniz Finansal Kiralama A.Ş.	Leasing	72.75	D&T
Vakıf Finansal Kiralama A.Ş.	Leasing	64.24	D&T
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Other financial	30.15	D&T
Vakıf Yatırım Menkul Değerler A.Ş.	Other financial	99.50	D&T
World Vakıf Offshore Ltd.	Banking	83.03	D&T
Vakıf Finans Factoring A.Ş.	Other financial	86.81	D&T
Taksim Otelcilik A.Ş.	Tourism	51.50	D&T
Vakıfbank International Wien AG.	Banking	90.00	D&T
Vakıf Enerji ve Madencilik A.Ş.	Industry	84.83	D&T
Vakıf Finance Limited	Other financial	100.00	E&Y

continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

The financial statements of the above entities are consolidated with those of Türkiye Vakıflar Bankası T.A.O in the accompanying financial statements. Together they are referred to as “the Bank and its participations” or “the Group”. The method of consolidation is set out in note 3.2. The ownership percentages set out above include cross-holdings.

The Bank’s investments other than those stated above, in which the shareholding is 20 % or greater, are accounted for using the equity method. Other investments and certain minor subsidiaries and associates are accounted for at cost. One major 45% associate is accounted for at cost, as separately disclosed in note 11.

3. ACCOUNTING POLICIES

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

3.1 Accounting Convention

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Effect has been given in the financial statements to adjustments and reclassifications which have not been entered in the general books of account of the Bank and its equity participations maintained in conformity with accounting practices prevailing in Turkey as set out in note 2.

3.2 Adoption of New International Accounting Standard: IAS 39

IAS 39 Financial Instruments: Recognition and Measurement is applicable for the first time to financial statements for periods beginning on or after 1 January 2001. IAS 39 has introduced a comprehensive framework for accounting for all financial instruments. The Bank’s detailed accounting policies in respect of such instruments are set out below. The principal effects of the adoption of IAS 39 have been the reclassification of the Bank’s securities portolio into trading and investment portfolios accounted in accordance with the IAS 39 rules, and the classification of the Bank’s equity participations as “Available for sale assets” since they have no fixed maturity. The effect of these changes on opening shareholders’ equity at 1 January 2001 is not material and has not been separately disclosed. The Bank’s accounting systems do not facilitate the recalculation of interest income and expense accruals on an IRR basis as required by IAS 39 for originated loans and receivables and certain liabilities including deposits; sampling techniques indicate that the effect of application would not be material to Group profit/loss or shareholders’ equity and accordingly the straight line method has continued to be used.

3. ACCOUNTING POLICIES (continued)

3.3 Income and Expense Recognition

Interest and other income and expenses are recognized on the accrual basis, except for fees and commissions for various banking services rendered and dividends from equity participations which are recognized as income when received. All income and expense items are restated in equivalent purchasing power at the balance sheet date.

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

3.4 Foreign Currency Items

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

Assets and liabilities of the Bank denominated in foreign currencies are translated at year end Bank exchange rates. For the translation of assets and liabilities of consolidated participations TCMB rates are used.

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

3.5 Securities Portfolio

The Bank's securities portfolio primarily represents Government bonds and Treasury bills which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices. The cost of foreign currency denominated securities is translated at year-end exchange rates.

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

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

continued

3. ACCOUNTING POLICIES (continued)

3.5 Securities Portfolio (continued)

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

Securities held for trading:

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their price or dealer's margin. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. Gains or losses on held for trading securities are included in net profit or loss for the period in which they arise. As discussed in notes 3.13 and 7, certain trading securities are valued at cost in the absence of a reliable estimate of market value.

Investment fund share certificates are stated at market value. Quoted shares are carried at market value.

Securities held to maturity:

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

Securities available for sale:

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

Investments in equity instruments that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable, are accounted for at cost. Securities that do not have a fixed maturity are measured at cost.

3. ACCOUNTING POLICIES (continued)

3.6 Premises and Equipment

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

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

Buildings	2%
Vehicles	15% - 20%
Furniture and Office Equipment	6% - 20%
Leasehold and Leasehold Improvements	Over the life of the lease

With the exception of fixed assets to be sold which have been acquired through guarantees received by the Bank for loans given, additions to premises and equipment are based on the purchase prices paid to third parties.

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

Using an option granted by the Turkish tax laws and regulations, in its statutory records the Group revalues its premises and equipment (including the related depreciation) in accordance with the rates and procedures published by the Ministry of Finance. The surplus on revaluation is credited to a revaluation reserve, which may be subsequently incorporated as share capital. The revaluation is not taxable and depreciation, which is charged on the revalued amount, is deductible for tax purposes. Buildings are depreciated over their acquisition cost. Land and fixed assets taken over in settlement of loans are neither depreciated nor revalued. Coefficients for revaluation in recent years have been: 2002: 59%, 2001: 53.2%, 2000: 56%, 1999: 52.1%, 1998: 77.8%, 1997: 80.4% and 1996: 72.8%.

Revaluation surpluses arising from the revaluation of premises and equipment in the statutory records as allowed by the prevailing taxation legislation in Turkey are eliminated in the accompanying financial statements.

 continued

3. ACCOUNTING POLICIES (continued)

3.7 Retirement Pay Provision

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

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

The Bank does not calculate the provision on an individual employee basis, but rather makes an estimation of the overall liability.

3.8 Equity Participations

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

Equity participations have been expressed in the year end purchase value of the Turkish Lira. In cases where there is a loss in value, statutory books have been reduced to such values, by a provision for such impairment, charged to the statement of income.

3.9 Loan Loss Provisions

Loans are financial instruments originated by the Bank and accounted for at amortized cost in accordance with IAS 39 (but with amortization on a straight line basis as discussed in note 3.2). Based on its evaluation of the current status of loans granted, the bank makes loan loss provisions which it considers adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income. The bank generally ceases the accrual of interest if interest or principal has remained unpaid for more than three months. Interest accrued on overdue loans is considered in management's assessment of the required provisions for loan losses. For loans that are rescheduled, interest is calculated retrospectively and added to the loan balance.

 continued

3. ACCOUNTING POLICIES (continued)

3.9 Loan Loss Provisions (continued)

The loan loss provisions and the general loan provision follow the requirements as specified by Turkish Banking regulations. In accordance with the prevailing provisioning legislation, banks in Turkey should appropriate 0.5% general provision for cash loans and other receivables and 0.1% general provision for non-cash loans. The Bank's general provision exceeds these rates.

3.10 Taxation and Deferred Taxes

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Temporary differences arise in respect of retirement pay provisions, the difference between the book value of tangible fixed assets and the carrying value in the accompanying financial statements (which is based on indexed cost) and various other provisions not taxable or tax-deductible until the following year or years.

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

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

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

continued

3. ACCOUNTING POLICIES (continued)

3.11 Securities Under Resale or Repurchase Transactions

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

3.12 Financial Leases – the Group as Lessee

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

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

3.13 Fair Values of Financial Instruments

The term financial instruments includes both financial assets and financial liabilities, and also derivatives. Financial instruments are fundamental to the Bank’s business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Bank. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Bank’s balance sheet. The Bank trades in financial instruments for customer facilitation and as principal.

 continued

3. ACCOUNTING POLICIES (continued)

3.13 Fair Values of Financial Instruments(continued)

The Bank accounts for financial instruments on a trade date basis. After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, except for loans and receivables originated by the enterprise and not held for trading, held-to-maturity investments and any financial asset that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. Those financial assets that are excluded from fair valuation and that have a fixed maturity are measured at amortized cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are reviewed periodically for impairment.

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

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

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

3. ACCOUNTING POLICIES (continued)

3.13 Fair Values of Financial Instruments(continued)

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

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

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

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

Loans: The major portion of the loans are short-term and have interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.
Deposits: Estimated fair value of demand deposits, saving deposits, interbank deposits and certificates of deposits is the amount payable on demand at the reporting date.

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

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

In the normal course of business, the Bank enters into a variety of derivative transactions principally in the foreign exchange and interest rate markets. These are used to provide financial services to customers and to actively take, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the balance sheet from a variety of activities including lending and securities investment. The majority of the counter parties in the Bank's derivative transactions are banks and other financial institutions. The risks involved in derivatives include market, credit and liquidity risk.

 continued

3. ACCOUNTING POLICIES (continued)

3.13 Fair Values of Financial Instruments (continued)

The Bank deals with financial instruments with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Bank's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

3.14 Risk Management

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

Liquidity risk

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

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

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

Credit risk

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

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

continued

3. ACCOUNTING POLICIES (continued)

3.14 Risk Management (continued)

Market risk

Market risk is the risk that changes in the level of interest rates, currency exchange rates or the price of securities and other financial contracts, will have an adverse financial impact. The primary risks within the Bank's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Bank's balance sheet is denominated in currencies other than the Turkish Lira (principally the US dollar and Euro-zone currencies).

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

Operational risk

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

3.15 Cash and Cash Equivalents

In the statement of cash flows, cash and cash equivalents consists of liquid assets, balances with the Central Bank and Balances with Banks.

3.16 Offsetting

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

continued

3. ACCOUNTING POLICIES (continued)

3.17 Impairment

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

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

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

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

3.18 Use of Estimates

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

 continued

3. ACCOUNTING POLICIES (continued)

3.19 Earnings Per Share

IAS 33 "Earnings Per Share" requires disclosure of basic earnings per share and diluted earnings per share (if applicable) for companies whose shares are publicly traded or which are in the process of issuing shares in a public market. There were no dilutive equity instruments outstanding, which would require the calculation of a separate diluted earnings per share.

The basic earnings per share calculation is as follows:

	2002	2001
Shares outstanding (Billion)	343	343
Net profit/(loss) (TL Billion)	317,428	(979,472)
Basic earnings (loss) per share (TL)	925	(2,856)

Earnings per share are calculated as if all capital increases had been bonus shares, since it is not practicable to calculate the market capitalization before and after increases.

3.20 Consolidation

The consolidation includes the companies set out in note 2. Adjustments are made to eliminate intercompany interests, charges and dividends, intercompany receivables and payables and intercompany investments. In cases where the consolidated entities are not 100% owned the shareholders' equity and net income which belong to third party shareholders are separately disclosed as Minority Interest.

All other participations are stated at cost. In cases where there is evidence of permanent impairment in value, recorded amounts are reduced by such impairment, charged to the income statement.

continued

4. LIQUID ASSETS

	31.12.2002 TL Billion	31.12.2001 TL Billion
Cash balances – Turkish Lira	73,371	73,928
Cash balances – Foreign currency	24,378	27,724
Other	3,619	1,405
	101,368	103,057

5. BALANCES WITH THE CENTRAL BANK

	31.12.2002 TL Billion	31.12.2001 TL Billion
a) Balances with the Central Bank		
Demand deposits – Turkish Lira	30,715	102,005
Demand deposits – Foreign currency	17	292
	30,732	102,297
Time deposits – Foreign currency	241,705	237,312
	272,437	339,609
Income accruals	403	304
	272,840	339,913
b) Reserve deposits at the Central Bank		
Reserve Deposits – Turkish Lira	128,727	141,526
Reserve Deposits – Foreign currency	545,604	487,793
	674,331	629,319
Income accruals	17,498	13,215
	691,829	642,534

continued

5. BALANCES WITH THE CENTRAL BANK (continued)

Under the Turkish Central Bank regulations, Banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than interbank deposits. The prevailing rates are 8% for Turkish Lira deposits and 11% for foreign currency deposits. These reserves are not available funds to finance the operations of the Bank. Reserve deposits begin to earn interest in 2001.

6. BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2002 TL Billion	31.12.2001 TL Billion
DOMESTIC BANKS		
Current accounts - Turkish Lira	5,753	1,378
Current accounts- Foreign currency	65	59,160
Time deposits – Turkish Lira	7,688	3,550
Time deposits – Foreign currency	1,175	8,488
	14,681	72,576
FOREIGN BANKS		
Current accounts - Foreign currency	77,316	81,511
Time deposits – Foreign currency	413,984	437,157
	491,300	518,668
	505,981	591,243
Income accrual on balances with banks and other financial institutions	814	6,780
	506,795	598,023

The time foreign currency deposits above mature within one month and earn interest at rates ranging from 4 % to 6.4 % per annum (31.12.2001: 4% to 5% per annum.).

continued

7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES

a) Trading Portfolio	31.12.2002 TL Billion	31.12.2001 TL Billion
Government bonds and treasury bills	1,389,923	2,147,752
Eurobonds	2,973,958	1,745,044
Investment participation bills	6,865	3,429
Shares	4,750	5,765
Other	3,939	46,676
	4,379,435	3,948,666
Income accruals	274,983	254,486
	4,654,418	4,203,152
b) Available for sale		
Government bonds and treasury bills	87,997	-
Eurobonds	3,412	-
Investment participation bills	-	-
Shares	-	-
Other	-	-
	91,409	-
Income accruals	-	-
	91,409	-
Total trading securities portfolio	4,745,827	4,203,152

The carrying values of securities are equal to fair values where a fair value is available, and amortised cost for those bonds, especially Eurobonds as discussed below, where a fair value is not available (see note 3.5).

Securities portfolio includes TL 178,615 Billion (2001: 996,610) securities sold with agreements to repurchase ("repo") as at the balance sheet date.

Estimated fair values for Government Bonds and Treasury Bills that are traded on a stock exchange were calculated based upon the prices quoted on the İstanbul Stock Exchange. For index-linked Government bonds, fair values were calculated based on either the prices quoted in the Official Gazette or internal rate of return.

7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES (continued)

Government bonds as at 31 December 2002 include bonds issued by the Republic of Turkey in foreign currencies (Eurobonds) and mature through the year 2003-2030. These government bonds are valued at cost in foreign currency, translated at year end exchange rates, plus interest accrued on an IRR basis. On this basis, the book value of these government bonds as at 31 December 2002 is TL 2,425,486 Billion The bonds are not quoted on a stock exchange.

TL 1,790,510 Billion of of the securities portfolio are blocked securities for legal requirements and kept as guarantee for Istanbul Stock exchange transactions, Interbank Money Market transactions, liquidity guarantee and foreign currency market guarantee.

b) Held to Maturity Securities

	31.12.2002 TL Billion	31.12.2001 TL Billion
Government Bonds and Treasury Bills	1,405,743	878,128
Other	2,548	4,949
	1,408,291	883,077
Income accrual	254,326	121,091
	1,662,617	1,004,168

 continued

8. LOANS (NET)

	31.12.2002 TL Billion	31.12.2001 TL Billion
Short, medium and long term loans	3,179,164	3,616,725
Overdue loans	1,108,560	1,598,500
Less: Provision for loans	(650,320)	(721,216)
Interest and other accruals on loans	211,044	542,878
	3,848,448	5,036,887

A breakdown of loans can be given as follows:

	31.12.2002 TL Billion
Short Term Loans	
Discount and purchase bills	48,199
Export loans unsecured	28,840
Secured export loans	572,713
Other unsecured loans	452,511
Other secured loans	760,446
Loans given to financial sector	20,010
Loans given to foreign institutions	2,732
Rescheduled loans	100,175
Finance lease receivables	149,802
Factoring receivables	6,874
	2,142,302
Medium and Long Term Loans	
Unsecured loans with export obligations	290,149
Secured loans with export obligations	282,855
Secured other investment and operating loans	303,063
Other unsecured loans	103,911
Loans given to foreign institutions	56,884
	1,036,862
	3,179,164

continued

8. LOANS (NET) (continued)

Movement for loan loss provision:

	TL Billion
At 1 January 2002	721,217
Charge for the year	144,452
Write-offs	(6,143)
Provision released	(37,269)
Effect of indexation	(171,937)
At 31 December 2002	650,320

Sector	**2002 %**	**2001 %**
Industry	23	34
Construction	13	6
Trade	21	16
Retail and consumer	35	33
Other	8	11
	100	100

Loans can be analysed by currency as follows;

Currency	**31.12.2002 TL Billion**	**31.12.2001 TL Billion**
Turkish Lira	1,461,466	1,465,318
US Dollars	1,193,849	1,755,545
Euro	492,132	353,537
CHF	31,250	-
Other currencies	467	42,325
	3,179,164	3,616,725

The Bank mainly extends short term loans to customers with maturities within one year. Interest rates charged for loans varied between 90 % and 92 % (2001:109 % and 152 %) for Turkish Lira loans and 10 % and 12 % (2001: 16 % and 23 %) for foreign currency loans per annum during the year.

TL 84,257 Billion of interest and other accruals on loans comprise Bankomat (ATM card) usage fee accrual as of 31 December 2002. (31 December 2001:TL 140,327 Billion).

continued

9. TRADE RECEIVABLES

	31.12.2002 TL Billion	31.12.2001 TL Billion
Receivables from insurance customers	55,489	55,022
Other trade receivables	4,325	8,336
Doubtful trade receivables	16,391	16,942
Less: Provision for doubtful receivables	(16,391)	(16,942)
	59,814	63,358

10. SUNDRY DEBTORS

	31.12.2002 TL Billion	31.12.2001 TL Billion
Receivables from personnel	159	144
Receivables for banking services	533	436
Receivables from sale of assets	19,669	69,572
Receivables from credit card transactions	6,866	4,161
Receivables from court expenses	13,128	12,279
Other sundry debtors	9,535	625
	49,890	87,217

 continued

11. EQUITY PARTICIPATIONS (NET)

"Available for sale assets" under IAS 39 classification:

	Percent Owned 12.2002 (%)	**31.12.2002 TL Billion**	**31.12.2001 TL Billion**
Ataköy Marina ve Yat.İşletmecilik A.Ş.	55.04	15,013	15,013
Ataköy Otelcilik A.Ş.	28.92	17,310	17,310
Ataköy Turizm Tes. Ve Tic. A.Ş.	40.58	31,485	31,485
Banque Du Bosphore	20.00	7,645	7,255
Bankalararası Kart Merkezi A.Ş.	9.70	866	648
EGS Gayrimenkul Yatırım Ort.A.Ş.	0.73	103	-
ETİ Soda Üretim Paz.Nak.ve Tic.A.Ş.	0.04	13	13
Güney Ege Enerji İşlt.Ltd.Şti.	38.17	161,475	161,475
Güneş Turizm Oto Endüst. ve Tic. A.Ş.	100.00	78	754
IMKB Takas ve Saklama Bankası A.Ş.	5.05	7,078	5,781
İstanbul Reasürans A.Ş.	-	-	1,693
İzmir Enternasyonal Otelcilik A.Ş.	5.00	4,763	4,763
Kıbrıs Vakıflar Bankası Ltd.	15.00	496	449
Kredi Kayıt Bürosu A.Ş.	9.09	950	714
Sınai Yatırım Bankası A.Ş. (*)	-	-	2,397
Trophy Röntgen Sanayi A.Ş.	-	-	772
Türkiye Sınai Kalkınma Bankası A.Ş. (*)	8.38	5,339	4,289
Vak-Bel İthalat A.Ş.	72.27	9,527	7,827
Vakıf Gayrimen.Ekspertiz ve Değ. A.Ş.	25.15	331	258
Vakıf İnşaat Restorasyon A.Ş.	22.08	5,802	7,909
Vakıf Menkul Kıy. Yat. Ort. A.Ş.	18.07	2,468	2,461
Vakıf Risk Sermayesi Yat. Ort. A.Ş. .(*)	46.49	2,021	4,381
Vakıf Sistem Pazarlama A.Ş.	79.75	6,133	3,556
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	17.81	26,176	5,851
Roketsan Roket San. ve Tic. A.Ş.	15.47	21,689	-
Other		14,779	14,251
		341,540	301,305
Provision for diminution in value of participations (-) (**)		(26,121)	-
		315,419	301,305

(*): Shares of Türkiye Sınai Kalkınma Bankası A.Ş. and Vakif Risk Sermayesi Yat. Ort. A.Ş. are traded on the Istanbul Stock Exchange. The investments in these entities as of 2002 and 2001 have been valued at the market price as at the balance sheet date.

(**): As of 31.12.2001, participations values are shown as net.

continued

11. EQUITY PARTICIPATIONS (NET) (continued)

The participation in Güney Ege Enerji İşletmeleri Ltd. Şti. was acquired during December 2000 in settlement of certain loans. Güney Ege Enerji İşletmeleri Ltd. Şti. intends to take over and develop three power stations. The purchase price includes significant goodwill. The participation has been accounted at cost.

Summary financial information relating to Güney Ege Enerji İşletmeleri Ltd. Şti. is as follows, based on unaudited financial statements prepared in accordance with Turkish tax law and the commercial code:

	31.12.2002 TL Billion	**31.12.2001 TL Billion**
Assets	96	330
Shareholders Equity	(99)	71
Profit/(Loss) for the period	(149)	(433)

12. PREMISES AND EQUIPMENT

	31.12.2002 TL Billion	**31.12.2001 TL Billion**
Land and Buildings	1,356,219	1,187,118
Vehicles, Furniture & Equipment and leasehold improvements	294,600	285,092
Construction work in progress	46	-
Less: Accumulated depreciation	(330,192)	(289,926)
	1,320,673	1,182,284

Land and building include assets taken over in settlement of doubtful loans amounting to 421,882 BTL as of 31 December 2002.

 continued

13. OTHER ASSETS

	31.12.2002 TL Billion	31.12.2001 TL Billion
Deferred acquisition cost	17,492	19,943
Prepaid expenses	27,225	13,749
Investment properties	33,301	41,281
Inventories	4,773	1,216
Other	32,263	45,405
	115,054	121,594

14. DEPOSITS

	31.12.2002 TL Billion	31.12.2001 TL Billion
Savings and certificates of deposit	612,454	744,140
Public, commercial and other deposits	3,480,023	2,223,582
Interbank deposits	198,454	132,180
Foreign currency deposits	5,527,245	6,076,122
	9,818,176	9,176,024
Expense accruals on deposits	65,902	83,144
	9,884,078	9,259,168

The time deposits have maturity periods of less than one year. The Bank has applied interest rates to Turkish Lira time deposits based upon maturity as follows: one month 53-55%, three months 45-53%, six months 50-56 % and one year 34-39 % (2001: one month 53-54.11%, three months 47-59.49% six months 43-62.95% and one year 28.79-54%). Interest rates applied for foreign currency time deposits vary between 2.34 % and 3.03 % for US dollars and 2.46 % and 3.56 % for Euro (2001: 6.6% and 7.25% for US Dollars and 3.25 and 6.5% for Euro.)

15. BORROWINGS FUNDING LOANS

	31.12.2002 TL Billion	31.12.2001 TL Billion
Borrowings from domestic banks and institutions	235,031	431,267
Borrowings from overseas banks and institutions	1,125,476	842,517
Subordinated loans	213,344	-
Interest and other expense accruals	35,879	17,399
	1,609,730	1,291,183

In August 2002, subordinated loan was received from Saving Deposits Insurance Fund in order to improve capital adequacy ratio calculated as at 31 December 2001. The loan has no payment for the first two years, has a fixed term of seven years and to be repaid with %0.5 spread. A special type of bond changeable into shares has been issued, having a value date 26 August 2002 and maturing on 26 August 2009, with a nominal value of 213,344 Billion TL, one coupon payment per annum and indexed to TÜFE. It is kept in TCMB.

Borrowing from domestic banks includes funds used from the Turkish Export and Import Bank. These funds were extended to the Bank's loan customers for export activities.

Terms of payment:

	31.12.2002 TL Billion
2003	819,957
2004	178,351
2005	321,069
2006	281,820
Over five years	8,553

Borrowings from banks as at 31.12.2001, excluding loans for which the Bank acted as an agency, include the following:

2001	Maturing in One year	Maturing in Two years	Maturing in Three years	Maturing in Four years	Maturing in Five years
CHF	1,215,414	669,430	8,173,235	15,909,927	5,597,250
EUR	696,098	3,100,934	2,573,707	-	9,378,274
USD	189,572,205	-	-	-	200,000,000

continued

16. SECURITIES ISSUED

	31.12.2002 TL Billion	31.12.2001 TL Billion
Securities issued	335,702	325,085
Interest accruals	4,084	10,714
	339,786	335,799

Securities issued comprise Notes issued of EURO 200 Million which mature on 7 August 2003. Interest is payable on Notes, quarterly at the rate of the 3 month EURIBOR rate plus 4.75 %.

17. FUNDS

According to an agreement between the Mass Housing Administration (M.H.A) and the Bank, the Bank is obliged to act as an intermediary in loan disbursements. These loan disbursements, for which the Bank is supplied with the corresponding funds accounted for as “Funds” in its balance sheet, are intended to support the economic development of certain regions of Turkey. Entities are provided with such credits subject to the approval of the M.H.A and Government participation fund and the Bank has responsibility for any shortfalls in the ultimate repayments of the credits by borrowers. The Bank charges commission for the intermediary services provided.

18. TRADE PAYABLES

	31.12.2002 TL Billion	31.12.2001 TL Billion
Trade payables	21,743	31,258
Payables to insurance companies	23,781	23,820
Other trade payables	1,238	4,234
	46,762	59,312

19. SUNDRY CREDITORS

	31.12.2002 TL Billion	31.12.2001 TL Billion
Cash guarantees	12,048	32,040
Reserved cash	20,240	24,646
Payables to funds	17,397	15,421
Other	9,250	1,706
	58,935	73,813

continued

20. TAXATION

The Bank and its equity participations are subject to Turkish corporation tax which is applied at the rate of 30% on taxable corporate income for accounting periods starting on or after 1 January 1999. A tax surcharge is additionally applied at the rate of 10% on the corporation tax amount. Taxation is computed separately for each entity in the Group.

In addition to corporation tax, income withholding tax is charged on profits after corporation tax if dividends are distributed. Consequently, if profits are retained, companies' effective tax rate is 33% from 1999 onwards, while if profits are distributed there are additional withholding taxes. The withholding rates are 5% for publicly traded and 15 % for non-public companies.

The Bank recognises deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for IAS purposes and its statutory tax financial statements (see note 3.10).

In Turkey there is no procedure for final agreement of tax liabilities. The taxation authorities may conduct an investigation and may raise additional assessments at any time within five years from the balance sheet date.

a) Balance sheet: Taxes and dues payable

	31.12.2002 TL Billion	31.12.2001 TL Billion
Corporation tax, withholding tax and funds	15,080	18,693
Deferred tax liability/(assets)- net	45,665	197,210
Provision for deferred tax assets	23,419	-
Other taxes and dues	32,439	40,699
	116,603	256,602

b) Statement of income: Taxes

	31.12.2002 TL Billion	31.12.2001 TL Billion
Corporation tax, withholding tax and funds	20,600	18,693
Provision expense/(income) for deferred tax	(57,679)	107,134
	(37,079)	125,827

 continued

20. TAXATION (continued)

The major cumulative temporary differences are as follows at 30 June 2002 and 31 December 2001:

	31.12.2002 TL Billion	**31.12.2001 TL Billion**
Fixed assets indexation difference and revaluation surplus	377,356	727,759
Deferred acquisition cost	-	19,943
Loan loss provisions not deductible	(39,773)	(39,232)
Retirement pay provision	(56,497)	(58,020)
Excess provision for premiums	(12,723)	(17,786)
Carried forward tax losses	(320,195)	-
Other temporary differences (total)	190,210	(35,057)
NET CUMULATIVE TEMPORARY DIFFERENCES	138,378	597,607

Deferred taxes are calculated on all temporary differences using a principal tax rate of 33%.

21. PROVISIONS

	31.12.2002 TL Billion	31.12.2001 TL Billion
PROVISIONS FOR RETIREMENT PAY		
At 1 January	58,020	68,510
Provision for the period (net)	12,642	21,687
Monetary Loss	(13,676)	(32,177)
At 31 December	56,986	58,020
GENERAL LOAN PROVISION		
At 1 January	39,232	44,794
Provision and release for the period (net)	9,570	15,477
Monetary Loss	(9,247)	(21,039)
At 30 June	39,555	39,232
PROVISION FOR NON-CASH LOANS	44,233	83,014
INSURANCE COMPANIES TECHNICAL PROVISIONS	186,684	188,559
OTHER PROVISIONS	1,170	-
TOTAL PROVISIONS	328,628	368,825

Provision for Retirement Payments:

Lump sum payments are made to all employees who retire from the bank or whose employment is terminated for reasons other than misconduct. The amount payable is 30 days' gross pay for each year of service. The rate of pay is that ruling at 31 December 2002, subject to a maximum of TL 1,235,150 thousand per month (2001: 1,279,641 thousand TL per month at indexed values).

General Provision for Loans:

The general provision for loans has been made in respect of losses which have not yet been specifically identified but are known from experience to be present in any loan portfolio.

continued

22. MATURITY ANALYSIS

As at 31 December 2002	Up to 1 Month TL Billion	1 to 3 Months TL Billion	3 to 12 Months TL Billion	Greater than 1 year TL Billion	(*) Total TL Billion
ASSETS (*)					
Liquid assets	101,368	-	-	-	101,368
Banks (including Central Bank)	345,953	88,068	16,911	327,889	778,821
Interbank funds sold	120,000	3,357	-	-	123,357
Securities portfolio and held to maturity securities	20,145	147,569	1,992,977	3,718,444	5,879,135
Loans	19,773	1,230,637	916,100	1,470,894	3,637,404
LIABILITIES (*)					
Deposits	1,971,178	7,306,433	395,830	144,735	9,818,176
Securities sold under repo agreements	173,607	-	-	-	173,607
Interbank funds borrowed	-	-	-	-	-
Bank borrowings	22,472	295,408	533,309	722,662	1,573,851
Funds	-	-	304	177,286	177,590

(*) Interest income and expense accruals are excluded.
(**) Maturity distribution is estimated

continued

22. MATURITY ANALYSIS

As at 31 December 2001	Up to 1 Month TL Billion	1 to 3 Months TL Billion	3 to 12 Months TL Billion	Greater than 1 year TL Billion	(*) Total TL Billion
ASSETS (*)					
Liquid assets	103,057	-	-	-	103,057
Banks (including Central Bank)	904,197	2,758	23,898	-	930,853
Interbank funds sold	324,483	-	-	-	324,483
Securities portfolio	1,034,151	90,312	842,610	1,925,723	3,892,796
Loans	687,178	397,840	904,181	1,627,527	3,616,725
LIABILITIES (*)					
Deposits	5,019,201	3,265,623	593,606	297,594	9,176,024
Securities sold under repo agreements	870,751	-	-	-	870,751
Interbank funds borrowed	158,094	-	-	-	158,094
Bank borrowings	67,224	81,746	645,908	478,905	1,273,784
Funds	3,963	8,302	36,461	177,287	226,013

(*) Interest income and expense accruals are excluded.
(**) Maturity distribution is estimated

continued

23. MINORITY INTEREST

In the calculations of minority interests in group companies, shareholders of T.Vakıflar Bankası T.A.O. are included among the minority shareholders.

	31.12.2002 TL Billion	31.12.2001 TL Billion
-Paid in capital	276,211	325,995
-Retained Earnings	(43,823)	(78,415)
	232,388	247,580

24. SHARE CAPITAL

The Bank's share capital consists of A, B and C classes of shares, which carry the same rights.

Class of Shares	31.12.2002 TL Billion	31.12.2001 TL Billion
A	188,650	188,650
B	68,600	68,600
C	85,750	85,750
	343,000	343,000
Unpaid capital	(23,344)	(23,344)
Paid capital per statutory records	319,666	319,666
Indexation effect	1,003,416	1,003,416
Indexed Share Capital	1,323,082	1,323,082

 continued

25. INTEREST INCOME

	31.12.2002 TL Billion	**31.12.2001 TL Billion**
BANKING		
Interest on Loans	862,372	2,141,826
Interest on Securities Portfolio	1,021,386	1,003,274
Interest on Deposits at Banks	25,985	157,530
Interest on Interbank Funds Sold	240,374	87,117
Interest on Reserve Requirement	62,760	23,716
Other Interest Income	39	32,676
TOTAL	2,212,916	3,446,139

26. INTEREST EXPENSE

	31.12.2002 TL Billion	**31.12.2001 TL Billion**
BANKING		
Interest Expense on Deposits	1,620,213	2,817,097
Interest Expense on Interbank Funds Borrowed	119,989	65,895
Interest Expense on Borrowings	135,711	131,204
Other Interest Expense	3,206	14,970
TOTAL	1,879,119	3,029,166

continued

27. NON-INTEREST INCOME

	31.12.2002 TL Billion	31.12.2001 TL Billion
Banking services income	296,271	442,312
Capital market transaction income (net)	393,393	311,199
Other	127,242	243,770
TOTAL	816,906	997,281

28. NON-INTEREST EXPENSE

	31.12.2002 TL Billion	31.12.2001 TL Billion
Personnel expenses	229,740	305,163
Taxes and dues	44,999	74,664
Depreciation expenses	47,988	46,739
Commissions and fees paid	70,261	82,003
Retirement pay provision	9,203	20,251
Foreign exchange losses (net)	281,664	768,028
Other provisions	55,014	57,075
Other-Banking	295,510	227,143
Other-Insurance (net)	(56,473)	(33,476)
Other-Leasing (net)	(16,622)	47,620
Other- Service sector (net)	(31,883)	(33,496)
	929,401	1,561,714

continued

29. CONTINGENCIES AND COMMITMENTS

Significant contingencies and commitments are summarized as follows:

	31.12.2002 TL Billion	**31.12.2001 TL Billion**
Letters of Guarantee		
- in Turkish Lira	1,095,509	1,096,289
- in Foreign Currency	1,036,130	1,320,829
Letters of Credit	1,101,738	883,567
Acceptance Loans	139,661	255,326
Other Commitments	3,144,754	538,245
	6,517,792	4,094,256

30. FOREIGN CURRENCY POSITION

	2002 TL Billion	**2001 TL Billion**
Total foreign currency assets	7,120,420	8,145,685
Total foreign currency liabilities	7,130,633	8,440,947
Net foreign currency position	(10,213)	(295,262)

concluded