TÜRKİYE VAKIFLAR BANKASI T.A.O.

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER 2003

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 2003 and 2002 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 operating rights of these plants is aborted. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Ege Enerji Limited Şirketi has applied to International Arbitration Board for the compensation of profit losses and other expenses. It is expected that the process of arbitration will be finalized by June 2004. Additionally, in accordance with the rescheduling agreement made with Bayındır Group under the scope of the Financial Restructuring Programme, USD 103,500,000 regarding the payment made by the Bank for Güney Enerji shares, has been reflected to the total credit risk of the Group in the agreement mentioned above. Therefore, 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 180,003 Billion TL 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. 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 2003 and 2002 and the consolidated results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Ankara, 1 April 2004

DENETİM SERBEST 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 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2003)

Assets	Note	31.12.2003 TL Billion	31.12.2002 TL Billion
Liquid Assets	4	145,618	115,501
Balances With The Central Bank	5a	264,522	310,881
Balances With Banks	6	1,449,799	577,454
Interbank Funds Sold		275,539	141,419
Trading Securities Portfolio	7a	5,861,720	5,303,355
Available for Sale Portfolio	7b	1,171,742	104,154
Reserve Deposits at the Central Bank	5b	739,502	788,287
Loans (Net)	8	5,122,420	4,385,014
Trade Receivables	9	92,134	68,153
Sundry Debtors	10	71,744	56,846
Equity Participations (Net)	11	332,513	359,396
Held to Maturity Securities	7c	1,282,125	1,894,425
Premises & Equipment (Net)	12	1,314,829	1,504,807
Other Assets	13	95,541	131,096
TOTAL ASSETS		18,219,748	15,740,788

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2003)

Liabilities	Note	31.12.2003 TL Billion	31.12.2002 TL Billion
Deposits			
Demand		2,560,322	1,881,655
Time		10,255,305	9,303,654
Expense accruals on deposits		117,171	76,847
	14	12,932,798	11,262,156
Commitments to Repurchase Securities		525,976	198,341
Interbank Funds Borrowed		2,234,237	1,834,165
Securities Issued	16	-	387,160
Funds	17	178,486	202,350
Trade Payables	18	90,792	53,282
Deposits and Advances Taken for Imports		178,572	157,991
Sundry Creditors	19	148,297	67,152
Taxes and Dues Payable	20a	27,739	132,860
Provisions	21	430,066	374,447
Other Liabilities		208,114	161,021
		16,955,077	14,830,925
MINORITY INTEREST	23	224,589	264,788
SHAREHOLDERS' EQUITY			
Share Capital	24	1,507,551	1,507,551
Revaluation Fund		118,514	127,158
Retained Earnings		(585,983)	(989,634)
		1,040,082	645,075
TOTAL LIABILITIES AND EQUITY		18,219,748	15,740,788
COMMITMENTS AND CONTINGENCIES	29	5,136,379	7,426,528

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2003)

	Note	12 months 31.12.2003 TL Billion	12 months 31.12.2002 TL Billion
Interest Income - Banking	25	2,335,566	2,521,450
Interest (Expense) – Banking	26	(2,011,493)	(2,141,113)
Net Interest Income – Banking		324,073	380,337
Loan Loss Provision (Expense)		(366,180)	(115,675)
NET INTEREST (EXPENSE)/INCOME AFTER LOAN LOSS PROVISIONS		(42,107)	264,662
Non-Interest Income	27	1,071,823	905,161
Non-Interest (Expense)	28	(731,853)	(1,058,982)
Income / (Loss) from Associates		(483)	6,988
INCOME/(EXPENSE) BEFORE TAX AND MONETARY GAIN/(LOSS)		297,380	117,829
Taxation	20b	71,443	42,249
INCOME / (EXPENSE) BEFORE MONETARY GAIN/(LOSS)		368,823	160,078
Monetary Gain/(Loss)		1,289	224,606
NET INCOME/(LOSS)		370,112	384,684
Less: Minority Share of Net Income/(Loss)		13,875	22,999
Net (Loss)/Income Attributable to T.Vakıflar Bankası T.A.O. Shareholders		356,237	361,685
Earnings/(Loss) Per Share		1,039	1,054

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2003)

	Paid in Capital Billion TL	**Revaluation Fund Billion Billion TL**	**Retained Earnings Billion TL**	**Total Billion TL**
As at 31.12.2001	1,507,551	103,123	(1,305,842)	304,832
Increase in capital:				
Cash	-	-	-	-
Transfer from reserves	-	-	-	-
Changes in minority	-	-	(30,285)	(30,285)
Dividends paid	-	-	(15,192)	(15,192)
Profit for the year	-	-	361,685	361,685
Additions to revaluation fund	-	24,035	-	24,035
As at 31.12.2002	1,507,551	127,158	(989,634)	645,075
Increase in capital:				
Cash	-	-	-	-
Transfer from reserves	-	-	-	-
Changes in minority and other items	-	-	14,028	14,028
Other changes				
Elimination of prior year revaluation differences for investments	-	-	(11,340)	(11,340)
Transfer of a part of reserves of equity participations to capital	-	-	6,007	6,007
Valuation differences for foreign subsidiaries	-	-	36,299	36,299
Dividends paid	-	-	(4,465)	(4,465)
Profit for the period	-	-	356,237	356,237
Additions and disposals from revaluation fund (net)	-	(8,644)	6,885	(1,759)
As at 31.12.2003	1,507,551	118,514	(585,983)	1,040,082

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2003)

	31.12.2003 TL Billion	31.12.2002 TL Billion
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net income/(loss) for the period	356,237	361,685
Adjustments to reconcile net income to net		
Cash provided by operating activities:		
Depreciation and amortization	48,299	45,880
Provision for retirement pay	12,591	(1,179)
Insurance technical provisions and other provisions	72,220	(44,624)
Loan provisions	(400,782)	(80,781)
(Decrease)/Increase in taxation on income	(105,121)	(159,518)
(Decrease)/(Increase) in reserve deposits at Central Bank	48,785	(56,167)
(Decrease) in interbank funds borrowed/sold (net)	(134,119)	(180,273)
Decrease/(Increase) in other assets	(3,324)	284,023
Net cash provided from/(used in) operating activities	(105,214)	169,046
CASH FLOWS FROM INVESTING ACTIVITIES		
(Decrease)/(Increase) in marketable securities	(1,013,652)	(1,368,588)
Decrease in loans	(357,870)	1,434,915
(Increase)/Decrease in equity participations	26,883	(16,081)
Additions to premises and equipment	141,678	(203,563)
Net cash (used in)/provided from investing activities	(1,202,961)	(153,317)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/Increase in deposits	1,670,643	712,037
Increase/(Decrease) in securities under repo agreement	327,635	(1,134,922)
(Decrease)/Increase in loans used	400,071	362,960
(Decrease) in funds borrowed	(23,865)	(55,174)
(Decrease)/Increase in securities issued	(387,161)	4,543
(Decrease)/Increase in other liabilities	178,384	(24,683)
Change in minority interest and other items in shareholders' equity	3,036	(47,595)
Cash dividends paid	(4,465)	(15,192)
Net cash (used in)/provided from financing activities	2,164,278	(198,026)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	856,103	(182,297)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,003,836	1,186,133
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,859,939	1,003,836

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:

<u>Presentation of Financial Statements</u>

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".

continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

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

	Index
31 December 2000	2,626.0
31 December 2001	4,951.7
31 December 2002	6,478.8
31 December 2003	7,382.1

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

Year:	2003	2002	2001	2000	1999	1998
Currency Deflation US $	-13.0%	13.5%	114.3%	24.4%	72.7%	52.7%
WPI Inflation	11.5%	30.8%	88.6%	32.7%	62.9%	54.3%

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 for which the effects have been reflected in the accompanying financial statements. Additionally, the properties of one of the consolidated subsidiaries, Taksim Otelcilik A.Ş. have been appraised by the same firm and the resulting revaluation fund is also reflected to financials. Total revaluation fund as at the balance sheet date amounts to TL 118,514 Billion.
- 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 2003 has also been calculated in the same way and indexed to express them in the purchasing power of Turkish Lira at 31 December 2003.

2. BASIS OF FINANCIAL STATEMENTS (continued)

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**
Vakıf Emeklilik A.Ş.	Insurance	75	D&T
Güneş Sigorta A.Ş.	Insurance	35	PWC
Vakıf Deniz Finansal Kiralama A.Ş.	Leasing	73	D&T
Vakıf Finansal Kiralama A.Ş.	Leasing	64	D&T
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Other financial	30	D&T
Vakıf Yatırım Menkul Değerler A.Ş.	Other financial	99	D&T
World Vakıf Offshore Ltd.	Banking	83	D&T
Vakıf Finans Factoring A.Ş.	Other financial	87	D&T
Taksim Otelcilik A.Ş.	Tourism	52	D&T
Vakıfbank International Wien AG.	Banking	90	D&T
Vakıf Enerji ve Madencilik A.Ş.	Industry	85	D&T

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 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.

3.3 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.

3.4 Securities Portfolio

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

 continued

3. ACCOUNTING POLICIES (continued)

3.4 Securities Portfolio (continued)

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

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

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

<u>Securities held for trading:</u>

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.

<u>Securities held to maturity:</u>

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.

<u>Securities available for sale</u>:

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)

3.5 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: 2003: 28.50%, 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)

3.6 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.

3.7 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.

3.8 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)

3.8 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.

3.9 Taxation and Deferred Taxes

Taxes on income for the year consist of current tax and the change in deferred taxes. The Company accounts for current and deferred taxation on the results for the period, in accordance with IAS 12 (Revised).

Provision is made in the financial statements for the Company's estimated liability to Turkish corporation tax on its results for the year. 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 assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred income tax assets and liabilities are also offset.

Based on the latest amendments made to the Turkish Tax Code, entities are to calculate their taxation on inflation adjusted financial statements. Therefore, restatement of fixed assets will no longer create a timing difference between the legal books of companies and their inflation adjusted financial statements apart from instances such as the making of useful life adjustments. Despite the existence of uncertainties on the calculation of taxation in accordance with the amended Turkish Tax Code and on the amount of timing differences, if any, which need to be considered during the calculation of deferred taxation, deferred tax liability has been calculated on tangible and intangible fixed assets for 2003.

continued

3. ACCOUNTING POLICIES (continued)

3.10 Securities Under Resale or Repurchase Transactions

Purchases or sales of securities under agreements of resale or repurchase are short term and entirely involve debt (totally government) securities. Sales of securities under agreements of repurchase ("Repos") are retained in the balance sheet under securities portfolio and the corresponding counter party commitment is included separately under liabilities. The 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.

3.11 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.

3.12 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)

3.12 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.

continued

3. ACCOUNTING POLICIES (continued)

3.12 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.

3. ACCOUNTING POLICIES (continued)

3.12 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.

3.13 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.

3. ACCOUNTING POLICIES (continued)

3.13 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.

3.14 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.

3.15 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)

3.16 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.

3.17 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)

3.18 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:

	31.12.2003	**31.12.2002**
Shares outstanding (Billion)	343	343
Net profit/(loss) (TL Billion)	356,237	361,685
Basic earnings (loss) per share (TL)	1,039	1,054

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.

3.19 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

	31.12.2003 TL Billion	31.12.2002 TL Billion
Cash balances – Turkish Lira	115,505	83,601
Cash balances – Foreign currency	29,333	27,777
Other	780	4,123
	145,618	115,501

5. BALANCES WITH THE CENTRAL BANK

	31.12.2003 TL Billion	31.12.2002 TL Billion
a) Balances with the Central Bank		
Demand deposits – Turkish Lira	33,432	34,997
Demand deposits – Foreign currency	14	19
	33,446	35,016
Time deposits – Foreign currency	230,957	275,404
	264,403	310,420
Income accruals	119	461
	264,522	310,881
b) Reserve deposits at the Central Bank		
Reserve Deposits – Turkish Lira	211,184	146,675
Reserve Deposits – Foreign currency	507,739	621,674
	718,923	768,349
Income accruals	20,579	19,938
	739,502	788,287

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

	31.12.2003 TL Billion	31.12.2002 TL Billion
DOMESTIC BANKS		
Current accounts - Turkish Lira	2,040	6,555
Current accounts- Foreign currency	2,315	74
Time deposits – Turkish Lira	7,000	8,760
Time deposits – Foreign currency	99,477	1,339
	110,832	16,728
FOREIGN BANKS		
Current accounts – Turkish Lira	4	-
Current accounts - Foreign currency	58,000	88,096
Time deposits – Turkish Lira	184	-
Time deposits – Foreign currency	1,277,841	471,703
	1,336,029	559,799
	1,446,861	576,527
Income accrual on balances with banks and other financial institutions	2,938	927
	1,449,799	577,454

7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES

a) Trading Portfolio	31.12.2003 TL Billion	31.12.2002 TL Billion
Government bonds and treasury bills	4,087,388	1,583,712
Eurobonds	1,131,737	3,388,599
Investment participation bills	26,168	7,822
Shares	5,431	5,412
Other	79,786	4,487
	5,330,510	4,990,032
Income accruals	531,210	313,323
	5,861,720	5,303,355

b) Available for sale		
Government bonds and treasury bills	678,994	100,266
Eurobonds	469,810	3,888
Other	168	-
	1,148,972	104,154
Income accruals	22,770	-
	1,171,742	104,154

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 546,341 Billion (2002: TL 203,518 Billion) 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 2003 include bonds issued by the Republic of Turkey in foreign currencies (Eurobonds) and mature through the years 2004-2030. These government bonds are valued at cost in foreign currency, translated at year end exchange rates, plus interest accrued on an IRR basis. The bonds are not quoted on a stock exchange.

TL 2,043,059 Billion (31 December 2002: TL 2,040,150 Billion) 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.

c) Held to Maturity Securities

	31.12.2003 TL Billion	31.12.2002 TL Billion
Government bonds and treasury bills	1,070,390	1,601,737
Other	17,897	2,903
	1,088,287	1,604,640
Income accrual	193,838	289,785
	1,282,125	1,894,425

8. LOANS (NET)

	31.12.2003 TL Billion	31.12.2002 TL Billion
Short, medium and long term loans	5,025,739	3,622,415
Overdue loans	1,009,276	1,263,120
Less: Provision for loans	(994,344)	(740,990)
Interest and other accruals on loans	81,749	240,469
	5,122,420	4,385,014

A breakdown of loans can be given as follows:

	31.12.2003 TL Billion	31.12.2002 TL Billion
Short Term Loans		
Discount and purchase bills	964	54,920
Export loans unsecured	34,620	32,861
Secured export loans	810,594	652,563
Other unsecured loans	932,484	515,602
Other secured loans	1,840,156	866,470
Loans given to financial sector	51,423	22,800
Loans given to foreign institutions	2,056	3,112
Rescheduled loans	137,733	114,141
Finance lease receivables	174,418	170,688
Factoring receivables	35,706	7,833
	4,020,154	2,440,990
Medium and Long Term Loans		
Unsecured loans with export obligations	167,157	330,603
Secured loans with export obligations	472,909	322,292
Secured other inv. and operating loans	88,906	345,318
Other unsecured loans	276,613	118,399
Loans given to foreign institutions	-	64,813
	1,005,585	1,181,425
	5,025,739	3,622,415

continued

8. LOANS (NET) (continued)

Movement for loan loss provision:

	31.12.2003 TL Billion	31.12.2002 TL Billion
At 1 January 2002	740,990	821,772
Charge for the year	379,536	164,592
Provision released	(35,509)	(49,465)
Effect of indexation	(90,673)	(195,909)
At 31 December 2002	994,344	740,990

Sector	2003 %	2002 %
Industry	24	23
Construction	9	13
Trade	13	21
Retail and consumer	47	35
Other	7	8
	100	100

Loans can be analysed by currency as follows;

Currency	31.12.2003 TL Billion	31.12.2002 TL Billion
Turkish Lira	2,861,500	1,665,230
US Dollars	1,440,963	1,360,300
Euro	691,075	560,747
CHF	27,854	35,607
Other currencies	4,347	531
	5,025,739	3,622,415

The Bank mainly extends short term loans to customers with maturities within one year. Interest rates charged for loans varied between 45% and 67% (2002 : 90% and 92%) for Turkish Lira loans and 11% and 14% (2002: 10% and 12%) for foreign currency loans per annum during the year.

9. TRADE RECEIVABLES

	31.12.2003 TL Billion	31.12.2002 TL Billion
Receivables from insurance customers	78,881	63,225
Other trade receivables	13,253	4,928
Doubtful trade receivables	14,719	18,677
Less: Provision for doubtful receivables	(14,719)	(18,677)
	92,134	68,153

10. SUNDRY DEBTORS

	31.12.2003 TL Billion	31.12.2002 TL Billion
Receivables from personnel	212	181
Receivables for banking services	643	607
Receivables from sale of assets	46,383	22,411
Receivables from credit card transactions	8,405	7,823
Receivables from court expenses	14,328	14,958
Other sundry debtors	1,773	10,866
	71,744	56,846

11. EQUITY PARTICIPATIONS (NET)

"Available for sale assets" under IAS 39 classification:

	Percent Owned 12.2002 (%)	31.12.2003 TL Billion	31.12.2002 TL Billion
Ataköy Marina ve Yat.İşletmecilik A.Ş.	55.04	17,174	17,107
Ataköy Otelcilik A.Ş.	28.92	19,961	19,723
Ataköy Turizm Tes. Ve Tic. A.Ş.	40.58	37,789	35,875
Banque Du Bosphore	20.00	8,643	8,711
Bankalararası Kart Merkezi A.Ş.	9.70	986	986
EGS Gayrimenkul Yatırım Ort.A.Ş.	0.73	132	118
ETİ Soda Üretim Paz.Nak.ve Tic.A.Ş.	0.04	16	14
Güney Ege Enerji İşlt.Ltd.Şti.	38.19	184,495	183,988
Güneş Turizm Oto Endüst. ve Tic. A.Ş.	35.35	131	89
IMKB Takas ve Saklama Bankası A.Ş.	5.28	8,065	8,065
İzmir Enternasyonal Otelcilik A.Ş.	5.00	5,428	5,428
Kıbrıs Vakıflar Bankası Ltd.	15.00	623	565
Kredi Kayıt Bürosu A.Ş.	9.09	1,082	1,082
Türkiye Sınai Kalkınma Bankası A.Ş. (*)	8.38	10,448	6,084
Vak-Bel İthalat A.Ş.	84.69	10,855	10,855
Vakıf Gayrimen.Ekspertiz ve Değ. A.Ş.	27.44	377	377
Vakıf İnşaat Restorasyon A.Ş.	15.91	6,611	6,611
Vakıf Menkul Kıy. Yat. Ort. A.Ş.	21.64	2,880	2,812
Vakıf Risk Sermayesi Yat. Ort. A.Ş. .(*)	46.44	2,039	2,303
Vakıf Sistem Pazarlama A.Ş.	79.75	6,988	6,988
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	18.90	29,826	29,826
Roketsan Roket San. ve Tic. A.Ş.	-	-	24,713
Other		8,382	16,838
		362,931	389,158
Provision for diminution in value of participations (-) (**)		(30,418)	(29,762)
		332,513	359,396

(*): 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 2003 and 2002 have been valued at the market price as at the balance sheet date.

(**): TL 25,898 Billion and TL 3,829 Billion of the total provision is provided for Bayek Tedavi ve Sağlık Hizmetleri A.Ş. and Vakıf İnşaat Restorasyon A.Ş. respectively.

 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. 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 operating rights of these plants is aborted. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Ege Enerji Limited Şirketi has applied to International Arbitration Board for the compensation of profit losses and other expenses. It is expected that the process of arbitration will be finalized by June 2004 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 180,003 Billion TL in the accompanying financial statements.

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:

	31.12.2003 TL Billion	31.12.2002 TL Billion
Assets	587	109
Shareholders Equity	(28)	(112)
Profit/(Loss) for the period	(1,022)	(170)

12. PREMISES AND EQUIPMENT

	31.12.2003 TL Billion	31.12.2002 TL Billion
Land and buildings	1,341,139	1,542,407
Land improvements	-	2,434
Vehicles, furniture & equipment and leasehold improvements	329,428	308,813
Other tangible assets	10,941	1,754
Intangible assets (Net)	15,930	25,160
Less: Accumulated depreciation	(382,609)	(375,761)
	1,314,829	1,504,807

Land and building include assets taken over in settlement of doubtful loans amounting to TL 471,868 Billion as of 31 December 2003 (31 December 2002: TL 547,723 Billion).

continued

13. OTHER ASSETS

	31.12.2003 TL Billion	31.12.2002 TL Billion
Deferred acquisition cost	20,636	19,931
Prepaid expenses	34,415	31,021
Investment properties	20,661	37,944
Inventories	5,155	5,439
Other	14,674	36,761
	95,541	131,096

14. DEPOSITS

	31.12.2003 TL Billion	31.12.2002 TL Billion
Savings and certificates of deposit	977,932	697,845
Public, commercial and other deposits	6,119,005	3,965,222
Interbank deposits	253,182	226,123
Foreign currency deposits	5,465,507	6,297,875
	12,815,626	11,187,065
Expense accruals on deposits	117,172	75,091
	12,932,798	11,262,156

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 24%, three months 24%, six months 25% and one year 26% (2002: one month 53-55%, three months 45-53%, six months 50-56% and one year 34-39%). Interest rates applied for foreign currency time deposits vary between 2.00 % and 3.00 % for US dollars and 2.50 % and 3.50 % for Euro (2002: 2.34% and 3.03% for US Dollars and 2.46 and 3.56% for Euro.)

 continued

15. BORROWINGS FUNDING LOANS

	31.12.2003 TL Billion	**31.12.2002 TL Billion**
Borrowings from domestic banks and institutions	381,260	267,800
Borrowings from overseas banks and institutions	1,563,377	1,282,394
Subordinated loans	213,344	243,089
Interest and other expense accruals	76,256	40,882
	2,234,237	1,834,165

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 convertible 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's custody.

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:

	31.12.2003 TL Billion
2004	1,148,627
2005	136,549
2006	271,800
Over four years	677,261
	2,234,237

continued

16. SECURITIES ISSUED

	31.12.2003 TL Billion	31.12.2002 TL Billion
Securities issued	-	382,507
Interest accruals	-	4,653
	-	387,160

Securities issued comprise notes issued of EURO 200 Million which have matured on 7 August 2003. Interest was 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

	31.12.2003 TL Billion	31.12.2002 TL Billion
Trade payables	41,229	24,775
Payables to insurance companies	37,137	27,097
Other trade payables	12,426	1,410
	90,792	53,282

19. SUNDRY CREDITORS

	31.12.2003 TL Billion	31.12.2002 TL Billion
Cash guarantees	7,122	13,727
Reserved cash	17,317	23,062
Payables to funds	16,620	19,822
Advances received (*)	96,837	-
Other	10,401	10,541
	148,297	67,152

(*) Includes advances received amounting to TL 87,937 Billion for the sale of Ceylan Intercontinental Hotel and advances received amounting to TL 8,900 Billion for the sale of Vakıflar Turizm A.Ş.shares.

20. TAXATION

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

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

The effective rates of tax are as follows:

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

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

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

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

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003.

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

20. TAXATION (continued)

In 2003 and previous years, profit for the period on which taxation was being calculated, used to be uninflated balances except for the effect of the annual revaluation of the fixed assets and the depreciation calculated thereon. The Law 5024 published in the Official Gazette of 30 December 2003 numbered 25332 requires the application of inflation accounting in 2004 and the following periods provided that the inflation rate reaches the limits set out by the Law. Methods for inflation accounting in accordance with the tax legislation do not differ materially from the methods of IAS 29 " Financial Reporting in Inflationary Economies". It is voluntary for tax payers to comply with inflation accounting for the first quarterly temporary tax computation of 2004.

Deferred Taxation

The Bank calculates deferred tax assets and liabilities on the temporary timing differences between the legal books and the financial statements prepared in accordance with IFRS. Such differences generally arise from timing differences of some revenue and expense balances in legal books and financial statements prepared in accordance with IFRS. Timing differences are calculated on differences between the values of fixed assets (excluding land), intangible assets, inventory and prepaid expenses in the legal books and the inflation adjusted financial statements and on the discount of receivables, retirement pay provision and investment incentives.

Due to the increase in the tax rate in 2004 to 33%, 30% has been taken into account in the calculation of deferred taxes. For investment incentives transferred from 2001, deferred taxes have been calculated using 13.2%.

In previous years, deferred taxes were being calculated on differences between the inflation adjusted net book value of fixed assets and the nominal net book value in the legal books. Due to the Law 5024 published in the Official Gazette of 30.12.2003, it has become mandatory to eliminate the effect of inflation arising from the previous periods and to continue with such inflation adjustments in 2004 and the following periods, provided that the inflation rate is higher than the limits set out in the Law. Therefore, some of the temporary timing differences arising from differences due to the inflation adjustments on fixed assets in accordance with International Financial Reporting Standards will no longer be created. Hence, the calculation of deferred taxes on fixed assets will only arise from the usage of alternate deprecation rates in legal books and financial statements prepared in accordance with IFRS and from other unique cases. Therefore, in the accompanying financial statements, deferred taxes calculated on differences between the historic and inflated values of fixed assets have been reversed in 2003. However, accompanying financial statements have been adjusted for the timing differences arising from the usage of alternate depreciation rates and the differences in the method of applying depreciation under IFRS and recently amended local tax literature.

20. TAXATION (continued)

a) Balance sheet: Taxes and dues payable

	31.12.2003 TL Billion	31.12.2002 TL Billion
Corporation tax, withholding tax and funds	11,598	17,182
Deferred tax liability/(assets)- net	(17,762)	52,032
Provision for deferred tax assets	-	26,684
Other taxes and dues	33,903	36,962
	27,739	132,860

b) Statement of income: Taxes

	31.12.2003 TL Billion	31.12.2002 TL Billion
Corporation tax, withholding tax and funds	19,034	23,472
Provision expense/(income) for deferred tax	(90,477)	(65,721)
	(71,443)	(42,249)

The major cumulative temporary differences are as follows at 31 December 2003 and 31 December 2002:

	31.12.2003 TL Billion	31.12.2002 TL Billion
Fixed assets indexation difference and revaluation surplus	60,369	429,968
Loan loss provisions not deductible	(46,853)	(45,319)
Retirement pay provision	(69,010)	(64,374)
Carried forward tax losses	(29,367)	(364,838)
Other temporary differences (total)	145,287	202,233
NET CUMULATIVE TEMPORARY DIFFERENCES	60,426	157,670

continued

21. PROVISIONS

	31.12.2002 TL Billion	31.12.2001 TL Billion
PROVISIONS FOR RETIREMENT PAY		
At 1 January	64,931	66,109
Provision for the period (net)	12,591	14,405
Monetary loss	(7,945)	(15,583)
At 31 December	69,577	64,931
GENERAL LOAN PROVISION		
At 1 January	45,070	44,702
Provision and release for the period (net)	7,298	10,904
Monetary loss	(5,515)	(10,536)
At 31 December	46,853	45,070
PROVISION FOR NON-CASH LOANS	27,371	50,400
INSURANCE COMPANIES TECHNICAL PROVISIONS	284,533	212,712
OTHER PROVISIONS	1,732	1,334
TOTAL PROVISIONS	430,066	374,447

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 2003, subject to a maximum of TL 1,389,950,000 per month (2002: TL 1,407,359,000 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.

22. MATURITY ANALYSIS

As at 31 December 2003	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	145,618	-	-	-	145,618
Banks (including Central Bank)	1,601,532	40,133	39,539	33,117	1,714,321
Interbank funds sold	275,539	-	-	-	275,539
Securities portfolio and held to maturity securities	748,402	139,509	3,592,727	3,834,949	8,315,587
Loans	1,215,826	529,368	1,345,730	2,031,496	5,122,420
LIABILITIES (*)					
Deposits	8,721,290	2,835,805	998,950	376,753	12,932,798
Securities sold under repo agreements	525,976	-	-	-	525,976
Interbank funds borrowed	-	-	-	-	-
Bank borrowings	199,105	190,858	765,259	1,079,015	2,234,237
Funds	178,486	-	-	-	178,486

(*) Interest income and expense accruals are excluded.

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	115,501	-	-	-	115,501
Banks (including Central Bank)	394,187	100,347	19,268	373,604	887,406
Interbank funds sold	136,731	3,825	-	-	140,556
Securities portfolio	22,954	168,144	2,270,846	4,236,884	6,698,828
Loans	22,530	1,402,218	1,043,826	1,675,971	4,144,545
LIABILITIES (*)					
Deposits	2,246,008	8,325,124	451,018	164,914	11,187,064
Securities sold under repo agreements	197,812	-	-	-	197,812
Interbank funds borrowed	-	-	-	-	-
Bank borrowings	25,606	336,595	607,665	823,419	1,793,285
Funds	-	-	347	202,003	202,350

(*) Interest income and expense accruals are excluded.

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.

	31.12.2003 TL Billion	31.12.2002 TL Billion
-Paid in capital	292,989	314,721
-Retained Earnings	(68,400)	(49,933)
	224,589	264,788

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	31.12.2003 TL Billion	31.12.2002 TL Billion
A	175,816	175,816
B	63,933	63,933
C	79,917	79,917
	319,666	319,666
Paid capital per statutory records	319,666	319,666
Indexation effect	1,187,885	1,187,885
Indexed Share Capital	1,507,551	1,507,551

continued

25. INTEREST INCOME

	31.12.2003 TL Billion	31.12.2002 TL Billion
BANKING		
Interest on loans	850,577	982,607
Interest on securities portfolio	1,109,637	1,180,720
Interest on deposits at banks	23,191	12,680
Interest on interbank funds sold	267,392	273,888
Interest on reserve requirement	83,317	71,510
Other interest income	1,452	44
TOTAL	2,335,566	2,521,449

26. INTEREST EXPENSE

	31.12.2003 TL Billion	31.12.2002 TL Billion
BANKING		
Interest expense on deposits	1,806,749	1,846,110
Interest expense on interbank funds borrowed	79,345	136,718
Interest expense on borrowings	123,934	154,632
Other interest expense	1,465	3,653
TOTAL	2,011,493	2,141,113

continued

27. NON-INTEREST INCOME

	31.12.2003 TL Billion	31.12.2002 TL Billion
Banking services income	280,610	337,578
Income from capital market transactions (net)	476,706	448,241
Foreign exchange gains (net)	127,447	-
Other	187,060	119,342
TOTAL	1,071,823	905,161

28. NON-INTEREST EXPENSE

	31.12.2003 TL Billion	31.12.2002 TL Billion
Personnel expenses	261,534	261,771
Taxes and dues	49,344	51,273
Depreciation expenses	48,299	54,679
Commissions and fees paid	71,200	80,057
Retirement pay provision	10,689	10,486
Foreign exchange losses (net)	8,378	320,935
Other provisions	39,581	62,684
Other-Banking (*)	316,089	336,712
Other-Insurance (net)	(29,347)	(64,347)
Other-Leasing (net)	(27,289)	(18,940)
Other- Service sector (net)	4,580	(36,328)
Other non- interes expense	(21,205)	-
	731,853	1,058,982

continued

29. CONTINGENCIES AND COMMITMENTS

Significant contingencies and commitments are summarized as follows:

	31.12.2003 TL Billion	**31.12.2002 TL Billion**
Letters of Guarantee		
- in Turkish Lira	1,292,951	1,248,250
- in Foreign Currency	922,839	1,180,591
Letters of Credit	922,384	1,255,346
Acceptance Loans	299,168	159,133
Other Commitments	1,699,037	3,583,208
	5,136,379	7,426,528

30. FOREIGN CURRENCY POSITION

	31.12.2003 TL Billion	**31.12.2002 TL Billion**
Total foreign currency assets	8,558,530	8,113,178
Total foreign currency liabilities	8,636,201	8,124,815
Net foreign currency position	(77,671)	(11,637)

31. SUBSEQUENT EVENTS

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

concluded