TÜRKİYE VAKIFLAR BANKASI T.A.O.

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2004

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

OPINION OF INDEPENDENT AUDITORS

1. We have audited the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası T.A.O. (the "Bank") and its participations (together, the "Group") as of 31 December 2004 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira at 31 December 2004. 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 audit.

2. Except for limitations set out in paragraph 3 below, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. 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.

4. In accordance with an actuarial report prepared for T.Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund") dated 16 August 2004, no actuarial deficit of the Fund as at 31 December 2003 exists using a technical interest rate of 10%. However, actuarial analyses performed by actuaries in Turkey do not necessarily comply with the methodology required by IAS 19. The actuarial position of the Fund could differ had an actuarial analysis been performed in accordance with IAS 19. No actuarial report is yet available as at 31 December 2004.

5. In the year 2000, the Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi ("Güney Enerji") for a consideration of USD 103,500,000 from a borrower experiencing financial difficulty and transferred this shareholding to a newly established participation in 2001, Vakıf Enerji ve Madencilik A.Ş. ("Vakıf Enerji"), 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 was heavily dependent on the conclusion of administrative procedures with the direction of Council of Ministers' decisions. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Enerji applied to the International Arbitration Board against the Ministry of Energy for the compensation of lost profit and other expenses. The arbitration process reached a conclusion on 21 October 2004. Accordingly, Güney Ege Enerji Limited Şirketi was entitled to a total compensation of USD 90,000,000 comprising principal, accrued interest and an amount for incurred arbitration expenses. Vakıf Enerji will be paid an amount of compensation net of taxes according to its 45% shareholding. The Ministry of Energy shall pay to Güney Enerji simple post-award interest from 22 October 2004 until the date of payment of the compensation. The indexed cost of Güney Enerji as an equity participation is TL 211,842 Billion and a provision amounting to TL 50,000 Billion has been provided by the Bank in the accompanying financial statements. 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 Bayındır Group.

6. In our opinion, except for such adjustments as may be necessary in respect of the matters discussed in paragraphs 3, 4 and 5 above, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2004 and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ankara, 11 March 2005

DENETİM SERBEST MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU**

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004, 2003 AND 2002

(expressed in the equivalent purchasing power of Turkish Lira at 31 December2004)

Assets	**Note**	**31.12.2004 TL Billion**	**31.12.2003 TL Billion**	**31.12.2002 TL Billion**
Liquid Assets	4	183,107	165,771	131,487
Balances With The Central Bank	5a	554,869	301,132	353,908
Balances With Banks	6	2,109,024	1,650,454	657,375
Interbank Funds Sold		1,100,550	313,674	160,992
Trading Securities Portfolio	7a	3,212,031	6,672,995	6,037,352
Available for Sale Portfolio	7b	5,716,828	1,333,914	118,569
Reserve Deposits at the Central Bank	5b	965,659	841,850	897,388
Loans – net	8	8,578,771	5,831,375	4,991,910
Trade Receivables	9	156,176	104,886	77,586
Sundry Debtors	10	84,643	81,674	64,714
Equity Participations – net	11	281,852	378,534	409,137
Held to Maturity Securities	7c	1,031,245	1,459,574	2,156,618
Premises & Equipment – net	12	1,345,846	1,496,805	1,713,076
Other Assets	13	196,610	108,766	149,240
TOTAL ASSETS		25,517,211	20,741,404	17,919,352

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2004, 2003 AND 2002

(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2004)

Liabilities	**Note**	**31.12.2004 TL Billion**	**31.12.2003 TL Billion**	**31.12.2002 TL Billion**
Deposits				
Demand		3,240,847	2,914,676	2,142,080
Time		14,550,258	11,674,663	10,591,302
Expense accruals on deposits		153,307	133,388	87,483
	14	17,944,412	14,722,727	12,820,865
Commitments to Repurchase Securities		614,161	598,773	225,792
Borrowings Funding Loans	15	3,235,381	2,543,460	2,088,018
Securities Issued		-	-	440,744
Funds	16	166,117	203,188	230,356
Trade Payables	17	73,283	103,358	60,656
Deposits and Advances Taken for Imports		133,640	203,287	179,857
Sundry Creditors	18	70,822	168,822	76,446
Taxes and Dues Payable	19a	190,391	31,578	151,248
Provisions	20	629,709	489,588	426,271
Other Liabilities		241,878	236,918	183,307
		23,299,794	19,301,699	16,883,560
MINORITY INTEREST	22	277,834	255,674	301,437
SHAREHOLDERS' EQUITY				
Share Capital	23	1,716,200	1,716,200	1,716,200
Revaluation Fund	24	98,155	134,917	144,757
Retained Earnings		125,228	(667,086)	(1,126,602)
		1,939,583	1,184,031	734,355
TOTAL LIABILITIES AND EQUITY		25,517,211	20,741,404	17,919,352
COMMITMENTS AND CONTINGENCIES	29	6,550,194	5,847,266	5,155,542

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2004)

	Note	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Interest Income - Banking	25	3,131,416	2,658,814	2,870,425
Interest (Expense) – Banking	26	(1,891,899)	(2,289,889)	(2,437,448)
Net Interest Income – Banking		1,239,517	368,925	432,977
Loan Loss Provision (Expense)		(164,782)	(416,860)	(131,685)
NET INTEREST INCOME AFTER LOAN LOSS PROVISIONS		1,074,735	(47,935)	301,292
Non-Interest Income	27	864,911	1,294,028	1,166,607
Non-Interest (Expense)	28	(908,451)	(907,005)	(1,341,718)
Income / (Loss) from Associates		77,796	(550)	7,955
INCOME BEFORE TAX AND MONETARY GAIN		1,108,991	338,538	134,136
Taxation	19b	(193,711)	81,331	48,096
INCOME BEFORE MONETARY GAIN / (LOSS)		915,280	419,869	182,232
Monetary (Loss) / Gain		(84,578)	1,467	255,692
NET INCOME		830,702	421,336	437,924
Less: Minority Share of Net Income		58,515	15,795	26,182
Net Income Attributable to T.Vakıflar Bankası T.A.O. Shareholders		772,187	405,541	411,742
Earnings Per Share		2,287	1,183	1,200

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2004)

	Paid in Capital Billion TL	Revaluation Fund Billion Billion TL	Retained Earnings Billion TL	Total Billion TL
As at 31.12.2002	1,716,200	144,757	(1,126,602)	734,355
Changes in minority	-	-	15,968	15,968
Elimination of prior year revaluation differences for investments	-	-	(12,908)	(12,908)
Transfer of a part of reserves of equity participations to capital	-	-	6,839	6,839
Valuation differences for foreign subsidiaries	-	-	41,321	41,321
Dividends paid	-	-	(5,083)	(5,083)
Profit for the year	-	-	405,541	405,541
Additions and disposals from revaluation fund (net)	-	(9,840)	7,838	(2,002)
As at 31.12.2003	1,716,200	134,917	(667,086)	1,184,031
Valuation differences for foreign subsidiaries	-	-	20,127	20,127
Profit for the period	-	-	772,187	772,187
Additions and disposals from revaluation fund (net)	-	(36,762)	-	(36,762)
As at 31.12.2004	1,716,200	98,155	125,228	1,939,583

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2004)

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period	772,187	405,541	411,742
Adjustments to reconcile net income to net Cash provided by operating activities:			
Depreciation and amortization	74,000	54,984	52,230
Provision for retirement pay	4,419	14,334	(1,342)
General loan loss provision	8,427	2,030	(91,961)
Provisions for non-cash loans	25,866	(26,216)	-
Insurance technical provisions and other provisions	43,974	82,215	(50,800)
Loan loss provisions	164,782	432,065	-
Other provisions	57,437	-	-
Increase / (decrease) in taxation on income and deferred taxes	158,813	(119,670)	(181,596)
(Increase) / Decrease in reserve deposits at Central Bank	(123,808)	55,537	(63,941)
(Increase) in interbank funds sold – net	(786,876)	(152,681)	(205,223)
(Increase) in other assets	(142,107)	(3,785)	323,333
Net cash provided from / (used in) operating activities	257,114	744,354	192,442
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) in marketable securities	(493,620)	(1,153,944)	(1,558,004)
(Increase) in loans	(2,912,178)	(1,271,530)	1,633,511
Decrease in equity participations	96,680	30,604	(18,307)
Disposals from/(additions) to premises and equipment-net	76,959	161,288	(231,737)
Net cash (used in) investing activities	(3,232,159)	(2,233,582)	(174,537)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits	3,221,684	1,901,864	810,585
Increase in securities under repo agreement	15,389	372,980	(1,291,998)
Increase in loans used	691,920	455,442	413,195
(Decrease) in funds borrowed	(37,072)	(27,168)	(62,810)
(Decrease) in securities issued	-	(440,745)	5,172
(Decrease) / increase in other liabilities	(192,755)	203,072	(28,099)
Change in minority interest and other items in shareholders'equity	42,285	3,456	(54,182)
Changes in revaluation fund	(36,763)	(5,083)	(17,295)
Net cash provided from financing activities	3,704,688	2,463,818	(225,432)
NET INCREASE IN CASH AND CASH EQUIVALENTS	729,643	974,590	(207,527)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,117,357	1,142,767	1,350,294
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2,847,000	2,117,357	1,142,767

continued

1. THE BANK

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ('the Bank') was founded on 15 January 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 292 branches, 4 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 have been prepared in accordance with International Financial Reporting Standards (IFRS).

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 Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee. IFRS adjustments and reclassifications reflected to the accompanying financial statements have not been entered in the statutory accounts of the Bank.

Inflation Accounting

The Group maintains its books of account and prepares its statutory financial statements in accordance with the Turkish Commercial Code and tax regulations. Prior to 2004, the statutory books have been kept on historical basis. For the year ended 31 December 2004, adjustments related to the inflation accounting have been included in the legal books in accordance with the Law No: 25524 of Banking Regulation and Supervision Agency dated July 16, 2004.

continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

Inflation Accounting (continued)

One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29 restatement, is a cumulative three year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey was 69.7% for the three years ended 31 December 2004 based on the wholesale price index announced by the Turkish State Institute of Statistics. Although the increase in the price index was less than 100%, IAS 29 inflation adjustments have been applied in the accompanying financial statements because other criteria defined in IAS 29 for a hyperinflationary economy are considered to be still valid. These criteria include the preference of individuals for keeping their savings primarily in foreign currencies; indexation of interest rates, wages and prices to changes in general price indices; and determination of prices by including an amount to compensate for the effects of losses in purchasing power even for short credit periods. The restatement has been calculated by means of conversion factors based on the Turkish countrywide wholesale prices index ("WPI") published by the State Institute of Statistics.

The index and corresponding conversion factors for the last five years are as follows:

	Index	Adjustment Factors
31 December 2000	2,626.0	3,2002
31 December 2001	4,951.7	1,6971
31 December 2002	6,478.8	1,2971
31 December 2003	7,382.1	1,1384
31 December 2004	8,403.8	1.0000

The comparative rates of currency devaluation 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:	2004	2003	2002	2001	2000
Currency Deflation US $	(3.8%)	(14.6%)	13.5%	114.3%	24.4%
WPI Inflation	13.8%	13.9%	30.8%	88.6%	32.7%

continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

Inflation Accounting (continued)

The principal adjustments are as follows:

- 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 included in the financial statements. The total revaluation fund as at the balance sheet date amounts to TL 98,155 Billion.
- Income statement items have been indexed to period end money values, based on monthly 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 years 2003 and 2002 have also been calculated in the same way and indexed to express them in the purchasing power of Turkish Lira at 31 December 2004.

Consolidation

- Türkiye Vakıflar Bankası T.A.O 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):

2. BASIS OF FINANCIAL STATEMENTS (continued)

Consolidation (continued)

	Sector	Türkiye Vakıflar Bankası Ownership (%)	Auditors
Vakıf Emeklilik A.Ş.	Insurance	74.93	Deloitte
Güneş Sigorta A.Ş.	Insurance	35.35	RSM Capital
Vakıf Deniz Finansal Kiralama A.Ş.	Leasing	73.85	Deloitte
Vakıf Finansal Kiralama A.Ş.	Leasing	64.24	Deloitte
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Other financial	29.45	Deloitte
Vakıf Yatırım Menkul Değerler A.Ş.	Other financial	99.43	Deloitte
World Vakıf Offshore Ltd.	Banking	84.92	Deloitte
Vakıf Finans Factoring A.Ş.	Other financial	86.83	Deloitte
Taksim Otelcilik A.Ş.	Tourism	51.51	Deloitte
Vakıfbank International Wien AG	Banking	90.00	Deloitte
Vakıf Enerji ve Madencilik A.Ş.	Energy	84.87	Deloitte

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 3.20. 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, below, are accounted for using the equity method:

	Effective Ownership (%)
Banque Du Bosphore	20.00
Ortadoğu Yazılım Hizmetleri A.Ş.	36.74

Other investments and certain minor subsidiaries and associates are accounted for at cost. One major 38.19% 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.

Income statement classification

Until 1 January 2004, the difference between the sales proceeds and acquisition cost of marketable securities was being recorded as income from capital market transactions. Due to a change in the accounting policy as announced by the Banking Regulation and Supervision Agency effective from 1 January 2004, only the difference between the sales amount and amortised cost is recorded as income or expense from capital market transactions. The difference between acquisition cost and amortised cost is recorded as interest income on securities portfolio. Interest income and securities transactions income for the year 2004 reflect the new application. However, the effect of this change on 2003 and 2002 transactions could not be quantified by the Bank, and therefore no reclassification has been made in the 2003 and 2002 statements of income.

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. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates

Assets and liabilities of the Bank denominated in foreign currencies are translated at period 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. ACCOUNTING POLICIES (continued)

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 period-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.

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. The securities of which the fair value cannot be measured reliably, are measured at amortised cost using the effective interest rate method. 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.

3. ACCOUNTING POLICIES (continued)

3.4 Securities Portfolio (continued)

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 equity 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.

3.5 Premises and Equipment

Premises and equipment, including the related depreciation have been indexed and are expressed in the period 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%
Fixed assets to be sold	2 %
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.

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 Pension and Other Post Retirement Obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T.Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through constructively paying additional amounts or through contractual benefits that are not solely linked to fixed contributions.

The liability to be recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Bank does not have the legal right to access to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the balance sheet in respect of defined benefit pension plans. The defined benefit obligation is calculated annually by independent actuaries. Based on the report of the actuary dated 16 August 2004, the Fund does not have an actuarial deficit as at 31 December 2003 using a technical interest rate of 10%. No actuarial report is yet available as at 31 December 2004.

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3. ACCOUNTING POLICIES (continued)

3.8 Equity Participations

In the accompanying inflation adjusted financial statements equity participations are stated at the lower of inflation adjusted acquisition cost or fair value.

In the statutory books of the years before 2004, the Bank valued 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 inflation adjusted financial statements for 2003 and 2002. Since the financial statements of 2004 include inflation adjustments, there have not been any bonus shares received from investee companies.

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.

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. ACCOUNTING POLICIES (continued)

3.10 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.

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. Deferred tax liability has been calculated on tangible and intangible fixed assets based on such differences.

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.

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 equity 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.

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

<u>Securities portfolio:</u> 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.

<u>Loans:</u> 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.

<u>Deposits:</u> Estimated fair value of demand deposits, saving deposits, interbank deposits and certificates of deposits is the amount payable on demand at the reporting date.

<u>Securities under resale and repurchase agreements:</u> 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)

3.13 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, and branches 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.

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 Financial Reporting 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.

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:

	31.12.2004	**31.12.2003**	**31.12.2002**
Shares outstanding (Lots-Million)	343,000,000	343,000,000	343,000,000
Net profit (TL Billion)	784,544	405,541	411,742
Basic earnings per lot (TL)	2.287	1.182	1.200

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.

The net profit / (loss) before monetary gain / (loss) and taxation of the consolidated subsidiaries except World Vakıf Offshore Ltd. and Vakıfbank International Wien AG, is presented as "Non-Interest Income" or "Non-Interest Expense" within the consolidated income statement, due to the fact that income statement line items of the above mentioned entities have a different grouping structure as compared with the Bank's.

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

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Cash balances – Turkish Lira	145,485	131,491	95,172
Cash balances – Foreign currency	36,366	33,394	31,621
Other	1,256	886	4,694
	183,107	165,771	131,487

5. BALANCES WITH THE CENTRAL BANK

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
a) Balances with the Central Bank			
Demand deposits – Turkish Lira	326,814	38,059	39,841
Demand deposits – Foreign currency	6,726	16	22
	333,540	38,075	39,863
Time deposits – Foreign currency	221,053	262,922	313,521
	554,593	300,997	353,384
Income accruals	276	135	524
	554,869	301,132	353,908
b) Reserve deposits at the Central Bank			
Reserve Deposits – Turkish Lira	318,873	240,413	166,975
Reserve Deposits – Foreign currency	627,300	578,011	707,715
	946,173	818,424	874,690
Income accruals	19,486	23,426	22,698
	965,659	841,850	897,388

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 6% 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 began to earn interest in 2001.

6. BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
DOMESTIC BANKS			
Current accounts - Turkish Lira	995	2,322	7,462
Current accounts- Foreign currency	664	2,635	84
Time deposits – Turkish Lira	242,471	7,970	9,972
Time deposits – Foreign currency	4,567	113,244	1,524
	248,697	126,171	19,042
FOREIGN BANKS			
Current accounts – Turkish Lira	12	4	-
Current accounts - Foreign currency	48,366	66,028	100,289
Time deposits – Turkish Lira	10,000	209	-
Time deposits – Foreign currency	1,799,693	1,454,698	536,988
	1,858,071	1,520,939	637,277
	2,106,768	1,647,110	656,319
Income accrual on balances with banks and other financial institutions	2,256	3,344	1,056
	2,109,024	1,650,454	657,375

TL 30,763 Billion of foreign currency deposits are blocked deposits by West LB Bank to be used in case of libor fluctuations during the loan installment payments (TL 77,679 Billion as at 31.12.2003, TL 49,062 Billion as at 31.12.2002).

7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES

a) Trading Securities Portfolio	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Government bonds and treasury bills	2,224,673	4,653,093	4,825,233
Eurobonds	731,239	1,288,372	835,258
Investment participation bills	30,197	29,789	8,905
Shares	2,332	6,183	6,161
Other	635	90,827	5,107
	2,989,076	6,068,264	5,680,664
Income accruals	222,955	604,731	356,688
	3,212,031	6,672,995	6,037,352

b) Available for sale

Government bonds and treasury bills	4,326,876	772,968	114,143
Eurobonds	1,096,154	534,833	4,426
Other	98,652	191	-
	5,521,682	1,307,992	118,569
Income accruals	195,146	25,922	-
	5,716,828	1,333,914	118,569

The carrying values of trading and available for sale securities are equal to fair values where fair values are available, and amortised cost for those bonds, especially Eurobonds as discussed below, where fair values are not available (see note 3.4).

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.

Eurobonds as at 31 December 2004 are issued by the Republic of Turkey in foreign currencies and mature through the years 2005-2034. These government bonds are valued at cost in foreign currency, translated at period end exchange rates, plus interest accrued on an IRR basis. The bonds are not quoted on a stock exchange.

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

c) Held to Maturity Securities

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Government bonds and treasury bills	939,866	1,218,535	1,823,421
Other	32,387	20,374	3,305
	972,253	1,238,909	1,826,726
Income accrual	58,992	220,665	329,892
	1,031,245	1,459,574	2,156,618

Held to maturity securities as at 31.12.2004 have a fair value of TL 1,046,842 Billion.

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.

As explained in Note 3.4, held to maturity securities are intended to be held till the maturity date.

Securities portfolio includes TL 809,959 Billion (31.12.2003: TL 621,956 Billion, 31.12.2003: TL 231,685 Billion) of securities sold with agreements to repurchase ("repo") as at the balance sheet date.

TL 2,842,025 Billion (31.12.2003: TL 2,325,823 Billion, 31.12.2002: TL 2,322,512 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.

8. LOANS (NET)

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Short, medium and long term loans	8,464,511	5,721,314	4,123,766
Overdue loans	896,436	1,148,963	1,437,939
Less: Provision for loans	(896,376)	(1,131,965)	(843,545)
Interest and other accruals on loans	114,200	93,063	273,750
	8,578,771	5,831,375	4,991,910

A breakdown of loans can be given as follows:

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Short Term Loans			
Discount and purchase bills	873	1,097	62,521
Export loans unsecured	32,670	39,412	37,409
Secured export loans	948,831	922,783	742,879
Other unsecured loans	1,395,606	1,061,542	586,963
Other secured loans(*)	4,126,394	2,094,839	986,391
Loans given to financial sector	56,879	58,540	25,956
Loans given to foreign institutions	3,630	2,340	3,543
Rescheduled loans	160,905	156,796	129,938
Finance lease receivables	104,567	90,358	194,312
Factoring receivables	25,564	40,648	8,917
	6,855,919	4,468,355	2,778,829
Medium and Long Term Loans			
Unsecured loans with export obligations	167,707	190,292	376,359
Secured loans with export obligations	804,247	538,360	366,898
Secured other inv. and operating loans	211,037	101,211	393,111
Other unsecured loans	300,736	314,896	134,786
Loans given to financial sector	4,712	-	73,783
Finance Lease Receivables	120,153	108,200	-
	1,608,592	1,252,959	1,344,937
	8,464,511	5,721,314	4,123,766

(*) TL 3,218,677 Billion of other secured loans as at 31 December 2004 consists of consumer loans (31.12.2003: TL 1,452,366 Billion, 31.12.2002: TL 462,382 Billion).

8. LOANS (NET) (continued)

Movement for loan loss provision:

	31.12.2004 TL Billion	**31.12.2003 TL Billion**	**31.12.2002 TL Billion**
At 1 January	1,131,965	843,545	935,507
Charge for the year	271,048	432,066	187,372
Provision released	(369,019)	(40,423)	(56,311)
Effect of indexation	(137,618)	(103,223)	(223,023)
At period end	896,376	1,131,965	843,545

Sector	**2004 %**	**2003 %**	**2002 %**
Manufacturing	21	24	23
Construction	6	9	13
Trade	22	13	21
Retail and consumer	50	47	35
Other	1	7	8
	100	100	100

Loans can be analysed by currency as follows;

Currency	**31.12.2004 TL Billion**	**31.12.2003 TL Billion**	**31.12.2002 TL Billion**
Turkish Lira	5,355,841	3,257,539	1,895,702
US Dollars	1,976,649	1,640,395	1,548,569
Euro	1,096,831	786,721	638,356
CHF	26,924	31,709	40,535
Other currencies	8,266	4,950	604
	8,464,511	5,721,314	4,123,766

The Bank extends short term loans to customers with maturities mainly of within one year. Interest rates charged for loans varied between 27% and 60% (31 December 2003: 45% and 67%, 31 December 2002: 90% and 92%) for Turkish Lira loans and 4.5% and 7% (31 December 2003: 11% and 14%, 31 December 2002: 10% and 12%) for foreign currency loans per annum during the year.

9. TRADE RECEIVABLES

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Receivables from insurance customers	102,423	89,799	71,975
Other trade receivables	53,386	15,087	5,611
Doubtful trade receivables	13,203	16,756	21,262
Less: Provision for doubtful receivables	(12,836)	(16,756)	(21,262)
	156,176	104,886	77,586

10. SUNDRY DEBTORS

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Receivables from personnel	177	241	206
Receivables for banking services	548	732	691
Receivables from sale of assets	43,855	52,803	25,513
Receivables from credit card transactions	14,267	9,568	8,906
Receivables from court case expenses	15,060	16,311	17,028
Other sundry debtors	10,736	2,019	12,370
	84,643	81,674	64,714

continued

11. EQUITY PARTICIPATIONS (NET)

"Available for sale assets" under IAS 39 classification:

	Percent Owned 12.2004 (%)	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Ataköy Marina ve Yat.İşletmecilik A.Ş.	0.00	-	19,550	19,475
Ataköy Otelcilik A.Ş.	0.00	-	22,723	22,453
Ataköy Turizm Tes. Ve Tic. A.Ş.	0.00	-	43,018	40,840
Banque Du Bosphore	20.00	7,825	9,839	9,917
Bankalararası Kart Merkezi A.Ş.	9.70	1,123	1,123	1,123
EGS Gayrimenkul Yatırım Ort.A.Ş.	0.73	204	151	134
Güney Ege Enerji İşlt.Ltd.Şti.	38.19	211,842	210,029	209,452
İMKB Takas ve Saklama Bankası A.Ş.	5.28	9,181	9,181	9,181
İzmir Enternasyonal Otelcilik A.Ş.	5.00	6,180	6,180	6,180
Kıbrıs Vakıflar Bankası Ltd.	15.00	1,319	709	643
Kredi Kayıt Bürosu A.Ş.	9.09	1,714	1,232	1,232
Türkiye Sınai Kalkınma Bankası A.Ş. (*)	8.38	15,770	11,894	6,926
Vak-Bel İthalat A.Ş.	84.66	12,357	12,357	12,357
Vakıf Gayrimenkul Ekspertiz ve Değ. A.Ş.	27.44	429	429	429
Vakıf İnşaat Restorasyon A.Ş.	16.76	7,612	7,526	7,526
Vakıf Menkul Kıy. Yat. Ort. A.Ş.	21.64	3,488	3,278	3,201
Vakıf Girişim Sermayesi Yat. Ort. A.Ş. .(*)	46.44	3,070	2,321	2,622
Vakıf Sistem Pazarlama A.Ş.	79.75	7,955	7,955	7,955
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	12.19	33,955	33,955	33,955
Ortadoğu Yazılım Hizmetleri A.Ş.	36.74	3,563	4,733	-
Other		2,546	4,979	47,417
		330,133	413,162	443,018
Provision for diminution in value of participations (-) (**)		(48,281)	(34,628)	(33,881)
		281,852	378,534	409,137

(*): Shares of Türkiye Sınai Kalkınma Bankası A.Ş. and Vakıf Girişim Sermayesi Yat. Ort. A.Ş. are traded on the İstanbul Stock Exchange. The investments in these entities as of 2004, 2003 and 2002 have been valued at the market price as at the balance sheet date.

(**): TL 31,069 Billion, TL 12,357 Billion, and TL 4,186 Billion of the total provision is provided for Bayek Tedavi ve Sağlık Hizmetleri A.Ş., Vak-Bel İthalat A.Ş., and Vakıf İnşaat Restorasyon A.Ş. respectively.

11. EQUITY PARTICIPATIONS (NET) (continued)

In the year 2000, the Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi ("Güney Enerji") for a consideration of USD 103,500,000 from a borrower experiencing financial difficulty and transferred this shareholding to a newly established participation in 2001, Vakıf Enerji ve Madencilik A.Ş. ("Vakıf Enerji"), 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 was heavily dependent on the conclusion of administrative procedures with the direction of Council of Ministers' decisions. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Enerji applied to the International Arbitration Board against the Ministry of Energy for the compensation of lost profit and other expenses. The arbitration process reached a conclusion on 21 October 2004. Accordingly, Güney Ege Enerji Limited Şirketi was entitled to a total compensation of USD 90,000,000 that consists of principal, accrued interest and an amount for incurred arbitration expenses of USD 76,546,233, USD 12,206,912 and USD 1,500,000 respectively. Vakıf Enerji will be paid an amount of compensation net of taxes according to its 45% shareholding percentage. The Ministry of Energy shall pay to Güney Enerji simple post-award interest on the amount USD 76,546,233 at the maximum interest rates announced by the Turkish state-owned banks for USD foreign exchange deposits with a maturity of up to one year as of 22 October 2004 until the date of payment of the compensation. Indexed cost of Güney Enerji as equity participation is TL 211,842 Billion and a provision amounting to TL 50,000 Billion has been provided by the Bank in the accompanying financial statements. Additionally, in accordance with a rescheduling agreement made with the borrower from whom the shareholding was acquired 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 that borrower.

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:

	31.12.2004 TL Billion	**31.12.2003 TL Billion**	**31.12.2002 TL Billion**
Assets	338	669	124
Shareholders Equity	(3,012)	(31)	(128)
Profit/(Loss) for the period	(7,187)	(1,163)	(194)

12. PREMISES AND EQUIPMENT

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Land and buildings	1,374,468	1,526,756	1,758,651
Vehicles, furniture & equipment and leasehold improvements	382,998	375,021	351,553
Other tangible assets	27,911	12,456	1,997
Intangible assets [Net]	13,694	18,135	28,642
(Less): Accumulated depreciation	(453,225)	(435,563)	(427,767)
	1,345,846	1,496,805	1,713,076

Land and building include assets taken over in settlement of doubtful loans amounting to TL 588,344 Billion as of 31 December 2004 (31 December 2003: TL 537,176 Billion, 31 December 2002: TL 623,529 Billion).

One of the consolidated subsidiaries Taksim Otelcilik A.Ş sold three of its hotels during year 2004, the cost of which were TL 187,345 Billion. Fixed assets revaluation movement including the disposal corresponding to the sale mentioned above is as follows:

Movement for revaluation of premises and equipment:	
Opening (01 January2004):	89,870
Additions:	-
Disposals:	(38,965)
Closing (31 December 2004):	50,905

13. OTHER ASSETS

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Deferred acquisition cost	29,400	23,492	22,689
Prepaid expenses	21,043	39,179	35,314
Prepaid taxes	93,837	250	-
Investment properties	22,855	23,520	43,196
Inventories	6,890	5,868	6,192
Other(*)	22,585	16,457	41,849
	196,610	108,766	149,240

(*) Other includes TL 9,897 Billion of transfer orders in process resulting from time zone differences among countries (31.12.2003: TL 6,787 Billion, 31.12.2002: TL 19,153 Billion).

14. DEPOSITS

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Savings and certificates of deposit	1,839,151	1,113,280	794,428
Public, commercial and other deposits	8,941,223	6,965,890	4,514,018
Interbank deposits	956,964	288,224	257,419
Foreign currency deposits	6,053,766	6,221,945	7,169,516
	17,791,104	14,589,339	12,735,381
Expense accruals on deposits	153,308	133,388	85,484
	17,944,412	14,722,727	12,820,865

continued

14. DEPOSITS (continued)

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 20%, three months 20%, six months 19% and one year 19% (2003: one month 23%, three months 23%, six months 22% and one year 22%; 2002: one month 42%, three months 43%, six months 44% and one year 44%). Interest rates applied for foreign currency time deposits vary between 2.25 % and 3.50 % for US dollars and 2.75 % and 3.75 % for Euro (2003: 2.00% and 3.00% for US Dollars and 2.50 and 3.50% for Euro, 2002: 3.00% and 4.00% for US Dollars and 3.25% and 4.00% for Euro).

15. BORROWINGS FUNDING LOANS

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Borrowings from domestic banks and institutions	283,670	434,027	304,864
Borrowings from overseas banks and institutions	2,714,628	1,779,753	1,459,880
Subordinated loans	213,344	242,870	276,734
Interest and other expense accruals	23,739	86,810	46,540
	3,235,381	2,543,460	2,088,018

In August 2002, a subordinated loan was received from Saving Deposits Insurance Fund in order to improve the capital adequacy ratio. The loan has no repayment 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 TL 213,344 Billion, one coupon payment per annum and indexed to TÜFE (Consumer price index announced by the State Institute of Statistics). It is kept in the custody of the Turkish Central Bank.

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:

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Within one year	1,967,479	1,307,600	1,063,585
1-2 years	336,012	155,447	231,343
2-3 years	1,054	309,417	416,466
3-4 years	212,383	-	365,530
Over four years	718,453	770,996	11,094
	3,235,381	2,543,460	2,088,018

 continued

16. FUNDS

According to an agreement between the Mass Housing Administration ("MHA") 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 MHA 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.

17. TRADE PAYABLES

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Trade payables	42,636	46,935	28,204
Payables to insurance companies	27,328	42,277	30,847
Other trade payables	3,319	14,146	1,605
	73,283	103,358	60,656

18. SUNDRY CREDITORS

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Cash guarantees	4,997	8,107	15,627
Reserved cash	18,724	19,714	26,254
Payables to funds	15,977	18,920	22,565
Advances received (*)	-	110,240	-
Other	31,124	11,841	12,000
	70,822	168,822	76,446

(*) Includes advances received amounting to TL 100,108 Billion for the sale of Ceylan Intercontinental Hotel and advances received amounting to TL 10,132 Billion for the sale of Vakıflar Turizm A.Ş. shares for year 2003.

continued

19. 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 2005: 30%

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. The applicable rate is determined as 30% for 2005.

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. Undistributed profits are exempt from withholding tax. 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.

continued

19. TAXATION (continued)

Tax Computations Based on Inflation Adjusted Balances

In 2003 and previous years, taxation was calculated based on profits not adjusted for inflation accounting, except for the effect of the annual revaluation of the fixed assets and the depreciation calculated thereon. 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 methodology of IAS 29 “Financial Reporting in Inflationary Economies”.

Deferred Taxation

The Bank calculates deferred tax assets and liabilities on 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%, 33% 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, temporary differences arising from differences due to the inflation adjustments on fixed assets in accordance with International Financial Reporting Standards are no longer created in general. Hence, temporary differences on fixed assets will only arise from the usage different deprecation rates in the legal books from those used in the IFRS financial statements and from other special 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. The accompanying financial statements have been adjusted for deferred taxes based on 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.

19. TAXATION (continued)

a) Balance sheet: Taxes and dues payable

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Corporation tax, withholding tax and funds	245,712	13,204	19,560
Deferred tax liability/(assets)- net	(95,646)	(20,220)	89,610
Other taxes and dues	40,325	38,594	42,078
	190,391	31,578	151,248

b) Statement of income: Taxes

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Corporation tax, withholding tax and funds	248,665	21,668	26,721
Charge / (benefit) for deferred tax	(54,954)	(102,999)	(74,817)
	193,711	(81,331)	(48,096)

The major cumulative temporary differences are as follows:

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Fixed assets indexation difference and revaluation surplus	(150,269)	68,724	489,477
Loan loss provisions not deductible	-	(53,337)	(51,591)
Retirement pay provision	(83,147)	(78,561)	(73,284)
Carried forward tax losses	-	(33,432)	(415,332)
Other temporary differences (total)	(85,105)	29,204	230,223
NET CUMULATIVE TEMPORARY DIFFERENCES	(318,521)	(67,402)	179,493
<u>Movement of Deferred Tax (Assets)/Liabilities:</u>			
Opening balance	(20,220)	89,610	255,806
Deferred tax benefit	(75,426)	(109,830)	(166,196)
Closing balance	(95,646)	(20,220)	89,610

20. PROVISIONS

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
PROVISIONS FOR RETIREMENT PAY			
At 1 January	79,206	73,918	75,259
Provision for the period (net)	14,049	14,333	16,399
Monetary loss	(9,630)	(9,045)	(17,740)
At period end	83,625	79,206	73,918
GENERAL LOAN PROVISION			
At 1 January	53,337	51,308	50,889
Provision and release for the period (net)	14,911	8,308	12,413
Monetary loss	(6,484)	(6,279)	(11,994)
At period end	61,764	53,337	51,308
PROVISION FOR NON-CASH LOANS	57,025	21,425	57,375
INSURANCE COMPANIES TECHNICAL PROVISIONS	367,887	323,912	242,152
OTHER PROVISIONS (*)	59,408	11,708	1,518
TOTAL PROVISIONS	629,709	489,588	426,271

(*) Other provisions as at 31.12.2004 include TL 50,000 Billion of value loss provision for Güney Ege case explained at Note 11.

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 2004, subject to a maximum of TL 1,574,740,000 per month (2003: TL 1,582,322,349 per month, 2002: TL 1,602,140,795 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.

21. MATURITY ANALYSIS

As at 31 December 2004	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	183,107	-	-	-	183,107
Banks (including Central Bank)	2,627,209	71	5,836	30,777	2,663,893
Interbank funds sold	1,100,550	-	-	-	1,100,550
Securities portfolio	536,562	69,428	3,301,366	6,052,747	9,960,103
Loans	1,663,247	562,076	2,129,141	4,224,308	8,578,772
LIABILITIES					
Deposits	7,646,765	7,268,871	2,220,219	808,557	17,944,412
Securities sold under repo agreements	292,032	68,177	253,952	-	614,161
Bank borrowings	197,325	218,867	1,511,698	1,307,491	3,235,381
Funds	166,117	-	-	-	116,117

(*) Interest income and expense accruals are included in up to 1 month column.

continued

21. 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	165,771	-	-	-	165,771
Banks (including Central Bank)	1,823,187	45,687	45,011	37,700	1,951,585
Interbank funds sold	313,674	-	-	-	313,674
Securities portfolio	851,982	158,817	4,089,969	4,365,715	9,466,483
Loans	1,384,099	602,634	1,531,982	2,312,660	5,831,375
LIABILITIES					
Deposits	9,928,337	3,228,287	1,137,208	428,895	14,722,727
Securities sold under repo agreements	598,773	-	-	-	598,773
Borrowings funding loans	226,662	217,273	871,173	1,228,352	2,543,460
Funds	203,188	-	-	-	203,188

(*) Interest income and expense accruals are included in up to 1 month column .

continued

21. 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	131,487	-	-	-	131,487
Banks (including Central Bank)	448,743	114,235	21,935	425,312	1,010,225
Interbank funds sold	155,655	4,354	-	-	160,009
Securities portfolio	26,131	191,416	2,585,136	4,823,279	7,625,962
Loans	25,648	1,596,288	1,188,294	1,907,929	4,718,159
LIABILITIES (*)					
Deposits	2,556,861	9,477,341	513,440	187,738	12,735,380
Securities sold under repo agreements	225,190	-	-	-	225,190
Interbank funds borrowed	-	-	-	-	-
Bank borrowings	29,150	383,181	691,767	937,382	2,041,480
Funds	-	-	395	229,961	230,356

continued

22. 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.

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
-Paid in capital	327,597	333,540	358,279
-Revaluation fund	8,035	41,737	-
-Retained Earnings	(57,798)	(119,603)	(56,842)
	277,834	255,674	301,437

23. SHARE CAPITAL

The Bank's share capital consists of A, B and C classes of shares, which carry the same rights. Vakıflar General Directorate is the acting owner of the A and B class of shares, on behalf of the Associated Foundations throughout the country.

Class of Shares	%	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Vakıflar Genel Müdürlüğü (A Class)	55.00	231,080	176,428	175,816
Vakıflar Genel Müdürlüğü (B Class)	19.75	82,977	63,352	63,133
Mazbut ve Mülhak Vakıflar (B Class)	0.25	1,052	803	800
Vakıfbank Employee Pension Fund (C Class)	24.89	104,593	79,856	79,579
Individuals and Legal Entities (C Class)	0.11	443	338	338
		420,145	320,777	319,666
Paid capital per statutory records		420,145	320,777	319,666
Indexation effect		1,296,055	1,395,423	1,396,534
Indexed Share Capital		1,716,200	1,716,200	1,716,200

24. REVALUATION FUND

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
-Fixed assets	50,905	93,591	144,757
-Available for sale securities portfolio	47,250	41,326	-
	98,155	134,917	144,757

continued

25. INTEREST INCOME

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
BANKING			
Interest on loans	1,548,746	968,299	1,118,602
Interest on securities portfolio (*)	1,371,828	1,263,213	1,344,134
Interest on deposits at banks	19,004	26,401	14,435
Interest on interbank funds sold	115,550	304,400	311,795
Interest on reserve requirement	75,872	94,848	81,407
Other interest income	416	1,653	52
	3,131,416	2,658,814	2,870,425

(*) Please see Note 27 - ([1])

26. INTEREST EXPENSE

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
BANKING			
Interest expense on deposits	1,729,016	2,056,807	2,101,616
Interest expense on interbank funds borrowed	59,098	90,327	155,640
Interest expense on borrowings	101,535	141,087	176,033
Other interest expense	2,250	1,668	4,159
	1,891,899	2,289,889	2,437,448

continued

27. NON-INTEREST INCOME

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Banking services income	342,366	319,447	384,300
Income from capital market transactions - net ([1])	72,640	542,683	510,279
Foreign exchange gains – net ([2])	53,464	135,548	-
Reversal of unnecessary provision	187,459	121,643	81,272
Fixed asset sales revenue	46,831	23,988	-
Net profit of the consolidated affiliates ([3])	115,264	83,400	136,170
Other ([4])	46,887	67,319	54,586
	864,911	1,294,028	1,166,607

([1]) *Difference between the sales amount and acquisition cost for marketable securities was being recorded as income from capital market transactions until 01.01.2004. Due to a change in the accounting policy as announced by Banking Regulation and Supervision Agency effective from 01.01.2004, only the difference between the sales amount and amortised cost is recorded as income or expense from capital market transactions. The difference between acquisition cost and amortised cost at the time of the transaction is recorded as interest income on securities portfolio. Figures for the year 2004 reflect the new application. However, the effect of this change on 31.12.2003 balances could not be quantified by the Bank. Therefore, necessary reclassifications could not be made in the 2003 and 2002 income statements.*

([2]) *Please see Note 28 – (*)*

([3]) *Net profit of the consolidated affiliates as stated in note 3.20 consists of the following:*

Insurance – net ([5])	12,123	33,409	73,253
Leasing – net	22,972	31,066	21,561
Other Financial Instutions – net	13,444	24,140	-
Service sector – net ([6])	66,725	(5,215)	41,356
	115,264	83,400	136,170

([4]) *Main component of other non-interest income is fees charged for miscellanous banking activities amounting to TL 31,234 Billion (TL 23,452 Billion as at 31 December 2003, TL 23,430 Billion as at 31 December 2002).*

([5]) *TL 7,973 Billion TL and TL 4,150 Billion of the balance as at 31 December 2004 comprise net gains / (losses) of Güneş Sigorta and Vakıf Emeklilik respectively net of consolidation eliminations.(TL 1,125 Billion and TL 32,284 Billion of the balance as at 31 December 2004 comprise net losses of Güneş Sigorta and Vakıf Emeklilik respectively net of consolidation eliminations).*

([6]) *Other service sector expenses consist of net income of Taksim Otelcilik A.Ş.*

28. NON-INTEREST EXPENSE

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Personnel expenses	301,031	297,731	298,001
Taxes and dues	30,526	56,173	58,369
Depreciation expenses	74,000	54,984	62,247
Commissions and fees paid	72,011	81,054	91,137
Retirement pay provision	15,065	12,168	11,937
Foreign Exchange Losses-Net (*)	-	-	365,353
Other provisions	124,011	45,059	71,360
Other – Banking Expenses	291,807	359,836	383,314
	908,451	907,005	1,341,718

Main components of "Other – Banking Expenses" are as follows:

	31.12.2004 TL Billion	*31.12.2003 TL Billion*	*31.12.2002 TL Billion*
Computer hardware expenses	11,140	27,764	43,656
Donations	81,258	18,155	26,778
Advertisement expenses	31,624	23,550	8,294
Rent expenses	35,918	31,957	28,691
Communication expenses	29,089	35,385	51,397
Fixed asset sales losses	2,640	2,643	673
Payments for prior year expenses	15,059	114,329	60,203
TMSF expenses	17,315	24,958	50,072
Miscellaneous expenses	67,764	81,095	113,550
	291,807	359,836	383,314

(*) The foreign exchange gains / (losses) generated from foreign currency transactions are offsetted and net income / (loss) for the year is presented in either "Non-Interest Income" or "Non-Interest Expense".

continued

29. CONTINGENCIES AND COMMITMENTS

Significant contingencies and commitments are summarized as follows:

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Letters of Guarantee			
- in Turkish Lira	1,358,099	1,471,899	1,421,011
- in Foreign Currency	1,229,110	1,050,562	1,343,988
Letters of Credit	975,795	1,050,044	1,429,089
Acceptance Loans	276,234	340,574	181,157
Other Commitments	2,710,956	1,934,187	780,297
	6,550,194	5,847,266	5,155,542

30. FOREIGN CURRENCY POSITION

	31.12.2004 TL Billion	31.12.2003 TL Billion	31.12.2002 TL Billion
Total foreign currency assets	10,184,456	9,743,051	9,236,061
Total foreign currency liabilities	10,669,155	9,831,471	9,249,309
Net foreign currency position	(484,699)	(88,420)	(13,248)

31. SUBSEQUENT EVENTS

i) The termination indemnity ceiling has increased to TL 1,649 Million commencing on 1 January 2005.

ii) A new law number 5083 was enacted with effect from 1 January 2005, which deletes six zeroes from the former currency of the Turkish Republic, the Turkish Lira (“TL”), to form a new currency the New Turkish Lira (“YTL”). Thus 1 YTL = 1,000,000 TL. The New Turkish Lira is divided into 100 New Turkish cents (“YKr”). The accompanying financial statements are presented in “old” Turkish Lira (TL) since that was still the official currency as at the balance sheet date.

concluded