

plays an active role in domestic tenders and international issues by the Republic of Turkey Treasury, but also ranks among the highest at Istanbul Stock Exchange Market with regard to volume of transactions realized.

According to Istanbul Stock Exchange (Market) data in 2004, the Bank has realized an aggregate total of 61.4 quadrillion Turkish Lira volume of transactions of which 48.7 quadrillion Turkish Lira resides with the ISE Bonds and Bills Market while the remaining 12.7 quadrillion Turkish Lira is realized at the Secondary Market.

The nominal volume of trade transactions handled by the Bank in Eurobonds and foreign exchange debentures amounted to 3.3 billion dollars.

VakıfBank has met 10% of the total volume of Treasury auctions. In 2004, the Bank has realized an increase by 21.4% in Turkish Lira securities portfolio and an increase by 37.6% in the foreign currency Securities Portfolio.

Apart from taking place in the market making system carried out by the Turkish Treasury, VakıfBank is one of the 14 participating banks in the TRLIBOR market.

VakıfBank, which has a high creditability both in domestic and international markets, pursues its activities through 384 foreign and 39 domestic correspondent banks.

The volume of transactions in Foreign Currency transactions has increased by 36.9% in 2004.

► Investment Banking

VakıfBank customers holding the so-called `investment accounts` enjoy various investment choices including shares, t-bills, mutual funds, purchase and sale of gold, transactions at the Istanbul Gold Exchange as well as repo transactions through the entire branch network, the Department of Corporate Investments and Fixed Income Assets, infobank as well as the internet. Furthermore, upon their request, the Bank customers are provided with research and information services. For the purpose of increasing the Bank's market share in this line of business, the Investment Banking Department provides companies with services such as capital increasing, dividend payment and company evaluation.

a) Intermediation Activities in the Purchase and Sale of Shares at the ISE

In line with the Capital Markets Board principle decision taken at 1996 year end, a brokerage company namely,

Vakıf Yatırım Menkul Değerler A.Ş. was established for the purpose of carrying out purchase and sale of shares at the ISE. Under the agency agreement signed between the Bank and Vakıf Yatırım Menkul Değerler A.Ş., the Bank plays an intermediary role in public offerings and purchase and sale of shares at the ISE.

Transactions regarding the purchase and sale of shares at the ISE can actively be carried out during the Stock Exchange sessions via the entire branch network, the Department of Corporate Investments and Fixed Income Assets, the internet as well as the call-centers. While the amount of transactions in which VakıfBank played an intermediary role amounted to 786 Trillion Turkish Lira in 2004, the commission income as a result of these activities reached to 1.716 billion Turkish Lira. Under the so-called `Remote Access Project` put into practice as of March 2003, 12 orders/per second can be transmitted. With this new application, direct and faster transactions from the Bank headquarters can be made while the Bank increases its market utilization as well the number of its retail and corporate customers and reduce its cost of transactions to a minimum.

b) Corporate Finance Activities

Developments in the local economy and technological innovations lead to significant innovations in the supply side of capital markets. The tendency of companies with a growth potential to obtain funds through capital markets is accelerated.

Receipt of demands and sales transactions in public offerings can be made not only in all branches and the Department of Corporate Investments and Fixed Income Assets, but also through telephone, the internet and the WAP system.

In 2004, the Bank has played an intermediary role in the public offerings of 3 companies, capital increasing operations of 2 firms and dividend payment operation of 1 firm.

With its expert personnel, the Investment Banking Department provides services such as company pricing and company appraisals. VakıfBank is the only corporation authorized to provide foundations throughout the nation with valuation services in their operations regarding company purchases and sales, participations as well as the purchase and sale of shares. In 2004, the Bank has provided 10 firms with company pricing services 7 of which were companies belonging to foundations.

c) Mutual Funds

VakifBank is one of the institutions pioneering in the establishment of mutual funds in Turkey and the Bank has expertise in risk and portfolio management in mutual funds. VakifBank currently manages 7 mutual funds, 3 of which are Type A and 4 of which are Type B mutual funds. In October 2004, the Foreign Securities Mutual Fund (5th Fund) was converted into Type B Internet Liquid Fund. The Bank's so called Type A First Step Mixed Mutual Fund (which addresses the savings of parents) has ranked as the second amongst mutual funds which provide the highest income per annum. The number of total shares of the mutual funds as of 2004 reached approximately to 2.2 quadrillion Turkish Lira with a total portfolio value of approximately 1.189 Trillion Turkish Lira. The purchase and sale of the mutual funds is possible via the entire branch network and the Internet as well as telephone banking and alternative distribution channels such as ATMs without any limitation of quantity. The volume of transactions in mutual funds realized in 2004 amounted to 25.4 quadrillion Turkish Lira.

While the Bank currently holds a market share of 4.86% in the mutual fund business, it aims to reach to 10% levels within a short time span. VakifBank mutual funds rank amongst the top 7 in terms of the size of the portfolio as well as the market share.

d) Turkish Derivatives Exchange

In line with the operation license granted by the Capital Markets Board and the legislation Markets as published in the Official Gazette dated 27 March 2004, the Turkish Derivatives Exchange (Futures Market) will become operational in 2005. Vakifbank will also take part in the the Turkish Derivatives Exchange and is rapidly completing rapidly the infrastructure requirements for the transactions.

e) Centralized Registration Institute

The Centralized Registration Institute was established for the purpose of registering the capital market instruments and the monitoring of the rights related to these instruments via a computerized system as well as providing grounds for the quitting of physical publishing of such securities and ensuring efficient functioning of the exchange and clearance system. VakifBank has already concluded procedures required for the membership to the institution which has become officially active in 21 March 2005.

► International Banking

VakifBank focused on increasing its market share in trade finance in conformity with its overall strategy. As

a result of its efforts and the increased import and export figures of the country, VakifBank has increased its export volume of transactions by 51.88% and imports volume of transactions by 34.51% as opposed to 2003 figures. This success mainly derived from the centralization of foreign operation transactions in three provinces and alleviation of the operational burden on the branches as a result of which branches have become much more marketing oriented.

VakifBank aims at being one of the leading foreign trade banks in Turkey. In addition to the foreign trade services it offers to public entities and companies with a sustainable capital, VakifBank offers various loan facilities to diversify the lending base and encourages the firms in this segment to tap international markets.

VakifBank issues foreign currency letters of credit for international tenders and provides foreign currency letters of credit for the procurement of non-cash loans provided that these funds are utilized in the financing of imports and exports.

In 2004, VakifBank expanded its international funding base, adequate enough to make itself mentioned in the Turkish and World press, and reduced its funding costs by providing funds totaling to 850 million along with the syndication loans it has raised in June and December.

In June VakifBank has raised a syndicated term loan facility of USD 350 Million with the participation of a total of 43 banks, 18 of which were mandated lead arrangers.

In December, the syndicated loan facility arranged by 25 prime banks, namely, ABN Amro Bank N.V., Al Ahli Bank Of Kuwait K.S.C., Alpha Bank A.E., London Branch, American Express Bank GmbH, The Bank Of Tokyo-Mitsubishi, Ltd., Banque Saudi Fransi, Bayerische Hypo- Und Vereinsbank Ag, Burgan Bank, Citibank N.A., Demir-Halk Bank (Nederland) N.V., Deutsche Bank Ag London, Dresdner Kleinwort Wasserstein (Acting Through Dresdner Bank AG, Niederlassung Luxemburg), Garantibank International N.V., Gulf Bank K.S.C., Ing Bank N.V., J.P. Morgan Plc, Mashreqbank Psc, Natexis Banques Populaires, Raiffeisen Zentralbank Österreich Aktiengesellschaft, Standard Bank London Limited, Standard Chartered Bank, Sumitomo Mitsui Banking Corporation Europe Limited, UFJ Bank Limited, Wachovia Bank, National Association and WestLB AG, London Branch, attracted great interest abroad. With the record participation of 56 banks, this facility was oversubscribed by 43% above the initially mandated amount. VakifBank's signing ceremony took place in Dubai which has developed as a candidate to fill the gap for an alternative finance center between Europe and Far East. This signing ceremony thus accomplished another first.

VakıfBank, carries on its work of generating long-term resources from international financial markets through bond issues and other products, and continues its negotiations on this issue with some global investment banks. In line with demands coming from customers specifically participating in construction contract tenders abroad, VakıfBank started to work with new correspondent banks in the Middle East and Gulf region countries in 2004.

In the reports they regularly prepare about the Bank, some of the world's leading investment banks emphasize the excellent quality of VakıfBank's management, as well as its robust technological infrastructure. These reports include positive assessments about the Bank's strong market position in consumer and commercial banking activities and stress the effectiveness of its branch network and IT-driven distribution channels. The strengths of VakıfBank, in the eyes of foreign financial institutions, are the diversity of its products and services, its close relationships with small and medium-size enterprises and its robust funding base.

The world's leading rating agencies have also been assigning the highest ratings to VakıfBank, constrained only by Turkey's sovereign rating. Moody's assigned a grade of B3 for long-term bank deposits and an E+ for the financial strength of the Bank. Fitch Ratings assigned a B+ for long-term and a B for short-term in terms of foreign currency and assessed the outlook as "stable." These positive ratings assigned to VakıfBank further strengthen its international stance, help secure affordable funding facilities from foreign markets and reinforce its image in international banking circles.

(The world's leading rating agencies assigned the

highest ratings to VakıfBank within the country ceiling). Fitch and Moody's increased its ratings for the Bank twice in 2004 and such upgrades strengthened the Bank's international relations, ensure funding with suitable conditions from foreign markets and reinforce its position in international banking community.

► Information Technologies

The new Turkish Lira project was commenced by VakıfBank in line with the transition from Turkish Lira to YTL initiated pursuant to the Law on the Currency of Republic of Turkey dated 31 January 2004 and numbered 5083 and a software change was made within the framework of adaptation to YTL, revision and arrangement were made in all programs and harmonious operation of the branches, headquarters, branch systems and all alternative channels was ensured upon test for 2004 and 2005. Thus, VakıfBank has successfully realized the YTL project that carries a great significance for the country.

VakıfBank has continued to improve of its advanced banking technologies and products to reduce costs and increase incomes by providing a more reliable, rapid and modern service to its customers in 2004. Such activities were carried on under the titles of "Application Development Projects", "Banking Support and Analysis Studies", "Communication and Hardware Projects", "Central Computer System Projects".

Within the scope of Application Development Project;

Cambiomat 724 Project, Day Account and Utility Payment Package Project, HIZIR 724 Loan Project, Automated Cheque Identifying Management System Project, 3D Secure Electronic Commerce Applications Project, Campus Card Projects, Bill Collection System



Project addressing State and University Hospitals, Private Customer Card (VIP CARD) Project, Digital Form Scanning and Identifying Center Project, and Vendor Collection System Application Project were successfully put into service.

- ▶ Within the scope of the provision of a faster and more reliable service to the Bank customers;
- ▶ VakıfBank ensured that Collections of Vakıf Retirement Pays are made via the Internet / ATM / branch network and the Call-Center.
- ▶ The Credit Card and Branchless Banking customer codes began to be provided by intermediation of the Bank 444 0 724 Call-Center.
- ▶ Joint utilization of ATM within the framework of the protocol entered into with Ziraat Bankası A.Ş. is launched.
- ▶ SSK Online Premium and TEDAŞ Online Bill (Abone.Net) Collection Systems were established.
- ▶ EX-API application ensuring on-line and real-time transaction possibilities with Istanbul Stock Exchange was initiated at the Bank Branches.
- ▶ Within the scope of Loan Application Projects;

Automation of branch and department applications of retail and commercial loans under installment payments,

Automation of Loan Authorization demands at Head Office and Regional Directorate level,

Integration of scoring application with loan facilities,

Transmission of all guarantee records to an electronic environment and the establishment of a central indemnity structure with regard to the extension of loans,

Integration of all loan menus of the Head Office and the Intelligence Units of all branches with the new centralized system,

Computerized monitoring of Medium- and Long-Term Project Loans,

- ▶ Integration of the Turkish Telecom TTS system with VakıfBank Virtual Pos were ensured.

Within the scope of the Banking Support and Project Analysis Studies;

- ▶ For purposes of evaluation of the work demands from the branches and departments and analyses with regard to centralization, a Work Analysis department is established in September 2004 and efforts toward centralization of the banking transactions were commenced.

- ▶ Within the scope of the so-called IT Department Support Line Project, an IT Department Support Line was established in January 2004 for purposes of providing the branches and offices with easier access to the IT Department and faster solution to the problems from a single center.

Within the scope of the communication and hardware projects,

The Wide Area Data Communication Network transmission protocol of VakıfBank was transformed from X.25 into TCP/IP protocol, and all of the Bank branch and departments were linked to the backbone with digital data lines through the entire branch network and departments.

- ▶ Installation of POS network access devices to all of the Bank provinces was completed.
- ▶ Network devices to support such new structure, data lines and maintenance services were leased due to conversion of the SWIFT communication network from X.25 to IP and changing of the application platform in relation with the SWIFT connection of VakıfBank, and having obtained necessary licenses, procedures of transition to the new structure were completed.
- ▶ The communication infrastructure in relation with the operation of the POS terminals and ATMs over GPRS was completed.

Within the scope of the central computer system projects;

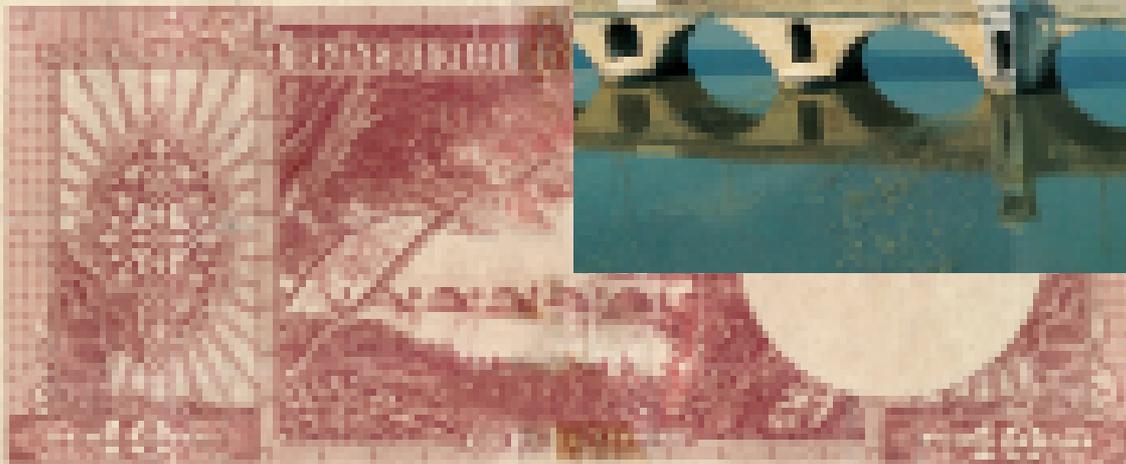
Application Development environment and the Production environment were logically separated from each other,

Bank data began to be saved to the Bank's Disaster Recovery System at regular intervals on daily basis through out the year.

The current Bank central system was replaced with IBM z990 2084 A08 305 (Trex), which is 80% stronger compared to the current processor.

Updating and recovery transactions of the operating system software used in the central system were made.

W a r m F a c e o f t h e M o n e y . . .



10 Turkish Lira, 1958

Figure of historical "Meriç Bridge" was used in the banknote.

The Bridge is over the Meriç River in Edirne. It is known as Yeni Bridge and Mecidiye Bridge. It was built between the years of 1842 and 1847 during Sultan Abdulmecit period. It has 13 legs and 12 openings. It is 10 meter wide and 250.70 meter long.

► Internal Control And Risk Management

Internal Control

For the purposes of pursuing whether the bank activities are carried out in compliance with the designated policies and targets and enabling prompt correction of any irregularities and errors as well as minimizing the operational risk, this year 33 additional branches were included in the internal control efforts already in progress at 31 branches. Thus, the number of branches included within actual internal control became 64.

Risk Management

The risk management policy of VakıfBank addresses the maximization of capital efficiency by means of permanent evaluation, measurement and control of the exposed risk using models already developed or to be developed. To this end, activities towards effective realization of risk management are carried on in accordance with the International regulations (Basel Criteria) as well as the legal requirements of the local authorities.

The issues determined as a result of the analyses carried out for the purpose of avoiding repeated incurrence of past risks and taking necessary measures having foreseen the prospective risks in the fields of Loan, Market and Operational Risk, are submitted to the decision-makers at the related levels of management.

"Collateral Rating Matrix", an element of the Loan Risk Rating system, was established within the scope of the improvement of the Loan Risk Rating System.

In accordance with the Loan Risk Management Policy Document, there are continuing efforts initiated for the determination of the risk concentration limits in relation with loan type, sector, region, treasury instruments.

The usage of retail loan rating system at the branches where such type of loans are widely used has commenced and will be functional in the entire branch network until late February 2005.

The rating model for small- and medium-scale loans is currently at the phase of undergoing tests at branch level and its use at the loan decision procedure in the entire branch network shall start at the second half of 2005 at the latest.

Upon approval, Market Risk Policy established for the determination of policies, principles and approaches with regard to Market Risk Management was put into effect. For the purpose of enhancing risk control, the

market risk position as well as limits as to the instruments and processes were designated.

For the purposes of determining and taking the operational risks under control in various business lines, processes regarding the card operations and ATM transactions within the electronic banking area as well as the so-called "Central Teller Transactions" within the Treasury activities were thoroughly analyzed and recommendations as to the improvement of such were accordingly developed.

Loss data regarding the operational losses for the past 4 years were collected and efforts towards the digitalization of operational risks were initiated.

Various aspects of the operational risks experienced in the past were thoroughly studied for the purpose of determining the risk factors and increasing the controls.

In order to enable successful completion of the process of transition to the New Turkish Lira which has caused significant changes in various fields, particularly in the data processing system, studies on the determination of possible risks to be encountered in this process and development of suggestions thereon were carried out.

► Non Performing Loan Recovery

All required measures within the framework of banking rules are taken for the close monitoring of the loans extended by the Bank and for the avoidance of any problem at the time of reimbursement. Thus, proceedings addressing the liquidation of all short, medium and long-term commercial loans and retail loans which required mandatory collection and liquidation were carried out in 2004 as well.

A total of 281 trillion Turkish Lira exposure was booked in 2004 to the Bank's follow-up risk amounting to 769 trillion Turkish Lira as of 2003. A total of 166 trillion Turkish Lira collection was made in 2004 with regard to the risks in question, and as a result of transfer of a risk of 89 trillion Turkish Lira to the original accounts in accordance with the Regulation on Provisions, the Bank's follow-up risk amounted to 795 trillion Turkish Lira as of 31 December 2004.

As of 31 December 2004, 100% of legal special provision was made against cash risks and the net receivables in legal follow-up were zeroed.

As of 31 December 2004, the rate of Total Follow-up Risk to Total Cash Placements was reduced from 14% to 8.9% while the rate of the follow-up risk originating from commercial loans to commercial placements decreased from 21% to 13%. The rate of retail follow-

up risk (including those monitored over original accounts) to retail placements fell from 2% to 1.7% as of 31 December 2004.

In 2004, 9 trillion Turkish Lira cash risk pertaining to 3 companies was included within the Financial Restructuring Framework Agreement in conformity with the so-called Istanbul Approach, and agreements thereon were signed.

Apart from the firms-groups included in the Istanbul Approach, 22 commercial groups-firms with a risk of 23 trillion Turkish Lira are made subject to the payment plan imposed by VakıfBank and the total retail and commercial risks monitored on the Restructured Loans with an Imposed Reimbursement Plan amounted to 161 trillion TL.

Thus, while approximately 45% of the Bank's follow-up risk is made subject to a payment plan, the Bank's enforcement proceedings with regard to companies constituting the remaining 55% are currently in progress.

► Planning And Organization

Policies to ensure the highest efficiency in 2004 in congruity with the overall economic and sector expectations were designated and the fiscal structure of VakıfBank was monitored on a monthly basis as per the targets determined within the framework of such policies. Besides, VakıfBank's position in the sector is monitored at quarterly intervals.

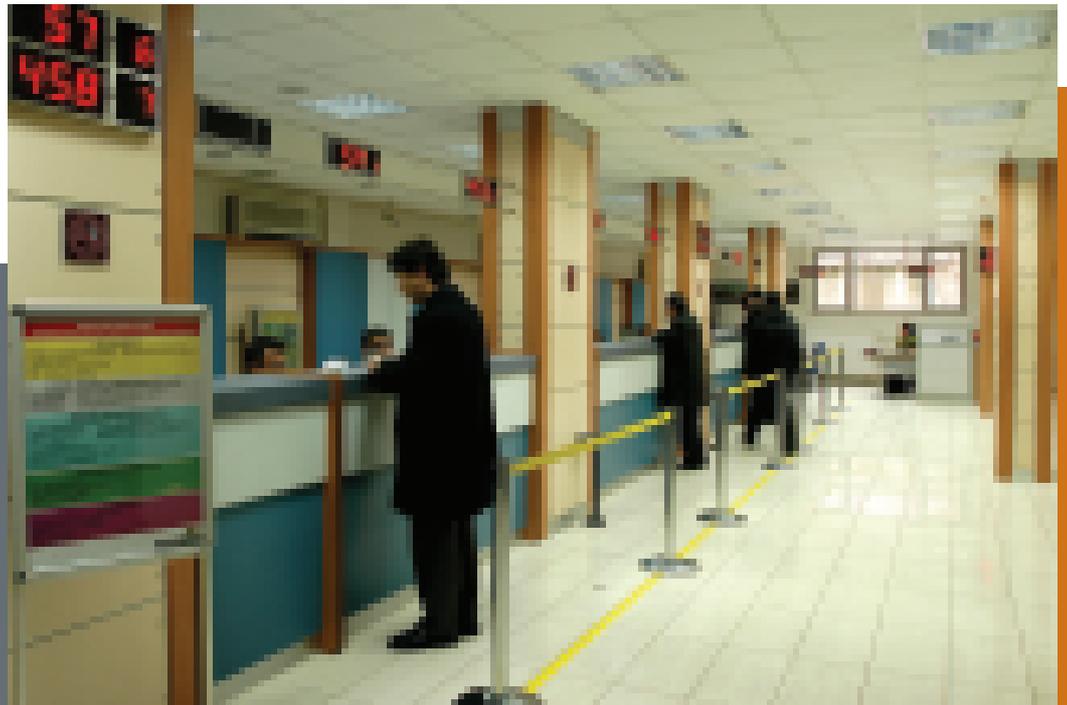
In 2004 as was in 2003 as well, the activities of the

branches, their number of customers, volumes of transactions and their linked performances were also closely monitored and evaluated at monthly intervals within the framework of the Annual Work Plan and Development Projection prepared (as made in 2003).

For purposes of concluding customer transactions in a more efficient and rapid manner, the provision of better and higher quality services, enhancing productivity, decreasing costs, ensuring sustainable services and the realization of modern banking services in the banking sector where there is high competition, the system in 45 branches was changed in 2004 into the so-called customer-representative system having made necessary modifications according to the new system within the framework of the project of restructuring of branches with a focus on marketing and sales oriented approach. A modern and contemporary outlook and functioning are aimed having changed the system in 180 branches, particularly those in all provincial centers and metropolitans until the end of 2005.

Concentration of VakıfBank branches on a provincial basis was evaluated as per the banking potential of such provinces and within the framework of the growth policy of VakıfBank studies were conducted on the locations requiring a branch to be opened. 17 locations were thus studied and the following decisions were reached:

- Conversion of 2 of the Bank offices into branches,
- Moving of Çifttehavuzlar branch, Yeni Sanayi branch, Eşrefpaşa branch respectively under names of Bağcılar branch, İvedik Organize Sanayi branch and Gıda Çarşısı branch to promote their efficiency,
- Opening of branches at 11 locations, and 2



branches were opened in February 2005. The Bank studies on others are currently in progress. The accounts of Harbiye Branch are transferred to Osmanbey Branch, which is very close.

Year 2004 standard practice of personnel studies, which constitute a part of the human resources planning, were conducted for purposes of enhancing personnel efficiency and optimal meeting of the workforce need of the departments in order to achieve the general policy and objectives of the bank.

In 2004, Prospectus on Loans was re-organized under the name of "Prospectus on Commercial Loans" in order to ensure that it meets today's needs while the

Prospectus on Deposits and Banking Services was updated.

As for the Bank's Implementation Regulations, Regulations on Human Resources, Intelligence and Marketing, Foreign Language, Internship and Scholarship were updated and/or re-organized.

An agreement on the procurement of counseling services from a Strategic Counseling company was executed for the reinforcement of the corporate structure by ensuring structural transformation of VakıfBank, rationalization of personnel distribution, spreading of modern banking practices and products by VakıfBank.

► Human Resources and Training

VakıfBank employs a total of 7.150 personnel consisting of 3.800 males and 3.350 females as of the end of year 2004.

Education Groups					31.12.2004
Gender	Primary School Graduates	Secondary Education Graduates	Graduates of Higher Education	Graduates of Master and Doctorate	TOTAL
Male	163	1907	1690	40	3800
Female	8	1453	1846	43	3350
Total	171	3360	3536	83	7150

In-House Training Activities

Trainings established as a result of the requirements analysis conducted by the Directorate of Education and Training are organized in a way to meet the demands of the entire personnel. Consequently, a total of 8621 personnel were provided training in 2004, and 2291 of these personnel received more than one training. The total number of trained personnel is 6330. Detailed explanations regarding the trainings in question are given below.

Trainings for Improvement

Trainings on 55 different subjects were held 204 times in 7 Centers, namely Ankara, Istanbul, Mersin, Izmir, Samsun, Adana and Erzurum within the scope of trainings for improvement purposes. Attendance of a total of 8367 people to such trainings was ensured.

Promotional Trainings

No promotional training was organized within 2004.

Non-Bank Trainings

Attendance of the bank employees to the training programs arranged by the Association of Turkish Banks as well as other non-Bank training institutions was ensured. In 2004, 193 employees of the bank participated in training programs arranged on 81 different subjects by the Association of Turkish Banks while 61 personnel attended in training programs arranged by other entities on 27 different subjects. Internship Program

In 2004, 361 University students have concluded an internship program at various departments of VakıfBank and in accordance with the Law on Apprenticeship and Occupational Training numbered 3308, 537 students from various commercial high schools have done their internships at the Bank.

Scholarships Provided by VakıfBank

1 earthquake victim and 25 other students have been provided scholarships by VakıfBank in 2004.

► Public Relations

Activities addressing issues such as the enhancement of the customer portfolio of the bank, more efficient introduction of the existing and new services to broader masses and the supporting of cultural and arts related activities were carried out in 2004 as well.

As for the 50th anniversary of VakıfBank, the 50th year commercials of the Bank were published on the newspapers, magazines and billboards and broadcasted on various television channels as well as cinemas and local televisions.

VakıfBank sponsored

- ▶ 2nd International Finance Summit 2004 in which the General Manager, Mr. A. Ahmet Kacar participated as a lecturer. The summit was organized by Active Academy,
- ▶ 3rd Industrial Congress arranged by the Istanbul Chamber of Commerce on 12-13 October 2004 covering the topic "Sustainable Competitive Power-Adaptation to the Global Change,
- ▶ "Applied International Trade and Entrepreneurship" certificate programs arranged in 2004-2005 Educational year by ITEC Training Counseling Organization,
- ▶ OECD Ministries Conference arranged in Istanbul between "3 and 6 June 2004".
- ▶ "Selçuk University Career Days" organization held at "Konya Selçuk University",
- ▶ "1st Retailer's Forum" arranged with the cooperation of "Sigma Turizm Seyahat Org. ve Danışmanlık" and the Ankara Chamber of Commerce,
- ▶ 5th General Assembly of World Turkish Businessmen,
- ▶ The award ceremony of the Ankara Caricaturists Association,
- ▶ 05 June World Environment Day (Environment and Children's Festival),
- ▶ "Mentally Handicapped Life Project" of the Turkish Handicapped and Solidarity Foundation,
- ▶ METU (Middle East Technical University) Musical Community Concert Program, and established Bank stands at relevant spots.

VakıfBank continued its support to Culture and Art with a total of 84 exhibitions, 33 of which at Atakule Art Gallery, 23 exhibitions at Ankara Head Office Foyer, 14 at Istanbul Kemal Sunal Art Center and Istanbul Region Levent Foyer. Among the exhibitions held in 2004, the

exhibition catalogues of Orhan Çetinkaya, Nebahat Bumin and Ertuğrul Önalp, were published and submitted to the appreciation of art-lovers.

► Construction And Real Estate Works

The modifications and decorations of 54 branches were completed in 2004 within the scope of the standardization of all branch local houses.

► Real Estate Portfolio

The number of real estates, which was 1.301 as of December 2003, decreased to 1.156 as a result of selling off of 397 real estates acquired through foreclosure.

72.256 billion Turkish Lira sales revenue was obtained from the sale of these 397 pieces acquired through foreclosure as well as the sale of the excess real estates.

► Equity Participations

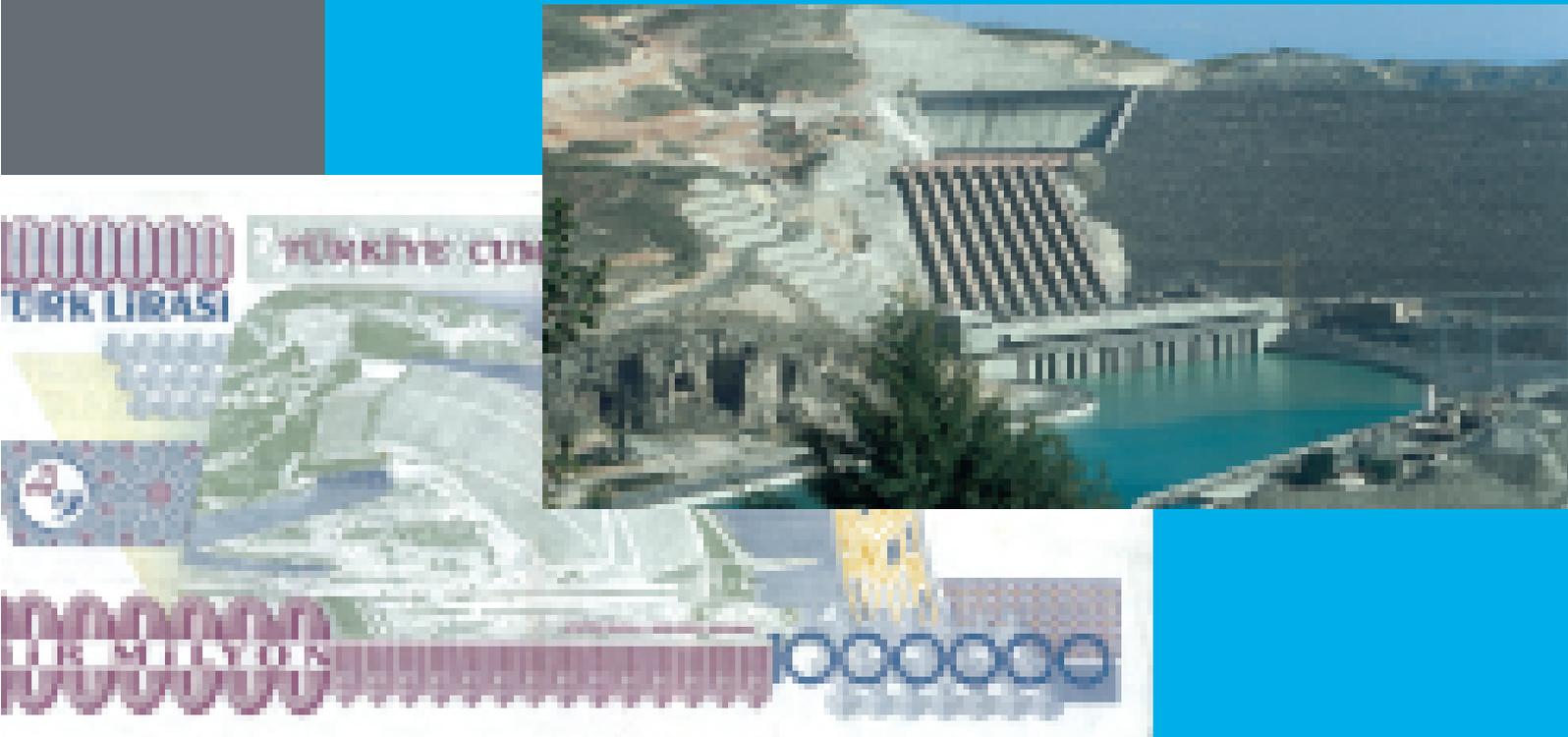
The number of participations which was 36 in 2003, of VakıfBank, which continued its contributions to the country economy through its participations in various sectors, decreased to 28 as a result of transfer of Ataköy Marina ve Yat İşletmeleri A.Ş., Ataköy Otelcilik A.Ş., Ataköy Turizm Tesisleri ve Ticaret A.Ş., İstanbul Altın Rafinerisi A.Ş., Vadeli İşlemler Eğitim Danışmanlık A.Ş., Vadeli İşlem ve Opsiyon Borsası A.Ş., GTS Gaziantep Tekstil A.Ş. and Vakıflar Turizm ve Ticaret A.Ş. as of end of 2004.

While 18 of the participations are operating in the financial sector, 6 of which in the banking sector, 2 in insurance sector and the remaining 10 in other financial partnerships, there are 10 participations operating in the non-financial sector with 1 participation in energy, 3 in tourism, 1 in manufacture, 5 in other commercial enterprises sector.

The total undertakings in these participations increased by 20.40% as of 2004 year end and reached to 277.530 Billion Turkish Lira in total, while 56.819 Billion Turkish Lira of which is cash undertakings, the remaining 20.711 Billion Turkish Lira is those taken via rights issues.

Subsidiaries and Affiliated Companies

W a r m F a c e o f t h e M o n e y . . .



1.000.000 Turkish Lira, 2002
Figure of "Atatürk Dam" was used in the banknotes.

Atatürk Dam which is one of the rockfill dams of South Eastern Development Project (GAP) is over Fırat River near Bozova county, Şanlıurfa. It is the eighth in height, eighteenth in lake volume, seventeenth in power generation, third in body fill in the world.

VakıfBank International AG (Wien),

Established in 1999 to enhance the Bank's foreign activities in line with its geographic expansion strategy. The Bank owns 90% of VakıfBank International AG's share capital of EUR 20 million. VakıfBank International AG's portfolio consists primarily of Turkish, Austrian, Spanish, Portuguese, Belgian and Greek Eurobonds. In 2003, VakıfBank International AG continued to increase its profitability, access to customers and market share. The Bank opened up a branch in Frankfurt in 2002.

Banque du Bosphore,

Established in 1991 as a joint venture to finance foreign trade between Turkey and Europe, and in particular France. Banque Du Bosphore, which focuses on private sector companies, offers a wide range of services including letters of credit, letters of guarantee, commercial paper discounting, working capital and pre-financing loans, current and deposit accounts. VakıfBank owns 20.0% of Banque Du Bosphore's share capital of EUR 16.0 million.

World Vakıf Offshore Banking,

Established in 1993 with a capital of U.S.\$500,000 in the Turkish Republic of Northern Cyprus to offer offshore banking services. World Vakıf Offshore Banking extends credit to the food, textile, automotive, construction and agricultural sectors and invests in treasury bills and bonds. VakıfBank owns 84.9% of World Vakıf Offshore Banking.

Türkiye Sınai Kalkınma Bankası,

Established in 1950 by a coalition composed of commercial banks, the World Bank and the Central Bank of Turkey. A leading Turkish investment and development bank, Türkiye Sınai Kalkınma Bankası provides lending, investment banking, consulting and capital market services. The Bank owns 8.4% of Türkiye Sınai Kalkınma Bankası's share capital of Turkish Lira 142,500 billion.

Güneş Sigorta A.Ş.

Established by the Bank in 1957 to offer insurance services, Güneş Sigorta is one of the leading Turkish insurance companies and provides insurance, consultancy and risk management services. The Bank owns 35.4% of Gunes Sigorta A.S. which has a share capital of Turkish Lira 43.2 trillion.

Vakıf Emeklilik A.Ş.

Vakıf Emeklilik, or Güneş Life Insurance Company, was established in 1991 to provide life insurance. It was transformed to a pension fund company in February 2003 that operates in the newly formed private pension fund business. It has more than 200 distribution channels with 380 personnel. Vakıf Emeklilik offers opportunities to cross-sell annuities and other fund management products of the Bank to pension fund clientele. The Bank owns 74.9% of Vakıf Emeklilik's share capital of Turkish Lira 26,500 billion.

Vakıf Finansal Kiralama A.Ş.

Established in 1988 to provide leasing services, predominantly for transportation services, machinery and equipment, medical equipment, tourism equipment and office equipment. The firm acquires equipment and provides domestic and foreign financial leasing transactions. The Bank holds a 64.2% share of the firm's Turkish Lira 13,150 billion share capital. Vakıf Finansal Kiralama, which leverages on the Bank's well established delivery channels, is a market leader.

Vakıf Deniz Finansal Kiralama A.Ş.

Established in 1993 to provide leasing services to the maritime transportation industry. The Bank holds a 73.9% share in its share capital of Turkish Lira 24,950 billion. As one of the market leaders in the industry, it obtained the TS ISO 9002 quality certificate on 31 December 2001.

Vakıf Finans Factoring Hizmetleri A.Ş.

Established in 1998 to provide factoring services for domestic and foreign commercial transactions, specifically focusing on the textile, food and forest product industries. The Bank holds 86.8% of its share capital of Turkish Lira 22.4 trillion.

Vakıf Girişim Sermayesi Yatırım Ortaklığı A.Ş.

Established to make venture capital investments in small and medium-sized businesses, provide growth capital and acquire resources for technological development within Turkey. The company currently holds investments in three projects relating to software services, biotechnology and advanced technology equipment. The Bank holds 46.4% of its share capital of Turkish Lira 900 billion.

Vakıf Yatırım Menkul Değerler A.Ş.

Established in 1996 to perform capital market activities, including portfolio management dealing, repurchase and reverse repurchase agreements, investment consulting and corporate finance advisory services. The company benefits from the Bank's distribution network to reach to significant number of retail and corporate clients. The company was renamed Vakıf Investment Securities I.C. in 1997. Vakıf Investment Securities recently established a 99.9% owned portfolio management subsidiary, Vakıf Portfoy Yönetimi, to manage the pension funds collected by Vakıf Emeklilik A.S. The Bank holds 99.4% of the company's share capital of Turkish Lira 6.0 trillion.

İMKB Takas ve Saklama Bankası,

Established in 1985, this company is also known as the Istanbul Stock Exchange Settlement and Custody Bank. It was founded by 33 banks and financial institutions to provide capital market settlement, clearing and custody services. The company is the Central Securities Depository of Turkey. The Bank owns 5.3% of its share capital of Turkish Lira 60.0 trillion.

Kıbrıs Vakıflar Bankası Ltd.

Established to encourage the utilization of Visa and MasterCard/EuroCard International credit cards. The Bank owns 15% of this company which has total capital of Turkish Lira 8.0 billion. Bankalararası Kart Merkezi A.S. Founded in 1990 by 13 banks to provide credit card payment and authorization services for members. The Bank owns 9.7% of the company's share capital of Turkish Lira 4.0 trillion.

Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş.

Established as a public company in 1991 to provide fund management, brokerage and retail securities services. The Bank owns 21.6% of the company's share capital of Turkish Lira 2.6 trillion.

Vakıf Gayrimenkul Yatırım

Ortaklığı A.Ş.

Established in 1996 as the first real estate investment trust company in Turkey. The company is publicly

traded on the ISE. The Bank owns 29.5% of the company's share capital of Turkish Lira 5.0 trillion.

Kredi Kayıt Bürosu A.Ş.

Established in 1995 as a credit card information center to develop records and collect information regarding credit card customers. The company also engages in credit checking activities in order to minimize default risk and non-performing loans. The Bank owns 9.1% of the company's share capital of Turkish Lira 7,425 billion.

Taksim Otelcilik A.Ş.

The Bank owns 51.5% of Taksim Otelcilik, a tourism company established in 1966. Taksim Otelcilik owns and operates seven hotels and a travel agency. The Company's share capital is Turkish Lira 90.0 trillion.

Vakıf Gayrimenkul Ekspertiz ve Değerleme A.Ş.

Established in 1995, this company is one of three real estate valuation companies in Turkey. The company engages in the valuation of both public sector and private sector real estate. The Bank owns 27.4% of its share capital of Turkish Lira 500.0 billion.

Consolidated
Financial Statements For The
Year Ended
31 December 2004

W a r m F a c e o f t h e M o n e y . . .



500 Turkish Lira, 1983

Figure of "İzmir Clock Tower" was used in the banknote.

Clock Tower which was completed in September 1, 1901 and started to be used witnessed every day that İzmir experienced in 20th century as beautiful, ugly, sad, happy, jolly and upset. However this monument was damaged during the earthquake, magnitude of which is 5.2, happened on 1 February 1974 in İzmir and the last layer of the hour plates of tower was destroyed. During its erection, the main body which was constructed with soldering of iron and copper between the cut stones resisted to the later earthquakes. The destroyed part was restored through the repairs in of two year's period.

Deloitte.

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.
CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2004

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

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

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



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

Income Statement	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

Changes in Share Holder's Equity	Paid in Capital Billion TL	Revaluation Fund 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



(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

W a r m F a c e o f t h e M o n e y . . .



10.000 Turkish Lira, 1982

Figure of "Selimiye Mosque" which is the work of Sinan the Architect (Mimar Sinan) was used in the banknote.

Selimiye Mosque was constructed on a land of the old Palace which was built by Sultan Murad I on the area called Kavak square. Selimiye Mosque which Sinan the Architect called "work of my mastery" is the crown of this city. For this mosque, we can say that it is the miracle whereby genius became stone or stone reached the genius.

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.

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

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:

	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

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%

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).

The principal adjustments are as follows:

- Land and buildings are stated at valuation. Complete and accurate information on the original cost

The financial statements of the above entities are consolidated with those of Türkiye Vakıflar Bankası

	Türkiye Vakıflar Bankası Sector	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. VakıfBank	Tourism	51.51	Deloitte
International Wien AG	Banking	90.00	Deloitte
Vakıf Enerji ve Madencilik A.Ş.	Energy	84.87	Deloitte

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:

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

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

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.

3.4 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:

Securities held for trading:

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their price or dealer's margin. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. 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.

Securities held to maturity:

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

Securities available for sale:

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

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

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:

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.

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.

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.

3.10 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.

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.

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.

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.