TÜRKİYE VAKIFLAR BANKASI T.A.O.

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2003

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

REVIEW REPORT

1. We have reviewed the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası T.A.O. as at 30 June 2003, and the related statement of income, shareholder's equity and cash flows for the six month-period then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our review.

2. Except for limitations set out in paragraph 4 below, we conducted our review in accordance with the International Standards on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and, accordingly, we do not express an audit opinion.

3. The Bank acquired a 45% shareholding in Güney Ege Enerji İşletmeleri Limited Şirketi in the year 2000 for a consideration of USD 103,500,000, from a borrower experiencing financial difficulty. During 2001, the Bank transferred this shareholding to a newly established participation, Vakıf Enerji ve Madencilik A.Ş., for the same consideration. Güney Ege Enerji Limited Şirketi holds the operating rights for Yatağan, Yeniköy and Kemerköy thermal power generation plants which are within the scope of the privatization programme. Commencement of operation of these power plants was heavily dependent on the conclusion of administrative procedures with the direction of Council of Ministers' decisions. As at 21 January 2003, with the decision of Council of State, the decision of the Council of Ministers for the holding of the operating rights of these plants is aborted. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Ege Enerji Limited Şirketi has applied to International Arbitration Board for the compensation of profit losses and other expenses. It is expected that the process of arbitration will be finalized by June 2004 and we are unable to form a conclusion as to the amount of any provision which may be needed against the carrying value of this participation as of the reporting date, which is accounted at an indexed cost of 180,003 Billion TL in the accompanying financial statements.

4. Complete and accurate information on the original cost of some of the Group's properties capitalized before 1980 was not available, to enable the calculation of their restated (indexed) cost. Accordingly, instead of restated cost, professional valuations have been used for such properties, determined by a firm of property valuers which is a majority-owned participation of the Bank. We do not express any opinion on the accuracy of the values determined by the property valuer, since this is outside our area of expertise. Additionally, we have tested the accuracy and completeness of the information for fixed assets indexation on a sampling basis, but these tests are not necessarily sufficient to detect any errors in the restated carrying value of fixed assets as a whole.
5. Based on our review, except for such adjustments as may be required in respect of the matters set out in the paragraphs above, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

Ankara, 29 August 2003

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

TÜRKİYE VAKIFLAR BANKASI T.A.O.

INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2003)

Assets	Note	30.06.2003 TL Billion	31.12.2002 TL Billion
Liquid Assets	4	126,768	112,999
Balances With The Central Bank	5a	391,704	304,147
Balances With Banks	6	746,764	564,946
Interbank Funds Sold		943,265	138,356
Trading Securities Portfolio	7a	4,596,369	5,188,482
Available for Sale Portfolio	7b	137,052	101,898
Reserve Deposits at the Central Bank	5b	669,275	771,212
Loans (Net)	8	3,927,005	4,290,032
Trade Receivables	9	81,533	66,677
Sundry Debtors	10	41,092	55,615
Equity Participations (Net)	11	346,990	351,611
Held to Maturity Securities	7c	1,756,286	1,853,391
Premises & Equipment (Net)	12	1,411,923	1,472,212
Other Assets	13	97,730	128,256
TOTAL ASSETS		15,273,756	15,399,834

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.

INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2003)

Liabilities	**Note**	**30.06.2003 TL Billion**	**31.12.2002 TL Billion**
Deposits			
Demand		2,182,919	1,840,897
Time		8,529,463	9,102,132
Expense accruals on deposits		98,732	75,182
	14	10,811,114	11,018,211
Commitments to Repurchase Securities		447,849	194,045
Borrowings Funding Loans	15	1,619,050	1,794,436
Securities Issued	16	325,779	378,774
Funds	17	185,690	197,967
Trade Payables	18	68,286	52,128
Deposits and Advances Taken for Imports		83,261	154,569
Sundry Creditors	19	52,605	65,697
Taxes and Dues Payable	20a	125,728	129,982
Provisions	21	366,209	366,336
Other Liabilities		196,120	157,533
		14,281,691	14,509,678
MINORITY INTEREST	23	244,880	259,053
SHAREHOLDERS' EQUITY			
Share Capital	24	1,474,897	1,474,897
Revaluation Fund		116,295	124,404
Retained Earnings		(844,007)	(968,198)
		747,185	631,103
TOTAL LIABILITIES AND EQUITY		15,273,756	15,399,834
COMMITMENTS AND CONTINGENCIES	29	6,746,727	7,265,666

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.

INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF INCOME FOR THE PERIODS ENDED 30 JUNE 2003 AND 30 JUNE 2002
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2003)

	Note	6 months 30.06.2003 TL Billion	6 months 30.06.2002 TL Billion
Interest Income - Banking	25	1,046,084	1,445,178
Interest (Expense) – Banking	26	(989,435)	(1,043,719)
Net Interest Income – Banking		56,649	401,459
Loan Loss Provision (Expense)		(51,774)	(85,109)
NET INTEREST (EXPENSE)/INCOME AFTER LOAN LOSS PROVISIONS		4,875	316,350
Non-Interest Income	27	456,769	319,879
Non-Interest (Expense)	28	(387,402)	(893,060)
Income from Associates		5,116	13,350
INCOME/ (EXPENSE) BEFORE TAX AND MONETARY GAIN/(LOSS)		79,358	(243,481)
Taxation	20b	(10,033)	78,786
INCOME /(EXPENSE) BEFORE MONETARY GAIN/ (LOSS)		69,325	(164,695)
Monetary Gain/(Loss)		14,395	132,795
NET INCOME/(LOSS)		83,720	(31,900)
Less: Minority Share of Net Income/(Loss)		(7,454)	10,960
Net Income/ (Loss) Attributable to T.Vakıflar Bankası T.A.O. Shareholders		76,266	(42,860)
Earnings/(Loss) Per Share		238	(134)

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIODS ENDED 30 JUNE 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2003)

	Paid in Capital Billion TL	Revaluation Fund Billion TL	Retained Earnings Billion TL	Total Billion TL
As at 31.12.2001	1,474,897	100,890	(1,277,557)	298,230
Changes in minority			(29,629)	(29,629)
Dividends paid			(14,863)	(14,863)
Profit for the year			353,851	353,851
Additions and disposals from revaluation fund (net)		23,514		23,514
As at 31.12.2002	1,474,897	124,404	(968,198)	631,103
Increase in capital:				
Cash				
Transfer from reserves				
Changes in minority and other items			20,585	20,585
Foreign exchange differences for foreign subsidiaries			31,213	31,213
Dividends paid			(3,873)	(3,873)
Profit for the period			76,266	76,266
Additions and disposals from revaluation fund (net)		(8,109)		(8,109)
As at 30.06.2003	1,474,897	116,295	(844,007)	747,185

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED 30 JUNE 2003 AND 31 DECEMBER 2002
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2003)

	30.06.2003 TL Billion	31.12.2002 TL Billion
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	76,266	353,851
Adjustments to reconcile net income to net Cash provided by operating activities:		
Depreciation and amortization	26,066	44,886
Provision for retirement pay	(482)	(1,153)
Insurance technical provisions and other provisions	21,767	(43,657)
Loan provisions	(70,199)	(79,031)
(Decrease)/Increase in taxation on income	(4,137)	(156,063)
Decrease/(Increase) in reserve deposits at Central Bank	101,937	(54,950)
(Decrease) in interbank funds borrowed/sold (net)	(804,909)	(176,368)
Decrease/(Increase) in other assets	30,193	277,871
Net cash (used in) /provided from operating activities	(623,498)	165,386
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease/(Increase) in marketable securities	654,064	(1,338,944)
Decrease in loans	411,814	1,403,834
(Increase)/Decrease in equity participations	4,621	(15,733)
Additions to premises and equipment	34,223	(199,154)
Net cash provided from /(used in) investing activities	1,104,722	(149,997)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/Increase in deposits	(207,097)	696,614
Increase/(Decrease) in securities under repo agreement	253,804	(1,110,339)
(Decrease)/Increase in loans used	(175,386)	355,098
(Decrease) in funds borrowed	(12,277)	(53,979)
(Decrease) /Increase in securities issued	(52,995)	4,445
(Decrease)/Increase in other liabilities	(29,772)	(24,150)
Change in minority interest and other items in shareholders' equity	29,516	(46,564)
Increase in share capital	-	-
Cash dividends paid	(3,873)	(14,863)
Net cash (used in) financing activities	(198,080)	(193,738)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	283,144	(178,349)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	982,092	1,160,441
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,265,236	982,092

1. THE BANK

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

2. BASIS OF FINANCIAL STATEMENTS

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

Presentation of Financial Statements

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

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

Inflation Accounting

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

continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

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

	Index	Conversion Factor
31 December 2000	2,626.0	2.750
31 December 2001	4,951.7	1.459
31 December 2002	6,478.8	1.115
30 June 2003	7,222.2	1.000

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

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

The principal adjustments are as follows:

- The revaluation of tangible fixed assets under the provisions of the Turkish Tax Procedures Law, as made in the Bank's accounting records, has been eliminated and revaluation based on the State Institute of Statistics Wholesale Price Index has been substituted. This change has been effected for vehicles, furniture, equipment, fixed assets acquired through bad loans and leasehold improvements. Land and buildings are stated at valuation. Complete and accurate information on the original cost of some of the Bank's properties capitalized before 1980 was not available, to enable the calculation of their restated (indexed) cost. Accordingly, instead of restated cost, professional valuations have been used for such properties, determined by a firm of property valuers which is a majority-owned participation of the Bank. Additionally, the Banking Regulation and Supervision Agency (BRSA) has accepted property valuations for additional buildings for the purpose mentioned in above resulting in a revaluation fund of 51,931 Billion TL for which the effects have been reflected in the accompanying financial statements. Additionally, the properties of one of the consolidated subsidiary, Taksim Otelcilik A.Ş. have been appraised by the same Company and revaluation fund of 123,573 Billion TL is reflected to financials.

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

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

- Balance sheet and income statement items for the year 2002 has also been calculated in the same way and indexed to 30 June 2003 money values.

continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

Consolidation

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

	Sector	Türkiye Vakıflar Bankası Ownership (%)	Auditors
Vakıf Emeklilik A.Ş.	Insurance	74.94	D&T
Güneş Sigorta A.Ş.	Insurance	35.35	PWC
Vakıf Deniz Finansal Kiralama A.Ş.	Leasing	72.75	D&T
Vakıf Finansal Kiralama A.Ş.	Leasing	64.24	D&T
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Other financial	30.15	D&T
Vakıf Yatırım Menkul Değerler A.Ş.	Other financial	99.44	D&T
World Vakıf Offshore Ltd.	Banking	83.49	D&T
Vakıf Finans Factoring A.Ş.	Other financial	86.81	D&T
Taksim Otelcilik A.Ş.	Tourism	51.51	D&T
Vakıfbank International Wien AG.	Banking	90.00	D&T
Vakıf Enerji ve Madencilik A.Ş.	Industry	84.83	D&T
Vakıf Finance Limited	Other financial	100.00	E&Y

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

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

3. ACCOUNTING POLICIES

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

3.1 Accounting Convention

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

3.2 Adoption of New International Accounting Standard: IAS 39

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

 continued

3. ACCOUNTING POLICIES (continued)

3.3 Income and Expense Recognition

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

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

3.4 Foreign Currency Items

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

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

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

3.5 Securities Portfolio

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

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

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

 continued

3. ACCOUNTING POLICIES (continued)

3.5 Securities Portfolio (continued)

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

Securities held for trading:

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

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

Securities held to maturity:

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

Securities available for sale:

Available-for-sale securities are those that are not (a) held-to-maturity investments, or (b) securities held for trading. Subsequent to acquisition, available for sale securities are valued at their fair value if reliably measurable. Otherwise, they are accounted for at amortized cost. Gains or losses on available for sale securities are included in a fund under shareholders' equity and shown together with retained earnings in the balance sheet.

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.

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3. ACCOUNTING POLICIES (continued)

3.6 Premises and Equipment

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

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

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

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

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

Using an option granted by the Turkish tax laws and regulations, in its statutory records the Group revalues its premises and equipment (including the related depreciation) in accordance with the rates and procedures published by the Ministry of Finance. The surplus on revaluation is credited to a revaluation reserve, which may be subsequently incorporated as share capital. The revaluation is not taxable and depreciation, which is charged on the revalued amount, is deductible for tax purposes. Buildings are depreciated over their acquisition cost. Land and fixed assets taken over in settlement of loans are neither depreciated nor revalued. Coefficients for revaluation in recent years have been: 2003: 18.6% 2002: 59%, 2001: 53.2%, 2000: 56%, 1999: 52.1%, 1998: 77.8%, 1997: 80.4% and 1996: 72.8%.

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

 continued

3. ACCOUNTING POLICIES (continued)

3.7 Retirement Pay Provision

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

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

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

3.8 Equity Participations

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

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

3.9 Loan Loss Provisions

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

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3. ACCOUNTING POLICIES (continued)

3.9 Loan Loss Provisions (continued)

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

3.10 Taxation and Deferred Taxes

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

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

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

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

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

continued

3. ACCOUNTING POLICIES (continued)

3.11 Securities Under Resale or Repurchase Transactions

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

3.12 Financial Leases – the Group as Lessee

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

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

3.13 Fair Values of Financial Instruments

The term financial instrument 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.

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3. ACCOUNTING POLICIES (continued)

3.13 Fair Values of Financial Instruments(continued)

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

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

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

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

 continued

3. ACCOUNTING POLICIES (continued)

3.13 Fair Values of Financial Instruments(continued)

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

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

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

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

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

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

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

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

 continued

3. ACCOUNTING POLICIES (continued)

3.13 Fair Values of Financial Instruments (continued)

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

3.14 Risk Management

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

Liquidity risk

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

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

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

Credit risk

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

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

continued

3. ACCOUNTING POLICIES (continued)

3.14 Risk Management (continued)

Market risk

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

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

Operational risk

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

3.15 Cash and Cash Equivalents

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

3.16 Offsetting

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

continued

3. ACCOUNTING POLICIES (continued)

3.17 Impairment

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

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

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

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

3.18 Use of Estimates

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

continued

3. ACCOUNTING POLICIES (continued)

3.19 Earnings Per Share

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

The basic earnings per share calculation is as follows:

	30.6.2003	**30.6.2002**
Shares outstanding (Billion)	320	319
Net profit/(loss) (TL Billion)	76,266	42,860
Basic earnings (loss) per share (TL)	238	134

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

3.20 Consolidation

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

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

 continued

4. LIQUID ASSETS

	30.06.2003 TL Billion	31.12.2002 TL Billion
Cash balances – Turkish Lira	96,795	81,790
Cash balances – Foreign currency	29,654	27,175
Other	319	4,034
	126,768	112,999

5. BALANCES WITH THE CENTRAL BANK

	30.06.2003 TL Billion	31.12.2002 TL Billion
a) Balances with the Central Bank		
Demand deposits – Turkish Lira	196,936	34,239
Demand deposits – Foreign currency	2,859	19
	199,795	34,258
Time deposits – Foreign currency	191,750	269,439
	391,545	303,697
Income accruals	159	450
	391,704	304,147
b) Reserve deposits at the Central Bank		
Reserve Deposits – Turkish Lira	177,190	143,498
Reserve Deposits – Foreign currency	471,671	608,208
	648,861	751,706
Income accruals	20,414	19,506
	669,275	771,212

5. BALANCES WITH THE CENTRAL BANK (continued)

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

6. BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30.06.2003 TL Billion	**31.12.2002 TL Billion**
DOMESTIC BANKS		
Current accounts - Turkish Lira	732	6,413
Current accounts- Foreign currency	-	72
Time deposits – Turkish Lira	3,514	8,570
Time deposits – Foreign currency	55,795	1,310
	60,041	16,365
FOREIGN BANKS		
Current accounts - Foreign currency	68,599	86,188
Time deposits – Foreign currency	615,770	461,486
	684,369	547,674
	744,410	564,039
Income accrual on balances with banks and other financial institutions	2,354	907
	746,764	564,946

The time foreign currency deposits above mature within one to six months and earn interest at rates ranging from 1.76 % to 2.44 % per annum (31.12.2002: 4% to 6.4% per annum.).

7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES

a) Trading Portfolio	30.06.2003 TL Billion	31.12.2002 TL Billion
Government bonds and treasury bills	2,235,613	1,549,408
Eurobonds	2,077,031	3,315,200
Investment participation bills	9,002	7,653
Shares	3,970	5,295
Other	4,792	4,390
	4,330,408	4,881,946
Income accruals	265,961	306,536
	4,596,369	5,188,482

b) Available for sale		
Government bonds and treasury bills	55,083	98,094
Eurobonds	14,129	3,804
Other	63,039	-
	132,251	101,898
Income accruals	4,801	-
	137,052	101,898

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

Securities portfolio includes TL 490,330 Billion (2002: 199,110) securities sold with agreements to repurchase ("repo") as at the balance sheet date.

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

 continued

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

Government bonds as at 30 June 2003 include bonds issued by the Republic of Turkey in foreign currencies (Eurobonds) and mature through the year 2003-2030. These government bonds are valued at cost in foreign currency, translated at period-end exchange rates, plus interest accrued on an IRR basis. On this basis, the book value of these government bonds as at 30 June 2003 is TL 1,959,328 Billion(31 December 2002: TL 2,703,795 Billion).The bonds are not quoted on a stock exchange.

TL 1,945,808 Billion (31 December 2002: TL 1,995,959 Billion) of the securities portfolio are blocked securities for legal requirements and kept as guarantee for Istanbul Stock exchange transactions, Interbank Money Market transactions, liquidity guarantee and foreign currency market guarantee.

c) Held to Maturity Securities

	30.06.2003 TL Billion	31.12.2002 TL Billion
Government Bonds and Treasury Bills	1,516,262	1,567,043
Other	6,168	2,840
	1,522,430	1,569,883
Income accrual	233,856	283,508
	1,756,286	1,853,391

continued

8. LOANS (NET)

	30.06.2003 TL Billion	31.12.2002 TL Billion
Short, medium and long term loans	3,370,761	3,543,952
Overdue loans	1,113,067	1,235,760
Less: Provision for loans	(676,153)	(724,940)
Interest and other accruals on loans	119,330	235,260
	3,927,005	4,290,032

A breakdown of loans can be given as follows:

	30.06.2003 TL Billion	31.12.2002 TL Billion
Short Term Loans		
Discount and purchase bills	69	53,730
Export loans unsecured	47,369	32,149
Secured export loans	617,594	638,428
Other unsecured loans	1,037,073	504,434
Other secured loans	442,530	847,702
Loans given to financial sector	42,290	22,306
Loans given to foreign institutions	-	3,045
Rescheduled loans	102,713	111,669
Finance lease receivables	195,214	166,991
Factoring receivables	13,923	7,663
	2,498,775	2,388,117
Medium and Long Term Loans		
Unsecured loans with export obligations	210,686	323,442
Secured loans with export obligations	262,184	315,311
Secured other investment and operating loans	274,658	337,838
Other unsecured loans	107,466	115,834
Loans given to foreign institutions	16,992	63,410
	871,986	1,155,835
	3,370,761	3,543,952

continued

8. LOANS (NET) (continued)

Movement for loan loss provision:

	TL Billion
At 1 January 2003	746,505
Charge for the year	36,615
Provision released	(32,472)
Effect of indexation	(74,495)
At 30 June 2003	676,153

Sector	2003 %	2002 %
Industry	27	23
Construction	12	13
Trade	23	21
Retail and consumer	33	35
Other	5	8
	100	100

Loans can be analyzed by currency as follows;

Currency	30.06.2003 TL Billion	31.12.2002 TL Billion
Turkish Lira	1,726,130	1,629,160
US Dollars	1,069,547	1,330,835
Euro	541,887	548,601
CHF	32,687	34,836
Other currencies	510	520
	3,370,761	3,543,952

The Bank mainly extends short term loans to customers with maturities within one year. Interest rates charged for loans varied between 50% and 60% (2002: 90% and 92%) for Turkish Lira loans and 6.42% and 8.69% (2002: 10% and 12%) for foreign currency loans per annum during the year.

continued

9. TRADE RECEIVABLES

	30.06.2003 TL Billion	31.12.2002 TL Billion
Receivables from insurance customers	63,609	61,856
Other trade receivables	17,804	4,821
Doubtful trade receivables	16,794	18,272
Less: Provision for doubtful receivables	(16,674)	(18,272)
	81,533	66,677

10. SUNDRY DEBTORS

	30.06.2003 TL Billion	31.12.2002 TL Billion
Receivables from personnel	198	177
Receivables for banking services	522	594
Receivables from sale of assets	15,758	21,926
Receivables from credit card transactions	3,648	7,654
Receivables from court expenses	14,140	14,634
Other sundry debtors	6,826	10,630
	41,092	55,615

continued

11. EQUITY PARTICIPATIONS (NET)

"Available for sale assets" under IAS 39 classification:

	Percent Owned 06.2003 (%)	**30.06.2003 TL Billion**	**31.12.2002 TL Billion**
Ataköy Marina ve Yat.İşletmecilik A.Ş.	55.04	16,736	16,736
Ataköy Otelcilik A.Ş.	28.92	19,296	19,296
Ataköy Turizm Tes. Ve Tic. A.Ş.	40.58	35,098	35,098
Banque Du Bosphore	20.00	6,569	8,522
Bankalararası Kart Merkezi A.Ş.	9.70	965	965
EGS Gayrimenkul Yatırım Ort.A.Ş.	0.73	82	115
ETİ Soda Üretim Paz.Nak.ve Tic.A.Ş.	0.04	14	14
Güney Ege Enerji İşlt.Ltd.Şti.	38.17	180,003	180,003
Güneş Turizm Oto Endüst. Ve Tic. A.Ş.	35.35	128	87
IMKB Takas ve Saklama Bankası A.Ş.	5.05	7,890	7,890
İzmir Enternasyonal Otelcilik A.Ş.	5.00	5,310	5,310
Kıbrıs Vakıflar Bankası Ltd.	15.00	553	553
Kredi Kayıt Bürosu A.Ş.	9.09	1,059	1,059
Türkiye Sınai Kalkınma Bankası A.Ş. (*)	8.38	6,351	5,952
Vak-Bel İthalat A.Ş.	72.27	10,620	10,620
Vakıf Gayrimen.Ekspertiz ve Değ. A.Ş.	27.38	369	369
Vakıf İnşaat Restorasyon A.Ş.	22.09	6,468	6,468
Vakıf Menkul Kıy. Yat. Ort. A.Ş.	21.64	2,778	2,751
Vakıf Risk Sermayesi Yat. Ort. A.Ş. .(*)	46.49	1,859	2,253
Vakıf Sistem Pazarlama A.Ş.	79.75	6,837	6,837
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.(**)	17.81	29,180	29,180
Roketsan Roket San. ve Tic. A.Ş.	15.47	24,178	24,178
Other		13,408	16,473
		375,751	380,729
Provision for diminution in value of participations (-) (**)		(28,761)	(29,118)
		346,990	351,611

(*): Shares of Türkiye Sınai Kalkınma Bankası A.Ş. and Vakıf Risk Sermayesi Yatırım Ortaklığı A.Ş.(Vakıf Venture Capital Investment Corporation) are traded on the Istanbul Stock Exchange. The investments in these entities as of 2003 and 2002 have been valued at the market price as at the balance sheet date.

(**): 24,400 Billion TL of provisions is for Bayek Tedavi ve Sağlık Hizmetleri A.Ş.

 continued

11. EQUITY PARTICIPATIONS (NET) (continued)

The participation in Güney Ege Enerji İşletmeleri Ltd. Şti. was acquired during December 2000 in settlement of certain loans. Güney Ege Enerji İşletmeleri Ltd. Şti. intends to take over and develop three power stations. The purchase price includes significant goodwill. The participation has been accounted at cost. Commencement of operation of these power plants was heavily dependent on the conclusion of administrative procedures with the direction of Council of Ministers' decisions. As at 21 January 2003, with the decision of Council of State, the decision of the Council of Ministers for the holding of the operating rights of these plants is aborted. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Ege Enerji Limited Şirketi has applied to International Arbitration Board for the compensation of profit losses and other expenses. It is expected that the process of arbitration will be finalized by June 2004 and we are unable to form a conclusion as to the amount of any provision which may be needed against the carrying value of this participation as of the reporting date, which is accounted at an indexed cost of 180,003 Billion TL in the accompanying financial statements.

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

	30.06.2003 TL Billion	31.12.2002 TL Billion
Assets	61	107
Shareholders Equity	(158)	(110)
Profit/(Loss) for the period	(59)	(166)

12. PREMISES AND EQUIPMENT

	30.06.2003 TL Billion	31.12.2002 TL Billion
Land and Buildings	1,422,025	1,511,836
Vehicles, Furniture & Equipment and leasehold improvements	337,100	328,403
Construction work in progress	-	52
Less: Accumulated depreciation	(347,202)	(368,079)
	1,411,923	1,472,212

Land and building include assets taken over in settlement of doubtful loans amounting to TL 444,806 Billion as of 30 June 2003. (31 December 2002: TL 470,290 Billion)

13. OTHER ASSETS

	30.06.2003 TL Billion	31.12.2002 TL Billion
Deferred acquisition cost	19,769	19,499
Prepaid expenses	22,994	30,349
Investment properties	20,510	37,122
Inventories	100	5,321
Other	34,357	35,965
	97,730	128,256

14. DEPOSITS

	30.06.2003 TL Billion	31.12.2002 TL Billion
Savings and certificates of deposit	916,311	682,729
Public, commercial and other deposits	4,846,621	3,879,333
Interbank deposits	172,227	221,225
Foreign currency deposits	4,776,352	6,161,460
	10,711,511	10,944,747
Expense accruals on deposits	99,603	73,464
	10,811,114	11,018,211

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 37.36-38.75%, three months 38.21-39.64%, six months 39.06-40.18% and one year 37.45-39.61% (2002: one month 53-55%, three months 45-53%, six months 50-56 % and one year 34-39 %). Interest rates applied for foreign currency time deposits vary between 2.00 % and 3.50% for US dollars and 2.50 % and 4.00 % for Euro. (2002: 2.34 % and 3.03 % for US dollars and 2.46 % and 3.56 % for Euro.)

 continued

15. BORROWINGS FUNDING LOANS

	30.06.2003 TL Billion	31.12.2002 TL Billion
Borrowings from domestic banks and institutions	137,079	261,999
Borrowings from overseas banks and institutions	1,204,627	1,254,617
Subordinated loans	213,344	237,824
Interest and other expense accruals	64,000	39,996
	1,619,050	1,794,436

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

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

Terms of payment:

	30.06.2003 TL Billion	31.12.2002 TL Billion
2004	655,542	914,042
2005	365,093	198,816
2006	273,399	357,910
Over four years	325,016	323,668

16. SECURITIES ISSUED

	30.06.2003 TL Billion	31.12.2002 TL Billion
Securities issued	322,270	374,222
Interest accruals	3,509	4,552
	325,779	378,774

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

17. FUNDS

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

18. TRADE PAYABLES

	30.06.2003 TL Billion	31.12.2002 TL Billion
Trade payables	33,919	24,238
Payables to insurance companies	34,367	26,510
Other trade payables	-	1,380
	68,286	52,128

19. SUNDRY CREDITORS

	30.06.2003 TL Billion	31.12.2002 TL Billion
Cash guarantees	8,359	13,430
Reserved cash	17,152	22,562
Payables to funds	14,345	19,393
Other	12,749	10,312
	52,605	65,697

continued

20. TAXATION

The Bank and its participations are subject to corporation and income withholding taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the period.

Corporation tax is applied at the rate of 30% on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received, other exempt income and investment incentives utilised. In 2002 and prior years, a 10% surcharge of funds contribution on corporate tax was calculated, raising the effective tax rate to 33%. However, there will be no funds surcharge on corporate and income taxes declared subsequent to 1 January 2004 for the 2003 taxation period.

In addition to corporate taxes, companies should also calculate income withholding taxes and funds on any dividends distributed, except for companies which include dividends received in their corporate income taxes declared. The rate of withholding income tax was announced as 10% starting from 24 April 2003. Starting from 1 January 2004, there will be no funds surcharge on dividends distributed. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

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 incentive deductions relating to investment incentive certificates obtained prior to 24 April 2003.

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

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

a) Balance sheet: Taxes and dues payable

	30.06.2003 TL Billion	**31.12.2002 TL Billion**
Corporation tax, withholding tax and funds	13,554	16,810
Deferred tax liability/(assets)- net	82,051	50,905
Provision for deferred tax assets	-	26,106
Other taxes and dues	30,123	36,161
	125,728	129,982

continued

20. TAXATION (continued)

b) Statement of income: Taxes

	30.06.2003 TL Billion	30.06.2002 TL Billion
Corporation tax, withholding tax and funds	16,471	8,246
Provision expense/(income) for deferred tax	(6,438)	(70,540)
	10,033	(78,786)

The major cumulative temporary differences are as follows at 30 June 2003 and 31 December 2002:

	30.06.2003 TL Billion	31.12.2002 TL Billion
Fixed assets indexation difference and revaluation surplus	571,552	420,655
Loan loss provisions not deductible	(51,962)	(44,337)
Retirement pay provision	(63,043)	(62,980)
Carried forward tax losses	(231,534)	(356,935)
Other temporary differences (total)	(8,890)	197,853
NET CUMULATIVE TEMPORARY DIFFERENCES	216,123	154,256

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

continued

21. PROVISIONS

	30.06.2003 TL Billion	31.12.2002 TL Billion
PROVISIONS FOR RETIREMENT PAY		
At 1 January	63,525	64,677
Provision for the period (net)	6,057	14,093
Monetary Loss	(6,539)	(15,245)
At 31 December	63,043	63,525
GENERAL LOAN PROVISION		
At 1 January	44,094	43,734
Provision and release for the period (net)	(9,697)	10,668
Monetary Loss	(4,539)	(10,308)
At 30 June	29,858	44,094
PROVISION FOR NON-CASH LOANS	42,132	49,308
INSURANCE COMPANIES TECHNICAL PROVISIONS	224,870	208,105
OTHER PROVISIONS	6,306	1,304
TOTAL PROVISIONS	366,209	366,336

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 30 June 2003, subject to a maximum of TL 1,323,950 thousand per month (2002: 1,376,875 thousand TL per month at indexed values).

General Provision for Loans:

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

continued

22. MATURITY ANALYSIS

As at 30 June 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	126,768	-	-	-	126,768
Banks (including Central Bank)	1,090,739	29,644	2,481	15,604	1,138,468
Interbank funds sold	943,265	-	-	-	943,265
Securities portfolio and held to maturity securities	591,720	433,433	3,105,019	2,359,535	6,489,707
Loans	959,115	317,063	1,221,034	1,429,793	3,927,005
LIABILITIES (*)					
Deposits	6,314,302	3,566,726	905,682	24,404	10,811,114
Securities sold under repo agreements	447,849	-	-	-	447,849
Interbank funds borrowed	-	-	-	-	-
Bank borrowings	246,044	74,293	337,149	961,564	1,619,050
Funds	185,690	-	-	-	185,690

(**) Maturity distribution is estimated

continued

22. MATURITY ANALYSIS

As at 31 December 2002	Up to 1 Month TL Billion	1 to 3 Months TL Billion	3 to 12 Months TL Billion	Greater than 1 year TL Billion	(*) Total TL Billion
ASSETS (*)					
Liquid assets	112,999	-	-	-	112,999
Banks (including Central Bank)	385,649	98,173	18,851	365,513	868,186
Interbank funds sold	133,769	3,742			137,511
Securities portfolio	22,457	164,502	2,221,657	4,145,111	6,553,727
Loans	22,042	1,371,845	1,021,216	1,639,669	4,054,772
LIABILITIES (*)					
Deposits	2,197,358	8,144,798	441,249	161,342	10,944,747
Securities sold under repo agreements	193,527				193,527
Interbank funds borrowed					
Bank borrowings	25,051	329,304	594,503	805,582	1,754,440
Funds	-	-	339	197,628	197,967

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

continued

23. MINORITY INTEREST

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

	30.06.2003 TL Billion	31.12.2002 TL Billion
-Paid in capital	288,626	307,904
-Retained Earnings	(43,746)	(48,851)
	244,880	259,053

24. SHARE CAPITAL

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

Class of Shares	30.06.2003 TL Billion	31.12.2002 TL Billion
A	175,816	175,816
B	63,933	63,933
C	79,917	79,917
	319,666	319,666
Paid capital per statutory records	319,666	319,666
Indexation effect	1,155,231	1,155,231
Indexed Share Capital	1,474,897	1,474,897

25. INTEREST INCOME

	30.06.2003 TL Billion	30.06.2002 TL Billion
BANKING		
Interest on Loans	358,119	585,600
Interest on Securities Portfolio	515,308	585,138
Interest on Deposits at Banks	8,084	26,064
Interest on Interbank Funds Sold	126,022	207,804
Interest on Reserve Requirement	38,287	31,354
Other Interest Income	264	9,218
	1,046,084	1,445,178

26. INTEREST EXPENSE

	30.06.2003 TL Billion	30.06.2002 TL Billion
BANKING		
Interest Expense on Deposits	869,067	894,087
Interest Expense on Interbank Funds Borrowed	46,006	81,836
Interest Expense on Borrowings	73,417	62,096
Other Interest Expense	945	5,700
	989,435	1,043,719

continued

27. NON-INTEREST INCOME

	30.06.2003 TL Billion	30.06.2002 TL Billion
Banking services income	112,623	106,299
Capital market transaction income - -net	147,808	142,476
Foreign exchange gains- net	110,544	-
Other	85,794	71,104
	456,769	319,879

28. NON-INTEREST EXPENSE

	30.06.2003 TL Billion	30.06.2002 TL Billion
Personnel expenses	126,164	129,878
Taxes and dues	19,800	22,186
Depreciation expenses	26,066	26,411
Commissions and fees paid	33,615	40,094
Retirement pay provision	6,547	8,141
Foreign exchange losses –net	-	328,499
Other provisions	1,372	82,594
Other-Banking	232,715	275,063
Other-Insurance –net	(43,619)	(22,635)
Other-Leasing -net	(11,300)	(1,098)
Other- Service sector –net	4,413	3,927
Other non-interest expense	(8,371)	-
	387,402	893,060

continued

29. CONTINGENCIES AND COMMITMENTS

Significant contingencies and commitments are summarized as follows:

	30.06.2003 TL Billion	31.12.2002 TL Billion
Letters of Guarantee		
- in Turkish Lira	1,146,548	1,221,212
- in Foreign Currency	885,714	1,155,019
Letters of Credit	793,190	1,228,155
Acceptance Loans	184,182	155,686
Other Commitments	3,737,093	3,505,594
	6,746,727	7,265,666

30. FOREIGN CURRENCY POSITION

	30.06.2003 TL Billion	31.12.2002 TL Billion
Total foreign currency assets	7,179,857	7,937,442
Total foreign currency liabilities	7,149,559	7,948,827
Net foreign currency position	30,298	(11,385)

31. SUBSEQUENT EVENTS

Securities issued of EURO 200 Million which matured on 7 August 2003 (Note 16) have been paid by the Bank at maturity.

concluded