TÜRKİYE VAKIFLAR BANKASI T.A.O.

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2004

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

OPINION OF INDEPENDENT AUDITORS

1. We have reviewed the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası T.A.O. as at 30 June 2004, 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 were heavily dependent on the conclusion of administrative procedures with the direction of Council of Ministers' decisions. As at 21 January 2003, with the decision of Council of State, the decision of the Council of Ministers for the holding of the operating rights of these plants is aborted. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Ege Enerji Limited Şirketi has applied to International Arbitration Board for the compensation of profit losses and other expenses. It is expected that the process of arbitration will be finalized by November 2004. Additionally, in accordance with the rescheduling agreement made with Bayındır Group under the scope of the Financial Restructuring Programme, USD 103,500,000 regarding the payment made by the Bank for Güney Enerji shares, has been reflected to the total credit risk of the Group in the agreement mentioned above. Therefore, we are unable to form a conclusion as to the amount of any provision which may be needed against the carrying value of this participation as of the reporting date, which is accounted at an indexed cost of 200,874 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, 20 September 2004

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

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2004 AND 31 DECEMBER 2003
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2004)

Assets	Note	30.06.2004 TL Billion	31.12.2003 TL Billion
Liquid Assets	4	155,897	157,465
Balances With The Central Bank	5a	341,780	286,043
Balances With Banks	6	770,974	1,567,753
Interbank Funds Sold		475,364	297,957
Trading Securities Portfolio	7a	4,356,839	6,338,623
Available for Sale Portfolio	7b	2,396,523	1,267,074
Reserve Deposits at the Central Bank	5b	791,142	799,667
Loans (Net)	8	7,361,106	5,539,175
Trade Receivables	9	150,072	99,630
Sundry Debtors	10	99,437	77,581
Equity Participations (Net)	11	353,143	359,566
Held to Maturity Securities	7c	1,109,395	1,386,437
Premises & Equipment (Net)	12	1,211,105	1,421,802
Other Assets	13	120,349	103,314
TOTAL ASSETS		19,693,126	19,702,087

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2004 AND 31 DECEMBER 2003
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2004)

Liabilities	**Note**	**30.06.2004 TL Billion**	**31.12.2003 TL Billion**
Deposits			
Demand		2,926,944	2,768,627
Time		10,145,893	11,089,666
Expense accruals on deposits		148,521	126,704
	14	13,221,358	13,984,997
Commitments to Repurchase Securities		937,450	568,769
Borrowings Funding Loans	15	2,704,466	2,416,012
Funds	16	177,121	193,007
Trade Payables	17	145,860	98,179
Deposits and Advances Taken for Imports		152,501	193,100
Sundry Creditors	18	57,681	160,362
Taxes and Dues Payable	19a	(41,018)	29,996
Provisions	20	521,472	465,056
Other Liabilities		253,134	225,046
		18,130,025	18,334,524
MINORITY INTEREST	22	264,315	242,862
SHAREHOLDERS' EQUITY			
Share Capital	23	1,630,204	1,630,204
Revaluation Fund		51,478	128,156
Retained Earnings		(382,896)	(633,659)
		1,298,786	1,124,701
TOTAL LIABILITIES AND EQUITY		19,693,126	19,702,087
COMMITMENTS AND CONTINGENCIES	28	6,970,287	5,554,269

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 30 JUNE 2004 AND 30 JUNE 2003
(expressed in the equivalent purchasing power of Turkish Lira at 31 December 2003)

	Note	6 months 30.06.2004 TL Billion	6 months 30.06.2003 TL Billion
Interest Income - Banking	24	1,363,287	1,156,237
Interest (Expense) – Banking	25	(848,836)	(1,093,623)
Net Interest Income – Banking		514,451	62,614
Loan Loss Provision (Expense)		(119,797)	(57,226)
NET INTEREST (EXPENSE)/INCOME AFTER LOAN LOSS PROVISIONS		394,654	5,388
Non-Interest Income	26	262,167	504,867
Non-Interest (Expense)	27	(341,031)	(428,196)
Income from Associates		1,077	5,655
INCOME/(EXPENSE) BEFORE TAX AND MONETARY GAIN/(LOSS)		316,867	87,714
Taxation	19b	17,621	(11,089)
INCOME / (EXPENSE) BEFORE MONETARY GAIN/(LOSS)		334,488	76,625
Monetary Gain/(Loss)		(34,625)	15,911
NET INCOME		299,863	92,536
Less: Minority Share of Net Income/(Loss)		56,925	(8,239)
Net (Loss)/Income Attributable to T.Vakıflar Bankası T.A.O. Shareholders		242,938	84,297
Earnings/(Loss) Per Share		708	263

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 30 JUNE 2004 AND 31 DECEMBER 2003
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2004)

	Paid in Capital Billion TL	Revaluation Fund Billion Billion TL	Retained Earnings Billion TL	Total Billion TL
As at 31.12.2002	1,630,204	137,503	(1,070,150)	697,557
Increase in capital:				
Cash	-	-	-	-
Transfer from reserves	-	-	-	-
Changes in minority and other items	-	-	15,169	15,169
Elimination of prior year revaluation differences for investments			(12,263)	(12,263)
Transfer of a part of reserves of equity participations to capital			6,496	6,496
Valuation differences for foreign subsidiaries			39,252	39,252
Dividends paid	-	-	(4,828)	(4,828)
Profit for the year	-	-	385,220	385,220
Additions to revaluation fund	-	(9,347)	7,445	(1,902)
As at 31.12.2003	1,630,204	128,156	(633,659)	1,124,701
Increase in capital:				
Cash	-	-	-	-
Transfer from reserves	-	-	-	-
Changes in minority	-	-	8,957	8,957
Valuation differences for foreign subsidiaries	-	-	1,517	1,517
Dividends paid	-	-	(2,649)	(2,649)
Profit for the period	-	-	242,938	242,938
Additions and disposals from revaluation fund (net)	-	(76,678)	-	(76,678)
As at 30. 06.2004	1,630,204	51,478	(382,896)	1,298,786

continued

TÜRKİYE VAKIFLAR BANKASI T.A.O.
INFLATION ADJUSTED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 30 JUNE 2004 AND 31 DECEMBER 2003
(expressed in the equivalent purchasing power of Turkish Lira at 30 June 2004)

	30.06.2004 TL Billion	31.12.2003 TL Billion
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	242,938	385,220
Adjustments to reconcile net income to net Cash provided by operating activities:		
Depreciation and amortization	29,872	52,229
Provision for retirement pay	6,006	13,615
Insurance technical provisions and other provisions	30,128	78,096
Loan provisions	81,019	(433,389)
Decrease in taxation on income	(71,014)	(113,674)
Decrease in reserve deposits at Central Bank	8,525	52,754
Increase in interbank funds sold (net)	(177,407)	(145,031)
Increase in other assets	(89,333)	(3,594)
Net cash provided from/(used in) operating activities	60,734	(113,774)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease/(Increase) in marketable securities	1,129,378	(1,096,122)
Increase in loans	(1,873,208)	(386,986)
Decrease in equity participations	6,422	29,070
Disposals from premises and equipment	180,825	153,205
Net cash used in from investing activities	(556,583)	(1,300,833)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/Increase in deposits	(763,639)	1,806,565
Increase/ in securities under repo agreement	368,681	354,291
Increase in loans used	288,454	432,620
Decrease in funds borrowed	(15,886)	(25,807)
Decrease in securities issued	-	(418,660)
(Decrease)/Increase in other liabilities	(76,971)	192,897
Change in minority interest and other items in shareholders'equity	(44,750)	3,283
Cash dividends paid	(2,650)	(4,828)
Net cash (used in)/provided from financing activities	(246,761)	2,340,361
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(742,610)	925,754
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,011,261	1,085,507
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,268,651	2,011,261

continued

1. THE BANK

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı (‘the Bank’) was founded on January 15, 1954 in accordance with special legal regulations. The Bank has the legal form of a joint stock company pursuant to the Banks’ Act, with headquarters located in Ankara. Vakıfbank provides retail, commercial, and investment banking services through its network of 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). 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 Financial Reporting Standards Committee. IFRS adjustments and reclassifications reflected to the accompanying financial statements have not been entered in the statutory accounts of the Bank. These adjustments and reclassifications before 2004 comprised of IAS 29 and other IFRS adjustments whereas after 2004 other IFRS adjustments except IAS 29.

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 period ended June 30, 2004, adjustments related to the inflation accounting have been reflected to the legal books in accordance with the Law No: 25524 of Banking Regulation and Supervison Agency dated July 16, 2004.

2. BASIS OF FINANCIAL STATEMENTS (continued)

continued

One characteristic that leads to the classification of an economy as hyperinflationary, necessitating the application of IAS 29 restatement, is a cumulative three year inflation rate approaching or exceeding 100%. The restatement has been calculated by means of conversion factors based on the Turkish countrywide wholesale prices index ("WPI") published by the State Institute of Statistics.

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

	Index	Adjustment Factors
31 December 2000	2,626.0	3.0399
31 December 2001	4,951.7	1,6121
31 December 2002	6,478.8	1.2321
30 June 2003	7222.2	1.1053
31 December 2003	7,382.1	1.0814
30 June 2004	7,982.7	1.0000

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:	2004	2003	2002	2001	2000
Currency Deflation US $	6.5%	(14.6%)	13.5%	114.3%	24.3%
WPI Inflation	8.1%	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 reflected to financials. Total revaluation fund as at the balance sheet date amounts to TL 51,478 Billion.

 continued

2. BASIS OF FINANCIAL STATEMENTS (continued)

- Income statement items have been indexed to year-end money values, based on quarterly data, and provision expenses and depreciation have been restated.
- The gain or loss on net monetary position has been calculated.
- Balance sheet and income statement items for the year 2003 has also been calculated in the same way and indexed to express them in the purchasing power of Turkish Lira at 30 June 2004.

Consolidation

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

	Sector	Türkiye Vakıflar Bankası Ownership (%)	Auditors
Vakıf Emeklilik A.Ş.	Insurance	75	D&T
Güneş Sigorta A.Ş.	Insurance	35	Kapital YMM
Vakıf Deniz Finansal Kiralama A.Ş.	Leasing	74	D&T
Vakıf Finansal Kiralama A.Ş.	Leasing	64	D&T
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Other financial	29	D&T
Vakıf Yatırım Menkul Değerler A.Ş.	Other financial	99	D&T
World Vakıf Offshore Ltd.	Banking	85	D&T
Vakıf Finans Factoring A.Ş.	Other financial	87	D&T
Taksim Otelcilik A.Ş.	Tourism	52	D&T
Vakıfbank International Wien AG.	Banking	90	D&T
Vakıf Enerji ve Madencilik A.Ş.	Industry	85	D&T

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

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

continued

3. ACCOUNTING POLICIES

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

3.1 Accounting Convention

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

3.2 Income and Expense Recognition

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

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

3.3 Foreign Currency Items

Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates

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

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

3.4 Securities Portfolio

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

continued

3. ACCOUNTING POLICIES (continued)

3.4 Securities Portfolio (continued)

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

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

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

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

Securities held for trading are those acquired principally for the purpose of generating profit from short-term fluctuations in their price or dealer's margin. Subsequent to initial recognition, held for trading securities are valued at their fair value if reliably measured. The securities of which the fair value cannot be measured reliably, are measured at amortised cost using the effective interest rate method. Gains or losses on held for trading securities are included in net profit or loss for the period in which they arise. As discussed in notes 3.13 and 7, certain trading securities are valued at cost in the absence of a reliable estimate of market value.
Investment fund share certificates are stated at market value. Quoted shares are carried at market value.

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

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

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

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

3.5 Premises and Equipment

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

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

Buildings	2%
Vehicles	15% - 20%
Furniture and Office Equipment	6% - 20%
Fixed assets to be sold	2 %
Leasehold and Leasehold Improvements	Over the life of the lease

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

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

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

3. ACCOUNTING POLICIES (continued)

3.6 Retirement Pay Provision

Under Turkish legislation as supplemented by union agreements, lump sum payments are made to all employees who retire or whose employment is terminated without due cause. Such payments are based on number of years' service and final salary at the date of retirement or leaving.
International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19") has been applied in the accompanying financial statements. Future retirement payments are discounted to their present value at the balance sheet date at an interest rate determined as net of an expected inflation rate and an appropriate discount rate. This standard also allows the employee benefit liability to be reduced by anticipated forfeitures by eligible employees of their benefit.
The Bank does not calculate the provision on an individual employee basis, but rather makes an estimation of the overall liability.

3.7 Equity Participations

In the statutory books of the years before 2004, 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 inflation adjusted financial statements of 2003. Equity participations are carried at indexed acquisition costs. Since the financial statements of 2004 include inflation adjustments, there have not been any bonus shares received from investee companies. In the accompanying inflation adjusted financial statements the equity participations are measured by the lower of inflation adjusted acquisition cost or the fair value.
Equity participations have been expressed in the year end purchase value of the Turkish Lira. In cases where there is a loss in value, statutory books have been reduced to such values, by a provision for such impairment, charged to the statement of income.

3.8 Loan Loss Provisions

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

3. ACCOUNTING POLICIES (continued)

3.8 Loan Loss Provisions (continued)

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

3.9 Taxation and Deferred Taxes

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

Provision is made in the financial statements for the Company's estimated liability to Turkish corporation tax on its results for the year. The charge for current tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed.

Deferred tax assets and liabilities are recognized using the liability method in respect of material temporary differences arising from different treatment of items for accounting and taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are only provided to the extent if it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the statement of income.

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

Based on the latest amendments made to the Turkish Tax Code, entities are to calculate their taxation on inflation adjusted financial statements. Therefore, restatement of fixed assets will no longer create a timing difference between the legal books of companies and their inflation adjusted financial statements apart from instances such as the making of useful life adjustments. Deferred tax liability has been calculated on tangible and intangible fixed assets based on such differences.

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3. ACCOUNTING POLICIES (continued)

3.10 Securities Under Resale or Repurchase Transactions

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

3.11 Financial Leases – the Group as Lessee

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

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

3.12 Fair Values of Financial Instruments

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

continued

3. ACCOUNTING POLICIES (continued)

3.12 Fair Values of Financial Instruments (continued)

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

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

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

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

3. ACCOUNTING POLICIES (continued)

3.12 Fair Values of Financial Instruments (continued)

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

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

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

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

Loans: The major portion of the loans are short-term and have interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

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

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

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

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

 continued

3. ACCOUNTING POLICIES (continued)

3.12 Fair Values of Financial Instruments (continued)

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

3.13 Risk Management

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

Liquidity risk

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

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

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

Credit risk

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

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

continued

3. ACCOUNTING POLICIES (continued)

3.13 Risk Management (continued)

Market risk

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

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

Operational risk

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

3.14 Cash and Cash Equivalents

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

3.15 Offsetting

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

3. ACCOUNTING POLICIES (continued)

3.16 Impairment

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

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

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

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

3.17 Use of Estimates

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

3. ACCOUNTING POLICIES (continued)

3.18 Earnings Per Share

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

The basic earnings per share calculation is as follows:

	30.06.2004	30.06.2003
Shares outstanding (Billion)	343	320
Net profit/(loss) (TL Billion)	242,938	84,297
Basic earnings (loss) per share (TL)	708	263

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

3.19 Consolidation

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

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

 continued

4. LIQUID ASSETS

	30.06.2004 TL Billion	31.12.2003 TL Billion
Cash balances – Turkish Lira	120,416	124,902
Cash balances – Foreign currency	33,912	31,720
Other	1,569	843
	155,897	157,465

5. BALANCES WITH THE CENTRAL BANK

	30.06.2004 TL Billion	31.12.2003 TL Billion
a) Balances with the Central Bank		
Demand deposits – Turkish Lira	142,719	36,152
Demand deposits – Foreign currency	6	15
	142,725	36,167
Time deposits – Foreign currency	198,963	249,747
	341,688	285,914
Income accruals	92	129
	341,780	286,043
b) Reserve deposits at the Central Bank		
Reserve Deposits – Turkish Lira	242,034	228,366
Reserve Deposits – Foreign currency	531,618	549,048
	773,652	777,414
Income accruals	17,490	22,253
	791,142	799,667

continued

5. BALANCES WITH THE CENTRAL BANK (continued)

Under the Turkish Central Bank regulations, Banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than interbank deposits. The prevailing rates are 6% for Turkish Lira deposits and 11% for foreign currency deposits. These reserves are not available funds to finance the operations of the Bank. Reserve deposits begin to earn interest in 2001.

6. BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30.06.2004 TL Billion	**31.12.2003 TL Billion**
DOMESTIC BANKS		
Current accounts - Turkish Lira	258	2,206
Current accounts- Foreign currency	2,405	2,503
Time deposits – Turkish Lira	741	7,570
Time deposits – Foreign currency	81,243	107,570
	84,647	119,849
FOREIGN BANKS		
Current accounts – Turkish Lira	-	4
Current accounts - Foreign currency	64,373	62,719
Time deposits – Turkish Lira	-	199
Time deposits – Foreign currency	620,510	1,381,805
	684,883	1,444,727
	769,530	1,564,576
Income accrual on balances with banks and other financial institutions	1,444	3,177
	770,974	1,567,753

17,880 BTL of foreign currency deposits are blocked deposits by West LB Bank to be used in case of libor fluctuations during the loan installment payments.

7. SECURITIES PORTFOLIO AND HELD TO MATURITY SECURITIES

a) Trading Securities Portfolio	**30.06.2004 TL Billion**	**31.12.2003 TL Billion**
Government bonds and treasury bills	3,289,893	4,419,934
Eurobonds	789,021	1,223,814
Investment participation bills	60,350	28,297
Shares	1,364	5,873
Other	25,593	86,276
	4,166,221	5,764,194
Income accruals	190,618	574,429
	4,356,839	6,338,623

b) Available for sale		
Government bonds and treasury bills	1,519,240	734,236
Eurobonds	735,600	508,033
Other	90,730	182
	2,345,570	1,242,451
Income accruals	50,953	24,623
	2,396,523	1,267,074

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

Securities portfolio includes TL 1,090,538 Billion (2003: TL 590,791 Billion) securities sold with agreements to repurchase ("repo") as at the balance sheet date.

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

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

Government bonds as at 30 June 2004 include bonds issued by the Republic of Turkey in foreign currencies (Eurobonds) and mature through the years 2004-2034. These government bonds are valued at cost in foreign currency, translated at year end exchange rates, plus interest accrued on an IRR basis. The bonds are not quoted on a stock exchange.

TL 2,837,216 Billion (31 December 2003: TL 2,209,280 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

	30.06.2004 TL Billion	**31.12.2003 TL Billion**
Government bonds and treasury bills	951,744	1,157,476
Other	20,335	19,353
	972,079	1,176,829
Income accrual	137,316	209,608
	1,109,395	1,386,437

8. LOANS (NET)

	30.06.2004 TL Billion	31.12.2003 TL Billion
Short, medium and long term loans	7,246,121	5,434,628
Overdue loans	1,049,154	1,091,390
Less: Provision for loans	(1,048,478)	(1,075,243)
Interest and other accruals on loans	114,309	88,400
	7,361,106	5,539,175

A breakdown of loans can be given as follows:

	30.06.2004 TL Billion	31.12.2003 TL Billion
Short Term Loans		
Discount and purchase bills	410	1,042
Export loans unsecured	37,680	37,437
Secured export loans	1,008,939	876,543
Other unsecured loans	1,005,029	1,008,350
Other secured loans(*)	3,483,056	1,989,870
Loans given to financial sector	82,583	55,607
Loans given to foreign institutions	2,137	2,223
Rescheduled loans	110,265	148,939
Finance lease receivables	229,177	188,608
Factoring receivables	43,273	38,611
	6,002,549	4,347,230
Medium and Long Term Loans		
Unsecured loans with export obligations	189,235	180,757
Secured loans with export obligations	639,539	511,384
Secured other inv. and operating loans	128,669	96,139
Other unsecured loans	284,346	299,118
Loans given to financial sector	1,783	-
	1,243,572	1,087,398
	7,246,121	5,434,628

(*) TL 2,858,685 Billion of other secured loans as at 30 June 2004 comprise of consumer loans.

8. LOANS (NET) (continued)

Movement for loan loss provision:

	30.06.2004 TL Billion	**31.12.2003 TL Billion**
At 1 January	1,075,243	801,276
Charge for the year	132,209	410,415
Provision released	(80,932)	(38,398)
Effect of indexation	(78,042)	(98,050)
At period end	1,048,478	1,075,243

Sector	**2004 %**	**2003 %**
Industry	17	24
Construction	8	9
Trade	8	13
Retail and consumer	63	47
Other	4	7
	100	100

Loans can be analysed by currency as follows;

Currency	**30.06.2004 TL Billion**	**31.12.2003 TL Billion**
Turkish Lira	4,778,692	3,094,309
US Dollars	1,575,245	1,558,198
Euro	861,671	747,300
CHF	22,272	30,120
Other currencies	8,241	4,701
	7,246,121	5,434,628

The Bank mainly extends short term loans to customers with maturities within one year. Interest rates charged for loans varied between 30% and 40% (2003 : 45% and 67%) for Turkish Lira loans and 4.85% and 8% (2003: 11% and 14%) for foreign currency loans per annum during the year.

continued

9. TRADE RECEIVABLES

	30.06.2004 TL Billion	31.12.2003 TL Billion
Receivables from insurance customers	115,380	85,299
Other trade receivables	34,692	14,331
Doubtful trade receivables	30,683	15,917
Less: Provision for doubtful receivables	(30,683)	(15,917)
	150,072	99,630

10. SUNDRY DEBTORS

	30.06.2004 TL Billion	31.12.2003 TL Billion
Receivables from personnel	201	229
Receivables for banking services	654	695
Receivables from sale of assets	59,466	50,157
Receivables from credit card transactions	10,844	9,089
Receivables from court expenses	15,467	15,494
Other sundry debtors	12,805	1,917
	99,437	77,581

 continued

11. EQUITY PARTICIPATIONS (NET)

"Available for sale assets" under IAS 39 classification:

	Percent Owned 12.2002 (%)	**30.06.2004 TL Billion**	**31.12.2003 TL Billion**
Ataköy Marina ve Yat.İşletmecilik A.Ş.	55.04	18,497	18,571
Ataköy Otelcilik A.Ş.	28.92	21,328	21,585
Ataköy Turizm Tes. Ve Tic. A.Ş.	40.58	38,794	40,863
Banque Du Bosphore	20.00	7,923	9,346
Bankalararası Kart Merkezi A.Ş.	9.70	1,067	1,066
EGS Gayrimenkul Yatırım Ort.A.Ş.	0.73	132	143
ETİ Soda Üretim Paz.Nak.ve Tic.A.Ş.	0.04	17	17
Güney Ege Enerji İşlt.Ltd.Şti.	41.46	200,874	199,505
Güneş Turizm Oto Endüst. ve Tic. A.Ş.	35.35	142	142
IMKB Takas ve Saklama Bankası A.Ş.	5.28	8,721	8,721
İzmir Enternasyonal Otelcilik A.Ş.	5.00	5,870	5,870
Kıbrıs Vakıflar Bankası Ltd.	15.00	674	674
Kredi Kayıt Bürosu A.Ş.	9.09	1,628	1,170
Türkiye Sınai Kalkınma Bankası A.Ş. (*)	8.38	9,769	11,298
Vak-Bel İthalat A.Ş.	84.69	11,738	11,738
Vakıf Gayrimen.Ekspertiz ve Değ. A.Ş.	27.44	408	408
Vakıf İnşaat Restorasyon A.Ş.	16.76	7,395	7,149
Vakıf Menkul Kıy. Yat. Ort. A.Ş.	21.64	3,160	3,114
Vakıf Girişim Sermayesi Yat. Ort. A.Ş. .(*)	46.44	2,416	2,205
Vakıf Sistem Pazarlama A.Ş.	79.75	7,557	7,557
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	18.90	32,253	32,253
Other		5,641	9,064
		386,004	392,459
Provision for diminution in value of participations (-) (**)		(32,861)	(32,893)
		353,143	359,566

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

(**): TL 28,004 Billion and TL 4,141 Billion of the total provision is provided for Bayek Tedavi ve Sağlık Hizmetleri A.Ş. and Vakıf İnşaat Restorasyon A.Ş. respectively.

continued

11. EQUITY PARTICIPATIONS (NET) (continued)

The participation in Güney Ege Enerji İşletmeleri Ltd. Şti. was acquired during December 2000 in settlement of certain loans. Güney Ege Enerji İşletmeleri Ltd. Şti. intends to take over and develop three power stations. The purchase price includes significant goodwill. The participation has been accounted at cost. Commencement of operation of these power plants were heavily dependent on the conclusion of administrative procedures with the direction of Council of Ministers' decisions. As at 21 January 2003, with the decision of Council of State, the decision of the Council of Ministers for the holding of the operating rights of these plants is aborted. As of 10 July 2003, Vakıf Enerji ve Madencilik A.Ş. and the other shareholders of Güney Ege Enerji Limited Şirketi has applied to International Arbitration Board for the compensation of profit losses and other expenses. It is expected that the process of arbitration will be finalized by November 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 200,874 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:

	30.06.2004 TL Billion	**31.12.2003 TL Billion**
Assets	571	635
Shareholders Equity	(140)	(30)
Profit/(Loss) for the period	(1,084)	(1,105)

12. PREMISES AND EQUIPMENT

	30.06.2004 TL Billion	**31.12.2003 TL Billion**
Land and buildings	1,254,343	1,450,253
Vehicles, furniture & equipment and leasehold improvements	361,960	356,230
Other tangible assets	12,829	11,831
Intangible assets (Net)	13,182	17,226
Less: Accumulated depreciation	(431,209)	(413,738)
	1,211,105	1,421,802

Land and building include assets taken over in settlement of doubtful loans amounting to TL 498,263 Billion as of 30 June 2004 (31 December 2003: TL 510,259 Billion).

continued

13. OTHER ASSETS

	30.06.2004 TL Billion	31.12.2003 TL Billion
Deferred acquisition cost	21,224	22,315
Prepaid expenses	30,328	37,215
Investment properties	22,288	22,342
Inventories	8,058	5,574
Other(*)	38,451	15,868
	120,349	103,314

(*) TL 12,248 Billion and TL 18,228 Billion of other assets comprise of prepaid taxes and dues and suspense accounts respectively.

14. DEPOSITS

	30.06.2004 TL Billion	31.12.2003 TL Billion
Savings and certificates of deposit	1,304,258	1,057,496
Public, commercial and other deposits	6,572,809	6,616,841
Interbank deposits	152,867	273,781
Foreign currency deposits	5,042,903	5,910,174
	13,072,837	13,858,292
Expense accruals on deposits	148,521	126,705
	13,221,358	13,984,997

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 22%, three months 24%, six months 27% and one year 30% (2003: one month 24%, three months 24%, six months 25% and one year 26%). Interest rates applied for foreign currency time deposits vary between 2.79 % and 3.14 % for US dollars and 2.50 % and 3.44 % for Euro (2003: 2.00% and 3.00% for US Dollars and 2.50 and 3.50% for Euro.)

continued

15. BORROWINGS FUNDING LOANS

	30.06.2004 TL Billion	31.12.2003 TL Billion
Borrowings from domestic banks and institutions	234,088	412,279
Borrowings from overseas banks and institutions	2,168,034	1,690,572
Subordinated loans	213,344	230,701
Interest and other expense accruals	89,000	82,460
	2,704,466	2,416,012

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

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

Terms of payment:

	30.06.2004 TL Billion	31.12.2003 TL Billion
2005	1,607,091	1,242,078
2006	313,246	147,658
2007	51,741	293,913
Over four years	732,388	732,363
	2,704,466	2,416,012

continued

16. 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.

17. TRADE PAYABLES

	30.06.2004 TL Billion	31.12.2003 TL Billion
Trade payables	58,826	44,583
Payables to insurance companies	79,695	40,158
Other trade payables	7,339	13,438
	145,860	98,179

18. SUNDRY CREDITORS

	30.06.2004 TL Billion	31.12.2003 TL Billion
Cash guarantees	6,991	7,701
Reserved cash	19,845	18,726
Payables to funds	16,204	17,972
Advances received (*)	-	104,716
Other	14,641	11,247
	57,681	160,362

(*) Includes advances received amounting to TL 95,091 Billion for the sale of Ceylan Intercontinental Hotel and advances received amounting to TL 9,625 Billion for the sale of Vakıflar Turizm A.Ş. shares for year 2003.

continued

19. TAXATION

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

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

The effective rates of tax are as follows:

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

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

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

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

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

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

continued

19. TAXATION (continued)

Tax Computations Based on Inflation Adjusted Balances

In 2003 and previous years, profit for the period on which taxation was being calculated, used to be uninflated balances except for the effect of the annual revaluation of the fixed assets and the depreciation calculated thereon. The Law 5024 published in the Official Gazette of 30 December 2003 numbered 25332 requires the application of inflation accounting in 2004 and the following periods provided that the inflation rate reaches the limits set out by the Law. Methods for inflation accounting in accordance with the tax legislation do not differ materially from the methods of IAS 29 " Financial Reporting in Inflationary Economies". As inflation met certain thresholds as of 30 June 2004, the Company has adjusted its statutory financial statements as of 30 June 2004 in accordance with Law No. 5024 and current corporate tax provision in accompanying financial statements was calculated based on these financial statements.

Deferred Taxation

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

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

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

19. TAXATION (continued)

a) Balance sheet: Taxes and dues payable

	30.06.2004 TL Billion	31.12.2003 TL Billion
Corporation tax, withholding tax and funds	18,221	12,542
Deferred tax liability/(assets)- net	(86,179)	(19,207)
Other taxes and dues	26,940	36,661
	(41,018)	29,996

b) Statement of income: Taxes

	30.06.2004 TL Billion	30.06.2003 TL Billion
Corporation tax, withholding tax and funds	19,950	18,205
Provision expense/(income) for deferred tax	(37,571)	(7,116)
	(17,621)	11,089

The major cumulative temporary differences are as follows at 30 June 2004 and 31 December 2003:

	30.06.2004 TL Billion	31.12.2003 TL Billion
Fixed assets indexation difference and revaluation surplus	(136,109)	65,281
Loan loss provisions not deductible	(49,961)	(50,665)
Retirement pay provision	(75,181)	(74,625)
Carried forward tax losses	-	(31,756)
Other temporary differences (total)	102	27,741
NET CUMULATIVE TEMPORARY DIFFERENCES	(261,149)	(64,024)
<u>Movement of Deferred Tax (Assets)/Liabilities:</u>		
Opening balance	(19,207)	56,265
Deferred tax benefit	(66,972)	(75,472)
Closing balance	(86,179)	(19,207)

20. PROVISIONS

	30.06.2004 TL Billion	**31.12.2003 TL Billion**
PROVISIONS FOR RETIREMENT PAY		
At 1 January	75,238	70,214
Provision for the period (net)	6,006	13,615
Monetary loss	(5,648)	(8,591)
At period end	75,596	75,238
GENERAL LOAN PROVISION		
At 1 January	50,665	48,737
Provision and release for the period (net)	3,109	7,892
Monetary loss	(3,812)	(5,964)
At period end	49,962	50,665
PROVISION FOR NON-CASH LOANS	46,984	20,351
INSURANCE COMPANIES TECHNICAL PROVISIONS	333,612	307,682
OTHER PROVISIONS	15,318	11,120
TOTAL PROVISIONS	521,472	465,056

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 2004, subject to a maximum of TL 1,485,430,000 per month (2003: TL 1,389,950,000 per month).

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

21. MATURITY ANALYSIS

As at 30 June 2004	Up to 1 Month TL Billion	1 to 3 Months TL Billion	3 to 12 Months TL Billion	Greater than 1 year TL Billion	(*) Total TL Billion
ASSETS					
Liquid assets	155,897	-	-	-	155,897
Banks (including Central Bank)	798,761	32,807	167,427	113,759	1,112,754
Interbank funds sold	-	475,364	-	-	475,364
Trading securities , available for sale and held to maturity	478,294	164,506	2,533,444	4,686,513	7,862,757
Loans	1,444,699	378,876	1,956,472	3,581,059	7,361,106
LIABILITIES					
Deposits	5,716,440	5,370,483	1,514,054	620,381	13,221,358
Securities sold under repo agreements	599,494	114,466	222,881	609	937,450
Bank borrowings	160,810	93,808	1,581,964	867,884	2,704,466
Funds	177,121	-	-	-	177,121

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

continued

21. MATURITY ANALYSIS

As at 31 December 2003	Up to 1 Month TL Billion	1 to 3 Months TL Billion	3 to 12 Months TL Billion	Greater than 1 year TL Billion	(*) Total TL Billion
ASSETS					
Liquid assets	157,465	-	-	-	157,465
Banks (including Central Bank)	1,731,831	43,398	42,756	35,811	1,853,796
Interbank funds sold	297,957	-	-	-	297,957
Securities portfolio	809,291	150,859	3,885,028	4,146,956	8,992,134
Loans	1,314,744	572,437	1,455,217	2,196,777	5,539,175
LIABILITIES					
Deposits	9,430,845	3,066,523	1,080,224	407,405	13,984,997
Securities sold under repo agreements	568,769	-	-	-	568,769
Borrowings funding loans	215,304	206,386	827,520	1,166,802	2,416,012
Funds	193,007	-	-	-	193,007

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

continued

22. MINORITY INTEREST

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

	30.06.2004 TL Billion	31.12.2003 TL Billion
-Paid in capital	322,816	316,827
-Retained Earnings	(58,501)	(73,965)
	264,315	242,862

23. SHARE CAPITAL

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

Class of Shares	30.06.2004 TL Billion	31.12.2003 TL Billion
A	176,427	176,427
B	64,155	64,155
C	80,195	80,195
	320,777	320,777
Paid capital per statutory records	320,777	320,777
Indexation effect	1,309,427	1,309,427
Indexed Share Capital	1,630,204	1,630,204

continued

24. INTEREST INCOME

	30.06.2004 TL Billion	30.06.2003 TL Billion
BANKING		
Interest on loans	659,725	395,829
Interest on securities portfolio	610,307	569,570
Interest on deposits at banks	18,324	8,935
Interest on interbank funds sold	39,049	139,292
Interest on reserve requirement	35,764	42,319
Other interest income	118	292
TOTAL	1,363,287	1,156,237

25. INTEREST EXPENSE

	30.06.2004 TL Billion	30.06.2003 TL Billion
BANKING		
Interest expense on deposits	777,089	960,580
Interest expense on interbank funds borrowed	26,956	50,850
Interest expense on borrowings	43,309	81,148
Other interest expense	1,482	1,045
TOTAL	848,836	1,093,623

continued

26. NON-INTEREST INCOME

	30.06.2004 TL Billion	30.06.2003 TL Billion
Banking services income	161,389	124,482
Income from capital market transactions (net)	21,022	163,372
Foreign exchange gains	1,353	122,184
Other	78,403	94,829
TOTAL	262,167	504,867

27. NON-INTEREST EXPENSE

	30.06.2004 TL Billion	30.06.2003 TL Billion
Personnel expenses	142,503	139,449
Taxes and dues	14,925	21,885
Depreciation expenses	29,872	28,811
Commissions and fees paid	38,904	37,155
Retirement pay provision	6,410	7,236
Foreign exchange losses	30,797	-
Other provisions	29,029	1,516
Other-Banking (*)	173,199	257,220
Other-Insurance (net)(**)	(40,961)	(48,212)
Other-Leasing (net)	4,279	(12,490)
Other- Service sector (net) (***)	(83,622)	4,878
Other non- interest expense(net)	(4,304)	(9,252)
	341,031	428,196

(*) TL 60,759 Billion, TL 18,020 Billion, TL 16,979 Billion , TL 13,958 Billion, TL 13,418 Billion of the balance as at 30 June 2004 comprise of donations, advertisement expenses, rent expenses, communication expenses and fixed asset sales losses respectively.

(**) TL 19,501 Billion TL and TL 21,460 Billion of the balance as at 30 June 2004 comprise of net income of Güneş Sigorta and Vakıf Emeklilik respectively.

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

continued

28. CONTINGENCIES AND COMMITMENTS

Significant contingencies and commitments are summarized as follows:

	30.06.2004 TL Billion	31.12.2003 TL Billion
Letters of Guarantee		
- in Turkish Lira	1,458,988	1,398,144
- in Foreign Currency	973,205	997,920
Letters of Credit	1,089,435	997,428
Acceptance Loans	155,245	323,508
Other Commitments	3,293,414	1,837,269
	6,970,287	5,554,269

29. FOREIGN CURRENCY POSITION

	30.06.2004 TL Billion	31.12.2003 TL Billion
Total foreign currency assets	8,671,902	9,254,843
Total foreign currency liabilities	8,589,230	9,338,833
Net foreign currency position	82,672	(83,990)

30. SUBSEQUENT EVENTS

The termination indemnity ceiling has increased to TL 1,574,740,000 commencing on 1 July 2004.

concluded