Türkiye Sınai Kalkınma Bankası A.Ş.

Consolidated balance sheet

At 31 December 2002

In billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29

	Note	2002	2001
Assets			
Cash and balances with Central Bank	4	648	53.321
Due from other banks	5	144.260	43.447
Financial assets held for trading	6	7.985	12.709
Investments	7	435.068	307.782
Originated loans	8		
Loans and advances to customers		922.247	867.841
Securities		47.067	89.057
Investments in associated companies	9	9.360	8.046
Property and equipment, net	10	20.182	21.157
Deferred tax asset	15	11.588	12.467
Other assets	11	20.634	42.645
Total assets		1.619.039	1.458.472
Liabilities			
Due to customers	12	36.539	16.402
Financial liabilities held for trading	6	180	2.214
Money market deposits		25.029	105.197
Funds borrowed	13	1.280.687	1.056.013
Other liabilities evidenced by paper	14	25.047	73.896
Current tax liabilities	15	10.316	5.252
Other liabilities	16	37.659	16.005
Reserve for severance pay	17	2.416	3.294
Total liabilities		1.417.873	1.278.273
Minority interest		7.002	8.398
Shareholders' equity			
Issued capital	18	709.056	631.901
Additional paid-in-capital	18	-	58.637
Legal reserves	19	13.857	13.417
Accumulated loss	19	(528.749)	(532.154)
Total shareholders' equity		194.164	171.801
Total liabilities and shareholders' equity		1.619.039	1.458.472

Türkiye Sınai Kalkınma Bankası A.Ş.

Consolidated statement of operations

For the year ended 31 December 2002

In billions of Turkish Lira as adjusted for the effects of inflation
in TL units current at 31 December 2002 pursuant to IAS 29

	Note	2002	2001
Interest and similar income		161.217	324.924
Interest expense and similar charges		(73.247)	(165.914)
Net interest income	1	87.970	159.010
Fee and commission income		20.018	19.924
Fee and commission expense		(1.798)	(2.837)
Net fee and commission income	2	18.220	17.087
Dividend income		2.034	5.962
Net trading income		3.487	20.079
Net gain on disposal of non-trading financial instruments	3	5.983	12.945
Other operating income		13.779	25.799
Operating income		131.473	240.882
Salaries and employee benefits		(21.958)	(35.031)
Depreciation and amortization	10	(2.104)	(2.940)
Provision for loans	8	(22.445)	(21.917)
Foreign exchange loss, net		(5.491)	(158.851)
Other operating expenses		(24.204)	(32.162)
Operating expenses		(76.202)	(250.901)
Income (loss) from associates		1.282	(5.616)
Income (loss) before tax and loss on net monetary position		56.553	(15.635)
Loss on net monetary position		(24.185)	(68.771)
Income (loss) before tax		32.368	(84.406)
Income taxes	15	(11.021)	3.709
Income (loss) after tax		21.347	(80.697)
Minority interest		1.016	(1.390)
Net income (loss) for the year		22.363	(82.087)
Income (loss) per share (TL full)		271	(1.483)
Average number of shares outstanding	**(m)**	82.506.451.507	55.360.450.548

Türkiye Sınai Kalkınma Bankası A.Ş.

Consolidated statement of changes in equity

For the year ended 31 December 2002

In billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29

	Note	Issued Capital	Additional paid-in capital	Accumulated loss and legal reserves	Total
Balance at 1 January 2001		632.665	84.808	(455.861)	261.612
Dividends				(18.609)	(18.609)
Increase in issued capital:					
- Calls from shareholders		16.885			16.885
- Transfer from statutory retained earnings		9.303		(9.303)	-
- Transfer from additional paid-in capital		26.171	(26.171)		-
Net loss for the year				(82.087)	(82.087)
Balance at 31 December 2001		685.024	58.637	(565.860)	177.801
The effect of changes in inflation indices	24	(53.123)		47.123	(6.000)
Restated balances at 31 December 2001		631.901	58.637	(518.737)	171.801
Increase in issued capital:					
- Transfer from additional paid-in capital	19	58.637	(58.637)		-
- Transfer from statutory retained earnings		18.518		(18.518)	-
Net income for the year				22.363	22.363
Balance at 31 December 2002		709.056	-	(514.892)	194.164

Türkiye Sınai Kalkınma Bankası A.Ş.

Consolidated statement of cash flows

For the year ended 31 December 2002

In billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29

	Note	2002	2001
Operating activities			
Net income (loss) for the year		22.363	(82.087)
Adjustments for non-cash items:			
Depreciation and amortization		2.104	2.940
Provision for loans		22.445	21.917
Change in fair value of financial instruments		(4.682)	-
Changes in provisions		14.117	15.057
(Gain) loss on the sale of property and equipment		5.212	(34)
Other non-cash items		879	(17.951)
(Income) loss from associates		(1.282)	5.616
Minority interest		(1.016)	1.390
Changes in operating assets and liabilities:			
Financial instruments held for trading		2.690	(5.527)
Originated loans		(43.103)	(243.844)
Other operating assets		(6.034)	1.798
Due to customers		20.137	(27.800)
Other liabilities evidenced by paper		(48.346)	(1.121)
Money market deposits		(80.168)	34.863
Other operating liabilities		11.153	(17.177)
Cash flows from operating activities		(83.531)	(311.960)
Investing activities			
Proceeds from sale of property and equipment		24.403	246
Decrease (increase) in investments		(118.504)	91.972
Acquisition of property and equipment		(1.129)	(1.504)
Cash flows from investing activities		(95.230)	90.714
Financing activities			
Proceeds from funds borrowed		450.708	507.575
Repayment of borrowings		(220.691)	(432.024)
Proceeds from issuance of shares		-	16.885
Dividends paid		-	(18.609)
Cash flows from financing activities		230.017	73.827
Net decrease in cash and cash equivalents		51.256	(147.419)
Cash and cash equivalents at 1 January		96.840	244.259
Cash and cash equivalents at 31 December	**(r)**	148.096	96.840

Türkiye Sınai Kalkınma Bankası
Anonim Şirketi

Consolidated Financial Statements
31 December 2002
With Independent Auditors' Report Thereon

kpmg Cevdet Suner Denetim ve Yeminli
Mali Müşavirlik Anonim
Şirketi

18 March 2003

This report contains 36 pages.

Türkiye Sınai Kalkınma Bankası A.Ş.
Notes to Consolidated Financial Statements
At 31 December 2002

In billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29

Activities and Ownership

Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB) is principally engaged in investment banking operations in Turkey. The Bank was established on 31 May 1950, and carries its operations at its head office located in Istanbul. As of 31 December 2002 the number of employees were 302. The principal shareholders of the Bank and their shareholding percentage at 31 December 2002 are T. İş Bankası Group 55.30%, Sabancı Group 9.66%, T. Vakıflar Bankası T.A.O. 8.38% and T. Ticaret Bankası A.Ş. 8.19%.

Significant accounting policies

(a) Statement of compliance

TSKB and its subsidiaries maintain their books of accounts and prepare their statutory financial statements in Turkish Lira in accordance with the Turkish Uniform Chart of Accounts, the Turkish Commercial Code, Banking Law and Tax Legislation. The accompanying consolidated 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 International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). TSKB and its subsidiaries adopted all IFRS, which were mandatory as of 31 December 2002. No IFRS were adopted before their effective date.

(b) Business combination

TSKB and Sınai Yatırım Bankası A.Ş. (SYB) were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (BRSA) decision no.659 dated 27 March 2002, in accordance with the first paragraph of the Article 18 of the Banking Law no: 4389 as revised by the Law no: 4672. The pooling of interest method was used for the accounting of this business combination. In accordance with International Accounting Standard (IAS) 22, all periods presented are to be reported on a combined basis as if the combination occurred at the beginning of the earliest period reported. In this respect the financial statements as of and for the years ended 31 December 2002 and 2001 are presented as if the combination occurred at 1 January 2001. One nominal share of the Bank was exchanged with 67.94% of a share of SYB.

(c) Basis of preparation

The consolidated financial statements are presented in Turkish Lira, rounded to the nearest billion as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29 "Financial Reporting in Hyperinflationary Economies".

The consolidated financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. These financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or restated historical cost.

(d) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, TSKB, and its affiliates and associates (together the Bank), on the basis set out in sections below.

i) Affiliates

For the purposes of the accompanying consolidated financial statements, the Affiliates are those companies over which TSKB has a controlling power on their operating and financial policies through:

- having more than 50% of the ordinary shares held by TSKB and/or its other affiliates and/or;
- exercising actual dominant influence over the financial and operating policies although not having 50% voting power.

The financial statements of the Affiliates are consolidated in the accompanying financial statements. The major principles of consolidation are as follows:

- The balance sheets and statements of operations of the Affiliates are consolidated on a line-by-line basis.
- All inter company investments, receivables, payables, dividends received and paid and other inter company transactions reflected in the balance sheets and statements of operations are eliminated.
- The results of the Affiliates are included in or excluded from the consolidation from their effective dates of acquisition or disposal, respectively.
- Minority interests in the shareholders' equity and net income/(loss) of the consolidated Affiliates are separately classified in the consolidated balance sheets and consolidated statements of operations.

TSKB have 56.29% ownership in Yatırım Finansman Menkul Değerler A.Ş. (Yatırım Finansman), a financial institution established on 15 October 1976; and 91.79% ownership in TSKB Menkul Değerler A.Ş. (TSKB Menkul), a financial institution established on 5 August 1997.

These financial institutions are mainly engaged in trading of and investing in securities, stocks, treasury bills and government bonds, and brokerage activities.

ii) Associates

Associates are those companies in which the Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank's share of the total recognized gains and losses of associates on an equity accounting basis (Note 9).

In billions of Turkish Lira as adjusted for the effects of inflation

(e) Accounting in hyperinflationary economies

Consolidated financial statements are restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and that corresponding figures for previous periods to be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. Cumulative three years inflation rates in Turkey have been 227.29% as at 31 December 2002 and 307.51% as at 31 December 2001 based on the countrywide wholesale price index announced by the Turkish State Institute of Statistics (SIS). Accordingly, the accompanying consolidated financial statements were restated for the effects of inflation in terms of TL current at 31 December 2002, as required by IAS 29.

The restatement was calculated by means of conversion factors derived from the wholesale price indices published by SIS on monthly basis. Such indices and conversion factors used to restate the accompanying consolidated financial statements at 31 December 2002, 2001 and 2000 are given below:

Dates	Index	Conversion Factors
31 December 2002	6,478.8	1.000
31 December 2001	4,951.7	1.308
31 December 2000	2,626.0	2.467

The basic principles applied in the restatement of the accompanying consolidated financial statements are summarised in the following paragraphs.

- Monetary assets and liabilities which are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities, which are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant (monthly, yearly average, year end) conversion factors. Additions to property and equipment in the year of acquisitions are restated using the relevant conversion factors.
- Prior period consolidated financial statements are restated using general inflation indices at the currency purchasing power at the balance sheet date.
- All items in the consolidated statement of operations are restated by applying the monthly conversion factors expect for those amounts deriving from non-monetary items, which are calculated based on the restated values of the related items.
- The effect of inflation on the Bank's net monetary position is included in the consolidated statement of operations as loss on net monetary position.

(f) Restatement of prior year financial statements

During 2002, Banking Regulatory and Supervisory agency BRSA required Turkish banks to apply inflation accounting in their statutory financial statement and announced new inflation indices to be used. These inflation indices are different for years up to and including 1996 than those used by the Bank in its IFRS financial statements.

In billions of Turkish Lira as adjusted for the effects of inflation

Therefore, the Bank decided to have consistency in statutory and in IFRS financial statements and changed the inflation indices which are used for the restatement of non-monetary items. This change has been accounted for by restating the 2001 financial statements.

Total effect of the change in inflation indices is as follows:

	Accumulated loss and Legal Reserves	Issued capital	Property and Equipment	Other assets	Equity invest-ments	Deferred tax
Balances as previously reported at 31 December 2001	565,861	(685,024)	22,558	45,518	51,212	11,057
Impact of the change in inflation indices in 2001	(47,124)	53,123	(1,401)	(2,873)	(3,136)	1,410
Restated balances at 31 December 2001	518,737	631,901	21,157	42,645	48,076	12,467

(g) Foreign currency

Gains and losses arising from foreign currency transactions are reflected in the consolidated statement of operations as realized during the course of the year. Monetary assets and liabilities denominated in foreign currencies have been translated into Turkish Lira at foreign exchange rates prevailing at the balance sheet date, the effects of which are also reflected in the consolidated statement of operations as foreign exchange loss, net.

(h) Property and equipment and related depreciation

The cost of property and equipment items are restated for the effects of inflation in TL units current at the balance sheet date pursuant to IAS 29. Accordingly, property and equipment are carried at restated costs, less accumulated depreciation and impairment losses.

Depreciation is provided on property and equipment based on their estimated useful lives using the straight-line method at rates ranging from 2% to 20%. Expenditures for major renewals and betterment of property and equipment are capitalized and depreciated over the remaining useful lives of the related assets, whereas the costs of ordinary maintenance and repairs are expensed as incurred.

(i) Financial instruments

(i) Classification

Trading instruments are those that are principally held for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

Originated loans are loans and receivables created by the Bank providing money directly to a debtor, or debt securities that are purchased by the Bank at original issuance by funds transferred directly to the issuer.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt instruments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

(ii) Recognition

The Bank recognizes held-to-maturity debt instruments, financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the financial assets held for trading and available-for-sale assets are recognized.

Originated loans and receivables are recognized on the day they are transferred to the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counter parties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading assets are recognized in the consolidated statement of operations, as net trading income or loss. Net gains or net losses arising from a change in the fair value of available for sale assets are recognized in the consolidated statement of operations as other operating income or expense.

(vi) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central bank, due from other banks and short-term highly liquid investments with maturities of three months or less when purchased including treasury bills and government bonds.

Investments

Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments that are not trading or held to maturity investments are classified as available-for-sale assets.

Originated loans

Loans originated by the Bank are classified as originated loans. Loans originated by the Bank are reported net of allowances to reflect the estimated recoverable amounts.

Finance lease receivables

The Bank's leasing activity consists of leasing of property and equipment. Terms of the leases range from one to nine years with an option to purchase by the lessee. Investment in direct financing leases consists of the lease rentals receivable less the unearned income, which is amortized to income over the lease terms so as to produce a constant rate of return on the net investment outstanding. Finance lease receivables are included in originated loans and advances to customers.

Other liabilities evidenced by paper

Other liabilities evidenced by paper represent the bonds issued by the Bank and are classified as non-trading liabilities.

(j) Derecognition

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank commits to sell the assets.

Held-to-maturity instruments and originated loans and receivables are derecognized on the day they are transferred by the Bank.

(k) Repurchase agreements

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid for such transactions are recognized in due from banks. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated balance sheets and are measured in accordance with the accounting policy for either financial assets held for trading, assets held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as due to customers (Note 12).

(l) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets when the Bank has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

(m) Earnings (loss) per share

Earnings (loss) per share disclosed in the accompanying consolidated statements of operations are calculated by dividing the net earnings (loss) attributable to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

(n) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Originated loans and advances and held-to-maturity loans

The recoverable amount of originated loans and advances that are classified as held-to-maturity, is calculated as the present value of the expected future cash flows, discounted at the instrument's effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. The Bank fully reflected all such provisions in the accompanying consolidated financial statements. Increases in the allowance account are recognized in the consolidated statement of operations. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the consolidated statement of operations.

(o) Reserve for severance pay

Reserve for severance pay is computed and reflected in the consolidated financial statements on a current basis as it is earned by serving employees. The computation of the reserve is based upon the retirement pay ceiling announced by the Government. The reserve has been calculated by estimating the present value of future probable obligation of the Bank arising from the retirement of the employees (Note 17).

(p) Income taxes

Income tax on the income for the year comprises current and deferred tax. Income tax is recognized in the consolidated statement of operations except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

In billions of Turkish Lira as adjusted for the effects of inflation

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Income and expense recognition

Interest income and expense

Interest income and expense is recognized as it accrues taking into account the effective yield of the asset or an applicable floating rate, except for interest income on overdue loans, which are generally recognized only when received. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income

Fee and commission income such as those arising mainly from investment banking and brokerage services are usually recognized as income when the corresponding service is provided.

Net trading income

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

Dividend income

Dividend income is recognized in the consolidated statement of operations on the date that the dividend is received.

(r) Reporting of cash flows

Cash and cash equivalents include cash on hand, cash deposited at central bank, interbank funds sold, due from other banks and treasury bills and government bonds with maturities of three months or less when purchased. Cash and cash equivalents, included in the accompanying consolidated statement of cash flows, are as follows:

	2002	2001
Cash on hand	131	128
Balances with Central Bank	66	16
Interbank funds sold	451	53,177
Due from other banks	144,260	43,447
Goverments Bonds and treasury bills	3,188	72
Total cash and cash equivalents	148,096	96,840

Index for the notes to the consolidated financial statements

In billions of Turkish Lira as adjusted for the effects of inflation

1 Net interest income

	2002	2001
Interest and similar income		
Interest and similar income arise from:		
Investment securities	85,274	104,888
Loans and advances to customers	59,231	139,910
Interbank funds sold	7,107	39,960
Finance leases	6,960	11,659
Deposits at banks	2,645	28,507
	161,217	324,924
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Funds borrowed	(50,500)	(127,723)
Money market deposits	(16,740)	(15,344)
Other liabilities evidenced by paper	(5,484)	(11,162)
Due to customers	(523)	(11,685)
	(73,247)	(165,914)
Net interest income	87,970	159,010

2 Net fee and commission income

	2002	2001
Fee and commission income		
Cash loans	7,586	4,383
Brokerage fees	7,411	12,689
Non-cash loans	1,157	430
Other commission and bank service income	3,864	2,422
	20,018	19,924
Fee and commission expense		
Borrowings from foreign banks and institutions	(558)	(1,063)
Borrowings from domestic banks	(384)	(420)
Interbank funds	(47)	(7)
Other fee and commission expense	(809)	(620)
	(1,798)	(2,837)
Net fee and commission income	18,220	17,087

In billions of Turkish Lira as adjusted for the effects of inflation

3 Net gain (loss) on disposal of non-trading financial instruments

	2002	2001
Available-for-sale assets:		
Net gain on disposal	5,983	12,945

4 Cash and balances with Central Bank

Cash and balances with Central Bank comprised of the following:

	2002	2001
Cash on hand	131	128
Balances with Central Bank	66	16
Interbank funds sold	451	53,177
	648	53,321

At 31 December 2002, funds sold to interbank money market are denominated in TL and had interest rate of 44% (31 December 2001: 59% to 62% for Turkish Lira and 2.5% to 4.125% for foreign currency) and maturity of 2 days (31 December 2001: 2 to 8 days for Turkish Lira and 7 to 32 days for foreign currency).

5 Due from other banks

Due from other banks comprised of the following:

	2002	2001
Current accounts and demand deposits		
Domestic banks	1,643	1,774
Foreign banks	55,516	1,571
	57,159	3,345
Term deposits		
Domestic banks	38,159	24,301
Foreign banks	48,942	15,801
	87,101	40,102
	144,260	43,447

As of 31 December 2002, term deposits at domestic banks include TL 37,951 representing placements (31 December 2001: TL 18,954), with interest rates ranging from 33% to 41.87% and foreign currency deposits with interest rates ranging from 1.5% to 3.35% (31 December 2001: 58% to 62% for Turkish Lira and 2% for foreign currency deposits) and maturities from 4 to 7 days for foreign currency and 2 days for Turkish Lira (31 December 2001: 2 to 3 days for Turkish Lira and 2 to 5 days for foreign currency).

As of 31 December 2002, term deposits at domestic banks include TL 208 (31 December 2001: TL 5,347) funds lent under contractual agreements to sell back (reverse repo) at a predetermined sale price at the maturity date.

As of 31 December 2002, term deposits at foreign banks had interest rate of 1.63% (31 December 2001: 3.38% to 4.00%) and maturities ranging from 14 to 21 days (31 December 2001: 5 to 12 days).

In billions of Turkish Lira as adjusted for the effects of inflation

6 Financial instruments held for trading

Financial assets held for trading

	2002	2001
Government bonds and treasury bills	6,200	9,084
Equity shares	865	1,581
Eurobonds	798	993
Mutual funds	122	1,051
Derivative financial instruments	--	--
Total	7,985	12,709

Financial liabilities held for trading

	2002	2001
Derivative financial instruments	180	2,214

At 31 December 2002

	Notional amount with remaining life of less than three months	Fair values Asset	Fair values Liability
Currency derivatives			
OTC-products:			
Currency swaps	22,513	--	180

At 31 December 2001:

	Notional amount with remaining life of less than three months	Fair values Asset	Fair values Liability
Currency derivatives			
OTC-products:			
Currency swaps	87,743	--	2,214

Gains and losses arising on derivative financial instruments are recognised in net trading income.

At 31 December 2002, government bonds and treasury bills amounting TL 2,497 were given as guarantees for capital market transactions.

In billions of Turkish Lira as adjusted for the effects of inflation

7 Investments

	2002				2001
	Face Value	Carrying Amount	Interest Range %	Latest Maturity	Carrying Amount
Available for sale portfolio:					
Government bonds and treasury bills					
TL	153,263	135,678	37.46 – 69.39	2004	54,721
Foreign currency	171,304	165,075	4.25 – 9.02	2004	100,269
Eurobonds	59,111	61,319	3.94 – 21.70	2030	55,788
Mutual funds	--	26	--	--	--
Equity investments, net	--	48,238	--	--	48,076
	383,678	410,336			258,854
Held to maturity portfolio:					
Government bonds and treasury bills					
TL	--	--	--	--	20,794
Eurobonds	18,189	18,709	11.5 – 12.38	2030	20,985
Foreign currency indexed bonds	6,843	6,023	Libor + 2.85	2006	7,149
	25,032	24,732			48,928
		435,068			307,782

At 31 December 2002 government bonds, treasury bills and Eurobonds amounting TL 77,235 (31 December 2001: TL 177,839) were given as guarantees for capital market and interbank transactions.

Equity investments included in available for sale portfolio are as follows:

	2002	2001
Listed equity investments	418	341
Unlisted equity investments	47,820	47,735
Total equity investments, net	48,238	48,076

Listed investments include Yatırım Finansman Yatırım Ortaklığı A.Ş. and İş Yatırım Ortaklığı A.Ş.

At 31 December 2002, unrealized gains resulting from the change in fair value of available-for-sale securities amounted TL 4,682.

In billions of Turkish Lira as adjusted for the effects of inflation

8 Originated loans

Originated loans are comprised of originated securities and loans and advances to customers.

Originated securities are comprised of the following:

	2002	2001
Foreign currency indexed treasury bills	36,448	39,974
Government bonds		
Turkish Lira	10,619	16,742
Foreign currency denominated	--	26,562
Treasury bills	--	5,779
Total originated securities	47,067	89,057

At 31 December 2002, originated securities amounting TL 47,067 (31 December 2001: TL 67,545) were given as guarantees for capital market and interbank transactions.

At 31 December 2002 interest rate on foreign currency indexed treasury bills is 2.16% (31 December 2001: 2.44%), interest rate on TL government bonds is 54.28% (31 December 2001: 62.40%).

Loans and advances to customers consisted of the following:

	2002	2001
Short-term loans	71,707	66,997
Long-term loans	679,138	658,638
Investment in direct finance leases, net	87,792	98,923
Total performing loans	838,637	824,558
Doubtful loans	122,380	61,896
Total gross loans	961,017	886,454
(Less): Allowance for doubtful loans	(45,744)	(30,972)
Net loans and advances to customers	915,273	855,482
Interest income accruals	6,974	12,359
	922,247	867,841

The bank has obtained letters of guarantee and mortgages as collateral for the loans to customers.

At 31 December 2002, interest rates ranged from 10% to 57% on TL loans; from 3.52% to 15.00% on USD loans; from 4.58% to 9.28% on Euro loans, from 6.25% to 6.78% on CHF loans and from 2.03% to 12.00% on JPY loans (31 December 2001: from 10% to 75.64% on TL loans; from 4% to 12.24% on USD loans; from 5% to 9.95% on Euro loans; from 6.13% to 6.75% on CHF loans and; from 4.7% to 10% on JPY loans).

In billions of Turkish Lira as adjusted for the effects of inflation

Total performing loans and advances to customers are comprised of Turkish Lira, foreign currency denominated and foreign currency indexed loans as follows:

	2002		2001	
	Short term	Long term	Short term	Long term
Turkish Lira	1,037	27,267	9,569	45,588
Foreign currency denominated	38,050	721,424	38,626	656,121
Foreign currency indexed	32,620	18,239	18,802	55,852
	71,707	766,930	66,997	757,561
Add (deduct) current portion	161,084	(161,084)	253,280	(253,280)
	232,791	605,846	320,277	504,281

Foreign currency indexed loans represent loans distributed in Turkish Lira but the related principal and interest are repaid at the Turkish Lira equivalent of the foreign currency to which they are indexed. Foreign exchange differences arising from such indexation are reflected as foreign exchange loss, net in the accompanying consolidated financial statements.

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	2002			2001		
	Long-term	Short-term	Arrears	Long-term	Short-term	Arrears
Textile	151,309	23,003	50,367	135,309	27,892	43,780
Tourism	103,030	--	--	48,296	--	--
Motor vehicles	99,444	--	755	84,407	393	--
Energy	72,888	--	--	59,907	--	--
Metal	54,388	10,507	9,192	45,135	473	4,624
Food and beverages	40,993	--	30,221	64,382	--	3,186
Chemical	36,801	32,620	662	28,415	18,802	--
Plastics	34,140	4,485	15,816	41,733	--	5,695
Lumber and wood	32,625	--	--	29,360	--	--
Finance	19,360	--	100	21,308	--	--
Rubber and tires	11,999	280	2,769	5,731	781	--
Pulp & Paper	10,552	--	--	5,220	2,234	177
Glass and glass products	8,700	--	--	3,973	--	--
Machinery production	6,091	--	1,687	11,515	784	--
Ceramics	3,728	--	3,889	15,959	1,817	--
Electronics	3,697	--	421	22,715	657	7
Service	--	--	--	37,671	--	--
Iron, steel and other metals	--	--	--	7,607	--	--
Others	77,185	812	6,501	88,918	13,164	4,427
	766,930	71,707	122,380	757,561	66,997	61,896

The bank has rescheduled instalments due from seven loan customers that are believed to be under temporary financial difficulty. The total amount of the rescheduled instalments amounted to 13,294 at 31 December 2002 (31 December 2001: 12,098).

In billions of Turkish Lira as adjusted for the effects of inflation

As a lessor, the Bank has entered into one hundred twenty two (31 December 2001: one hundred) financing lease agreements with the lessees as of 31 December 2002. The lease agreements are for a period of two to nine years. At the end of the lease term, the lessees have the option to purchase the leased property.

Components of the lease contracts are as follows:

	2002	2001
Minimum lease payments receivable	99,118	113,106
(Less): Unearned income	(11,326)	(14,183)
Investment in direct financing leases	87,792	98,923
Current maturity – net	29,853	36,412
Long-term portion – net	57,939	62,511
Investment in direct financing leases	87,792	98,923

Foreign currency components of net financial lease receivables are as follows (amounts in thousand):

	US Dollars	EURO	JPY	CHF
2003	9,062	3,947	522,186	993
2004	2,913	1,806	488,401	328
2005	364	2,015	454,730	361
2006	267	2,039	416,671	--
2007	272	1,936	428,486	--
2008	--	1,058	417,601	--
2009	--	823	145,010	--
2010	--	452	94,611	--
	12,878	14,076	2,967,696	1,682

The movement of the allowance for loan losses is as follows:

	2002	2001
Balance at the beginning of the year	30,972	22,263
Provision made during the year	23,812	22,248
Recoveries	(1,367)	(331)
Write offs	--	--
Restatement effect per IAS 29	(7,673)	(13,208)
Balance at the end of the year	45,744	30,972

9 Investments in associated companies

	2002		2001	
	Carrying Value	Ownership %	Carrying Value	Ownership %
İş Genel Finansal Kiralama A.Ş.	8,846	30.00%	7,362	30.00%
SYB Yatırım Ortaklığı A.Ş.	514	43.00%	684	43.00%
	9,360		8,046	

In billions of Turkish Lira as adjusted for the effects of inflation

10 Property and equipment, net

Property and equipment comprised of the following:

	1 January	Additions	Disposals	31 December
Buildings and installation	28,387	495	--	28,882
Furniture, data processing and office equipment	6,888	475	(50)	7,313
Vehicles	1,655	268	(850)	1,073
	36,930	1,238	(900)	37,268
(Less: Accumulated Depreciation)	(15,773)	(2,104)	791	(17,086)
	21,157	(866)	(109)	20,182

11 Other assets

Other assets comprised of the following:

	2002	2001
Assets held for sale	12,492	34,815
Accounts receivable	4,821	3,413
Deferred management fee and other expenses	442	165
Receivable from personnel	230	456
Prepaid tax	160	1,826
Cash guarantees given	88	94
Miscellaneous	2,401	1,876
	20,634	42,645

12 Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

At 31 December 2002 assets sold under repurchase agreements were as follows:

	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase dates	Repurchase price
Investment securities	33,977	36,539	2-27 January 2003	36,549

At 31 December 2001 assets sold under repurchase agreements were as follows:

	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase dates	Repurchase price
Investment securities	16,766	16,402	2-28 January 2002	16,420

In billions of Turkish Lira as adjusted for the effects of inflation

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds to customers.

At 31 December 2002 assets purchased subject to agreements to resell them were as follows:

	carrying amounts	Fair value of assets held as collateral	Repurchase dates	Repurchase price
Due from other banks	208	208	2 January 2003	208

At 31 December 2001 assets purchased subject to agreements to resell them were as follows:

	carrying amounts	Fair value of assets held as collateral	Repurchase dates	Repurchase price
Due from other banks	5,347	5,347	2 January 2002	5,347

13 Funds borrowed

Funds borrowed comprised of the following:

	2002	2001
(a) Foreign currency:		
International Bank for Reconstruction and Development (IBRD):		
IBRD-3346 investment credit project (3346-TU)	56,093	81,280
IBRD-Exim	42,406	31,508
IBRD-3077 investment	30,753	58,060
IBRD-3077 working capital	7,391	13,938
IBRD-3067 investment	7,072	13,538
IBRD-3067 working capital	3,227	6,143
	146,942	204,467
European Investment Bank (EIB)	334,177	149,737
Japan Bank of International Cooperation (JBIC)	262,166	160,956
Akbank	255,661	287,051
Kreditanstalt Für Wiederaufbau (KFW)	74,387	81,313
Dresdner Bank	25,405	22,666
Instituto de Credito Official	10,321	11,226
Black Sea Trade and Development Bank	3,979	5,908
Union Bank of Switzerland	3,231	6,010
T. İhracat Kredi Bankası A.Ş.	2,513	564
Landesbank Baden-Wuerttemberg	1,924	3,751
Citibank N.A.	--	1,606
Turkish Bank London	--	7,533
Domestic bank borrowings	118,085	37,764
Total foreign currency borrowings	1,238,791	980,552

In billions of Turkish Lira as adjusted for the effects of inflation

(b) Turkish Lira:

IBRD:		
Second small and medium scale industrial project (3067-TU)	40	116
Agro-industry project (3077-TU)	-	3
	40	119
EIB-venture capital	10,542	13,794
Treasury originated funds	23,414	43,802
T. İhracat Kredi Bankası A.Ş.	225	1,223
Foreign Exchange Risk Insurance Scheme (FERIS)	-	40
Union Bank of Switzerland	-	21
Domestic bank borrowings	-	3,444
Total Turkish Lira borrowings	34,221	62,443
Accruals	7,675	13,018
Total borrowings	1,280,687	1,056,013
Current maturities of medium and long-term loans	177,131	355,249

Foreign currency:

IBRD:

- 3346-TU, private sector investment project loan, with variable interest rates of 5.43% for Euro and 4.76% for USD (31 December 2001: 9.01% for Euro and 9.24% for USD), repayable in scheduled instalments up to 2008.

- IBRD-Exim: Variable interest rates 2.83%-3.33% for USD (31 December 2001: 5.07%-6.07% for USD)

- 3077-TU, agro-industry project, with variable interest rates of 5.43% for Euro and 4.76% for USD (31 December 2001: 9.01% for Euro and 9.24% for USD), repayable in scheduled instalments up to 2004.

- 3067-TU, second small and medium scale industry project loan, with variable interest rates of 5.43% for Euro and 4.76% for USD (31 December 2001: 9.01% for Euro and 9.24% for USD), repayable in scheduled instalments up to 2004.

EIB:

- Interest rates 3.07%-3.16% for Euro and 1.52% for USD (31 December 2001: rate 3.53%-3.54% for Euro and 2.00% for USD), repayable in instalments up to 15 December 2017.

JBIC:

- Interest rates 1.65%-2.40% for JPY (31 December 2001: 1.70%-2.40% for JPY), repayable in instalments up to 28 September 2010.

Akbank:

- Variable interest rates 5.14%-6.56% for USD and 5.94% for Euro (31 December 2001: 5.96%-11.87% for USD and 5.25% for Euro)

KFW:

- Interest rates 2.98% for Euro (31 December 2001: 8.34%), repayable in instalments up to 2008.

KFW (Trilateral Cooperation Fund):

- Fixed interest rates 2.00%-3.054% for Euro, repayable in instalments up to 2005.

Dresdner Bank:

- Variable interest rates 3.927%-4.185 % for Euro (31 December 2001: 5.43%-5.76 % for Euro), repayable in scheduled instalments up to 4 November 2007.

Instituto de Credito Official:

- Interest rate 4% for USD (31 December 2001: 4% for USD), repayable in instalments up to 2012

Black Sea Trade and Development Bank:

- Interest rate of 4.27% for USD (31 December 2001: 5.04 - 5.54% for USD) and repayable in instalments up to March 2006.

Union Bank of Switzerland (formerly SBC):

- Variable interest rates 3.125%-4.875% for CHF (31 December 2001: 3.13%-3.78% for CHF), repayable in scheduled instalments up to 16 July 2005.

T. İhracat Kredi Bankası A.Ş.

- Variable interest rates 3.31%- 3.36% for USD and 4.99%-5.81% for Euro (31 December 2001: 8.00% for USD).

Landesbank:

- Interest rate 4.275% for Euro (31 December 2001: 5.25% for Euro), repayable in instalments up to 31 July 2003.

In billions of Turkish Lira as adjusted for the effects of inflation

Turkish Lira:

Postponed interest accrued during grace period:

- By virtue of administrative arrangements made in early 1988, one half of the interest accrued during the grace periods in respect of loans financed through the Central Bank and FERIS can be deferred so as to be paid in line with the original loan repayment schedule.

IBRD:

- 3067-TU, second small and medium scale project loan, variable interest 56.34% (31 December 2001: 60%), repayable in scheduled instalments up to 2003.

Treasury originated funds:

- Interest rates range between 10%-31%.

Sources of current maturities of medium and long-term borrowings comprised of the following:

	2002	2001
IBRD-3067 -TU	6,908	7,874
IBRD-3077 -TU	25,389	28,771
IBRD-3346 -TU	14,972	17,113
IBRD-Exim	16,310	6,302
KFW	26,137	23,636
EIB	30,437	15,162
JBIC	32,771	--
Akbank	--	230,545
Treasury originated funds	13,113	15,868
Dresdner Bank	5,983	2,258
Landesbank Baden-Wuerttemberg	1,924	1,876
Black Sea Trade and Development Bank	1,137	1,313
Citibank N.A.	--	1,606
Union Bank of Switzerland	2,050	2,925
Instituto de Credito Official	--	--
	177,131	355,249

Certain parts of the long-term debt agreements provide that:

i) Debt service coverage ratio shall not be less than 1.1.
ii) A minimum collection of at least 85% shall be maintained.
iii) Capital adequacy ratio to be set at 10% of the risk weighted assets.

The ratios disclosed below pertain to those of TSKB (parent) only.

Debt service coverage ratio; and collection ratio as of 31 December 2002 are 1.38 (31 December 2001: 1.14) and 87.17% (31 December 2001: 81.9%), respectively.

In billions of Turkish Lira as adjusted for the effects of inflation

Per the memorandum of IBRD related to the project agreement amendments to Loans No 3077 TU and No 3346 TU, dated July 31, 1995, the debt/equity ratio covenant is replaced with an asset-based capital adequacy ratio covenant to be calculated annually on a three-year moving average basis, to include the mid year and year end ratios of the current year, the preceding one and the projected financial results of the following year. It was also considered that the capital adequacy ratio is to be set at 10% of the risk weighted assets. The capital adequacy ratio of 23.55% at 31 December 2002 is determined by taking the average of the ratios existing at the dates shown below:

Dates	Capital Adequacy Ratio of TSKB	
31 December 2000	34.09	audited
30 June 2001	22.45	limited review
31 December 2001	21.31	audited
30 June 2002	19.30	limited review
31 December 2002	22.11	audited
30 June 2003	22.75	projected
31 December 2003	22.85	projected

The average capital adequacy ratio of 23.55% for 31 December 2002 is in compliance with the project agreement.

14 Other liabilities evidenced by paper

Other liabilities evidenced by paper consist of Japanese Yen bonds as follows:

	2002		2001
	Foreign Currency (Million)	TL	TL
Bonds	Yen 1,800	24,741	73,081
Accrued interest	22	304	807
Total bonds	1,822	25,045	73,888
Promissory bills	--	2	8
	1,822	25,047	73,896

Bonds bear interest at 6.9% on JPY amount and are redeemable in 2003.

The repayments of Japanese Yen Bonds are fully guaranteed by the Under-secretariat of the Treasury.

In billions of Turkish Lira as adjusted for the effects of inflation

15 Taxation

Corporation tax is set at 30% and an additional tax at 10% is levied on corporation tax amount to support a state fund, which results in an effective corporation tax rate of 33%.

The investment tax credits are exempt from corporation tax but are subject to an income tax charge at the rate of 18%; contribution to a state fund levied at 10% results in an effective income tax rate of 19.8%.

The total tax charge applicable to income is different than the amount computed by applying the statutory tax rate to income before taxes as shown in the following reconciliation for the year ended 31 December 2002.

	2002	%
Tax per statutory tax rate	10,681	33.00
Investment incentive	(4,056)	(12.53)
Disallowable expenses	948	2.93
Dividends received	(2,406)	(7.43)
Effect of permanent differences relating to consolidation adjustments	(1,423)	(4.40)
Permanent differences relating to the restatement of non monetary items per IAS 29	8,290	25.61
Others, net	(1,013)	(3.13)
Taxation charge	11,021	34.05

	2002	2001
Provision for income tax:		
Current tax	12,538	14,157
Deferred tax on temporary differences	(1,517)	(17,866)
Taxation charge/(credit)	11,021	(3,709)

	2002	2001
Taxes payable on income:		
Provision for income tax	12,538	14,157
Less: Taxes paid in advance	(2,222)	(8,905)
Taxes payable on income	10,316	5,252

In accordance with the advance corporation tax payment regulation, advance payments during the year are being deducted from the final tax liability computed over current year operations. Accordingly, the taxation charge computed is not equal to the final tax liability appearing on the consolidated balance sheet.

In Turkey, the Tax Procedural Law does not provide a procedure for final agreement of tax assessments. Tax returns are filed within four months after the end of the year to which they relate and the tax authorities may examine the accounting records and/or revise assessments within five years.

In billions of Turkish Lira as adjusted for the effects of inflation

Deferred tax assets and deferred tax liabilities at 31 December 2002 are attributable to the items detailed in the table below:

	2002	2001
Assets		
Amortisation of loans and receivables	274	1,991
Provision for doubtful loans	15,096	7,825
Foreign exchange differences on loans	4,752	--
Accrual difference of investment securities	1,384	3,504
Reserve for severance pay	797	1,087
Other liabilities	129	700
Statutory losses carried forward	--	6,863
Investment incentive benefits carried forward	--	886
	22,432	22,856
Liabilities		
Property and equipment	(928)	(7,369)
Financing lease receivables	(9,307)	(2,407)
Amortisation of liabilities evidenced by paper and funds borrowed	(609)	(613)
	(10,844)	(10,389)
Deferred tax asset, net	11,588	12,467

16 Other liabilities

Other liabilities are comprised of the following:

	2002	2001
Payable to customers	23,851	--
Transfer orders	5,025	859
Withholding taxes on interest, salaries and other expenses	1,226	5,251
Payable to Clearing House	627	2,614
Bonuses payable to directors and staff	624	1,758
Instalments payable to Central Bank	--	344
Miscellaneous	6,306	5,179
	37,659	16,005

17 Reserve for severance pay

Under Turkish Labour Law, the Bank is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement.

The liability is not funded, as there is no funding requirement.

In billions of Turkish Lira as adjusted for the effects of inflation

In accordance with IAS 19 (Revised) " Employee Benefits ", the reserve for employment termination benefits was calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of the employees.

IFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the actuarial assumptions used at 31 December 2002 and 2001 are as follows;

	2002	2001
	%	%
Discount rate	43	70
Expected rate of salary/limit increase	35	60
Turnover rate to estimate the probability of retirement is	3	4

The above rate for salary/limit increases was determined based on the Government' target for yearly inflation in the future.

Actuarial gains and losses are recognised in the income statement in the period they occur.

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. As of 31 December 2002 and 2001 the ceiling amounts are TL 1,260.15 million and 1,279.6 million, respectively. The liability is not funded, as there is no funding requirement.

As of 1 January 2003, the retirement pay ceiling has increased to TL 1,324 million.

Movement of the reserve for employee severance pay during the year is as follows:

	2002	2001
Balance – 1 January	3,294	4,366
Paid during the year	(1,631)	(1,972)
Increase during the year	1,334	2,741
Monetary gain	(581)	(1,841)
Balance- 31 December	2,416	3,294

In addition to the retirement benefits, the Bank operates its own contributory pension fund. In accordance with the Turkish social security legislation, the Bank has guaranteed the liability of this fund. An independent actuarial valuation of the fund as of 31 October 1999, indicated that the assets of the fund are adequate to meet the liabilities to pensioners provided that the retirement age is not reduced and the rate of return on the pension's investments do not fall below 25% (30 September 1996 valuation: 25 %). In 2002, neither the retirement age nor the rate of return fell below the limits set in the actuarial valuation.

18 Issued capital and additional paid-in-capital

As of 31 December 2002, the authorized and issued capital consists of 227,999,950,000 shares of five hundred Turkish Lira and 250,000 shares of one hundred Turkish Lira each as reflected in the statutory financial statements. The total authorized and fully paid statutory issued capital is 114,000 (31 December 2001: 65,676). This excludes the IAS 29 uplift adjustment. Founder shares entitle the holders to receive dividends in total equal to 5% of statutory net income (such dividends are limited to 10,000 in total) for each year, after transfers to legal and loss contingency reserves and a dividend of 6% on the paid-up capital. Ordinary shares carry voting rights in proportion to their nominal value.

In billions of Turkish Lira as adjusted for the effects of inflation

Issued capital of the Bank at restated amounts, is as follows:

	2002		2001	
	Balance	Shareholding Percentage	Balance	Shareholding Percentage
T. İş Bankası Group	392,108	55.30	343,944	54.43
Sabancı Group	68,495	9.66	59,588	9.43
İstanbul Stock Exchange Clearing Company	65,659	9.26	67,866	10.74
T. Vakıflar Bankası T.A.O.	59,419	8.38	51,690	8.18
T. Ticaret Bankası A.Ş.	58,072	8.19	44,612	7.06
T. Garanti Bankası A.Ş.	21,910	3.09	23,823	3.77
T. Dış Ticaret Bankası	18,152	2.56	20,916	3.31
Others	25,241	3.56	19,462	3.08
	709,056	100.00	631,901	100.00

Per the resolution of the Board of Directors, paid-in-capital amounting 58,637 has been transferred to issued capital at 17 December 2002.

19 Accumulated loss and legal reserves

The legal reserves consist of first, second and loss contingency reserves, in accordance with the Turkish commercial code and banking law. The first legal reserve is appropriated out of the statutory profits after tax at the rate of 5%, until the total reserve reaches 20% of the Bank's statutory capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 6% of the Bank's statutory capital (as specified in the Bank's articles of association). The first and second legal reserves are not available for distribution unless they exceed 50% of the statutory share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The loss contingency reserve, which is part of the legal reserves, is appropriated out of the statutory profits at the rate of 5%, until the total reserve is equal to the Bank's statutory capital.

20 Fair value information

Management has estimated that the fair values of certain financial assets and liabilities carried at cost, including cash and balances with the Central Bank, due from other banks, due to customers, money market deposits and other liabilities evidenced by paper are considered to approximate the carrying amount due to their short-term nature.

Management believes that the fair values of the loans and advances to customers and funds borrowed are considered to approximate their carrying amount. These financial assets and liabilities have variable interest rates reflecting current market conditions and are denominated in foreign currencies and translated at period-end exchange rates.

The following table is a comparison of the carrying amounts and fair values of all the Bank's investments based on market prices:

	2002 Carrying amount	2002 Fair value	2001 Carrying amount	2001 Fair value
Investment securities (note 7)	435,068	435,326	307,782	306,734
Originated securities (note 8)	47,067	48,924	89,057	90,637

In billions of Turkish Lira as adjusted for the effects of inflation

21 Commitments and contingent liabilities

As of 31 December 2002, the Bank was contingently liable for securities given amounting to 8 (31 December 2001: 9).

The undisbursed balances of loan commitments at 31 December 2002, amount to 69,991 (31 December 2001: 49,294).

The outstanding letters of credit commitments at 31 December 2002, amount to 29,087 (31 December 2001: 25,356).

As of 31 December 2002, the Bank was contingently liable for letters of guarantee given amounting 15,972 (31 December 2001: 22,256).

22 Related parties

During the normal course of its business, the Bank has entered into transactions with some of its investees, its shareholders and the companies controlled by them, and its personnel, referred to as "related parties" for the purposes of this report.

	2002	2001
Balances with related parties		
Funds borrowed	259,012	293,953
Loans and advances to customers	51,891	101,352
Non-cash loans (guarantee letters given)	1,659	2,166
Due to customers (personnel)	--	3,501
Due from other banks	73,710	24,534
Other assets	109	--

	2002	2001
Transactions with related parties		
Interest and similar income	10,079	55,343
Interest Expense and similar charges	(150)	(12,846)
Dividend income	2,034	5,962
Foreign exchange loss, net	(559)	--
Net fee and commission income	368	12,129
Operating expenses	(884)	--

23 Cash flows from operating activities

Cash flows from operating activities include:

	2002	2001
Interest received	124,425	259,410
Interest paid	72,311	148,232
Income taxes paid	4,372	7,042

24 Risk management disclosures

The risk management strategy at the Bank has always been risk averse approach and the Bank traditionally followed conservative risk rating policy.

The Bank has restructured its organisation in 2002 in parallel to the regulatory bodies' requirements. There are five risk management committees namely "Executive Risk Committee, Bank Risk Committee, Credit Risk Management Committee, Market Risk Management Committee and Operational Risk Management Committee" to deal with the risk management at the Bank. All these committees meet on a regular basis. There is also Risk management department in the organisation, which primarily deals with measurement and control of credit risk, market risk and operational risk. Reports prepared by Risk management department are the base for Risk Management Committees' studies. Risks are individually handled and measured in this department by using various statistical and mathematical methods.

Market Risk Management

Market risk is the risk of loss due to adverse changes in the financial markets. The Bank's market risks are primarily interest rate and foreign exchange risks.

In order to measure market risk, trading and investment portfolios are valued daily on a marked to market basis. For liquid markets and instruments daily average prices of Istanbul Stock Exchange are used; for non-liquid markets and instruments prices announced by the Central Bank of Turkey or other resources are used for determining the market values. The Bank benefits from Value-at-Risk (VaR) methods, stress testing and other non-statistical methods for measuring market risk. While delta-gamma method is used in order to calculate VaR for domestic fixed income securities portfolio, variance-covariance model is used for overall foreign exchange risk. VaR calculations are made by choosing the 90%, 95%, and 99% confidence intervals, 1 day / 10 day holding periods. Also back testing is applied to these measurements. During the period between 2 January 2001 and 31 December 2002, the daily trading loss exceeded the calculated VaR amounts three days out of 248 trading days in the 99% confidence interval.

The Bank also measures capital ratio by using the standardised methodology as stated in the regulatory requirements.

Credit Risk Management

Credit risk is the risk of loss arising from counter parties who fail to perform their contractual obligations.

The Bank has a well-defined and established credit approval and disbursement control procedures. The Bank analyses and monitors the overall composition and quality of the credit portfolio considering the factors such as contractual and financial conditions, concentrations, problem loans, adequacy of loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally.

The Bank has also an internal credit risk rating system in managing credit risk.

Operational Risk Management

Operational risk is the risk of losses resulting from inadequate information systems, operational problems, breaches in internal controls, fraud or unforeseen catastrophes.

In billions of Turkish Lira as adjusted for the effects of inflation

The Bank is in the process of developing the operational risk management systems. This includes the identification of internal and external operational risk factors faced by the Bank and collection of the event data.

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including borrowings from financial institutions, other liabilities evidenced by paper, and share capital. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

Maturities of financial assets and liabilities

31 December 2002:

	less than one month	Between one and three months	between three and twelve months	more than one year	unidentified maturity	total
Cash and balances with Central Bank	648	--	--	--	--	648
Due from other banks	144,241	--	--	--	19	144,260
Financial assets held for trading	3,731	126	2,138	1,990	--	7,985
Investments	3,060	12,361	255,947	115,436	48,264	435,068
Loans and advances to customers	20,041	40,484	172,266	605,846	83,610	922,247
Securities	--	--	10,619	36,448	--	47,067
	171,721	52,971	440,970	759,720	131,893	1,557,275
Liabilities to customers	36,539	--	--	--	--	36,539
Financial liabilities held for trading	180	--	--	--	--	180
Money market deposits	25,000	--	--	--	29	25,029
Funds borrowed	114,478	59,333	287,242	801,417	18,217	1,280,687
Other liabilities evidenced by paper	--	--	25,047	--	--	25,047
	176,197	59,333	312,289	801,417	18,246	1,367,482

In billions of Turkish Lira as adjusted for the effects of inflation

31 December 2001:

	Less than one month	between one and three months	between three and twelve months	more than one year	unidentified maturity	total
Cash and balances with Central Bank	53,321	--	--	--	--	53,321
Due from other banks	43,447	--	--	--	--	43,447
Financial assets held for trading	2,520	1,672	7,898	--	619	12,709
Investments	6,070	36,182	160,203	57,176	48,151	307,782
Loans and advances to customers	96,619	26,795	174,366	524,284	45,777	867,841
Securities	2,448	1	32,014	54,593	1	89,057
	204,425	64,650	374,481	636,053	94,548	1,374,157
Liabilities to customers	16,402	--	--	--	--	16,402
Financial liabilities held for trading	2,214	--	--	--	--	2,214
Money market deposits	105,197	--	--	--	--	105,197
Funds borrowed	148,303	87,828	225,379	585,930	8,573	1,056,013
Other liabilities evidenced by paper	--	--	8	73,081	807	73,896
	272,116	87,828	225,387	659,011	9,380	1,253,722

Currency risk

The Bank is exposed to currency risk since substantial volumes of business are conducted in foreign currencies. The currency exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank, i.e, any currency other than the Turkish Lira. At 31 December 2002 and 31 December 2001, the Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

31 December 2002:	**US Dollar**	**Euro**	**Japanese Yen**
Cash and balances with Central Bank	--	--	--
Due from other banks	67,014	8,880	53,485
Financial assets held for trading	1,363	545	--
Investments	247,865	18,780	--
Originated loans	279,783	376,688	260,243
Other assets	893	398	--
Total Assets	**596,918**	**405,291**	**313,728**
Liabilities to customers	35,447	805	--
Money market deposits	180	--	--
Funds borrowed	578,869	403,832	263,241
Other liabilities evidenced by paper	--	--	25,045
Current tax liabilities	--	--	--
Other liabilities	4,913	9,123	1,415
Total Liabilities	**619,409**	**413,760**	**289,701**
Net Foreign Currency Long (Short) Position	**(22,491)**	**(8,469)**	**24,027**

In billions of Turkish Lira as adjusted for the effects of inflation

31 December 2001:	**US Dollar**	**Euro**	**Japanese Yen**
Cash and balances with Central Bank	20,693	6,654	--
Due from other banks	15,462	17,126	551
Financial assets held for trading	993	--	--
Investments	160,064	16,981	--
Originated loans	452,303	234,844	178,693
Other assets	2,719	231	421
Total Assets	**652,234**	**275,836**	**179,665**
Liabilities to customers	13,627	--	--
Financial liabilities for trading	902	--	--
Money market deposits	--	--	--
Funds borrowed	600,033	269,995	167,305
Other liabilities evidenced by paper	--	--	73,888
Other liabilities	1,954	267	147
Total Liabilities	**616,516**	**270,262**	**241,340**
Net Foreign Currency Long (Short) Position	**35,718**	**5,574**	**(61,675)**

25 Significant events

Significant economic difficulties have emerged in Turkey during the year 2001. These include, but are not limited to a steep decline in prices of domestic debt and equity securities and increasing rates on government and corporate borrowings. In an attempt to overcome the liquidity crisis in the banking system, the government allowed Turkish Lira to float freely on 22 February 2001. This caused a 28% devaluation of the Turkish Lira against the US Dollar during the first day of floatation.

The TL/USD exchange rates at related dates are as follows:

Dates	TL/USD Exchange Rate
31.12.2002	1,631,000
30.06.2002	1,580,000
31.12.2001	1,437,000
30.06.2001	1,233,000
22.02.2001	1,367,000
31.12.2000	669,218

26 Subsequent events

On 31 January 2003; the Board of Directors decided to acquire 33.74% of the shares of Yatırım Finansman Menkul Değerler A.Ş. for USD 3,374,303. After the acquisition of these additional shares the Bank’s share in the subsidiary will increase from 56.29% to 90.03%.