YAPI VE KREDİ BANKASI A.Ş. 2001 ANNUAL REPORT

YAPI VE KREDİ BANKASI A.Ş.

2001

ANNUAL REPORT

CONTENTS

The Anatolian Seljuk State achieved one of the most important cultural advances in Anatolia in a period of 200 years. The Seljuk era in Anatolia was a golden era that shone as if it were a magical lamp.

The "Alaeddin's Lamp" exhibition organized by Yapı Kredi Culture Arts and Publishing was intended to shed a new perspective on this interesting period in Anatolian history through the smoke emitted by this bewitching lamp.

We wanted to share with you these values by devoting this year's annual report to some of the objects in this exhibit, which is just one of the contributions of Yapı Kredi to cultural life. Because at Yapı Kredi, by looking at the past with new eyes, we are establishing a new future.

A tile showing the tree of life and birds, 1236. From the Kubadâbâd Palace, Konya Karatay Medresesi Museum.

A tile fragment believed to be the portrait of Sultan Alâeddin Keykubâd 1., 1236. From the Kubadâbâd Palace, Konya Karatay Medresesi Museum.

Coins of Sultan Alâeddin Keykubad 1., Yapı Kredi Collection

BANK DESCRIPTION

Yapı ve Kredi Bankası A. Ş. (Yapı Kredi) is a first class Turkish bank with strong businesses in corporate, commercial and retail segments. Since its establishment in 1944, Yapı Kredi has dedicated itself to providing banking services to the real sector. Today the Bank is a major player in trade finance, commercial lending, cash management and credit cards, distinguished by its innovative approach and technological superiority.

Yapı Kredi offers a full range of banking products and services to millions of customers through 424 domestic branches, 1,340 ATMs, a Call Center (Teletel), the Internet (Teleweb), an offshore banking unit in Bahrain, four overseas representative offices and subsidiary banks in Germany, Russia and the Netherlands.

Approximately 40 percent of the Bank's shares are actively traded on the Istanbul and London Stock Exchanges.

Yapı Kredi Bank (Bank only)	1999	2000	2001
Branches	439	435	424
ATMs	1,207	1,305	1,337
POS Terminals	35,327	62,182	73,373
Employees	10,383	10,326	9,689

A tile panel depicting a male figure holding a pomegranate, 1236. From the Kubadâbâd Palace, Konya Karatay Medresesi Museum.

SUMMARY BALANCE SHEET

(US$ millions)

ASSETS:

	2001	2000
Cash, due from banks, short term placements	1,770	1,217
Reserve deposits	562	417
Investments	2,166	3,124
Originated loans and advances, net	4,898	4,758
Investments in associates and subsidiaries	174	150
Premises and equipment	1,214	1,272
Others	610	679
Total Assets	**11,394**	**11,617**

LIABILITIES AND SHAREHOLDERS' EQUITY:

	2001	2000
Deposits	8,176	5,939
Funds borrowed and notes issued	1,414	1,673
Obligations for repurchase agreements	242	989
Insurance technical reserves	269	291
Deferred tax liability	48	176
Others	370	311
Total liabilites	10,519	9,379
Minority interest payable	62	39
Shareholders' equity	813	2,199
Total liabilities and shareholders' equity	**11,394**	**11,617**

SUMMARY INCOME STATEMENT

(US$ millions)

	2001	2000
Interest income	2,031	1,782
Interest expense	(1,623)	(839)
Net interest income	408	943
Provision for loan losses and doubtful receivables	(911)	(107)
Foreign exchange loss, net	(623)	(194)
Net interest income/(expense) after provision for loan losses and foreign exchange loss	(1,126)	642
Non-interest income	575	751
Non-interest expense	(1,168)	(934)
Income/(loss) before taxation, extraordinary items, minority interest and gain/(loss) on net monetary position	(1,719)	459
Taxation charge	52	(116)
Net income/(loss) before extraordinary items, minority interest and gain/(loss) on net monetary position	(1,667)	343
Extraordinary items	(15)	(99)
Minority interest	4	2
Net income/(loss) before gain/(loss) on net monetary position	(1,678)	246
Gain/(loss) on net monetary position	273	(84)
Net income/(loss)	**(1,405)**	**162**

Everyday objects: Vase, bowl, spoon.
Kaya Turgut Collection

BOARD OF DIRECTORS

STANDING (left to right):

Mustafa Kâmil Toker
(Auditor)

Doç. Dr. Deniz Gökçe
(Member)

Naci Sığın
(President and Member)

A. Rona Yırcalı
(Chairman)

Osman Berkmen
(Vice Chairman and Executive Director)

Tuluy Ergörül
(Member)

Can Erol
(Auditor)

SITTING (left to right):

Selçuk Altun
(Executive Director)

Ali İhsan Karacan
(Member)

Mehmet Emin Karamehmet
(Member)

Prof. Dr. Özer Seliçi
(Vice Chairman and Executive Director)

Nurdan Yıldırım
(Secretary)

MESSAGE FROM THE BOARD OF DIRECTORS

Coins of Alparslan,
Yapı Kredi Collection

Yapı Kredi marked its 58th anniversary in 2001, a year characterized by some of the most stressful economic conditions in the history of the Turkish Republic.

On the heels of the crisis that rocked financial markets in February, the government introduced a floating foreign exchange regime, the interest and foreign exchange rates soared and fluctuated, adversely affecting the economy in general and causing a contraction in demand and production. Gross National Product fell by 9.4% while unemployment rose to 8.5%.

As a result of devaluation of the currency, Turkey's exports increased by 11%. By the same token, import volume declined by 26%, reflecting the increase in prices of imported goods and narrower domestic demand. Thus, the current account yielded a surplus of $3.6 billion in 2001 compared to a deficit of $9.8 billion in 2000.

These developments opened the way for a severe crisis in the financial sector, especially for banks. In the first half of the year, depositors withdrew approximately $11 billion from the sector and the national economy. Besides the liquidity crisis, because of interest and exchange rate risk carried by banks, profitability and capital adequacy were impacted to a significant degree. The Banking Regulation and Supervision Agency (BRSA) were compelled to take over seven privately owned banks. During the last quarter of the year, under the "Transition to a Strong Economy" program, economic expectations turned positive due to the implementation of political and economic measures and $8 billion in additional assistance pledged by the IMF.

In this difficult environment, Yapı Kredi succeeded in increasing business volume above the sectoral average, thanks to its strong capital structure and prestigious position. A sharp increase in foreign currency deposits gave Yapı Kredi a market share of more than 10%. Despite economic contraction, fee and commission income rose 11% in real terms and Yapı Kredi continued its leading position. The Centralization Project inaugurated in 1994 as part of the change program won first prize in the prestigious Ahmet Dallı Banking Awards.

Yapı Kredi shares once again had the highest transaction volume in the Istanbul Stock Exchange, especially due to the preferences of foreign institutional investors. According to ISE statistics, Yapı Kredi shares had a transaction volume of TL 8,497 trillion. At the end of 2001, Yapı Kredi had a total market value of $2.3 billion.

The law concerning the restructuring of liabilities to the financial sector was passed on January 30, 2002. On the same date, a temporary article regarding the Restructuring Program of the Banking Sector was added to the Banking Law. In line with this article, the financial statements of private sector banks were required to be prepared according to the principles of inflation accounting for the first time. Following a three-phase auditing process, Yapı Kredi's capital adequacy ratio was declared to be 10.2%, over the 8% minimum requirement.

Total assets at the end of 2001 totaled $11,4 billion. Total shareholders' equity amounted to $813 million. Total deposits showed a real increase of 38% to reach $8,2 billion. Foreign exchange transaction volume totaled approximately $15 billion.

However, net income was negatively affected by foreign exchange losses exacerbated by the floating foreign exchange regime, the adverse developments in the real sector and high reserve requirements. The Bank posted a net loss of $1,4 billion for the year. Indeed, all publicly traded banks announced losses for 2001, a consequence of the application of inflation accounting. In the future, if the reserves set aside at the end of 2001 are eliminated, significant improvements will be seen in shareholders' equity.

We would like to express our appreciation for the support given to Yapı Kredi during this period of hardship. We are optimistic that 2002 will be a happier and more successful year.

Osman Berkmen

Vice Chairman and
Executive Director

A. Rona Yırcalı

Chairman

Naci Sığın

President and
Member

Tile of a horse, 1236.
From the Kubadâbâd Palace,
Konya Karatay Medresesi
Museum.

Coins of Kılıç Arslan II,
Yapı Kredi Collection

Inflation Adjusted And Consolidated Financials

Starting in 1999, due to the need for increased disclosure and more comprehensive financial statements, the International Accounting Standards Committee has revised International Accounting Standards.

Yapı Kredi has adopted these revisions in 1999 and is disclosing two-year comparative inflation adjusted and consolidated financial statements in this report. In Note 28 of the financial statement, "bank-only" inflation adjusted financial statements are also presented. Accordingly, all of the financial data, unless otherwise indicated, are gathered from consolidated and inflation adjusted financial statements. The major subsidiaries whose results are included in the consolidated financial statements are:

Yapı Kredi Leasing, a market leader in providing highly specialized financial services in the commercial and corporate based leasing industry with a 15% market share.

Yapı Kredi Factoring, with an 13% market share, is a full member of Factors Chain International and an associate member of Heller International Group.

Yapı Kredi Sigorta, with a 8.4% market share, a leading provider of non-life insurance products that is listed on the ISE.

Yapı Kredi Yaşam, with a 17.5% market share, offers life insurance products.

Yapı Kredi Yatırım, the full service investment banking and brokerage arm of Yapı Kredi, serving corporate clients and institutional and retail investors in Turkey and abroad.

Yapı Kredi-Koray Real Estate Investment Co., an independent and professionally managed REIC that is well-positioned in the market in terms of image, funding and access to investment opportunities.

Yapı Kredi Deutschland, focusing on corporate banking and foreign trade and treasury business for the European market.

Yapı Kredi Moscow, providing services to Turkish and multinational corporations and individuals, with an emphasis on fee-based business in Russia.

Yapı Kredi Bank Nederland, established in 2001, providing trade finance, treasury, individiual banking and corporate banking services.

Banque de Commerce et de Placement, concentrating on financing of commercial transactions in the field of international trade and portfolio management for private banking clients.

Results Of Bank Capital Strenghthening Program

In relation with the banking sector restructuring efforts of Banking Regulation and Supervision Agency (BRSA), the guidelines for the "Bank Capital Strengthening Program", were published within the framework of the Act No: 4743 dated January 31,2002. This program envisaged a three-stage audit procedure in order to assess the financial performance of all private Turkish banks. As a result of this process, the management and control of Pamukbank, which was held by Çukurova group -also the main shareholders of Yapı Kredi Bank, was transferred to the Savings Deposit Insurance Fund (SDIF) on June 18, 2002. The transfer of Pamukbank to SDIF had major consequences on Yapı Kredi – a change in the control and management of the Bank and significant impact on the financial statements.

Change in control and management

Pursuant to Turkish Banks Act, as individuals who hold a direct or indirect share of 10% or more in Pamukbank and the Bank no longer meet the conditions required for being a controlling shareholder of a bank, the management, control and privileges relating to such shareholders will be exercised by the SDIF. Within this scope, the shareholders rights (except for dividend rights) of Sınai Mali Yatırım Holding A.Ş (shareholding percentage of 15.3%), and Çukurova Holding A.Ş (shareholding percentage of 8.9%) are being exercised by SDIF. On the other hand, SDIF has obtained the ownership of Pamukbank by paying for the portion of its accumulated deficit up

Bronze lock fragments, XII, XIII. c.,
Sadberk Hanım Museum

Bronze figurines in the shape of animals, XIII. c.,
Özlem Perk Collection

to its paid-in capital. Consequently the shareholders' rights of Pamukbank and its subsidiaries in our Bank (in total 12.7% shareholders of Yapı Kredi) are taken over and exercised by the SDIF.

Impact on financial statements

Upon the transfer of Pamukbank to SDIF and the limitations set for the major shareholders of Pamukbank, based on the requirement of BRSA, the Çukurova group exposure in our Bank was classified as non-performing during the third stage of the audit procedure. Accordingly, 50% reserve was provided on such exposure after taking collaterals obtained into consideration and the related interest accruals were reversed. Such treatment of Çukurova group exposure led a significant decrease of 950 million $ in the profit and loss statements for 2001 and thus the shareholders' equity.

Finalization of the shareholding and asset structure of Yapı Kredi is dependent on the settlement between the Çukurova Group and BRSA.

Evaluation Of Financial Performance

In 2001, Yapı Kredi had a net loss of $ 1,405 million. When the effect of the treatment of Çukurova group exposure as explained above is excluded, the net loss amounts to $ 455 million. The main reason for this loss is the foreign exchange losses of $ 622 million incurred as a result of the devaluation of the Turkish Lira. Further, the economic contraction adversely effected the payment capabilities of borrowers, which in turn led to a high provisioning requirement. The provision for loan losses and the reversal of interest income related with third parties increased significantly to $ 300 million.

In the light of these developments, total assets contracted by 2% and amounted to $ 11,394 million at the end of 2001. If the $ 950 million loss recognized as a result of the treatment of Çukurova Group is excluded, assets increased by 6% despite the economic downturn.

At the end of 2001, deposits made up 78% of the total funding compared with 63% at the end of 2000. As a result of the flight to quality observed in the sector and Yapı Kredi's wide network and its strong presence in complementary products, deposits increased by 38% to $ 8,176 million. Foreign currency deposits made up 69% of customer deposits at year-end 2001 in comparison to 72% at year-end 2000. The stability of the deposit base is demonstrated by the size of deposits: 90% of deposits consist of accounts less than $200,000. These represent the savings of individuals and small companies and are not very sensitive to interest rates.

Funds borrowed totaled $ 1,414 million at the end of 2001. Yapı Kredi successfully renewed its two syndicated one-year trade finance facilities at a total amount of $ 575 million despite the severe economic crises in 2001.

Shareholders' equity totaled $ 813 million at year-end 2001. This figure does not incorporate the market valuation increments on our valuable equity participations. Despite the consequences of the treatment of Çukurova group exposure and the adverse effects of the economic crises, our capital adequacy ratio is 10.2% as of December 31, 2001 as declared by BRSA at the end of the triple audit process.

Yapı Kredi generated $257 million in income from banking services in 2001, an increase of 11% compared to the previous year. The fact that Yapı Kredi achieved this increase in spite of the economic contraction and the severe competition is the reflection of the overall quality of the Bank's technology, infrastructure and human resources. Yapı Kredi generates the highest income from banking services in the sector, a result of its dominance in credit cards, its broad customer base and its early introduction of service fees.

In line with its strategy of operational efficiency, the centralization of operations was mostly finalized. As a result of this and the effective cost management efforts, personnel and administrative expenses decreased by 10% and 19%, respectively.

A tile of a two-headed hawk figure in a cross shape, 1236. From the Kubadâbâd Palace, Konya Karatay Medresesi Museum.

Bronze lock fragments, XII-XIII. c.,
Sadberk Hanım Museum

Customer Business

Corporates

Developing value added services and products to help customers adapt

Yapı Kredi has a long term commitment to the real sector. In line with this philosophy, the Bank played a positive role in the market in 2001 despite difficult business conditions. While retaining its core customer group of approximately 2000 companies with annual revenue over $10 million, most of which are affiliated with Turkey 's top 500 conglomerates or multinationals, Yapı Kredi also picked up new customers during the year and thus raised its market share by 11% in this competitive segment. The number of corporate branches was reduced from thirteen to nine, without any deterioration in service quality.

Serious attention was paid to reviewing customers frequently in order to spot potential problems and work with customers to pass bottlenecks. The customized scoring system for corporate customers applied in 2000 gave the Bank a relative advantage in maintaining asset quality. A data base that provides an in-depth history of customers was another important tool used in lending decisions.

Floating foreign exchange rates made imports and exports difficult in the first half of the year but business activity began to revive in the second half of the year.

During the year, Yapı Kredi focused on developing value added services and products to help customers improve productivity, reduce costs, compete more effectively and adapt to new market conditions.

Yapı Kredi is a major player in cash management systems, working with Turkey's top 500 multinational and national corporates and their dealer network to provide integrated solutions to cash management needs. During 2001, the Deferred Payment Card System for large retailers gained in popularity.

Yapı Kredi encourages corporate customers to make optimum use of new technologies. In 2001, Data Transmisson Site provided secure and reliable data exchange between Yapı Kredi and its corporate customers over the internet. The new generation of Corporate Internet Banking will be introduced in 2002.

Small and Medium Sized Enterprises

Introducing innovative products that create substantive benefits

Yapı Kredi seeks to deepen its penetration into this large customer segment by introducing innovative products that create calculable benefits and thus make service quality rather than price the determining factor in bank selection. The success of Yapı Kredi in this area is evidenced by a 25% increase in the number of products used by active commercial customers.

Segmentation of small and medium sized enterprises into more than 20 different groups and utilization of data mining underlie Yapı Kredi's push to create new business opportunities. By changing data into information and using focused marketing concepts, the Bank creates product bundles for specific customer segments, thus generating extra benefits for customers.

The Bank remained number one in Point of Sale (POS) machines with a 20% market share in units and transaction volume. At year-end 2001, 73,000 POS machines were in use, up from 62,000 at the end of 2000. Yapı Kredi launched mobile POS using GSM technology for businesses not operating from fixed location, such as taxis, or for distributors working in areas with inadequate fixed lines. The Bank also started selling third party processing for POS in Turkey and abroad.

Yapı Kredi maintained its leading position in merchant business despite the entry of many competitors, adding 6,000 new merchants for a total of 17,000 members.

World Card creates a unique business partnership with merchants by offering installment payments, bonus points, online account management, special offers from affiliates and product promotions based on CRM and merchant targeted marketing campaigns.
The "World" of Opportunities seeks to create competitive advantages and

customer satisfaction for member merchants by providing member merchants with database management, campaign consultation, design, production and reporting.

World Commercial Telecard enables World merchants to conduct banking transactions via alternative delivery channels and earn Worldpoints which can be redeemed for POS commission discounts or gifts from Worldpoint Catalogue. At its launch, Worldcard had a record number of 20,000 member merchants. A dedicated department will be set up in 2002 to acquire merchants for Worldcard.

In October 2001, Yapı Kredi Çözüm (Solution) was launched, an integration software for small and medium sized enterprises that automates the accounting reconciliation process for banking applications such as payroll, checks, promissory notes, payment facilities and collections. The product has proven effective in decreasing costs and increasing customer loyalty.

Other products under development include an e-commerce package and an Installment / Credit Commercial Card that provides a substitute for checks and promissory notes without losing the flexibility of these payment tools.

Individuals

Facilitating the interaction of consumers and merchants

In 2001, Yapı Kredi broadened its traditional commitment to its retail customers by facilitating the interaction of consumers and merchants through sophisticated customer relationship management techniques and financing possibilities with the ultimate aim of assuming management of the retail market in Turkey. During the year, the Bank worked to strengthen relations with specific customer segments by designing various product bundles.

The promotion of a Youth Banking package for the 12-17 age group was one of the highlights of the year. Including a debit card, demand and time deposits, an Internet debit card for secure shopping on the web and loyalty program point scheme offering gifts and discounts, the Youth Banking package aims to make Yapı Kredi the first bank in the life of young people. Yapı Kredi is also active in extending loans for educational expenses and plans to launch a School package in 2002 that provides advantages for schools, parents and students through alliances with companies offering goods and services of special interest to this target group.

Yapı Kredi has already built a major share in several important customer groups - doctors and dentists, university banking and well-to-do individuals - by offering appropriate products and personalized services.

The Bank continued to encourage customers to make more use of alternative delivery channels in 2001, promoting a loyalty program for debit card usage and an improved overdraft facility for automatic bill payments.

Credit cards are a core business for Yapı Kredi, the largest credit card issuer in Turkey with 3.5 million cards. As of year-end 2001, the Bank holds a major share in the credit card market with 18.6% in number of cards and 26% in business volume. In 2001, parallel to market conditions, Yapı Kredi focused on risk management, taking rigorous measure to lower limits, restrict cash withdrawals and collect its receivables. Consequently, the Bank kept the percentage of delinquencies reasonably low.

In 2001, as the credit and installment card market in Turkey became more crowded, Yapı Kredi redefined its strategy and prepared to introduce a new and unique card differentiated by special offers, CRM functions and business partnerships with merchants. Launched in early 2002, the World Card is expected to gain significant new cardholders and will replace many of the Bank's existing cards.

Although the consumer loan business was largely dormant during 2001 in line with developments in the market, Yapı Kredi developed an online consumer loan application system for car loans and

Bronze perfume jar, XIII. c.,
Kaya Turgut Collection

Tile of harpy and fish, 1236.
From the Kubadâbâd Palace,
Konya Karatay Medresesi
Museum.

built alliances with car dealers, construction companies and home improvement stores in order to be ready for an upsurge in demand once market conditions improve.

In the year ahead, Yapı Kredi will concentrate on utilizing information technology to convert data into information. This will put the Bank in a strong position to attack mass marketing in a segmented way.

International Activities

Increasing weight in foreign trade transactions

In 2001, as risk perception of Turkey increased, fund providers reallocated risk to the most credible institutions in the market. Yapı Kredi benefited from this trend to significantly improve relations with correspondents.

Generous lines from correspondents gave Yapı Kredi a noticeable advantage in the market in terms of its ability to issue Letters of Credit and Guarantee. Export transactions increased more than country trends. Although import business declined sharply overall, Yapı Kredi maintained volumes to gain a significant increase in market share.

The Bank's strong international standing enabled it to access the international syndication market twice during the year for a total of $575 million. The syndication of a $200 million term loan facility was highly successful, attracting 47 banks including the joint arrangers, resulting in an oversubscription that increased the final amount of the Facility to $350 million, a notable expression of confidence in Yapı Kredi by the international banking community. The Facility was signed on September 3rd in Frankfurt. In December, a one year Syndicated Term Loan Facility for $150 million was also oversubscribed. The Facility was closed at $225 million and signed in London on December 28th.

Abroad, Yapı Kredi Moscow had an excellent year and Yapı Kredi Bank Deutschland A.G. and Yapı Kredi Bank Nederland N.V., continued to develop their businesses.

Brass incense burner (or hand heater)
End of XIII. c., Konya Mevlana Museum

Treasury and Capital Markets

Benefiting from a flight to quality

The weakening of the IMF anti-inflationary program in November 2000 and its termination in February 2001 led to significant changes in the foreign exchange and interest rate regimes that drove Turkey into a serious recession. The suddenness and steepness of the devaluation and a high degree of unpredictability in the money markets depressed economic activity and weakened asset and liability structures, resulting in an historic contraction. In September, a nascent recovery was undermined by the terrorist attacks against the United States. However the response to these horrific events strengthened Turkey's position in the global marketplace, reconfirming its strategic role as a strong ally of the western world.

In this volatile and difficult environment, risk management was of prime importance. Yapı Kredi monitored its risks closely throughout 2001, limiting the maturity mismatch on its balance sheet and minimizing currency and interest rate risk volatility in order to keep it at a manageable ratio to shareholders' equity. The Bank's long standing conservative policy to control market risk worked to the advantage of Yapı Kredi which continued to act as a market maker in the Foreign Currency / Turkish Lira market; a role appreciated by customers, other banks and authorities.

Yapı Kredi increased its market share in many areas and sought to penetrate more deeply into customer businesses while managing its risks prudently. Yapı Kredi benefited from the flight to quality experienced in the wake of takeovers and closures of ailing banks as confidence became the determinate factor in bank selection. This caused an inflow of funds that were placed in short term instruments and securities portfolios, ensuring a high level of liquidity.

Bronze candleholder with circular base,
XII-XIII. c., Edgü Collection

Capital market activity on the corporate side was very successful, boosting Yapı Kredi's market share in this area four fold. Efforts on the consumer side also had good results: high cost transactions such as repos decreased in favor of mutual funds and T-bills, tripling Yapı Kredi's market share in mutual funds.

In 2002, Yapı Kredi will pursue careful and conservative policies designed to minimize market risk parallel with continuing economic contraction. Yapı Kredi has built up considerable liquidity in its balance sheet that will enable it to prepare for the upcoming growth period.

Alternative Distribution Channels

Integrating the Call Center with other delivery channels for effective sales campaigns

Yapı Kredi conducted more than 54% of comparable transactions through Alternative Distribution Channels in 2001 and good progress was made on all channels. Yapı Kredi gives customers a pricing incentive to change their banking habits by setting fees and commissions for transactions conducted through these channels much lower than in branches, if not free of charge. As another incentive, a loyalty program for non branch users that offers gifts against points was introduced in late November and enhanced in early 2002.

Yapı Kredi is number one in telephone banking in Turkey with 227,000 active users and a 22% increase in incoming calls in 2001. Customers may now conduct telephone banking transactions in English if they wish and request that statements and transactions slips be sent to them electronically. The Teletel service is free of charge for most of the transactions.

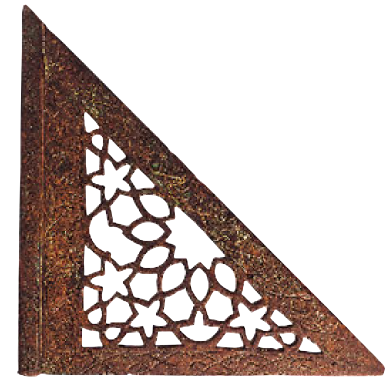
Yapı Kredi has more than 70,000 active users of its internet banking by the end of 2001. A new version of Teleweb was introduced in January 2002. The in-house developed system is more reliable, improves performance, adds new functions, is open to growth and also provides restricted or full use for representatives of companies. Teleweb is free for all transactions. The Bank is working on a much-improved internet service with new functionalities for small sized enterprises and corporates to be launched in 2002.

An interactive TV channel was added during the year in cooperation with Digiturk, Turkey's most successful Direct-to-Home (DTH) carrier, a subsidiary of Yapı Kredi. As TV ownership is almost universal in Turkey, Yapı Kredi believes that people will start to use TV in new ways, making it a new delivery channel with great growth potential. Around 20,000 people use it currently.

Mobile Telephone Banking is another area of potential growth. In 2001, Yapı Kredi added bill payment functions, trading of mutual funds and payment of Digiturk and Turkcell (the leading GSM company and a subsidiary of the Bank) bills. In 2002, GPRS applications will be developed with Turkcell using the expertise gained from WAP.

The number of ATMs reached 1,340 at year-end, up from 1,300 the year before. Using ATMs to recharge Turkcell prepaid cards through debit or credit card became very popular during the year. The largest number of mutual fund trading transactions was carried out on ATMs.

The Call Center has become an integral part of sales activities of other departments in the Bank, especially Individual Banking and Customer Relationship Management. The Call Center is now perceived as a very important partner due to selection through CRM of the right group of customers, fast feedback, persuasive agents, ease of management and evaluation. During the year, the Call Center was used as the main channel for campaigns of both the Bank and subsidiary insurance and investment companies. The Call Center is now fully integrated with branches and direct mailing activities. Joint marketing campaigns with the Call Center will be implemented in a stronger way in 2002.



Bronze triangle with a geometric net, XII-XIII. c., Sadberk Hanım Museum

OPERATIONS

Centralizing for higher efficiency, security and quality

Yapı Kredi achieved a remarkable increase in efficiency and quality in 2001. Back office operations for 190 branches were centralized at the main Operations Center at Gebze near Istanbul and for the remaining 210 branches at three regional centers. Credit card operations were also centralized at Gebze.

Centralization means transactions are processed faster at a lower cost with higher security and quality. Manpower requirements for operations was reduced by 57% while the branch sales force increased by 32% due to the transfer and retraining of redundant operations personnel. By eliminating back office operations at branches, marketing and customer service areas expanded by 20%. Centralization also brought out the opportunity to offer international trade related services through a wider web of branches, with standard of high quality.

Yapı Kredi managed to centralize all credit and foreign trade operations without any deterioration in customer service by utilization of hi-tech solutions, for example, original documents produced in back office, requiring immediate delivery to the customer, are printed out and signed at the branch - a unique approach in Turkey.

The Bank gained a significant competitive advantage in cash management activities by introducing IC Banking, an integrated system of GPS, Corbuss, Lotus Notes, Barcode systems and Armored Vehicle Tracing. The system monitors armored trucks by satellite and connects them through PCs to branches and ATMs, thus ensuring the efficient use of cash and physical resources.

In another development, printing and mailing activities were fully outsourced. This resulted in savings of nearly $1 million and upgraded service quality.

The Centralization Project won Yapı Kredi first place in the prestigious Ahmet Dallı Banking Awards for 2001.

TECHNOLOGY

Continuously improving products and technical platforms

Yapı Kredi Teknoloji Hizmetleri A.Ş., the Bank's dedicated information technology provider moved ahead in 2001 to finalize organizational restructuring and renew ISO 9001 certification with year 2000 compliance.

A critical milestone was achieved by outsourcing network, technical services and operations to Superonline, an affiliated company. The in-house developed legal follow-up of non-performing loans used by Yapı Kredi for the last three years was adopted by Banking Regulation and Supervision Agency for all banks managed by the Deposit Insurance Fund.

New projects and products were initiated. Among most significant of these are:

Launch of Worldcard as a branded product with new enhancements, functioning as a loyalty program for both cardholders and merchants. In 2002, merchant database marketing concepts will be introduced to further enhance the program.

Renewal of Teleweb, Yapı Kredi's internet banking platform.

Selection of browser based internet technology to improve the technical platform for branches. The project is expected to be finalized by the beginning of 2003.

Full utilization of data warehouse and data mining and introduction of a pilot "campaign management system" led by the Call Center with Internet and branches to be added later.

Design of a customized technological risk management system at COBIT standards.

Finalization of business requirements with corporate department for corporate internet banking solutions.

Investment in EMV compliant smart cards to prevent credit card fraud began and will continue through 2003.

Yapı Kredi Teknoloji Hizmetleri A.Ş., also provides technical services to subsidiary companies. In 2001, it introduced a new internet platform for Yapı Kredi Yatırım and completed enhancement projects for Yapı Kredi Leasing and Yapı Kredi Factoring. It designed a new platform for Yapı Kredi Bank Nederland N.V at EU standards, leading to full set of functions at these standards by early 2003.

Human Resources

Intensifying training, improving morale and deepening team spirit

Yapı Kredi retained key talent in 2001, going against the general tendency of banks to trim costs by laying off staff. Not only did Yapı Kredi keep almost all of its employees, it succeeded in intensifying training, improving morale and deepening team spirit.

Training schedules were completed and implemented with the highest priority given to the sales team. A new training program for head office staff was designed to improve internal customer service quality. By June 2002, more than 3000 head office employees will have received training, thus completing the customer service chain and increasing service quality to external customers. Use of Computer Based Training (CBT) increased and a data base was established for employees and managers to monitor offerings and schedules.

Yapı Kredi also offered voluntary first aid and rescue courses in recognition of Turkey's vulnerability to earthquakes and its responsibility to safeguard the lives of its employees and their families. Yapı Kredi initiated first aid courses on weekends that were attended by one third of employees. Rescue teams were formed in Istanbul and given hard and intensive training. Similar teams will be established in Izmir and Ankara in 2002. These projects generated a positive attitude and gave a sense of emotional fulfillment and motivation to employees during a difficult year.

In order to keep customer satisfaction at acceptable levels, Yapı Kredi stepped up its "mystery shopping" program, making 3470 visits to branches to eliminate the negative effect of crisis on service quality. The program has led to a 46% increase in service quality since 1999.

Progress is being made towards the goal of decentralizing Human Resources management in the Bank by forming team structures for retail sales, corporate and individual sales. The cycle will be completed in 2002 but training of managers will take some time.

Community Involvement

Reaching out to youth

Yapı Kredi has been closely identified with culture, arts and publishing since its establishment. This heritage puts Yapı Kredi in a prestigious and unique position, differentiating it from other financial institutions in Turkey.

Yapı Kredi Kültür Sanat Yayıncılık is the biggest publisher in Turkey by far, with a 30% share of the market for non-textbooks. Among its prestige publications are a series of illustrated monographs on Turkish cities and food; in 2001, volumes on Konya and bread were issued. As a fully owned subsidiary of Yapı Kredi, it has responsibility for managing all the culture and arts activities of the bank. These include running a museum and art gallery which held 12 exhibits during 2001.

2001 marked the 12th year for the Yapı Kredi Arts Festival. In addition, Yapı Kredi arranged concerts in 10 cities all over Turkey as part of the promotion of Youth Banking, a good example of the benefits obtained by the Bank's integrated approach to arts and business activities.

Bronze medicine box,
XII-XIII. c., Edgü Collection

A star-shaped tile with the figure of a sphinx. Konya Karatay Medresesi Museum.

YAPI VE KREDİ BANKASI ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Yapı ve Kredi Bankası Anonim Şirketi :

We have audited the accompanying consolidated balance sheet of Yapı ve Kredi Bankası Anonim Şirketi (the Banking Group) as of December 31, 2001 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements which are all expressed in the equivalent purchasing power of Turkish Lira as of December 31, 2001, are the responsibility of the Banking Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We did not audit the financial statements of Yapı Kredi Faktoring Anonim Şirketi, Yapı Kredi Yatırım Menkul Değerler Anonim Şirketi, Yapı Kredi International Financial Services Ltd., Yapı Kredi Moscow and Yapı Kredi Holding B.V., consolidated subsidiaries, whose statements reflect total assets of TL 1,725,430 billion and total net income of TL 51,146 billion as of and for the year ended December 31, 2001. Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, in so far as it relates to the amounts included for those subsidiaries, is based solely on the reports of other auditors.

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

As more fully explained in Note 1, on June 18, 2002, the management, privileges except economic rights and control of Pamukbank T.A.Ş. (Pamukbank), a shareholder of the Bank, was transferred to the Saving Deposit Insurance Fund (the Fund) in accordance with the decision of the Banking Regulation and Supervision Agency (BRSA) and accordingly management, control and privileges except economic rights relating to the shareholding of Pamukbank in the Bank will also be exercised by the Fund pursuant to Article 8/2c of the Turkish Banks Act. Finalization of the shareholding and asset structure of the Bank is dependent on the settlement between Çukurova Group and BRSA.

In our opinion, based on our audit and the reports of other auditors, except for the effects of uncertainties explained in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yapı ve Kredi Bankası Anonim Şirketi as of December 31, 2001 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

We also reported separately on the consolidated and non-consolidated financial statements of the Bank as of December 31, 2001, prepared in accordance with accounting policies as defined in the uniform chart of accounts applicable to banks in Turkey. The significant differences between these accounting policies and International Accounting Standards so far as concerns the financial statements referred to are summarized but not quantified in Note 2.

As further discussed in Note 3, in 2001, the Banking Group adopted International Accounting Standard Number 39 - Financial Instruments : Recognition and Measurement, which became effective for financial statements covering financial years beginning on or after January 1, 2001.

Ernst&Young
June 28, 2002
İstanbul, Turkey

YAPI VE KREDİ BANKASI ANONİM ŞİRKETİ CONSOLIDATED BALANCE SHEET DECEMBER 31, 2001

(Currency - Billions of Turkish Lira)

ASSETS	Notes	2001	2000
Cash and due from banks	5	646,624	324,492
Placements with banks	6	1,902,122	1,428,847
Reserve deposits	7	809,456	600,463
Investments	8	3,119,683	4,498,789
Originated loans and advances, net	9	7,052,474	6,851,430
Minimum lease payments receivable, net		152,906	183,666
Factoring receivables, net		87,614	109,009
Accrued income	10	14,549	94,913
Investments in associates	11	241,733	210,040
Investments in subsidiaries	11	8,249	6,119
Goodwill, net	12	42,975	37,878
Premises, equipment, leasehold improvements and intangibles, net	13	1,747,925	1,831,853
Other assets, net	14	580,650	551,596
Total assets		16,406,960	16,729,095
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	15	11,773,179	8,552,590
Funds borrowed from banks	16	1,761,821	2,120,188
Obligations for repurchase agreements	17	348,608	1,424,483
Notes issued	18	273,946	288,660
Insurance technical reserves	24	387,407	418,841
Factoring payables		34,349	30,434
Accrued expense	10	26,579	59,806
Deferred tax liability	19	69,021	253,673
Other liabilities	20	460,080	292,731
Taxation on income	19	12,293	65,904
Total liabilities		15,147,283	13,507,310
Minority interest payable		89,538	55,885
Shareholders' equity			
Share capital	22	2,122,665	1,886,956
Retained earnings	23	1,025,113	1,046,338
Unrealized gain on available for sale portfolio		45,747	-
(Loss) income for the year		(2,023,386)	232,606
Total shareholders' equity		1,170,139	3,165,900
Commitments and contingencies	27		
Total liabilities and shareholders' equity		16,406,960	16,729,095

YAPI VE KREDİ BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2001

(Currency - Billions of Turkish Lira)

	Notes	2001	2000
INTEREST INCOME:			
Interest and fees on loans		1,775,876	1,656,589
Interest on investments		759,948	732,724
Interest on deposits in banks		330,650	129,925
Interest income from financial leases		23,041	23,741
Interest income from factoring advances	4	16,019	15,239
Other interest income		18,571	7,799
Total interest income		2,924,105	2,566,017
INTEREST EXPENSE:			
Interest on deposits		(1,756,305)	(819,790)
Interest on funds borrowed from banks and notes issued		(580,067)	(388,571)
Total interest expense		(2,336,372)	(1,208,361)
Net interest income		587,733	1,357,656
PROVISION FOR LOAN LOSSES AND DOUBTFUL RECEIVABLES		(1,312,214)	(153,580)
Foreign exchange loss, net		(896,578)	(279,813)
Net interest (expense) income after provision for loan losses and doubtful receivables and foreign exchange loss		(1,621,059)	924,263
NON-INTEREST INCOME:			
Trading income, net		-	59,251
Income from banking services, net		369,397	331,725
Insurance technical income	24	406,602	308,199
Factoring commission income		2,141	2,763
Dividend income from equity participations		32,029	12,069
Income from sale of equity participations, net	11	213	282,447
Other income	25	17,473	85,089
Total non-interest income		827,855	1,081,543
NON-INTEREST EXPENSE:			
Trading loss, net		(143,128)	-
Insurance technical expenses	24	(412,171)	(301,487)
Salaries and employee benefits		(279,592)	(311,177)
General and administrative expenses		(299,399)	(367,729)
Provision for non-cash loans		(238,996)	(13,190)
Depreciation and amortization		(144,647)	(154,901)
Provision for retirement pay		(7,689)	(11,816)
Transaction taxes and duties		(59,261)	(65,429)
Other expense	25	(97,412)	(119,374)
Total non-interest expense		(1,682,295)	(1,345,103)
(Loss) income before taxation, extraordinary items, minority interest and gain (loss) on net monetary position		(2,475,499)	660,703
TAXATION CHARGE:	19		
Current		(46,299)	(112,279)
Deferred		121,234	(55,324)
Total taxation charge		74,935	(167,603)
Net (loss) income before extraordinary items, minority interest and gain (loss) on net monetary position		(2,400,564)	493,100
Extraordinary items	38	(21,304)	(143,266)
MINORITY INTEREST		5,275	3,167
Net (loss) income before gain (loss) on net monetary position		(2,416,593)	353,001
GAIN (LOSS) ON NET MONETARY POSITION		393,207	(120,395)
Net (loss) income		(2,023,386)	232,606
Weighted average number of shares		454,245,429,737	319,002,023,887
Basic / diluted earnings per share in full TL		(4,454)	729

YAPI VE KREDİ BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2001

(Currency - Billions of Turkish Lira)

				Retained Earnings	
	Total	Share Capital	Unrealized Gain (Loss) on Available for Sale Portfolio	Translation Loss (See Note 3)	Legal Reserves and General Reserve
Balances, January 1, 2000	2,921,759	1,458,340	-	(3,768)	1,467,187
Share capital increase-					
Through dividend distributions	-	325,014	-	-	(325,014)
Transfer from retained earnings	-	103,602	-	-	(103,602)
Accumulated deficit of the consolidated equity participation sold	2,158	-	-	-	2,158
Retained earning increase from change in participation percentages	13,552	-	-	-	13,552
Dividends	(224)	-	-	-	(224)
Translation loss	(3,951)	-	-	(3,951)	-
Current year income	232,606	-	-	-	232,606
Balances, December 31, 2000	3,165,900	1,886,956	-	(7,719)	1,286,663
Adoption of IAS 39	(4,797)	-	49,979	-	(54,776)
Share capital increase-					
Through dividend distributions	-	93,045	-	-	(93,045)
Transfer from retained earnings	-	142,664	-	-	(142,664)
Retained earning increase from change in participation percentages	2,839	-	-	-	2,839
Correction of a restatement error by a consolidated subsidiary	(2,330)	-	-	-	(2,330)
Retained earnings increase from merger	36,280	-	-	-	36,280
Unrealized loss on available for sale portfolio	(4,232)	-	(4,232)	-	-
Dividends	(214)	-	-	-	(214)
Translation loss	79	-	-	79	-
Current year loss	(2,023,386)	-	-	-	(2,023,386)
Balances, December 31, 2001	1,170,139	2,122,665	45,747	(7,640)	(990,633)

YAPI VE KREDİ BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2001

(Currency - Billions of Turkish Lira)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	(2,023,386)	232,606
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for losses in portfolio available for sale	170,494	-
Provision for loan losses and doubtful receivables	1,312,214	166,770
Provision for non-cash loans	238,996	13,190
Provision for impairment in investment in associates	16,925	-
Income from sale of equity participations	(213)	(282,447)
Loss from sale of premises and equipment and property held for resale	9,927	2,657
Depreciation and amortization	144,647	154,901
Provision for retirement pay liability	7,689	11,816
Deferred tax liability	(180,995)	(34,227)
Net change in insurance technical reserves	(31,434)	(8,632)
Operating (loss) profit before changes in net operating assets	(335,136)	256,634
(Increase) decrease in operating assets		
Accrued income	80,364	89,932
Other assets	(54,467)	(99,777)
Increase (decrease) in operating liabilities		
Accrued expense	(33,227)	6,642
Other liabilities	(240,892)	(94,993)
Taxation on income	(53,611)	13,760
Minority interest payable	33,653	(65,733)
Net cash (used by) provided from operating activities	(603,316)	106,465
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in placements with banks	(473,275)	(790,375)
Net decrease (increase) in investments	1,200,723	(174,065)
Net increase in reserve deposits	(208,993)	(22,211)
Net increase in originated loans and advances	(1,351,702)	(1,041,538)
Cash paid for investment in associates	(50,909)	(31,162)
Cash paid for investment in subsidiaries	(2,129)	-
Cash obtained from sale of associates	2,504	303,652
Cost of consolidated subsidiaries sold	-	2,158
Net increase in retained earnings due to consolidation	36,789	13,553
Net (increase) decrease in premises and equipment	(57,269)	199,842
Proceeds from sale of premises and equipment and property held for resale	15,486	13,662
Net decrease (increase) in factoring receivables	21,395	(3,382)
Net decrease (increase) in minimum lease payments receivable	30,760	(62,191)
Increase in goodwill	(8,547)	(28,997)
Net cash used by investing activities	(845,167)	(1,621,054)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	3,220,589	299,736
Net (decrease) increase in funds borrowed from banks	(358,367)	994,963
Net decrease in notes issued	(14,714)	(49,511)
Dividends distribution	(93,259)	(325,239)
Cash proceeds from share capital increase	93,045	325,014
Net increase (decrease) in factoring payables	3,914	(28,513)
Net (decrease) increase in obligations for repurchase agreements	(1,075,875)	379,701
Net cash provided from financing activities	1,775,333	1,596,151
Translation gain (loss)	79	(3,951)
Net effect of IAS 39 application	(4,797)	-
NET INCREASE IN CASH AND DUE FROM BANKS	322,132	77,611
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	324,492	246,881
CASH AND DUE FROM BANKS AT END OF YEAR	646,624	324,492
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
a) The cash paid by the Banking Group for interest.	2,404,135	1,190,307
b) Extraordinary taxes paid by the Banking Group	21,304	143,266
c) The cash received by the Banking Group for interest.	3,239,950	2,849,012
d) Dividend income received by the Banking Group.	32,029	12,069
e) Income taxes paid by the Banking Group.	65,904	52,144

f) For the purpose of the consolidated statement of cash flows, cash and due from banks is considered as cash and cash equivalents.

YAPI VE KREDİ BANKASI ANONİM ŞİRKETİ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

(Currency - Billions of Turkish Lira unless otherwise indicated)

1) ORGANIZATION AND NATURE OF ACTIVITIES:

Yapı ve Kredi Bankası Anonim Şirketi (the Bank) was established on September 9, 1944 under the Turkish Banking and Commercial Codes. The Bank's ordinary shares have been listed on the İstanbul Stock Exchange since 1987 and its shares in the form of Global Depository Receipts have been listed on the London Stock Exchange since 1997. The address of the headquarters and registered office of the Bank is Yapı Kredi Plaza D Blok, Büyükdere Caddesi, Levent 80620, İstanbul, Turkey.

The Bank is a full-service financial institution engaged in corporate, retail, international and investment banking businesses through a network which includes 423 domestic branches, five offshore banking units in İstanbul, İzmir, Mersin, Antalya and Bahrain, five overseas representative offices in Germany, the U.S.A., the U.K. and the Russian Federation. Services provided include customer deposit-taking, consumer and corporate lending, foreign trade transactions, investment banking and mutual fund management, credit and debit cards, electronic, telephone and internet banking and payment services.

The Bank has established or acquired financial subsidiaries which complement the core areas of its business including life and non-life insurance, leasing, factoring and investment banking. The Bank also has subsidiaries in information technology, tourism and construction sectors operating in Turkey and abroad.

For the purpose of these consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Banking Group".

As of December 31, 2001, the number of personnel of the Banking Group is 10,917 (2000 - 11,491).

In accordance with the decision of the Banking Regulation and Supervision Agency (BRSA) dated June 18, 2002, the management, privileges except economic rights and control of Pamukbank T.A.Ş. (Pamukbank), a shareholder of the Bank, was transferred to the Saving Deposit Insurance Fund (the Fund) and accordingly, management control and privileges except economic rights relating to the shareholding of Pamukbank in the Bank will also be exercised by the Fund pursuant to Article 8/2c of the Turkish Banks Act.

Upon transfer of Pamukbank to the Fund and the limitations set for the major shareholders of Pamukbank, based on the request of BRSA, the Bank classified all Çukurova Group risks (excluding the risks of the Bank's financial subsidiaries and subsidiaries operating in telecommunication, tourism and technology industry) within the non-performing loans category and established a provision at 50% in the consolidated financial statements after taking collaterals obtained from Çukurova Group into consideration.

Finalization of the shareholding and asset structure including any improvements relating to the Çukurova Group risks of the Bank is dependent on the settlement between Çukurova Group and BRSA.

2) BASIS OF PRESENTATION:

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish commercial practice, tax regulations, Banking Law and accounting policies as defined in the uniform chart of accounts applicable to banks in Turkey. The local consolidated subsidiaries maintain their books of account in accordance with Turkish Commercial Code and Tax Regulations and the accounting principles promulgated by the Turkish Capital Market Board (TCMB). The foreign consolidated subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries where they are registered. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee.

The significant differences between accounting policies applicable to banks in Turkey and IAS relate to the following:

-measurement of financial assets and financial liabilities including derivatives
-consolidation and equity basis of accounting
-recognition of deferred tax effects of taxable temporary differences

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The major accounting policies followed in the preparation of the consolidated financial statements are set out below :

Basis of Preparation

The consolidated financial statements originally prepared under the historical cost convention (except for the revaluation of premises and equipment in accordance with the Turkish Procedural Tax Code) are restated in accordance with IAS 29. IAS 29 is applicable for the accounting periods beginning from January 1, 1990 and deals with the effect of inflation on financial statements prepared in highly inflationary economies. There are certain criteria prescribed by IAS 29 in order to define an economy as highly inflationary, one of which is the cumulative inflation rate over three years approaching, or exceeding 100%. As of December 31, 2001, the three year cumulative rate in Turkey has been 307.5% (2000 - 233.4%), based on the wholesale price index as published by the Turkish State Institute of Statistics.

IAS 29 requires that financial statements prepared in accordance with IAS in highly inflationary economies be stated in terms of the measuring units current at the balance sheet date and corresponding figures for previous periods be restated in the same units.

The main guidelines for the restatement are as follows:

- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet dates.
- Non-monetary assets and liabilities and components of shareholders' equity (except for revaluation adjustment which is eliminated) which are not expressed in terms of the measuring unit current at the balance sheet dates are restated by applying a general price index.
- All items in the consolidated statement of operations are restated by applying the relevant conversion factors.
- The gain or loss on net monetary position is included in the consolidated statement of operations as loss on net monetary position.
- Indices and conversion factors used to restate the consolidated financial statements are as follows :

	Index	Conversion Factor
December 31, 2001	4,951.7	1.886
December 31, 2000	2,626.0	1.327

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Banking Group could realize or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Banking Group could return or settle the same values of shareholders' equity to its shareholders.

Change in Accounting Policy

On January 1, 2001, the Banking Group adopted IAS 39 - Financial Instruments: Recognition and Measurement (IAS 39). The financial effects of adopting IAS 39 are reported in the consolidated statement of changes in shareholders' equity. IAS 39 has been applied prospectively in accordance with the requirements of this standard and therefore comparative financial information has not been restated.

The adoption of this standard has resulted in a debit adjustment to retained earnings at January 1, 2001 of TL 54,776 billion and credit adjustment to unrealized gain on available for sale portfolio of TL 49,979. Further information is presented in accounting policies for investments, originated loans and advances, derivative financial instruments and in respective footnotes.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank (the Parent Bank) and its subsidiaries presented as a single economic entity.

As of December 31, 2001 and 2000, the financial statements of the following subsidiaries are included in the consolidated financial statements for each respective year that the Bank has ownership :

Name	Ownership (%) (Direct/Indirect) 2001	2000	Year of Incorporation	Country of Incorporation	Nature of Business Activities
Yapı Kredi Sigorta A.Ş. (Yapı Kredi Sigorta)	67.72	70.35	1943	Turkey	Insurance
Yapı Kredi Finansal Kiralama A.O. (YK Leasing) (*)	30.47	30.47	1987	Turkey	Leasing
Yapı Kredi Faktoring A.Ş. (YK Faktoring)	99.98	99.98	1992	Turkey	Factoring
Yapı Kredi Yatırım Menkul Değerler A.Ş. (YK Yatırım)	99.99	99.99	1989	Turkey	Investment banking
Yapı Kredi Yaşam Sigorta A.Ş.	99.99	99.99	1991	Turkey	Insurance
Yapı Kredi Bank Deutschland A.G. (YK Deutschland)	72.92	100.00	1999	Germany	Banking
Yapı Kredi Holding B.V. (YK Holding)	100.00	100.00	1999	Netherlands	Holding
Yapı Kredi Moscow (YK Moscow)	99.70	99.70	1994	The Russian	Banking
Yapı Kredi Yatırım Ortaklığı A.Ş.	34.99	18.60	1995	Turkey	Investment Trust
Yapı Kredi International Financial Services Ltd. (YK International)	100.00	100.00	1998	Ireland	Financial Services
Enternasyonal Turizm Yatırım A.Ş. (Enternasyonal)	14.80	14.80	1965	Turkey	Tourism
Bayındırlık İşleri A.Ş.	84.86	84.86	1963	Turkey	Construction
Akdeniz Marmara Turizm İnşaat ve Ticaret A.Ş. (Akdeniz Marmara)	99.99	99.99	1992	Turkey	Construction
Yapı Kredi Bank Nederland N.V. (YK Nederland)	100.00	-	2001	Netherlands	Banking

(*)Total percentage is 65.40 together with the shares held in the common stock portfolio, which are eliminated during consolidation.

As of December 31, 2001 and 2000, the Bank's participations in Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (YK Koray - incorporated in 1996, in Turkey) (26.01%), Turkcell Holding Anonim Şirketi (Turkcell Holding - incorporated in 1999, in Turkey) (20.02%) and Banque de Commerce et de Placements S.A. (BCP - incorporated in 1963, in Switzerland) (30.67%) have been accounted for under the equity method of accounting.

In 2001, the Bank participated in Groupe SEB İstanbul Ev Aletleri Ticaret A.Ş. (Groupe SEB) with TL 17,459 at an ownership percentage of 32% as a result of converting debt to equity. The participation of the Bank in Groupe SEB has been accounted for under the equity method of accounting.

In October 2001, Yapı Kredi Bank Deutschland A.G. merged with Bank Kreiss A.G. another bank incorporated in Germany belonging to the Çukurova Group. After the merger, the Bank's share in YK Deutschland A.G. decreased to 62.92% from 100%.

During 2001, Yapı Kredi Holding B.V. established Yapı Kredi Bank Nederland

N.V. in the Netherlands with an initial share capital of Euro 27,000,000 and ownership percentage of 100%. The financial statements of YK Nederland have been fully consolidated.

As of December 31, 2001, the financial statements of Yapı Kredi Yatırım Ortaklığı A.Ş. in which the Banking Group has an interest of 34.97% interest have been fully consolidated in the consolidated financial statements of the Bank since the Bank has full control over its operations. As of December 31, 2000 this investment was carried at cost due to immaterial operating results.

In 2000, YK International shares were sold to Stork Financial Investments Company which is a wholly owned subsidiary of YK Holding. As of December 31, 2001 and 2000, the financial statements of YK International have been fully consolidated due to the indirect ownership interests of the Bank.

During 1999, the Bank sold 50% of its shares in Superonline to Çukurova Group. In June 2000, the remaining shares were sold to Lehman Brothers International (Europe).

In 1998, the Bank sold its shares in Havenfields Tourism Investment N.V. (Havenfields) to Çukurova Group and acquired 33.33% of Enternasyonal, a wholly owned subsidiary of Havenfields, and full management responsibility through a share capital increase. In 1999, the Bank increased its ownership to 55.22% through a share capital increase. The Bank did not participate in the share capital increase of Enternasyonal that took place at the end of December 2000 and thus its participation decreased to 14.80%.

As of December 31, 2000, the consolidated financial statements include the results of operations of Superonline and Enternasyonal for six months and twelve months, respectively.

As of December 31, 2000, the consolidated financial statements do not include the balance sheet of Enternasyonal due to the decrease in the participation percentage of the Banking Group in Enternasyonal from 55.22% to 14.80% before the year-end.

During 2000, the Bank participated in the share capital increase of Fintur Holdings B.V. (Fintur) which was established in the Netherlands to invest in companies operating in the telecommunication industry, in the amount of Euro 75,107,296. As of December 31, 2000, the equity basis of accounting was not applied for the Bank's participation in Fintur (direct - 19.44% ; indirect 21.99%) since the Bank had no significant influence on Fintur.

In 2001, in line with the technology restructuring in the Çukurova Group and the Board of Directors' decision dated February 28, 2002 and numbered 5914, the Bank decided to sell its investment in Fintur to Sonera Holding B.V. (Sonera) and Turkcell İletişim Hizmetleri A.Ş. (Turkcell) and purchase certain investments in the telecommunications sector in return. A memorandum of understanding was signed between the parties on February 28, 2002.

For the purposes of these consolidated financial statements, the Bank’s participations in the following subsidiaries have been written off against retained earnings or the statement of operations on the grounds of the impracticality of consolidating the financial statements of those subsidiaries :

	Ownership (%)		Restated Cost	
Name	2001	2000	2001	2000
Comag Continental Madencilik Sanayi ve Ticaret A.Ş.	90.87	90.87	70,435	70,435
Agro-San Kimya Sanayi ve Ticaret A.Ş.	99.17	99.17	33,514	33,514
Auer İmalat A.Ş.	96.27	96.27	29,101	29,101
Tifdruk Matbaacılık Sanayi A.Ş.	96.10	96.10	18,094	18,094
Yapı Kredi Teknoloji Hizmetleri A.Ş.	99.42	99.42	6,405	6,405
Yapı Kredi Kültür - Sanat Yayıncılık Ticaret ve Sanayi A.Ş.	99.99	99.99	2,153	1,835
Çukurova Havacılık A.Ş.	30.00	30.00	3,121	1,590

All significant intercompany balances and transactions are eliminated on consolidation. The assets and liabilities, both monetary and non-monetary and income statement items of the foreign subsidiaries are translated, for the purpose of consolidation, at year-end foreign exchange rates.

Differences resulting from the deviation between the inflation rate and the appreciation of foreign currencies against the Turkish Lira, related to equity accounts of consolidated foreign subsidiaries were taken to shareholders' equity as a net translation loss.

Investments

The Banking Group maintains three separate investment portfolios as follows:

Held to maturity
Available for sale
Trading

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. After initial recognition, investments which are classified as available for sale and held for trading are measured at fair value, unless fair value cannot be reliably measured.

Premiums and discounts on investments designated as held to maturity or available for sale are amortised on a systematic basis to maturity and taken to interest income.

Investments which have fixed or determinable payments and are intended to be held to maturity, are subsequently measured at amortised cost, less provision for non-temporary impairment in value, based on the net present value of future anticipated cash flows.

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realise the asset.

For investments where there is no quoted market price or quoted market price is not indicative of the fair value of the instrument, a reasonable estimate of the fair value is based on the expected cash flows of the underlying net asset base of the investment.

In relation to investments which are classified as available for sale, any gain or loss arising from a change in fair value of such investments is recognized directly in equity through the statement of changes in equity, until the financial asset is sold, collected or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

For held to maturity investments carried at amortised cost any gain or loss is recognised in the consolidated statement of operations when the investment is derecognised or impaired.

As of December 31, 2000, securities were held for either investment or trading purposes. Securities held in the investment portfolio were debt and equity securities which were stated at cost plus accrued interest and cost, respectively. Securities held in the trading portfolio were stated at market value. The gain or loss on sale of securities was determined by the specific identification method. All securities denominated in foreign currencies were stated at cost which was translated into Turkish Lira at the year-end foreign exchange rate plus accrued interest income. The Banking Group reclassified its trading and investment securities portfolio as of December 31, 2000 into available for sale, held for trading or held to maturity portfolios in accordance with the provisions of IAS 39.

Repurchase and Reverse Repurchase Transactions: The Banking Group enters into short-term sales of government bonds and treasury bills under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement, continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for held for trading securities and for originated loans and advances for the securities issued by the government at original issuance by transferring the funds directly to the government. The proceeds from the sale of these securities are treated as liabilities and included in obligations for repurchase agreements. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the balance sheet, as the Banking Group does not obtain control over the assets. Amounts paid under these agreements are included in originated loans and advances. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement.

Originated Loans and Advances: Loans and advances originated by the Banking Group by providing money to the borrower are classified as originated loans and advances and are carried at amortized cost less any amounts written-off and specific and general provisions.

Allowance For Possible Loan Losses: The allowance for possible loan losses is established through a provision charged to expenses. The allowance is the estimated amount that management believes to be adequate to absorb possible future losses on existing loans that may become uncollectible due to current economic conditions, quality and inherent risks in the loan portfolio and other relevant factors which warrant current recognition.

Loans and advances are classified and accounted for in different categories based on the prospects of collectibility and the types of collateral obtained for such loans. A specific loan loss provision is created to reduce impaired loans to their net present values based on original interest rates. Potential losses not specifically identified but which experience indicates are present in a portfolio of loans and advances are recognised as an expense and are deducted from the total carrying amount of loans and advances as a general provision for losses on loans and advances. The Bank has made a general provision of 0.1% (2000 - 0.1%) for off balance sheet commitments and 0.5% (2000 - 0.5%) over cash loans which are not classified as non-performing.

A write-off is made when all or a part of a loan is deemed uncollectible or in case of a debt forgiveness. Write-offs are charged against previously established allowances and reduce the principal amount of a loan. Recoveries of loans written-off in an earlier period are included in income.

Premises, Equipment, Leasehold Improvements and Intangibles: Premises, equipment, leasehold improvements and intangibles are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method to write off the cost of each asset over its estimated useful life at the following rates :

Buildings	2%
Equipment, leased equipments, furniture and fixtures	6% - 20%
Intangibles	20% - 25%
Leasehold improvements	Over the term of the respective leases

Impairment of Assets: An assessment is made at each balance sheet date to determine whether there is objective evidence that assets may be impaired. If such evidence exists, the estimated recoverable amounts of related assets are determined and any impairment loss recognized for the difference between the recoverable amounts and the carrying amounts are accounted for as an allowance on the balance sheet and the amount of the loss is included in the net profit and loss for the year.

Revenue and Expense Recognition: All income and expense items are recognized on an accrual basis except service fee and commission income and expense, which are recorded on a cash basis. The impact of not applying the accrual basis of accounting for commission income and expense is not material to the consolidated financial statements.

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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Trade and Settlement Date Accounting: All "regular way" purchases and sales of financial assets are recognized on the trade date, in other words the date that the Banking Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Foreign Currency Items: Transactions in foreign currencies are translated at the rates of exchange ruling at the time of the transaction. Foreign currency assets and liabilities, except for equity participations, are translated into their Turkish Lira equivalents based on rates of exchange at the end of each respective year, the effects of which are also recorded in foreign exchange gain or loss.

Subsidiaries: Subsidiaries in which the Banking Group, directly or indirectly has power to exercise control over financials and operating policies, have been consolidated. Unconsolidated subsidiaries and the subsidiaries in the separate financial statements of the Parent Bank, are stated at cost unless there is evidence of impairment in value that is other than temporary.

Investments in Associates

Investments in associates are accounted under the equity basis of accounting.

Goodwill: Goodwill (positive and negative) arising from the difference between the acquisition cost and the fair value of the Banking Group's share of the net assets of the subsidiaries and the investments in associates at the time of acquisition, if any, is amortized on a straight-line basis over 20 years based on the management's estimation for the realization of future economic benefits. In the Bank's separate financial statements, goodwill is not calculated.

Factoring Receivables and Payables: Factoring receivables represent the advance payments made to customers. The invoices for factoring services are issued at the date of advance payment or in the collection period.

Factoring payables represent cheques, notes and invoices factored by the customers.

Factoring Fees and Commissions: Factoring fees represent interest charges at each period/month-end from the date on which advances are extended against the factored receivables to the date on which such factored receivables are collected. Factoring commissions represent the charges to the customer to cover services rendered and collection expenses incurred.

Deposits: All money market and customer deposits are initially recognized at cost. After initial recognition, all interest-bearing deposits are subsequently measured at amortized cost, less amounts repaid. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums and discounts are amortized on a systematic basis to maturity and taken to interest income. For liabilities carried at amortized cost, any gain or loss is recognized in the statement of operations when the liability is derecognised or impaired.

Provisions: Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Reserve for Retirement Pay: In accordance with the Turkish Social Security Legislation, the Banking Group is obliged to make payments to employees leaving the Bank for reasons other than resignation or misconduct. Provision is made for the maximum amount of the obligation which is calculated on the basis of 30 days' pay per year of service by taking into consideration the rate of voluntary resignations.

In the application of IAS 19 (revised)- Employee Benefits, which has become applicable for the accounting periods beginning on or after January 1, 1999, the Banking Group has taken voluntary resignation into consideration but has not discounted the liability. Had the Bank discounted the liability, this adjustment would not have any significant impact on the consolidated financial statements.

Pension Plan: Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı (the Fund), is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Fund is a defined contribution plan under which the Bank pays fixed contributions and has no legal or constructive obligation to pay further contributions if the Fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. As of December 31, 2001, the amount recognized as an expense for the Fund is TL 14,294 (2000 - TL 20,884).

Investment in Direct Financing and Sale-Leaseback Leases: Leasing contracts under Turkish regulations, are for a minimum of 2 or 4 years. The sum of the minimum lease payments is recorded as gross investment in the leases. The difference between the gross investment and the cost of leased assets is recorded as unearned income and is deducted from the gross investment in the leases to arrive at the net investment in the lease. Lease income is recognized over the term of the lease using the net investment method. Per lease agreements made with the lessees, there is no residual value guaranteed to the lessor and the ownership of the items leased will be transferred to the lessees at the end of the lease terms. Minimum lease payments receivable is also stated net of general reserve for doubtful receivables.

Allowance for Doubtful Lease and Other Receivables: An allowance for doubtful lease and other receivables is established through a provision charged to expense. The allowance is an estimated amount that management believes will be adequate to absorb possible future losses on existing receivables.

Insurance Technical Income/Expense

Insurance technical income and expense mainly represent:

Premium Income: Premiums are recorded as income at the date of policy issuance except for the life branch for which premiums are recorded as income when they become due.

Claims: Claims incurred comprise all claims occurring during the year, together with their related expertise expenses, and any adjustments to claims outstanding from the previous year. When applicable, deductions are made for estimated salvage and recoveries.

Deferred Acquisition Costs: Deferred acquisition costs represent a proportion of net commissions and all other policy acquisition costs which are deferred to the next accounting period, except for acquisition costs related to life policies with more than one year of maturity, in parallel with the unearned premiums.

Insurance Technical Reserves

Insurance technical reserves represent:

Unearned Premium Reserve: Unearned premiums are those proportions of the premiums written in a year that relate to the period of risk subsequent to the balance sheet date for all policies other than life policies with more than one year of maturity. Unearned premium reserve set aside for unexpired risks has been computed by using the one twenty-fourths method which assumes that premium revenues are realised on average in the middle of each month.

Outstanding Claims/IBNR Reserves: Outstanding claims reserve represents the estimate of the total reported costs of notified claims on an individual case basis at the end of the year, as well as the corresponding handling costs. A provision for claims incurred but not reported (IBNR) is also established.

Mathematical Reserves: The mathematical reserves have been calculated on the life policies in force at year-end by using actuarial assumptions and formulas which have been approved by the Prime Ministry Undersecretariat of Treasury.

Profit Share Reserve: Profit share is the portion of investment income allocated to life policy holders from income generated from life policy premiums of policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis. In Note 24, investment income presented within income from insurance operations represents income generated through utilization of funds associated with mathematical reserves in various investment tools whereas provision for profit share represents the amount allocated to policy holders out of investment income after certain deductions.

Earthquake Reserve: In accordance with Insurance Audit Law in Turkey, a reserve is provided for the compensation of earthquake risk for a period of 15 years, starting from 1993. Such reserve is calculated as 2/3 of the retained portion of earthquake premiums written as part of engineering and fire insurance policies plus income generated from funds reserved for earthquake risk.

Deferred Taxes: Deferred income tax is provided using the balance sheet liability method, on all temporary differences at the balance sheet date. Such temporary differences are the differences between the tax base of an asset or liability and its carrying amount in the balance sheet.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Derivative Financial Instruments: The Banking Group enters into transactions with derivative instruments including forwards, swaps and options in the foreign exchange and capital markets. These derivative transactions are considered as effective economic hedges under the Banking Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using internal pricing models.

Derivatives with unrealized gains are included in accrued income and derivatives with unrealized losses are included in accrued expense in the consolidated balance sheet. The resultant gains and losses from derivatives held for trading purposes are included in foreign exchange losses, net.

Related Parties: Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Banking Group is controlled by Çukurova Holding and for the purposes of these financial statements, associated companies, unconsolidated subsidiaries, equity investments, shareholders and other Çukurova Group companies are referred to as related parties.

Fiduciary Assets: Items held by the Banking Group in a fiduciary or agency capacity for their customers are not included in the consolidated financial statements, since such items are not assets of the Banking Group.

Earnings per Share: For the purpose of these consolidated financial statements, earnings per share are calculated by dividing net earnings by the weighted average number of shares that have been outstanding during the year. The weighted average number of shares outstanding in the prior year has been adjusted in respect of free share issues without any corresponding increase in resources. However, for statutory purposes, earnings per share calculation is subject to the requirements of local regulations and laws.

Interest Income and Expense: Interest income and expense are recognized in the consolidated statement of operations for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income is suspended when loans are overdue by more than 90 days and is excluded from interest income until received. Interest income includes coupons earned on fixed income investments and available for sale securities and accrued discount and premium on treasury bills and other discounted instruments.

Uses of Estimates: The preparation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Actual results could differ from those estimates.

4) TRANSACTIONS WITH RELATED PARTIES:

The majority of the Bank's shares (approximately 58% (2000 - 58%)) are owned and controlled by the Çukurova Holding Group. The Group is comprised of companies engaged in telecommunication, trading, manufacturing, banking and insurance activities. The Banking Group has business transactions with Group companies and other related parties on an arms-length basis, which are included in the consolidated financial statements as of December 31, 2001 and 2000, as follows:

	2001	2000
Loans	108,041	1,557,788
Loans in arrears	2,705,268	-
Allowance for loan losses on cash loans	723,535	-
Allowance for loan losses on non-cash loans	156,531	-
Short-term placements	55,716	-
Deposits	378,765	127,343
Non-cash loans	635,031	641,481
Minimum lease payment receivable, net	47,375	35,900
Factoring receivables	8,203	6,878

Other transactions with related parties are included in Notes 8 and 11.

5) CASH AND DUE FROM BANKS:

Cash and due from banks balances comprise :

	2001	2000
Cash and due from banks	609,733	263,044
Balances with Central Bank	36,891	61,448
	646,624	324,492

Balances with Central Bank represent funds deposited in an interest free demand account in the Central Bank for liquidity requirements as fully explained in Note 8.

6) PLACEMENTS WITH BANKS:

Placements with banks comprise:

	2001	2000
Foreign currency short-term placements	1,315,474	1,214,224
Turkish Lira short-term placements	586,648	214,623
	1,902,122	1,428,847

Foreign currency short-term placements earn interest between 1.50% and 12% (2000 - 4% and 19%) for various foreign currencies.

Turkish Lira short-term placements earn interest between 56% and 64% (2000 - 65% and 150%).

As of December 31, 2001, TL 324,000 portion (equivalent of U.S. Dollars 225 millions) of foreign currency placements represents the amount recognized due to a syndicated loan agreement dated December 28, 2001. The inflow of fund was realized on January 4, 2002.

7) RESERVE DEPOSITS

According to Turkish Banking Regulations, banks are obliged to place a certain percentage of their deposits, excluding the local interbank deposits, with the Central Bank. The amounts and percentages are as follows :

	Amounts		Reserve Requirement	
	2001	2000	2001	2000
Turkish Lira deposits	105,394	80,151	4%	6%
Foreign currency deposits	704,062	520,312	11%	11%
	809,456	600,463		

8) INVESTMENTS

The breakdown of investments are as follows:

Portfolio Held for Trading	2001	2000
Debt Instruments		
Government Bonds and Treasury Bills	425,601	1,291,919
Corporate Bonds	2,277	-
Foreign Currency Turkish Government Bonds	1,605	-
	429,483	1,291,919
Others		
Common Stocks	48,069	58,662
Mutual Funds	10,794	-
Total	488,346	1,350,581

Portfolio Available for Sale	2001	2000
Debt Instruments		
Government Bonds and Treasury Bills	78,156	864,348
Corporate Bonds	43,526	108,256
Foreign Currency Indexed Treasury Bills	5,341	-
Foreign Currency Turkish Government Bonds	481,700	369,439
Foreign Government Bonds	255,534	235,060
Other Foreign Currency Securities	6,205	7,225
	870,462	1,584,328
Others		
Common Stocks	314,316	282,660
Mutual Funds	425,957	442,652
Total	1,610,735	2,309,640

Portfolio Held to Maturity	2001	2000
Debt Instruments		
Government Bonds and Treasury Bills	552,505	580,616
Corporate Bonds	159,643	244,982
Foreign Currency Indexed Treasury Bills	1,232	-
Foreign Currency Turkish Government Bonds	283,396	6,850
Foreign Government Bonds	23,826	6,120
Total	1,020,602	838,568
Total investments	3,119,683	4,498,789

The Banking Group reclassified its trading and investment securities portfolio as of December 31, 2000 into available for sale and held to maturity portfolios.

Movement of investments is as follows:

	2001		
	Held for Trading Securities	Available for Sale Securities	Held to Maturity Securities
At the beginning of the period	1,350,581	2,309,640	838,568
Fair value adjustment on adoption of IAS 39	-	82,368	-
Additions	374,511	1,027,418	736,998
Disposals	(1,236,746)	(1,546,062)	(554,964)
Losses from change in fair value	-	(29,454)	-
Provision for impairment	-	(233,175)	-
At the end of the period	488,346	1,610,735	1,020,602

Government bonds and treasury bills earn interest between 44.75% and 181.86% (2000- 33.53% and 210.23%).

As of December 31, 2001, foreign government bonds, foreign currency Turkish government bonds and corporate bonds earn interest between 2.25% and 30.40% (2000 - 8% and 26%).

As of December 31, 2001 and 2000, mutual funds within the available for sale portfolio mainly represent investment certificates of a foreign mutual fund which is established for the purpose of investments in securities traded in OECD countries and share certificates of a mutual fund established in the Netherlands for the purposes of investments in real estate projects. The total carrying value of these funds is TL 397,359 (U.S. Dollars 275,943,750) (2000 - TL 419,389) (U.S. Dollars 331,022,637). As of December 31, 2001, the Bank has set a provision of TL 64,055 for the permanent decrease in value of mutual funds.

As of December 31, 2001, TL 99,340 (2000 - TL 1,385,518) of government bonds and treasury bills within the trading portfolio have been sold to customers and banks through repurchase agreements (see Note 17).

According to Turkish Banking Regulations, minimum ratios of deposits and investment securities that the banks are required to maintain with the Central Bank against their liabilities are as follows:

Type of Liability	Liquidity Requirement
Turkish Lira deposits other than local interbank deposits	Minimum 4% (2000 - 4%) government securities. 2% (2000 - 2%) deposit in the Central Bank in an interest free Turkish Lira demand account. 2% (2000 - 2%) cash (Turkish Lira) in vault
Foreign currency deposits other than local interbank deposits	Minimum 1% (2000 - 1%) government securities. 2% (2000 - 2%) cash (foreign currency) in vault
Qualifying Turkish Lira liabilities other than deposits	6% (2000 - 8%) deposit in the Central Bank in an interest free Turkish Lira demand account. Minimum 4% (2000 - 4%) government securities. 2% (2000 - 2%) cash (Turkish Lira) in vault
Qualifying foreign currency liabilities other than deposits	11% (2000 - 11%) deposit in the Central Bank in an interest free foreign currency demand account. Minimum 1% (2000 - 1%) government securities. 2% (2000 - 2%) cash (foreign currency) in vault

As of December 31, 2001, Eurobonds and foreign currency government bonds with nominal values amounting to Euro 44,883,500, GBP 10,575,000 and U.S. Dollars 213,195,000, totaling to the equivalent of TL 384,532 , at carrying value (2000 - Eurobonds and foreign corporate bonds equivalent of TL 73,036 at carrying value) and government bonds and treasury bills amounting to TL 621,371 (2000 - TL 1,062,870) with nominal value of TL 563,553 (2000 - TL 4,255,006), mutual funds with market value of TL 6,822 (2000 - TL 11,963) are kept at the Central Bank and government institutions as security against foreign currency market and interbank transactions and insurance blockage.

9) ORIGINATED LOANS AND ADVANCES, net:

Originated loans and advances are comprised of the following:

	2001	2000
Short-term loans (Turkish Lira)	1,871,064	2,427,395
Short-term loans (Foreign currency indexed)	40,192	158,711
Short-term loans (Foreign currency)	1,379,597	2,639,819
Medium-term loans (Turkish Lira)	106,796	455,136
Medium-term loans (Foreign currency indexed)	66,780	17,713
Medium-term loans (Foreign currency)	330,852	798,607
Securities directly purchased from treasury	920,644	211,192
	4,715,925	6,708,573
Loans in arrears	3,421,892	382,562
	8,137,817	7,091,135
Less : Allowance for loan losses	(1,085,343)	(239,705)
	7,052,474	6,851,430

As of December 31, 2001, originated loans and advances include TL 536,579 (2000 - TL 240,474) due from Fındık Tarım Satış Kooperatifleri Birliği (governmental union of agricultural cooperatives for the sale of hazelnut) (Fiskobirlik). In 1994, Fiskobirlik defaulted on loans granted by the Bank and various other Turkish banks and since then no interest or principle has been collected by the Bank. Loans granted to Fiskobirlik are under the guarantee of the Turkish Government and hence the banks cannot file a court case against either Fiskobirlik or the Turkish Government. Between 1994 and 1999 there were various attempts to resolve the issue by the Turkish Government and the banks. In 1997, the Turkish Government proposed a repayment plan with an interest rate of 1/4 of market rate which was not accepted by the Bank.

Until September 30, 2000, the Bank accrued interest on the risk of Fiskobirlik quarterly and included it in originated loans and advances in its financial statements by applying the Bank's average Turkish Lira interest rates. From that date on, interest accrual was calculated but not recorded in the financial statements of the Bank. In 2001, the Bank has again begun to accrue interest in its financial statements based on the law numbered 4572 Transitional Article 1-E regarding union of agricultural cooperatives which states that the debts of Fiskobirlik have been undertaken by the Undersecretariat of Treasury and will be repaid by the transfer of government securities.

As of December 31, 2001, interest rates on Turkish Lira short-term and medium-term loans are between 60% and 90% (2000 - 40% and 110%); interest rates on various foreign currency loans are between 9% and 25% (2000 - 11% and 22%) and between 9% and 20% (2000 - 10% and 14%) for foreign currency indexed loans. Short-term loans also include Eximbank loans which are granted at 45% and 58% (2000 - 19% and 31%) for Turkish Lira and Libor +3% and Libor + 4.75% (2000 - Libor + 1.25% and Libor + 3%) for foreign currency loans. Medium-term loans also include loan facilities obtained from the World Bank and directly granted to certain companies. Securities purchased directly from Turkish Treasury bear interest between 4.53 and 12.22.

As of December 31, 2001, TL 254,416 (2000 - None) of government bonds and treasury bills among marketable securities directly purchased from treasury have been sold to customers and banks through repurchase agreements.

As of December 31, 2001, foreign exchange evaluation income on foreign currency indexed loans amount to TL 15,406 (2000 - TL 67,515).

As of December 31, 2001, the movement in the allowance for loan losses is:

	2001	2000
Allowance at beginning of year	239,705	140,696
Allowance of Bank Kreiss due to merger	7,982	-
Recovery of loans previously reserved	(29,214)	(33,295)
Provision for possible loan losses	1,304,339	181,553
Reversal of interest accruals	39,045	-
Restatement effect	(476,514)	(49,249)
Allowance at end of year	1,085,343	239,705

As further discussed in Note 1, the Bank provided 50% allowance for Çukurova Group risks upon transfer of Pamukbank to the Fund.

10) ACCRUED INCOME AND EXPENSE:

Accrued income is comprised of the following:

	2001	2000
Accrued income on forward contracts (Note 26)	5,248	34,872
Accrued income on swap contracts (Note 26)	2,781	347
Accrued income on options (Note 26)	-	56,395
Other	6,520	3,299
	14,549	94,913

Accrued expense is comprised of the following:

	2001	2000
Accrued expense on forward contracts (Note 26)	192	19,780
Accrued expense on swap contracts (Note 26)	2,565	21,725
Accrued expense for deposit insurance fund	15,908	12,768
Other	7,914	5,533
	26,579	59,806

11) INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES:

Investments in associates comprise:

	2001		2000	
	Ownership (%)	Cost	Ownership (%)	Cost
Turkcell Holding	20.02	189,001	20.02	159,371
YK Koray	26.01	25,633	26.01	27,924
BCP	30.67	26,565	30.67	22,745
Groupe SEB	32.00	534	-	-
		241,733		210,040

Unconsolidated subsidiaries comprise:

	2001		2000	
	Ownership (%)	Cost	Ownership (%)	Cost
Halk Reasürans A.Ş.	95.78	4,142	95.78	4,142
Yapı Kredi Sigorta Aracılık Hizmetleri A.Ş.	99.99	1,809	99.99	968
Yapı Kredi Kart Hizmetleri A.Ş.	100.00	571	100.00	571
Ascot Telecommunication Investment N.V.	100.00	311	100.00	311
Yapı Kredi Portföy Yönetimi A.Ş.	97.50	1,266	-	-
Other (each below TL 100 as of December 31, 2001)	-	150	-	127
		8,249		6,119

(i) As of December 31, 2001, investments in associates have increased due to a net gain under the equity method of accounting in the amount of TL 5,077 (2000 - TL 432 loss).

(ii) In 2000, the Bank realized income of TL 86,377 from the sale of the remaining 50% of the shares in Superonline to Lehman Brothers International Europe.

(iii) The Bank sold its wholly owned subsidiary, YK International to another wholly owned subsidiary, YK Holding and in the year ending December 31, 2000 recognised a loss of TL 1,488. As of December 31, 2000, the loss incurred as a result of this transaction was eliminated on consolidation.

(iv) In 2000, the Bank participated in the share capital increase of Turkcell Holding by TL 30,623.

(v) During 2000, Turkcell İletişim Hizmetleri Anonim Şirketi (Turkcell) shares were offered to the public. The Bank sold 0.95% of the shares held and realized investment sales income of TL 201,389.

(vi) In 2000, the Bank sold certain other equity participations to Çukurova Group and incurred a net loss of TL 3,830 which were charged to income from sale of equity participations in the consolidated statement of operations.

(vii) In the Bank's statutory accounts, income generated from the sale of equity participations has been used for nominal share capital increases in 2001 and 2000.

12) GOODWILL, net:

The movement of sources of goodwill and details of respective amortization are as follows:

Company Name	January 1, 2001	Addition	Disposal	December 31, 2001
Gross Amount				
YK Sigorta	4,515	-	-	4,515
YK Leasing	11,188	-	-	11,188
YK Faktoring	2,650	-	-	2,650
Yapı Kredi Moscow	688	-	-	688
Akdeniz Marmara	9,841	-	-	9,841
Bayındırlık	18,285	-	-	18,285
BCP	2,597	-	-	2,597
Bank Kreiss (*)	-	9,604	-	9,604
Total	49,764	9,604	-	59,368
Accumulated Amortization				
YK Sigorta	709	532	-	1,241
YK Leasing	2,797	561	-	3,358
YK Faktoring	662	131	-	793
Yapı Kredi Moscow	172	33	-	205
Akdeniz Marmara	2,459	490	-	2,949
Bayındırlık	4,568	916	-	5,484
BCP	519	130	-	649
Bank Kreiss (*)	-	640	-	1,714
Total	11,886	3,433	-	16,393
Net Balance of Positive Goodwill	37,878	-	-	42,975

(*)Additional goodwill resulting from the merger of YK Deutschland with Bank Kreiss

13. PREMISES, EQUIPMENT, LEASEHOLD IMPROVEMENTS AND INTANGIBLES, net

The movement of premises and equipment is as follows :

COST	Land and Buildings	Equipment, Furniture, Fixtures and Vehicles	Leasehold Improvements	Intangibles	Continuing Investments	Total
Balances at January 1, 2001	2,257,817	480,319	62,108	204,269	23,730	3,028,243
Additions	6,155	28,540	7,001	10,147	16,765	68,608
Retirements	(17,346)	(22,015)	(3,524)	(93)	-	(42,978)
Transfers	5,074	151	-	11,184	(16,409)	-
Other (*)	-	5,421	-	6,812	-	12,233
Balances at December 31, 2001	2,251,700	492,416	65,585	232,319	24,086	3,066,106
ACCUMULATED DEPRECIATION						
Balances at January 1, 2001	842,659	224,999	40,609	88,123	-	1,196,390
Charge for the year	48,934	42,715	8,605	41,506	-	141,760
Retirements	(6,645)	(19,096)	(3,424)	(56)	-	(29,221)
Other (*)	-	3,969	-	5,283	-	9,252
Balances at December 31, 2001	884,948	252,587	45,790	134,856	-	1,318,181
NET VALUES						
Net balances at December 31, 2001	1,366,752	239,829	19,795	97,463	24,086	1,747,925
Net balances at December 31, 2000	1,415,158	255,320	21,499	116,146	23,730	1,831,853

Continuing investments are mainly comprised of expenditures made for various constructions and the change program which is a project related with the improvement of the Bank's information technology and other banking projects.

(*)Represent the additions due to merger of YK Deutschland with Bank Kreiss.

14) OTHER ASSETS, net:

Other assets comprise :

	2001	2000
Property held for resale	309,205	231,746
Due from insureds, net	60,832	61,674
Advances given	13,134	23,820
Prepaid expenses	27,621	22,106
Receivables from lease payments outstanding, net	17,611	13,491
Due from investment banking customers	1,936	3,391
Deferred expenses	9,539	12,849
Office supplies and stationery	4,432	6,092
Trade receivables	1,679	8,268
Deposits given	146	130
Value added taxes, net	2,014	2,314
Prepaid taxes	11,798	-
Long-term receivables	41,517	116,547
Inventory	22,779	18,636
Payments for credit card settlements	7,430	5,345
Miscellaneous	48,977	25,187
	580,650	551,596

The Bank has long-term receivables related to the sale of land in 1987 on which Ataşehir Mass Housing Project is being developed. In accordance with the agreement, the balance will be collected by the Bank in terms of a fixed percentage (net 7.5% of sales) from the sale of the housing units by a State Bank. As of December 31, 2001, the Bank has calculated its total receivable as TL 41,517 (2000 - TL 116,547) after considering the partial collections made in 1995, 2000 and 2001 and the resolution of court cases against the State Bank and included the amount in long-term receivables within other assets. The Bank made collections of TL 2,922 in 2000 and TL 20,279 in 2001 at historic TL values.

As of December 31, 2001 and 2000, advances given mainly represent advances given for equipment purchases.

In 2001, the Bank realized losses of TL 9,927 (2000 - TL 2,657) on the sale of property held for resale which has been charged to other expense. Furthermore, as of December 31, 2000 an additional provision of TL 2,829 has been made for impairment in the value of property held for resale.

15) DEPOSITS

The breakdown of deposits is:

	2001			2000		
	Demand	Time	Total	Demand	Time	Total
Saving deposits	136,932	1,957,781	2,094,713	207,214	1,255,694	1,462,908
Commercial deposits	462,572	1,015,402	1,477,974	428,560	230,759	659,319
Foreign currency deposits	1,370,655	6,570,874	7,941,529	814,663	4,669,221	5,483,884
Interbank deposits	8,136	239,336	247,472	301,798	644,681	946,479
Certificates of deposit	-	11,491	11,491	-	-	-
	1,978,295	9,794,884	11,773,179	1,752,235	6,800,355	8,552,590

As of December 31, 2001, deposits bear interest at the rates between 50% and 63% (2000 - 18% and 108%) for Turkish Lira and between 1% and 11.9% (2000 - 2.6% and 9.5%) for various foreign currency time deposits. Interest rate on demand deposits is 2% (2000 - 3%) for Turkish Lira and between 1% and 3% (2000 - Zero) on foreign currency demand deposits.

16) FUNDS BORROWED FROM BANKS

The breakdown of funds borrowed from banks as to currency, interest rate and maturity is:

2001

Currency	Total Amount	Interest Rate (Fixed)	Interest Rate (variable)	TL Equivalent Short-term	TL Equivalent Medium-term	Total
U.S. Dollars	1,035 million	4.00% - 14.77%	L + 0.8% / L + 4%	1,382,302	107,989	1,490,291
Euro	175 million	3.00% - 11.00%	L + 2.25% / L + 4%	194,886	20,920	215,806
Swiss Francs	3 million	3.13% - 5.00%	-	1,539	702	2,241
TL	46,990	43.00% - 56.00%	-	46,990	-	46,990
Various others	-	-	-	6,452	41	6,493
Total				1,632,169	129,652	1,761,821

2000

Currency	Total Amount	Interest Rate (Fixed)	Interest Rate (variable)	TL Equivalent Short-term	TL Equivalent Medium-term	Total
U.S. Dollars	984 million	7.24% - 10.31%	L+0.5% / L+2.25%	1,199,713	46,543	1,246,256
German Marks	478 million	6.18% - 13.45%	-	273,774	11,303	285,077
Swiss Francs	187 million	5.50% - 10.62%	-	142,655	1,664	144,319
Euro	102 million	7.04% - 9.17%	L+0.5% / L+2.25%	99,690	18,765	118,455
TL	324,496	17.00% - 135.00%	-	324,496	-	324,496
Various others	-	-	-	1,475	110	1,585
Total				2,041,803	78,385	2,120,188

As of December 31, 2001, U.S. Dollar borrowings include two syndication loans amounting to U.S. Dollars 579,905,833 (2000 - two syndication loans amounting to U.S. Dollars 770,940,667).

As of December 31, 2001 and 2000, funds borrowed in Euro and German Marks respectively include a loan from IFC obtained by YK Leasing. There are certain restrictive covenants in the loan agreement between IFC and YK Leasing on financial expense coverage, foreign exchange short position, debt to equity ratio of YK Leasing.

17) OBLIGATIONS FOR REPURCHASE AGREEMENTS

The proceeds from the sale of investment securities are treated as liabilities and recorded as obligations for repurchase agreements.

The breakdown of obligations for repurchase agreements is as follows :

	2001	2000
Due to banks	201,866	-
Due to customers	146,742	1,424,483
	348,608	1,424,483

The maturities of the obligations are within one month and the interest rates are between 38% and 59% (2000 - 40% and 57%).

18) NOTES ISSUED

In April 1998, the Bank issued U.S. Dollars 115,000,000 of floating rate (Libor + 2.5%) notes and U.S. Dollars 5,000,000 of fixed rate (8.36%) notes through securitization of its qualifying foreign currency checks. The notes are being repaid through monthly installments starting in April 1999 until April 2003.

In August 1997, the Bank issued U.S. Dollars 150,000,000 notes due on August 19, 2002, bearing interest rate of 10%.

19) TAXATION ON INCOME

Corporation tax is computed at the rate of 30%. An additional 10% of the total taxation charge is levied to support a state fund, which results in an effective Corporation Tax rate of 33%. Items exempted from Corporation Tax (except dividends collected) are subject to income tax at the rate of 15% or 18% and an additional 10% is also levied. In case of dividend distributions in the form of cash, depending on the public or private ownership status of the Bank, 5% or 15% income tax (plus 10% additional fund) is calculated over the portion of the distributed amount which is subject to 33% Corporation Tax and paid to tax authorities on behalf of shareholders.

In accordance with the advance tax payment regulation in Turkey, companies are required to file temporary tax returns quarterly and pay 25% (2000 - 20%) of their quarterly earnings to be offset from the final tax liability computed on the current year’s operating results. Accordingly, the taxation charge computed is not equal to the final tax liability appearing on the balance sheet.

In Turkey, in accordance with the tax laws, the tax liabilities of the parent company and the subsidiaries are treated separately. Also in Turkey, there is no procedure for the final agreement of tax assessment. Tax returns are filed within four months following the end of the year to which they relate and the tax authorities may examine the accounting records and revise assessments within five years.

The reconciliation of the Bank's taxation charge is:

	2001	2000
Statutory income (loss) before taxation Parent Bank	(1,579,950)	549,086
Tax deductible items, net	(756,747)	(569,466)
Disallowable items	358,152	54,002
Corporate tax base (effective rate 33%)	(1,978,545)	33,622
Corporate tax	-	11,095
Income tax base (effective rate 16.5% - 19.8%)	-	283,954
Income tax	-	47,488
Tax effect of temporary differences	(122,206)	49,707
Restatement effect of tax provision	-	12,029
Taxation (benefit) charge of the Parent Bank	(122,206)	120,319
Taxation charge of consolidated subsidiaries (current and deferred)	47,271	47,284
Taxation (benefit) charge	(74,935)	167,603
Taxation (benefit) charge per consolidated financial statements	(74,935)	167,603

The results of operations of the consolidated subsidiaries are subject to taxation varying between rates of 10% and 35%.

The breakdown of temporary differences which give rise to the deferred tax assets or liabilities is:

	2001 Deferred Tax Asset (Liability)	2000 Deferred Tax Asset (Liability)
Year end interest income accruals, net	(91,033)	(203,075)
Fixed assets restatement difference	(148,054)	(106,187)
Effect of IAS 39 application	(7,702)	-
Mark to market valuation of common stocks	(5,940)	(12,072)
Allowance for possible loan losses	65,247	38,863
Reserve for retirement pay	5,222	7,240
Stating foreign currency equity participations at historical amounts	25,846	16,078
Tax losses carried forward	70,406	-
Other	16,987	5,480
Deferred tax asset (liability)	(69,021)	(253,673)

20) OTHER LIABILITIES

The breakdown of other liabilities comprises:

	2001	2000
Loan loss reserve for non-cash loans	173,311	11,755
Cash collaterals	94,201	18,573
Taxes and duties payable	40,831	43,633
Due to insurance and reinsurance companies	20,614	16,738
Trade payables	19,551	23,243
Reserve for retirement pay (Note 21)	18,582	25,614
Transitory payables	15,103	4,681
Money received from invoice payments of customers for institutions	14,869	19,509
Salary payments of public and private institutions	12,531	5,907
Payment orders	9,601	21,491
Resource utilization fund	7,213	12,572
Obligation under capital leases	779	213
Payables to merchants (credit cards)	5,583	49,715
Blocked cash	4,472	3,904
Other payables and accrued expenses	22,839	35,183
	460,080	292,731

Loan loss reserve for non-cash loans includes TL 156,531 provision set over the non-cash loan risks of Çukurova Group as further discussed in Note 1.

21) RESERVE FOR RETIREMENT PAY

Retirement pay reserve is calculated as explained in Note 3 and, subject to a maximum of TL 978.02 million as of December 31, 2001, (2000 - TL 1,108.44 million), for each year of employment at the rate of pay applicable at the date of retirement or termination. The reserve as of year-end is TL 18,582 (2000 - TL 25,614) and is included in other liabilities.

22) SHARE CAPITAL

The nominal share capital of the Bank consists of authorized, issued and fully paid 752,345 million shares (2000 - 501,563 million shares) having par value of TL one thousand each.

As shown in the consolidated statement of changes in shareholders' equity, cash dividends paid were used for share capital increases in 2001 and 2000.

23) RETAINED EARNINGS

Retained earnings are comprised of legal reserves, general reserve and translation loss (see Note 3).

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Bank's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Bank's share capital. The first and second legal reserves are not available for distribution until they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of December 31, 2001, the Bank's legal reserves amount to TL 38,060 (2000 - TL 25,066) in its statutory accounts at nominal values.

The general reserve and statutory current year profit are available for distribution, subject to the reserve requirements referred to above.

24) INSURANCE TECHNICAL INCOME AND EXPENSE AND INSURANCE TECHNICAL RESERVES

Insurance Technical Income and Expense

The breakdown of insurance technical income and expense is :

	2001	2000
Premium income, net	261,393	262,188
Investment income	145,209	46,011
Total insurance technical income	406,602	308,199
Claims paid, net	145,230	187,176
Provision for unearned premiums	66,644	30,921
Provision for mathematical reserve	103,848	54,136
Provision for profit share	66,957	9,008
Provision for IBNR	(537)	(4,323)
Provision for earthquake reserve	3,677	4,715
Commissions paid, net	22,740	12,791
Acquisition costs	1,225	7,063
Other technical expenses	2,387	-
Total insurance technical expenses	412,171	301,487
(Loss) income from insurance operations, net	(5,569)	6,712

Insurance Technical Reserves

The breakdown of insurance technical reserves is:

	2001	2000
Profit share reserve	135,813	74,472
Mathematical reserve	147,992	229,926
Unearned premium reserve	77,404	88,997
Outstanding claim reserve	16,241	15,114
Earthquake reserve	9,957	9,596
IBNR reserve	-	736
	387,407	418,841

25) OTHER INCOME AND OTHER EXPENSE

The breakdown of other income and other expense is as follows:

	2001	2000
Other income		
Aircraft charter revenue, net	-	43,022
Others	17,473	42,067
	17,473	85,089
Other expense		
Saving deposit insurance fund premiums	56,034	54,539
Commissions paid	17,780	25,059
Hotel losses	-	10,111
Internet services loss, net	-	2,618
Others	23,598	27,047
	97,412	119,374

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26) DERIVATES

In the ordinary course of business, the Banking Group enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps and options.

The table below shows positive and negative fair value of derivative financial instruments, calculated by internal pricing models together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

2001

Derivatives held for trading	Positive Fair Value	Negative Fair Value	Notional Amount	Up to 3 Months	3-6 Months	6-9 Months	9-12 Months	1-5 Years	Over 5 Years
A. Forward Purchase and Sale Contracts									
a) Forward Purchase Contracts	340	(66)	415,946	356,082	-	59,864	-	-	-
b) Forward Sale Contracts	4,908	(126)	411,129	362,530	-	48,599	-	-	-
B. Currency Swaps									
a) Currency Swaps Purchase	1,752	(835)	697,575	697,167	196	212	-	-	-
b) Currency Swaps Sale	1,029	(1,730)	685,635	685,208	203	224	-	-	-
	8,029	(2,757)	2,210,285	2,100,987	399	108,899	-	-	-

2000

Derivatives held for trading	Positive Fair Value	Negative Fair Value	Notional Amount	Up to 3 Months	3-6 Months	6-9 Months	9-12 Months	1-5 Years	Over 5 Years
A. Forward Purchase and Sale Contracts									
a) Forward Purchase Contracts	15,077	(18,930)	2,310,995	1,508,419	208,299	502,576	91,701	-	-
b)Forward Sale Contracts	19,795	(850)	2,263,094	1,518,238	209,951	444,227	90,678	-	-
B. Currency Swaps									
a) Currency Swaps Purchase	264	(8)	1,124,609	1,078,609	27,971	15,641	2,388	-	-
b) Currency Swaps Sale	83	(21,717)	1,105,673	1,061,124	27,564	14,569	2,416	-	-
C. Options									
a) Call options	37,805	-	309,234	-	-	-	309,234	-	-
b) Put options	18,590	-	251,698	-	-	-	251,698	-	-
	91,614	(41,505)	7,365,303	5,166,390	473,785	977,013	748,115	-	-

27) COMMITMENTS AND CONTINGENCIES

a) The Banking Group's outstanding commitments and contingencies as of December 31, 2001, are:

	2001	2000
Letters of guarantee	5,346,686	5,000,388
Acceptance credits and letters of credit	971,393	1,028,228
Reverse repurchase agreements	6,383	207,317
Repurchase agreements	350,383	1,398,512
Credit card limits	1,143,570	11,048
Other	112,997	95,641

Maturities of non-cash loans are less than one year except for certain letters of guarantee which are indefinite.

In 2001, the Banking Group has started to follow up the limits for credit cards in memorandum accounts.

The management does not anticipate any material losses as a result of these commitments and contingencies.

b) The Banking Group is contingently liable with respect to reinsurance which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to Yapı Kredi Sigorta, a consolidated subsidiary. The Banking Group's management deems that no provision is necessary for this contingency.

c) As of December 31, 2001, YK Leasing, a consolidated subsidiary of the Bank, is not in compliance with the following covenants of the long-term loans obtained from IFC due to severe devaluation of TL against foreign currencies:

i) Financial Expense Coverage Ratio of the Company is calculated as 0.99, which is lower than the required ratio of 1.25.

ii) Foreign Exchange Assets to Foreign Exchange Liabilities Ratio is 1.18, which is not in line with the required ratios between 1.1 and 0.9.

iii) The Company's Open Lease Position is 33% of Shareholders' Equity which is higher than the required 20%.

28) PARENT BANK FINANCIAL STATEMENTS

The following are the balance sheet statements of operations and cash flows of Yapı ve Kredi Bankası Anonim Şirketi, the Parent Bank.

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BALANCE SHEET
As at December 31, 2001

	2001	2000
ASSETS		
Cash and due from banks	626,045	311,409
Placements with banks	1,801,872	1,888,200
Reserve deposits	806,369	598,933
Investments	2,418,550	3,334,048
Originated loans and advances, net	6,527,067	5,991,098
Accrued income	15,440	171,355
Investments in associates	260,438	229,294
Investments in subsidiaries	351,111	259,730
Premises ,equipment, leasehold improvements and intangibles, net	1,630,198	1,713,199
Other assets	432,799	419,391
Total assets	14,869,889	14,916,657
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	11,408,578	8,595,159
Funds borrowed from banks	1,216,764	1,335,806
Obligations for repurchase agreements	348,565	974,606
Notes issued	273,946	279,483
Accrued expense	24,816	57,996
Deferred tax liability	71,880	246,602
Other liabilities	399,387	254,704
Taxation on income	-	36,266
Total liabilities	13,743,936	11,780,622
Shareholders' Equity		
Share capital	2,122,665	1,886,956
Retained earnings	958,379	999,310
Unrealized gain on available for sale portfolio	35,863	-
(Loss) income for the year	(1,990,954)	249,769
Total shareholders' equity	1,125,953	3,136,035
Commitments and contingencies		
Total liabilities and shareholders' equity	14,869,889	14,916,657

As of December 31, 2001 and 2000, the Bank's participations amounting to TL 162,823 and TL 160,974, respectively, which are stated in Note 3 and which have been written off in the consolidated financial statements on the grounds of the impracticality of consolidating their financial statements, have also been written off in the Parent Bank financial statements against retained earnings and statement of operations.

STATEMENT OF OPERATIONS
For the year ended December 31, 2001

	2001	2000
INTEREST INCOME		
Interest and fees on loans	1,647,493	1,629,368
Interest on securities	707,094	574,902
Interest on deposits in banks	340,829	211,539
Other interest income	15,573	6,143
Total interest income	2,710,989	2,421,952
INTEREST EXPENSE		
Interest on deposits	(1,905,542)	(976,097)
Interest on funds borrowed from banks and notes issued	(424,361)	(307,820)
Total interest expense	(2,329,903)	(1,283,917)
Net interest income	381,086	1,138,035
PROVISION FOR LOAN LOSSES	(1,296,505)	(149,657)
Foreign Exchange Loss, Net	(876,689)	(171,679)
Net interest (expense) income after provision for loan losses and foreign exchange loss	(1,792,108)	816,699
NON-INTEREST INCOME		
Trading income, net	-	80,544
Income from banking services, net	316,747	276,189
Dividend income from equity participations	153,049	53,257
Income from sale of equity participations, net	-	273,189
Total non-interest income	469,796	683,179
NON-INTEREST EXPENSE		
Trading loss, net	(181,216)	-
Salaries and employee benefits	(234,289)	(292,005)
General and administrative expenses	(259,217)	(287,460)
Provision for non-cash loans	(238,996)	(13,190)
Depreciation and amortization	(132,507)	(132,314)
Provision for retirement pay	(3,567)	(9,688)
Transaction taxes and duties	(55,684)	(64,752)
Other expense, net	(71,642)	(80,102)
Total non-interest expense	(1,177,118)	(879,511)
(Loss) income before taxation, extraordinary items and gain (loss) on net monetary position	2,499,430	620,367
TAXATION CHARGE		
Current	-	(65,731)
Deferred	122,206	(54,588)
Total taxation charge	122,206	(120,319)
Net (loss) income before extraordinary items, gain (loss) on net monetary position	(2,377,224)	500,048
Extraordinary Items	(21,304)	(130,688)
GAIN (LOSS) ON NET MONETARY POSITION	407,574	(119,591)
Net (loss) income	(1,990,954)	249,769

STATEMENT OF CASH FLOWS
For the year ended December 31, 2001

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	(1,990,954)	256,521
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for impairment in investment in associates	16,925	-
Provision for losses in portfolio available for sale	170,494	-
Provision for loan losses	1,296,505	162,847
Provision for non-cash loans	238,996	13,190
Income from sale of equity participations	-	(273,189)
Loss from sale of premises and equipment and property held for resale	9,927	6,482
Depreciation and amortization	132,507	132,314
Provision for retirement pay liability	3,567	9,688
Deferred tax liability	(166,827)	(14,677)
Operating (loss) profit before changes in net operating assets	(288,860)	293,176
(Increase) decrease in operating assets		
Accrued income	155,915	(13,877)
Other assets	(38,821)	(87,652)
Increase (decrease) in operating liabilities		
Accrued expense	(33,180)	(2,290)
Other liabilities	(259,436)	28,892
Taxation on income	(36,266)	5,445
Net cash (used in) provided from operating activities	(500,648)	223,694
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in placements with bank	86,328	(3,180)
Net decrease (increase) in investments	721,542	(246,715)
Net increase in reserve deposits	(207,436)	(21,563)
Net increase in originated loans and advances	(1,670,918)	(510,737)
Cash paid for investment in associates	(48,068)	(34,301)
Cash paid for investment in subsidiaries	(91,382)	(45,952)
Cash obtained from sale of associates	-	309,327
Increase in premises and equipment, net	(49,507)	(97,795)
Proceeds from sale of premises and equipment and property held for resale	15,486	17,170
Net cash used by investing activities	(1,243,955)	(633,746)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	2,813,419	219,666
Net (decrease) increase in funds borrowed from banks	(119,042)	381,474
Net decrease in notes issued	(5,537)	(59,268)
Dividend distribution	(93,259)	(224)
Cash proceeds from share capital increase	93,045	-
Net decrease in obligations for repurchase agreements	(626,041)	(69,948)
Net cash provided from financing activities	2,062,585	471,700
Net effect of IAS 39 application	(3,346)	-
NET INCREASE IN CASH AND DUE FROM BANKS	314,636	61,648
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	311,409	249,761
CASH AND DUE FROM BANKS AT END OF YEAR	626,045	311,409
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
a) The cash paid by the Banking Group for interest.	2,380,510	1,280,456
b) Extraordinary taxes paid by the Banking Group	21,304	130,688
c) The cash received by the Banking Group for interest.	2,947,737	2,561,703
d) Dividend income received by the Banking Group.	153,049	53,257
e) Income taxes paid by the Banking Group.	36,266	53,138

f) For the purpose of the consolidated statement of cash flows, cash and due from banks is considered as cash and cash equivalents.

29) SEGMENT REPORTING

(a) Segment Reporting by Business Division:

2001

	Banking	Leasing	Factoring	Insurance	Construction	Consolidated
Net interest income	511,114	22,357	17,514	36,748	-	587,733
Less : Provision for loan losses and doubtful receivables	(1,304,339)	(6,924)	(951)	-	-	(1,312,214)
Less : Foreign exchange (loss) gain	(888,546)	21,355	(30,704)	1,317	-	(896,578)
	(1,681,771)	36,788	(14,141)	38,065	-	(1,621,059)
Non-interest income	411,685	3,521	2,141	409,068	1,440	827,855
Non-interest expense	(1,202,456)	(11,634)	(8,166)	(457,945)	(2,094)	(1,682,295)
Income (loss) before taxation, minority interest and gain on net monetary position	(2,472,542)	28,675	(20,166)	(10,812)	(654)	(2,475,499)
Unallocated items						
Taxation charge						74,935
Extraordinary items						(21,304)
Minority interest						5,275
Gain on net monetary position						393,207
Net loss						(2,023,386)
Total assets employed by the segments	15,565,728	186,397	100,955	468,206	85,674	16,406,960
Total liabilities	14,485,617	140,613	97,905	411,861	11,287	15,147,283

2000	Banking	Leasing	Factoring	Insurance	Tourism	Construction	Internet Services	Consolidated
Net interest income (expense)	1,302,419	24,576	1,592	42,824	(13,755)	-	-	1,357,656
Less : Provision for loan losses and doubtful receivables	(151,419)	(1,648)	(513)	-	-	-	-	(153,580)
Less : Foreign exchange (loss) gain	(270,136)	16,974	3,834	1,017	(31,502)	-	-	(279,813)
	880,864	39,902	4,913	43,841	(45,257)	-	-	924,263
Non-interest income	647,969	9,155	7,799	354,357	45,013	5,779	11,471	1,081,543
Non-interest expense	(916,105)	(11,820)	(7,391)	(341,205)	(41,748)	(1,407)	(25,427)	(1,345,163)
Income (loss) before taxation, minority interest and loss on net monetary position	612,728	37,237	5,321	56,993	(41,992)	4,372	(13,956)	660,703
Unallocated items								
Taxation charge								(167,603)
Extraordinary items								(143,266)
Minority interest								3,167
Loss on net monetary position								(120,395)
Net income								232,606
Total assets employed by the segments	15,765,741	226,441	115,191	516,781	-	104,941	-	16,729,095
Total liabilities	12,778,529	158,805	101,212	455,790	-	12,974	-	13,507,310

(b) Segment Reporting by Geographical Location:

The Bank has no significant operations and assets employed outside Turkey.

30) CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Banking Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Banking Group manages the credit exposure relating to its trading activities by limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Banking Group's performance to developments affecting a particular industry or geographic location.

The Banking Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The concentration of the Bank's cash loans to industry groups is as follows:

Industry Group	2001 %	2000 %
Textile and leather	9.00	12.00
Construction	13.00	13.00
Commerce	13.00	14.00
Iron, steel	7.00	6.00
Transportation / communication	5.00	8.00
Food and beverage	4.00	5.00
Automotive	6.00	7.00
Finance	20.00	12.00
Others	23.00	23.00
	100.00	100.00

31) LIQUIDITY RISK

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To mitigate liquidity risk, the Banking Group diversifies funding sources and assets are managed with liquidity in mind, maintaining a balance of cash and cash equivalents.

The table below summarizes the maturity profile of the Banking Group's major assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by the Banking Group to ensure adequate liquidity is maintained.

The maturity breakdown is as follows:

2001

	On Demand	0-1 Months	1-3 Months	3-6 Months	6-9 Months	9-12 Months	1-5 Years	Over 5 Years	Unallocated Items	Total
ASSETS										
Cash and due from banks	646,624	-	-	-	-	-	-	-	-	646,624
Reserve deposits	809,456	-	-	-	-	-	-	-	-	809,456
Placements with banks	-	1,652,786	182,101	52,850	3,717	2,902	7,766	-	-	1,902,122
Investments	126,798	194,332	133,425	663,835	351,751	532,100	441,385	401,079	274,978	3,119,683
Originated loans and advances, net	2,336,550	1,362,088	829,425	389,402	744,176	863,344	370,816	156,673	-	7,052,474
Minimum lease payments receivable, net	-	-	13,565	26,934	22,271	19,757	59,807	10,572	-	152,906
Factoring receivables, net	-	3,304	83,779	527	4	-	-	-	-	87,614
Accrued income	-	13,310	327	304	304	304	-	-	-	14,549
Investments in associates	-	-	-	-	-	-	-	-	241,733	241,733
Investments in subsidiaries	-	-	-	-	-	-	-	-	8,249	8,249
Goodwill, net	-	-	-	-	-	-	-	-	42,975	42,975
Premises, equipment, leasehold improvements and intangibles, net	-	-	-	-	-	-	-	-	1,747,925	1,747,925
Other assets, net	-	55,405	61,926	17,868	4,962	4,956	52,841	11,826	370,866	580,650
Total assets	3,919,428	3,281,225	1,304,548	1,151,720	1,127,185	1,423,363	932,615	580,150	2,686,726	16,406,960
LIABILITIES AND SHAREHOLDERS' EQUITY										
Deposits	1,978,295	4,207,038	4,046,001	689,699	521,172	226,116	104,764	94	-	11,773,179
Funds borrowed from banks	-	412,390	120,167	170,651	545,117	383,844	122,008	7,644	-	1,761,821
Obligations for repurchase agreements	-	348,608	-	-	-	-	-	-	-	348,608
Notes issued	-	2,187	3,024	6,480	239,935	15,552	6,768	-	-	273,946
Factoring payables	-	820	33,410	118	1	-	-	-	-	34,349
Insurance technical reserves	-	-	-	-	-	-	-	-	387,407	387,407
Accrued expense	-	9,473	16,206	300	300	300	-	-	-	26,579
Deferred tax liability	-	-	-	-	-	-	69,021	-	-	69,021
Other liabilities	-	59,112	63,909	88,244	2,320	189	22,815	-	223,491	460,080
Taxation on income	-	-	-	4,098	4,098	4,097	-	-	-	12,293
Minority interest payable	-	-	-	-	-	-	-	-	89,538	89,538
Shareholders' equity	-	-	-	-	-	-	-	-	1,170,139	1,170,139
Total liabilities and shareholders' equity	1,978,295	5,039,628	4,282,717	959,590	1,312,943	630,098	325,376	7,738	1,870,575	16,406,960

2000

	On Demand	0-1 Months	1-3 Months	3-6 Months	6-9 Months	9-12 Months	1-5 Years	Over 5 Years	Unallocated Items	Total
ASSETS										
Cash and due from banks	324,492	-	-	-	-	-	-	-	-	324,492
Reserve deposits	600,463	-	-	-	-	-	-	-	-	600,463
Placements with banks	-	818,066	180,685	343,757	7,870	78,469	-	-	-	1,428,847
Investments	81,507	730,734	308,948	270,544	177,392	540,705	1,622,050	484,960	281,949	4,498,789
Originated loans and advances, net	142,857	1,077,523	2,151,162	450,299	364,457	1,316,407	1,338,949	9,776	-	6,851,430
Minimum lease payments receivable, net	-	-	39,116	22,409	19,509	15,793	84,414	2,425	-	183,666
Factoring receivables, net	-	126	106,995	1,888	-	-	-	-	-	109,009
Accrued income	-	52,386	15,521	9,002	9,002	9,002	-	-	-	94,913
Investments in associates	-	-	-	-	-	-	-	-	210,040	210,040
Investments in subsidiaries	-	-	-	-	-	-	-	-	6,119	6,119
Goodwill, net	-	-	-	-	-	-	-	-	37,878	37,878
Premises, equipment, leasehold improvements and intangibles, net	-	-	-	-	-	-	-	-	1,831,853	1,831,853
Other assets, net	-	6,735	104,093	4,421	4,421	4,421	140,499	-	287,006	551,596
Total assets	1,149,319	2,685,570	2,906,520	1,102,320	582,651	1,964,797	3,185,912	497,161	2,654,845	16,729,095
LIABILITIES AND SHAREHOLDERS' EQUITY										
Deposits	1,752,235	2,603,112	2,903,910	794,617	240,458	217,542	40,637	79	-	8,552,590
Funds borrowed from banks	-	181,428	231,827	305,575	626,872	696,100	77,398	988	-	2,120,188
Obligations for repurchase agreements	-	1,424,483	-	-	-	-	-	-	-	1,424,483
Notes issued	-	1,818	9,549	9,407	14,556	14,036	239,294	-	-	288,660
Factoring payables	-	-	28,546	1,888	-	-	-	-	-	30,434
Insurance technical reserves	-	-	-	-	-	-	-	-	418,841	418,841
Accrued expense	-	29,530	14,240	6,055	4,981	4,998	-	2	-	59,806
Deferred tax liability	-	-	-	-	-	-	253,673	-	-	253,673
Other liabilities	-	6,612	162,697	2,436	1,329	1,346	-	25,616	92,695	292,731
Taxation on income	-	-	-	21,968	21,968	21,968	-	-	-	65,904
Minority interest payable	-	-	-	-	-	-	-	-	55,885	55,885
Shareholders' equity	-	-	-	-	-	-	-	-	3,165,900	3,165,900
Total liabilities and shareholders' equity	1,752,235	4,246,983	3,350,769	1,141,946	910,164	955,990	611,002	26,685	3,733,321	16,729,095

32) INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Banking Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Banking Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

In 2001, annual average amounts of interest bearing assets and liabilities of the Banking Group are TL 9,332,281 (2000 - TL 10,326,056) and TL 8,491,742 (2000 - TL 9,563,095), respectively. Average interest rates on interest bearing assets and liabilities are disclosed in the related notes.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

33) CURRENCY RISK

The breakdown of assets and liabilities by major currencies is follows:

				2001					
	TL	USD	EUR	GBP	EURO GROUP	CHF	JPY	Others	Total
ASSETS									
Cash and due from banks	89,402	432,338	31,064	8,277	75,362	1,999	75	8,107	646,624
Placements with banks	586,648	1,066,174	239,345	21	6,877	-	-	3,057	1,902,122
Reserve deposits	105,394	567,452	128,874	-	-	4,649	-	3,087	809,456
Investments	1,333,461	1,377,109	379,233	20,664	-	-	-	9,216	3,119,683
Originated loans and advances	2,167,220	4,292,888	563,130	856	23,362	2,583	-	2,435	7,052,474
Minimum lease payments receivable, net	12,905	79,745	58,378	-	120	-	-	1,758	152,906
Factoring receivables	19,023	16,624	25,719	9,870	15,077	-	-	1,301	87,614
Accrued income	5,313	8,029	1,207	-	-	-	-	-	14,549
Investments in subsidiaries	7,914	310	25	-		-	-	-	8,249
Investments in associates	215,168	-	-	-	-	26,565	-	-	241,733
Goodwill	32,654	-	7,890	-	-	1,948	-	483	42,975
Premises, equipment, leasehold improvements and intangibles, net	1,726,034	6,661	4,562	-	-	-	-	10,668	1,747,925
Other assets	517,880	44,465	15,510	-	2,601	-	-	194	580,650
Total assets	6,819,016	7,891,795	1,454,937	39,688	123,399	37,744	75	40,306	16,406,960
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits	3,714,966	6,181,303	1,676,416	70,509	-	45,655	2,049	82,281	11,773,179
Obligations for repurchase agreements	348,608	-	-	-	-	-	-	-	348,608
Funds borrowed	46,990	1,499,721	181,155	4,244	12,948	2,241	-	14,522	1,761,821
Accrued expense	22,580	2,752	1,247	-	-	-	-	-	26,579
Factoring payables	2,929	4,168	11,201	6,196	6,435	-	-	3,420	34,349
Notes issued	-	273,946	-	-	-	-	-	-	273,946
Insurance technical reserves	387,407	-	-	-	-	-	-	-	387,407
Taxation on income	5,466	6,311	516	-	-	-	-	-	12,293
Other liabilities	335,462	94,760	21,224	556	5,478	169	1,896	535	460,080
Minority interest	58,007	-	31,531	-	-	-	-	-	89,538
Deferred tax liability	75,200	-	(6,179)	-	-	-	-	-	69,021
Total shareholders' equity	1,126,476	(19,537)	58,553					4,647	1,170,139
Total liabilities and shareholders' equity	6,124,091	8,043,424	1,975,664	81,505	24,861	48,065	3,945	105,405	16,406,960
Forwards	58,413	(346,640)	295,887	(2,506)	-	-	(337)	-	4,817
Currency swaps	-	131,697	(222,452)	76,843	-	28,113	(1,795)	(466)	11,940
Options	-	-	-	-	-	-	-	-	-
Net	753,338	(366,572)	(447,292)	32,520	98,538	17,792	(6,002)	(65,565)	16,757

	2000		
	TL	Foreign Currency	Total
ASSETS			
Cash and due from banks	230,982	93,510	324,492
Placements with banks	214,623	1,214,224	1,428,847
Reserve deposits	80,151	520,312	600,463
Investments	3,058,592	1,440,197	4,498,789
Originated loans and advances	3,236,580	3,614,850	6,851,430
Minimum lease payments receivable, net	39,864	143,802	183,666
Factoring receivables	59,330	49,679	109,009
Accrued income	3,299	91,614	94,913
Investments in subsidiaries	5,808	311	6,119
Investments in associates	187,295	22,745	210,040
Goodwill	37,878	-	37,878
Premises, equipment, leasehold improvements and intangibles, net	1,816,727	15,126	1,831,853
Deferred tax asset	-	-	-
Other assets	457,949	93,647	551,596
Total assets	9,429,078	7,300,017	16,729,095
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	2,777,877	5,774,713	8,552,590
Obligations for repurchase agreements	1,424,483	-	1,424,483
Funds borrowed	324,496	1,795,692	2,120,188
Accrued expense	18,300	41,506	59,806
Factoring payables	7,359	23,075	30,434
Notes issued	-	288,660	288,660
Insurance technical reserves	418,841	-	418,841
Taxation on income	57,044	8,860	65,904
Other liabilities	224,492	68,239	292,731
Minority interest	55,885	-	55,885
Deferred tax liability	253,673	-	253,673
Total shareholders' equity	3,158,857	7,043	3,165,900
Total liabilities and shareholders' equity	8,721,307	8,007,788	16,729,095
Forwards	(702,348)	750,248	47,900
Currency swaps	378,284	(359,349)	18,935
Options	-	57,536	57,536
Net	383,707	(259,336)	124,371

As of December 31, 2001, net foreign currency exposure of the Banking Group, including net foreign exchange forward and swap contracts, is oversold by U.S. Dollars 482 millions (2000 - oversold by U.S. Dollars 200 millions) which is composed of foreign currency assets and foreign currency indexed assets amounting to U.S. Dollars 7,390 millions (2000 - U.S. Dollars 8,342 millions) netted off by foreign currency liabilities of U.S. Dollars 7,872 millions (2000 - U.S. Dollars 8,542 millions) and within the limits as allowed by the Central Bank of Turkey.

34) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The following table summarises the carrying values and fair values of those financial assets and financial liabilities that are not disclosed on the consolidated financial statements at their fair values.

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and due from banks	646,624	646,624	324,492	324,492
Placements with banks	1,902,122	1,902,122	1,428,847	1,428,847
Reserve deposits	809,456	809,456	600,463	600,463
Portfolio held to maturity	1,020,602	950,484	838,568	818,128
Financial Liabilities				
Deposits	11,773,179	11,769,054	8,552,590	8,552,590
Obligations for repurchase agreements	348,608	348,608	1,424,483	1,424,483
Funds borrowed from banks	1,761,821	1,761,821	2,120,188	2,120,188
Notes issued	273,946	273,946	288,660	288,660

The following methods and assumptions were used to estimate the fair value of the financial instruments:

-Fair values of certain financial assets and liabilities carried at cost, including cash and due from banks, placements with banks, reserve deposits, demand deposits, obligations for repurchase agreements and notes issued are considered to approximate their respective carrying values due to their short-term nature.

-As of December 31, 2001, the market values of securities directly purchased from treasury amounting to TL 920,664 which are classified within originated loans and advances approximate their carrying values. As of December 31, 2000, the fair values of securities directly purchased from treasury with a total carrying value of TL 211,192 are TL 219,910.

-As of December 31, 2001 and 2000, the fair values of other originated loans and advances could not be presented due to impracticality. However, the Management believes that the fair value of loans are also considered to be the carrying value resulting from assessing the various risk components of the respective portfolios.

-As of December 31, 2001 and 2000, funds borrowed from banks are at the rates and terms consistent with market and their fair values are considered to be their carrying values.

35) SUBSEQUENT EVENTS

a) In connection with the Banking law numbered 4389, to be able to maintain the trust in and the stability of the banking system and to prevent the negative effects of the economic crisis on the capital of Banks, "Regulations Regarding the Implementation of the Reconstruction of the Banking Sector" (Regulation) and "Regulations related with the procedures of the Independent Audit in accordance with the Temporary Article 4 of the Banking Law numbered 4389" become effective on February 1, 2002. Those are the changes in the legal framework to allow the formation of asset management companies in order to resolve non-performing assets, and thereby improve the liquidity of assets retained by the banks, to allow efficient functioning of debt restructuring systems to ensure that real sector companies which meet certain criteria, and have lost their financial strength due to the financial crisis, carry on with their activities and finally strengthen the capital structures of banks, which have been damaged by the crisis. The main objectives of the strengthening strategy are the transaction to a secure banking system through the strengthening of banks' capital, increasing and maintaining transparency in the Turkish banking system, and broadening of real sector-oriented credit opportunities. 8% capital adequacy is determined by the Banking Regulation and Supervision Agency (BRSA) as a minimum indicator for the capital strength.

In order to determine the capital need of the banks, a three-phase audit was carried out, independent auditors performed the first and second phases, and the BRSA made the third and final evaluation. As a result of those audits and assessment phases, the capital needs of the banks are determined by the BRSA.

By taking the subsequent developments into consideration until March 31, 2002, BRSA evaluated that the Bank fulfills the capital requirement of the Regulation.

b) Effective from January 1, 2002, the ceiling of retirement pay has been increased from TL 978 million to TL 1,076 million per annum.

c) In line with the Board of Directors' decision taken on February 28, 2002 and in line with the restructuring of telecommunication sector within the Çukurova Group, the Bank has decided to sell its subsidiary Fintur Holding B.V. (Fintur) to Sonera Holding B.V. and Turkcell İletişim Hizmetleri A.Ş. (Turkcell). In accordance with this decision a share sales agreement dated May 10, 2002 has been signed between the parties and after obtaining the permissions required by the regulatory authorities, the transaction has been finalized and the Bank received U.S. Dollars 65,070,000 for the sale of Fintur.

d) In line with the Board of Directors' decision on January 10, 2002, Pamukbank T.A.Ş., which is a shareholder of the Bank, has transferred TL 1,075 nominal amount of shares to Pamukbank Finansal Kiralama Anonim Şirketi. Hence the share of Pamukbank T.A.Ş. has decreased to 9.91% from 10.05%.

36) EXTRAORDINARY ITEMS

For the years ending December 31, 2001 and 2000, extraordinary items are comprised of additional earthquake taxes imposed by the government on income from government securities.

37) RECLASSIFICATIONS

Certain reclassifications have been made in the consolidated financial statements and in the financial statements of the parent bank as of December 31, 2000 to conform with current year presentation. Those reclassifications relate to the classification of the investment portfolio in line with IAS 39. Additionally as of December 31, 2000, the foreign exchange loss in the income statement has been restated and TL 30,425 and TL 18,668 in consolidated and parent bank financial statements, respectively, have been classified from monetary loss to foreign exchange loss.

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