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YAPI KREDİ BANK

ANNUAL REPORT

2003

YAPI KREDİ BANK ANNUAL REPORT 2003

YAPI KREDİ IN BRIEF

Yapı Kredi was established on September 9, 1944 under the Turkish Banking and Commercial Codes as the first private bank in Turkey. The Bank's ordinary shares have been listed on the Istanbul 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 Bank is a full-service financial institution engaged in corporate, retail, international and investment banking businesses through a network which includes 425 domestic branches, 1,406 ATMs, a Call Center, the Internet as well as an offshore banking branch in Bahrain, four overseas representative offices and subsidiaries in Germany, the Netherlands 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, associates, and joint ventures in information technology, tourism, telecommunication, and construction sectors operating in Turkey and abroad.

BOARD OF DIRECTORS

Rona Yırcalı
Chairman

Halit Soydan
Vice Chairman &
Executive Director

Selçuk Altun
Executive Director

Tanbey Veziroğlu
Member

Levent Ersalman
Member

Hasan Ersel
Member

Rahmi Sayder
Member

Naci Sığın
President & Member

İbrahim Toptepe
Auditor

Rüştü Çelebioğlu
Auditor

Nurdan Yıldırım
Secretary

Naci Sığın
President & Member

Halit Soydan
Vice Chairman and
Executive Director

Rona Yırcalı
Chairman

Selçuk Altun
Executive Director

MESSAGE FROM THE BOARD OF DIRECTORS

We welcome our distinguished stockholders who have honored with their presence the annual general meeting for the 60th fiscal year of Yapı ve Kredi Bankası A.Ş. at which we shall be presenting our Bank's 2003 balance sheet and profit/loss statement for your consideration and approval.

In 2003, the Government continued implementing the IMF supported stabilization programme with an aim to put the economy on the path to sustainable growth. In addition, the impact of the Iraq crisis was less than expected and positive developments were witnessed in the economy.

The robust growth that started in 2002 continued. GDP, which was up by 7.8% in 2002, is estimated to have increased more than 5% in 2003. The increase in consumer prices was 18.4%, below the government's target of 20%. This brought inflation to its lowest level in 27 years. The expansion of the economy stimulated demand for raw materials, which meant that imports grew faster than exports. In the first eleven months of the year, imports were 31% higher than the corresponding period of the previous year, while exports increased by 29%. The January to November foreign trade deficit widened by 37% and amounted to USD 18.3 billion. Higher tourism revenues alleviated the current account deficit, which nonetheless grew significantly to become USD 4.2 billion in the first 11 months of the year.

The interest rates that were around 55% - 60% levels at the beginning of the year declined below 30% level by the year-end as a result of the decrease in inflation and improvement in the economic expectations. The US dollar, around TL 1,600,000 at the beginning of 2003, ended the year at TL 1,400,000 as a result of positive sentiment, enhanced capital inflows, and a shift to Turkish lira assets as an investment tool. At the end of 2002 the dollar was trading at EUR 1.05; twelve months later the parity was up to EUR 1.25.

Generally speaking, the impact of these developments on the Turkish banking sector was positive. The decline in interest rates and diminishing yields forced banks to put more emphasis on to their retail and commercial banking, and competition in these fields became more intense.

Despite fierce competition, Yapı Kredi preserved and even increased it's market share in all important banking products, reinforcing its historic dominance in many fields.

Our market share in demand and time TRL deposit products was 5.8% and 7.5%, respectively; while our market share in commercial loans was 10.5%. In the credit card market, where we have long been the leader, revenues were up by 59%. In the last month of 2003 the bank commanded 28% of market share in the credit card issuing volume.

As a result of our high quality service, modern approach to banking and vanguard position in retail banking, our fee and commission income amounted to TL 621 trillion in 2003, the highest in the sector. Non-interest income that secured from banking services through fee and commission income and brokerage commissions covered 106% of our total operational expenses.

In the beginning of 2003, at the behest of the Bank's shareholders, the Board of Directors launched a campaign to ensure full compliance with modern corporate governance principles. To this end, the Management Development Committee (MDC) and Assets Realization Committee (ARC) were set up to give technical support to the Board of Directors, in addition to the committees that were formed to comply with various laws. While MDC shapes management principles and evaluates the performance of the upper level management, ARC deals with the liquidation of Bank's non-core assets.

In the course of 2003, the Board of Directors, which convenes regularly twice a month, approved five new or revised sets of regulations intended to bolster the Banks' existing set of internal standing rules.

Yapı Kredi shares once again had the highest transaction volume on the Istanbul Stock Exchange in 2003, with a volume of TL 15.2 quadrillion.

Total assets at the end of 2003 were TL 20.9 quadrillion and total equity TL 3.5 quadrillion . Capital adequacy ratio was 18.5% - twice the legally required minimum. Total deposits amounted to over TL 13.4 quadrillion. Foreign exchange transaction volume was USD 23.1 billion, representing an increase of more than 30% in US dollar terms.

In 2003 the Bank posted a net profit of TL 162 trillion. In addition to the decrease in interest rates, our leading position in core banking activities, substantial fee and commission income, and savings achieved in operational expenses also contributed favourably to this result.

We take this opportunity to extend our thanks and appreciation to all Yapı Kredi employees for their contributions toward our successful completion of 2003. We thank you for your continuous support and look forward to yet another year of success and happiness for our country as well as our Bank.

Naci Sığın
President & Member of the Board of Directors

MESSAGE FROM THE CEO

Let me begin my message with an expression of the pleasure I feel to address you in this annual report in which we assess the results of 2003. Beginning in June 2002, Yapı Kredi was confronted with developments taking place outside the boundaries of ordinary business dynamics. The position in which we found ourselves was fraught with problems but gave us an opportunity to gain different experience. During this period, Yapı Kredi team learned much as it strove to provide uninterrupted service. Looked at it this way, what we learned both contributed towards the strengthening of the way we do business and enabled us to work in an environment that hitherto had been unfamiliar.

Today no legal uncertainties remain as to Yapı Kredi's corporate standing. Our principal shareholders are united on a corporate roadmap that is fully in line with the interests of both Yapı Kredi and the Turkish economy. This roadmap makes it possible for any developments related to our Bank to be dealt with entirely in line with banking practices, leaving nothing unresolved. The important thing for us is that the Yapı Kredi team can now proceed with confidence in the course laid out in this roadmap, doing what it is best at doing which is to advance the Bank's position as one of the primary institutions of the sector.

After this brief evaluation of the bank's recent history, I now want to touch upon how we look at the future. The concept that we call "real banking" is more vital today than it has ever been in the history of Turkish banking. The conditions compelling Turkish banks to concentrate on "real" banking will accelerate the tightening of interest margins , and this will in turn exert pressure on the entire sector to increase non-interest income - in other words, to provide the customer with banking services in the universally understood meaning of that term. Hence, the ability to generate income from core activities in the period immediately ahead will be crucial for the profitability of banks. Yapı Kredi is one of the banks in the sector best positioned to generate income from "real" banking. At a time when providing high quality, real banking services has become a primary goal, Yapı Kredi will make a difference, having already completed its infrastructure, trained its workforce and acquired an improved service culture.

In line with these developments in financial markets and the banking system that I summarized, we felt a need for restructuring the Bank's organisation to improve efficiency further. From August 4, 2003 we instituted innovative measures to improve our business procedures to make it easier to realize strategic goals. Some of the values on which we have based our strategy are the following:

In Yapı Kredi corporate governance, work ethics, propensity for change, technological muscle, and providing superior service are paramount.

Yapı Kredi aims to provide "limitless service": The Bank has an extensive and loyal customer base; each individual and company needs to be well known to us so that we can provide each with tailor made services.

Yapı Kredi is "Mine": The staff knows it has to accept responsibility as a team in order for the clients to feel that Yapı Kredi is genuinely different.

Dear Yapı Kredi Shareholders,
For an institution to be an effective institution, it must be able to create its own values and put them to work on behalf of society. The strategic values that serve as guideline in our new structure are values that define the service we provide, which is to say, the values that express Yapi Kredi .

In the period ahead of us, our objective once again will be to ensure that the dynamism of our employees and the effectiveness of our organizational structure overlap so that our strength is felt in markets in which we are active.

I am confident that at the end of the race, Yapı Kredi will once again be a pioneer and a leader, as it has always been for the past sixty years. And to all of you who allow us to feel this confidence, I extend my particular thanks and wish you well.

Naci Sığın
General Manager

Summary Financial Statements

SUMMARY BALANCE SHEETS
(US$ millions)

	2003	2002
ASSETS		
Cash, due from banks, short-term placements	815	1,099
Reserve deposits	730	799
Securities	4,574	4,214
Originated loans and advances, net	6,830	6,979
Investments in associates and subsidiaries	506	582
Premises and equipment	1,570	1,643
Others	1,179	1,087
Total assets	**16,204**	**16,403**

	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Customer deposits	10,297	11,150
Deposits from banks and money market deposits	1,683	1,523
Funds borrowed and notes issued	715	703
Insurance technical reserves	471	424
Others	884	571
Total liabilities	**14,050**	**14,371**
Minority interest payable	75	70
Shareholders' equity	2,079	1,962
Total liabilities and shareholders' equity	**16,204**	**16,403**

SUMMARY INCOME STATEMENTS
(US$ millions)

	2003	2002
Interest income	1,892	2,660
Interest expense	(1,901)	(2,102)
Net interest income / (expense)	(9)	558
Provision for loan losses and doubtful receivables	4	305
Foreign exchange gain / (loss), net	21	(175)
Net interest income after provision for loan losses and foreign exchange loss	16	688
Non-interest income	1,194	1,328
Non-interest expense	(1,258)	(1,398)
Profit / (loss) from operating activities	(48)	618
Loss from associates	(17)	(4)
Income tax	52	80
Monetary gain	92	143
Net profit from ordinary activities	79	837
Minority interest	(10)	(7)
Extraordinary items	0	0
Net income	**69**	**830**

Discussion of Results

The Bank's two year "bank-only" inflation adjusted financial statements are presented in Note 33 of the financial statements. The major subsidiaries whose results are included in the consolidated financial statements are:

Yapı Kredi Leasing, as a listed co, is one of the top three leasing companies with 11% market share and only member of Multilease Club & Lease Club from Turkey, serving a wide client base in the commercial and corporate segments.

Yapı Kredi Faktoring, with a 14% market share, is a full member of Factors Chain International and an associate member of Heller International Group.

Yapı Kredi Sigorta is a leading provider of non-life (7% market share) and health (33% market share) insurance products and is listed on the ISE.

Yapı Kredi Emeklilik, with a 20% market share, offers life and private pension insurance.

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

Yapı Kredi Koray, as a listed real estate investment company, is well positioned in the market in terms of reputation, funding and access to investment opportunities.

Yapı Kredi Deutschland focuses on corporate banking, foreign trade and treasury businesses in European markets.

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

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

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

Discussion of Results

EVALUATION OF FINANCIAL PERFORMANCE

Yapı Kredi posted net income of US$ 69 million in 2003. Despite intense competition in the banking sector due to the decline in interest rates and diminishing yields that forced banks to put more emphasis on retail and commercial banking, a positive income figure was achieved as a result of our leading position in core banking products.

Total assets of Yapı Kredi contracted by 1% and amounted to US$ 16,204 million at the end of 2003. The contraction of the balance sheet is attributable to the disparity between inflation and devaluation rates in 2003. In inflation accounting application, the financial statements of the prior year were restated in their entirety to the measuring unit current on December 31, 2003 by using the 2003 WPI rate of 13.9%. However, during the same period, decrease in the US dollar rate was 13.5%. Since approximately 46% of the balance sheet is denominated in currencies other than Turkish lira, there is an overstatement of the previous year's figures. If the previous year's figures are directly converted into US dollars using 2002 year-end exchange rate without being restated with the current year inflation, the increase in the balance sheet is computed as 30%.

At the end of 2003, customer deposits reached US$ 10,297 million and made up 64% of liabilities. The real decrease that is observed in deposits is attributable to the difference in the 2003 inflation and devaluation rates, as explained above. Actually, foreign currency deposits amounted to US$ 5,946 million, 7% over 2002's figure of US$ 5,543 million. Turkish lira deposits increased by 13% in real terms and reached US$ 4,350 millon. As a result, foreign currency deposits made up 58% of total customer deposits. The contribution of savings deposits and commercial deposits to total customer deposits were 68% and 32%, respectively; demand deposits made up 21% of total deposits. Bank deposits and other money market deposits, including obligations under repurchase agreements, amounted to US$1,683 million and constituted 13% of total funding.

Funds borrowed reached US$ 715 million at the end of 2003. The Bank issued US$ 200 million of floating rate notes through securitization of its diversified payment rights.

Shareholders' equity increased by 6% to total US$ 2,079 million at the end of 2003. The Bank's capital adequacy ratio on a consolidated basis and in line with the requirements of the BRSA was 20.49% as of December 31, 2003.

Due to economic conditions, liquidity was comparatively placed more in securities than in banks. Securities amounted to US$ 4,574 million and made up 28% of the balance sheet at the end of 2003. Originated loans and advances totaled US$ 6,830 million and constituted 42% of total assets. Consumer lending, including credit card receivables, accounted for 26% of the performing loan portfolio; and the rest of the loan book was made up of corporate loans and loans to the government including securities directly purchased from the Treasury. Non-performing loans to total loans ratio fell to 8% and the coverage ratio reached 81%.

Yapı Kredi generated US$ 480 million in fees, commissions and income from banking services in 2003. Despite intense competition, the Bank generates the highest income from banking services in the sector as a result of its dominance in the credit card market, its broad customer base, service quality and timely investments in technology, infrastructure and human resources.

In line with effective cost management efforts during 2003, personnel and general and administrative expenses decreased by 5% in real terms during 2003 and amounted to US$ 537 million. The Bank continued having the highest coverage of operating expenses with income from banking services in the sector.

ITS EXPERT PERSONNEL AND POWERFUL INFRASTRUCTURE HAVE ENTRENCHED THE YAPI KREDİ TREASURY AS MARKET MAKER AND LEADER IN THE TURKISH BANKING SYSTEM

TREASURY & CAPITAL MARKETS

From the standpoint of increases in business volumes, market shares and profitability both in interbank markets and customer transactions, 2003 was a good year.

With the support of its expert personnel and powerful infrastructure, Yapı Kredi Treasury Management enhanced its position as market maker and leader in the Turkish banking system, a position it has been enjoying for many years.

In all funds management products, Yapı Kredi offers customers transaction options on nearly every scale through virtually every possible delivery channel. Mutual fund equity, corporate equity, deposits, T-bills, eurobonds, government bonds, foreign currency bonds, repos, and many other investment products are made available to Yapı Kredi customers not only at more than 420 Yapı Kredi branches but also via alternative delivery channels such as telephone banking, Internet banking and ATM.

Throughout 2003, Yapı Kredi maintained its position as a market maker in foreign currency pricing and served as a reference for many Turkish and foreign banks. The volume of customer foreign currency transaction handled by Yapı Kredi last year was up by 32% to USD 23.1 billion, from USD 17.5 billion in 2002. According to Turkish Central Bank figures this meant that the Bank's market share rose from 11.4% at the beginning of the year to 12.3% at year-end. When interbank transactions are also taken into account, total foreign currency volume was up by 47%, reaching USD 40.5 billion.

Yapı Kredi has long been a leader and market maker in pricing Turkish government bonds and T-bills as well as eurobonds issued by the Turkish Treasury. As in 2002, Yapı Kredi had the highest trading volume in government securities transactions in 2003. According to Istanbul Stock Exchange figures, Yapı Kredi commanded a total transaction volume of TL 49 quadrillion of which TL 37.5 quadrillion was in the bond and bill market and TL 11.5 quadrillion in interbank market trading and customer transactions. Yapı Kredi's 6.5% custody market share in customer transactions increased to 8% by the end of the year.

Yapı Kredi is one of eleven banks that are part of the Treasury's market-making system and it holds a market-maker license. Yapı Kredi also continues to be one of ten banks active in the TR LIBOR market.

In the mutual funds market, where competition is intense, Yapı Kredi offers investors a broad range of options with mutual funds structured according to a variety of risk categories. Mutual fund services are available to customers at all branches during working hours and continuously via the Bank's alternative delivery channels. Yapı Kredi offers investors a broad range of options. These range from Type A funds based on equity or a mixed of equity and bonds and Type B which can consist of liquid funds, variable funds, a bond and bill mix or foreign securities. Yapı Kredi mutual funds increased by 89% from TL 902 trillion in 2002 to TL 1.7 quadrillion in 2003

One of Turkey's leading banks in the number of customers and volume of deposits, as of year-end 2003, Yapı Kredi held a total of TL 5.8 quadrillion deposits, of which TL 1.2 quadrillion were demand and TL 4.6 quadrillion time deposits. In time deposits Yapı Kredi's market share was 7.5% and in foreign currency deposits 10.2%, placing it among the country's leading banks in both categories. As of year-end 2003, total customer deposits stood at TL 13.2 quadrillion of which USD 5.4 billion was in foreign currency. This performance reflects customer confidence in Yapı Kredi as well the quality of the services provided.

FINANCIAL INSTITUTIONS

Yapı Kredi continues its banking operations on the international platform, strengthening the respected and reliable image it enjoys there.

By adopting the principle of establishing professional and effective correspondent relationships, Yapı Kredi stands as one of the most important doors through which the world's leading financial institutions access to Turkey. The Bank works with all leading banks and credit insurance institutions active in the international market. Yapı Kredi has particularly close relations with export credit agencies of countries that are Turkey's major trading partners and ranks among the top three banks from the standpoint of total transaction volume with them.

Among the some twenty commercial banks active in Turkey today, Yapı Kredi commands approximately 15% share of total import/export transactions - further evidence of the importance that the Bank gives to international transactions and to trade finance.

With an experienced staff in foreign trade transactions and a continuously growing network of financial institutions, Yapı Kredi's influence on the international platform and in support of real-sector financing becomes greater day by day.

AMONG THE INNOVATIONS INTRODUCED BY YAPI KREDİ IN 2003, TRIO IS A NEW AND UNIQUE PAYMENT VEHICLE FOR THE CORPORATE BANKING SEGMENT

CORPORATE BANKING

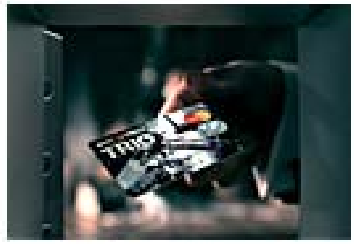
Among the innovations introduced by Yapı Kredi in 2003, TRIO is a new and unique payment vehicle for the corporate banking segment. Combining retailers, distributors and the Bank, TRIO immediately captured the market's attention with the opportunities it opened up on a credit card-based platform of flexible payment terms and installments. TRIO is used by retailers when they buy goods from wholesalers and substitutes the functions of letters of guarantee, cash, checks and promissory notes, which they use in these transactions. As such it enhances retailers' buying power while guaranteeing the collection for wholesalers. Standing apart from its rivals by virtue of its unique functions, TRIO quickly became a system preferred by retailers and distributors, and its use is spreading rapidly among them.

Yapı Kredi was one of the first banks in Turkey to introduce the concept of corporate branches catering exclusively to the needs of corporate customers. As a result of many years of activity and experience gained in this line, the Bank has built a robust association with many companies that are looking for quick solutions to their financial needs. In a market where competition is becoming more and more intense, Yapı Kredi successfully preserved its position as a bank that national and multinational firms prefer to work with. In addition, cash management solutions specially tailored to customers' needs are transformed into high added-value services, further deepening Yapı Kredi's links with corporate clients.

The corporate banking market has recently been witness to a number of new developments. Yapı Kredi has expanded the scope of client cash management services that it started with basic tasks like cheque and bill collection by installing infrastructure that enables clients to perform their import/export transactions electronically through means that are designed to meet their individual needs.

Many national and multinational companies with extensive dealership networks have significantly improved their productivity by moving their collection management processes into an electronic environment with the aid of automated systems that Yapı Kredi has specially tailored for their needs. By means of these systems, which are supported by Yapı Kredi's superior technological infrastructure and which guarantee collection, corporate clients have begun taking advantage of the ability to make their collections electronically in Turkish liras as well as in foreign currency. Thanks to integration with the software that customers use in their own accounting, sales, finance, import and exports, Yapı Kredi has launched a brand-new type of collaboration on an electronic platform.

Yapı Kredi has enhanced the functions and services available under its Commercial Teleweb, which is Internet banking for corporate customers, thereby adding many new clients to the service. By moving lengthy approval procedures for corporate clients into an electronic environment, Commercial Teleweb has made it possible for customers to improve the efficiency of their internal processes.



COMMERCIAL TELEWEB QUICKLY MOVED TO THE FOREFRONT OF YAPI KREDİ PRODUCTS AND SERVICES MOST PREFERRED BY COMPANIES WISHING TO INCREASE THEIR PRODUCTIVITY BY PREVENTING WASTE OF TIME AND EFFORT

Commercial Teleweb quickly moved to the forefront of Yapı Kredi products and services most preferred by companies wishing to increase productivity by minimizing waste of time and effort. The use of Commercial Teleweb, which makes it possible for banking transactions to be performed easily, speedly and securely 24 hours a day, 365 days a year over the Internet, grew 90% in 2003 compared with the previous year.

Yapı Kredi's portfolio of commercial banking customers consists of small- and medium-sized companies whose credit-worthiness is high and which have the potential to generate considerable profitability for the Bank. Traditionally, by lavishing the greatest support on such firms, Yapı Kredi continues to preserve and increase its market share in this segment with a broad customer base, diversified loan portfolio, innovative attitude and knowledge of local markets.

Meeting the real sector's needs for investment and operational financial support with its products and services, Yapı Kredi's strong loan portfolio grew bigger in 2003 thanks to the efforts of the Bank's staff of skilled experts, its extensive market knowledge and powerful infrastructure that underlie the credit assessment system. Yapı Kredi remains the first-choice of all commercial enterprises irrespective of their size or sector, and the Bank continues to develop new products and services according to changing market conditions in order to be able to reach more clients.

Yapı Kredi makes thorough use of the information in its database so as to develop strategies that satisfy its commercial customers' requirements. At the same time, it also categorizes its customers according to profitability and product use in order to spot and exploit cross-selling opportunities.

In addition, the data about each product is regularly reviewed to verify user profile and activity criteria.

One of the innovations introduced in 2003 was the launching of Yapı Kredi's Commercial Customers Monitoring System, which is now operational in all branches and headquarter units. Using this system, managers can see product profitability and ownership on an individual customer basis according to customer group income bracket criteria.

An innovation last year under the heading of Yapı Kredi's instalment-based commercial credit products was the introduction of "flexible commercial loans" in which customers are able to tailor the dates and amounts of their repayments according to their particular preferences.

Last year Yapı Kredi also continued to come up with solutions in line with customers' requests. One was the introduction of a system which automatically reports their account movements at regular intervals by e-mail, fax, or file downloads and allows this information to be processed by their own accounting software.

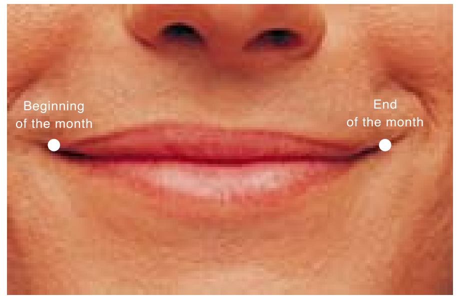
In addition to creating new products, Yapı Kredi continued to develop and improve the existing ones. In 2003, the Business Card, a credit card targeted the business world, was re-launched with new features such as installment options and protection against credit card abuse. The Business Card was included in the WorldPoint system, allowing cardholders to earn points on purchases made at more than 40,000 member merchants of the World system.

The scope of Commercial Teleweb's services was expanded to allow commercial customers to make online payments for motor vehicle taxes, traffic fines and social security premiums. New systems were developed to allow some 100,000-member merchants to view reports of their accounts and to access their Commercial Teleweb accounts over dedicated data lines.

POSNET, which undertakes the POS functions when Yapı Kredi credit cards are used in Internet shopping, was also moved into a virtual environment through the Commercial Teleweb channel.

ONE OF THE MOST IMPORTANT INNOVATIONS FOR RETAIL CUSTOMERS INTRODUCED IN 2003 WAS YAPI KREDİ'S AUTOMATIC CASH MANAGEMENT (ACM) SYSTEM, WHICH ENSURES THAT THE MONEY IN THEIR ACCOUNTS IS MANAGED IN THE MOST PRODUCTIVE WAY POSSIBLE

RETAIL BANKING



One of the innovations introduced in 2003 was the Automatic Cash Management System that enabled the management of the deposit accounts in the most efficient way. Under this system, deposit accounts with Yapi Kredi are linked with portfolio accounts and at the end of each day the outstanding balance is converted into YKB Type B Liquid Mutual Funds. Through this system the exact amount of mutual funds are sold to make automatic payments like utility bills, rent, installments and credit card.

In 2003, Yapi Kredi continued to develop products and services so as to meet the requirements and expectations of its customers in the best possible way. Among these can be counted the "On-line Individual Loan" application to which a response is given on the same day; "Free Repayment Methods" under which loan repayment is made according to the customer choice; and "Individual Loan Decision Support System" which permits the conduct of financial processes speedily and effectively. In additions to these, services were introduced allowing customers to receive, on demand, all manner of reminders or information concerning their banking via e-mail or SMS. Automatic Cash Management System was among the innovations introduced in 2003, enabling the management of cash in bank accounts to obtain the highest yield to depositors. Another important development was the introduction of a customer loyalty programme via a system that allows customers to earn Worldpoints from banking transactions and purchases with Telecards. Through this method more Yapi Kredi customers were able to win more Worldpoints and to use them at 40,000 World Member Merchants with Worldcard or Telecards.

The introduction of private pension plans was among the most notable financial developments of 2003. With the launch of this system all Yapi Kredi branches started selling "Akıllı Adım" Private Pension Plans developed by Yapi Kredi Emeklilik (Yapı Kredi Pension Co.)

In 2003, within private services, "Personal Telecard" and "Emergency Health Service" were developed for Personal Banking customers. In University Banking, "kampusce.com" was established to improve the bank's channels of communications with university students.

During the year, through intensive campaigns, more than a million customers were directly and as a direct result product utilization increased by 14%.

Yapi Kredi continued to provide superior service to its payroll customers by offering special opportunities and campaigns to meet their financial needs.

It is noteworthy that in 2003, 68% of banking transactions that are common to all channels including branches, were executed through alternative delivery channels.

Last year Yapi Kredi customers benefited from reaching their Bank via many channels of enhanced capacity, seven days a week, 24 hours a day, from any place of their choice and communication method.

At the end of 2003 there were more than 600,000 "Limitless Banking" customers using Teletel, Teleweb Telemobil and Television channels. With the high transaction volume they created, these customers made large contribution to profitability. The variety of services provided within this context - stock purchase and sale via Teleweb and Teletel, and SSK premium and motor vehicle tax payment - continued at an increasing pace through all channels.

Tele24 ,is the fourth largest ATM network in the country with 1,406 points. Last year the number of ATMs that enable depositing money without the use of envelopes were expanded and screens that can be personalized according to location and card type were increased.

The telephone-banking channel Teletel, which is the backbone of the distribution channel and customer services, continued to provide the best and fastest service to customers in 2003. It played an active role in the Bank's campaigns by complementing the branches, promoting and selling many products.

The usage of "Mobile Payment," which was developed with Turkcell as the first example of mobile commerce, was expanded through various campaigns. The management plans to expand the scope of this service and the number of clients.

INNOVATIONS AND CAMPAIGNS HELP YAPI KREDİ TO REMAIN THE INDISPUTABLE LEADER OF THE CREDIT CARD MARKET

CREDIT CARDS

The World system launched in February 2002 was designed to bring all credit and debit cards issued by Yapı Kredi under a single system while significantly enhancing their features. By developing and expanding the World system Yapı Kredi was able to maintain its leadership in the credit card market.

In line with this, a customer relationship management infrastructure was set up to create synergies between cardholders and merchants under the World system. Within this structure, which allows the best possible offer to be made to exactly the right customer segment, cardholders were able to receive offers with high added value while merchants could launch campaigns specially designed for specific target groups. Hence the system ensures maximum customer satisfaction while enabling merchants to increase their sales volumes.

Throughout the year joint campaigns were conducted that created special opportunities for both World member merchants and WorldCard owners. In addition, personally tailored campaigns were run at certain times making use of the POS devices in World member businesses.

In 2003 Yapı Kredi became the author of another first by expanding the scope of its WorldPoint program to encompass all of the Bank's customers. Taking advantage of the World system's advanced infrastructure, cardholder limit, pricing and confirmation management functions were carried out effectively in 2003. This system maximizes customer satisfaction while at the same time optimising the Bank's profitability. The automatic application approval system, introduced during the year, made it easier for Yapı Kredi customers who did not own a WorldCard to obtain one.

The World Training Campaign launched in 2002 with the purpose of providing the right answers to important questions related to retail sales services and to train retail personnel continued. Under this program, which was another first in Turkey from the standpoint of scope and diversity, a total of 17,000 World member merchants and their employees found the opportunity to participate in the training activities.

With the support of the innovations and campaigns described above, Yapı Kredi continued to be the undisputed leader of the credit card market in Turkey. As a result, in 2003, the Bank achieved 28% and 17% market shares in issuing volume and in number of cards respectively. With more than 4 million credit cards issued so far, Yapı Kredi has the biggest portfolio of the most avidly sought-after credit cards in Turkey.

A leader of the credit card market since 2000, Yapı Kredi's share in the credit card acquiring volume rose to 27% in 2003 from 23% in 2002.

In 2003 the total volume generated by the Bank at more than 120,000 POS terminals at 110,000 merchants was about USD 6.7 billion. The number of member merchants in World system, Turkey's largest such chain, exceeded 40,000.

In November, a campaign was launched together with Turkcell that enabled WorldCard owners to exchange their World points as free time on their Turkcell lines . This increased WorldCard usage by expanding the ways in which WorldPoints can be earned and spent.

YAPI KREDİ KEEPS A CLOSE WATCH ON ITS LOAN PORTFOLIO IN ORDER TO MONITOR ITS CREDIT RISK EXPOSURE IN LINE WITH DEEP-ROOTED PLACEMENT CULTURE AND PRINCIPLES

CREDIT RISK MANAGEMENT

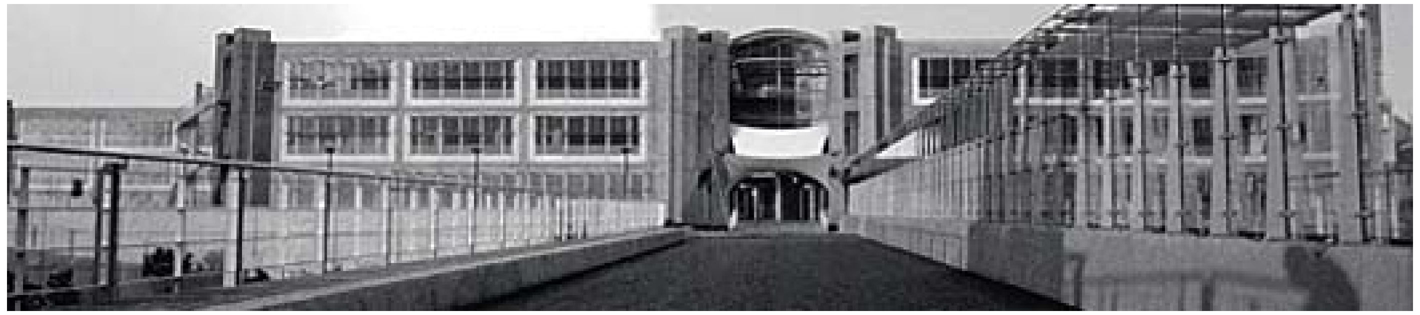
Credit risk management, which occupies a crucial place in contemporary banking, makes an important contribution towards Yapı Kredi's ability to achieve its basic goals.

The Bank has a deep-rooted credit assessment and loan culture, which enables it to keep a close and continuous watch on its loan portfolios. Yapı Kredi employs an early-warning system that spots loans that may become problematic in advance. The Bank continues to upgrade the infrastructure and refine the support systems to develop constructive and effective solutions to head off problems. The Bank's Risk Monitoring System and the Yapı Kredi Rating Model enable management to make assessments based on the entirety of the portfolio while also determining individual loan portfolio quality and making a map of the Bank's risk exposure.

The Credit Risk Management Unit also plays an active role in the development of projects targeted at small- and medium-sized companies that constitute a dynamic element of the Yapı Kredi customer portfolio and the Turkish economy.

YAPI KREDİ'S OPERATIONS CENTER EMPLOYS ALL THE MEANS OF MODERN TECHNOLOGY AND A BRAND-NEW APPROACH IN ORDER TO KNIT TOGETHER ALL THE OPERATIONAL PROCESSES

OPERATIONS



The objective of Yapı Kredi Operations Management in 2003 was once again to produce a fast, continuous, error-free service that meets expectations of its customers in line with the Bank's operational productivity and service quality targets.

In accordance with the awareness to meet the expectations of its clients, Yapı Kredi Operations Management continued to make new investments to increase service quality and operational efficiency. In line with this goal, centralization of operations continued and important steps were taken towards the productive use of resources and enhancing transaction potential. Centralization has brought lower unit costs through the integration of transactions while ensuring that transactions are carried out faster, and more effectively and reliably as a result of the enhanced synergies and specialisation that it created.

During 2003, preliminary work was completed on changing technological infrastructure so all foreign trade transactions could be conducted on an Internet-based system. When this system becomes operational, foreign trade will be processed faster, increasing customer satisfaction.

The system in stock-trading operations was modified allowing Yapı Kredi customers to buy and sell shares online. Thanks to investments in technology and work processes, operational productivity and service quality were also improved.

The Yapı Kredi Operations Center, which became operational in 1997, employs all the means of modern technology and a brand-new approach in order to fuse all of the Bank's operational processes. In 2003 the centre continued to provide valuable support in efforts to achieve the Bank's objectives.

THE FIRST IN THE WORLD YAPI KREDİ INTERNET BANKING IS THE ONLY APPLICATION IN THE WORLD TO BE AWARDED WEBTRUST CERTIFICATES IN ALL FIVE CATEGORIES

TECHNOLOGY

Yapı Kredi has made substantial investments in IT since the early 1980s and pioneered many IT based products and services in Turkey. Management continues to attach top priority to upgrading infrastructure and keeping abreast of the latest developments in this field. It is thanks to these efforts that Yapı Kredi has been able to provide its customers with modern banking products and services. Some of these are more sophisticated than those available in the world's developed countries. With its experience in project management, approach to service focused on customer satisfaction, expertise in information technology, and experience in dealing with high-volume transactions, projects undertaken by Yapı Kredi have regularly served as models for its competitors to imitate.

Yapı Kredi has been a pioneer in importing technological innovations that could be used in the service of banking. The Bank has made substantial IT investments to cope with the increasingly complex aspects of customer relationship management. The database has been moved to a platform that allows it to perform much more efficiently and at a lower cost than is possible in more traditional database environments. E-mail and SMS have been added to the channels through which ad campaigns can be conducted, achieving substantial savings in costs. Mindful of the increasingly greater importance of the Internet, important progress was made in the direction of improving the functions of existing channels and making the organizational and infrastructural changes needed so that new applications could be brought online.

In 2003, Yapı Kredi's Internet banking arm Teleweb became the first institution in the world to be awarded WebTrust certificates in five separate categories by the American Institute of Certified Public Accountants (AICPA).

Risks inherent in the infrastructure of newly developed channels and in payment systems make it necessary for Yapı Kredi to improve its security infrastructure. In this context, last year, the Bank's system and network security management were updated, yet again in order to put new, proactive technological security policies into place.

Yapı Kredi has undertaken a project jointly with Gartner Consulting to compare its technology, management, application, effectiveness, cost and system support with its international peers in terms of productivity, efficiency and cost-effectiveness. As a result of this evaluation, Gartner identified the best practices in this area and in order to comply with the set of benchmarks a new project was started mainly to improve the productivity and effectiveness of the Bank's technological infrastructure.

In order to reduce the cost of operational support and increase service standards the bank started to outsource certain services and employ consultants for developing various applications.

The first in the world, the only one in Turkey! Yapı Kredi Internet banking is the only application in the world to be awarded WebTrust certificates in all five categories.

The AICPA (American Institute of Certified Public Accountants) recently announced the results of its WebTrust audits, which command particular respect in the world of information technology. Yapı Kredi's internet banking site was the first in the world to be awarded certificates in all five WebTrust categories. These certificates are further proof of the superior quality of Yapı Kredi's banking services not just in Turkey but around the world.

YAPI KREDİ CARRIES OUT ITS ACTIVITIES IN THE AREA OF HUMAN RESOURCES IN SUCH A WAY TO BALANCE RESOURCES AND ITS CORPORATE STRATEGIES

HUMAN RESOURCES

Yapı Kredi's human resources policy is rooted in the following principles: granting equal career opportunity to all employees, treating training as an investment and an activity that is an ongoing process throughout an employee's career and carrying out the employee performance evaluations on the basis of clear-cut and objective criteria.

Throughout 2003, the Bank continued to develop its human resources policies and practices along these lines, also taking into account suggestions from employees.

Because it is a company active in the service sector, where the quality of service is always an issue of the utmost importance, Yapı Kredi carries out its activities in the area of human resources in such a way as to balance those resources and its corporate strategies.

At the end of 2003 the total number of employees was 10,542 . Of these, 55% are female, 60% hold a university or post-graduate degree, and 13% know at least one foreign language.

In 2003, the Bank hired 665 new personnel of which 178 were employed at the branches, 163 at the Call Centre, 62 at IT and 262 at head office departments.

With "Tele-Response" and "Web-Response" systems that were introduced in 2000 as a "first" in the area of human resources in banking sector, the candidates seeking employment at Yapı Kredi continued to have uninterrupted telephone and Internet access about career paths, open positions, prerequisites and application methods as well as the results of applications, tests and interviews. Thanks to these systems, each stage of the application and recruitment process can easily be followed and every candidate has an equal opportunity to be evaluated on the basis of the same criteria.

In the shift from a function-based structure to an internal customer-based structure, Human Resources Support Teams were first set up to serve the commercial, retail and corporate sales teams. In November 2003, the Human Resources Operations Support Team and Headquarters Unit Support Teams were set up for the purpose of implementing human resources processes and providing Operations Management employees and supervisors with advice about such implementation.

Since 1995 performance evaluation at Yapı Kredi is being made in an electronic environment. Initially, this system was designed to make it possible to measure the numerical results, skills and shared values in branch employees' annual performance evaluations. With the application of similar rules to the Headquarters personnel, performance evaluation has become standard throughout the Bank.

In 1994 Yapı Kredi introduced a foreign currency indexed Group Retirement Insurance Program for its employees that provides social security and life insurance options in addition to what was available through the public pension scheme. As of year-end 2003, 62% of the Bank's employees were taking part in this program.

YAPI KREDİ PUBLISHING SELLS MORE THAN ONE MILLION BOOKS IN 2003

Yapı Kredi Culturel Activities, Arts and Publishing have played a prominent role in the country's culture life since its inception.

In 2003 Yapı Kredi Publishing printed 200 new first editions along with reprints of another 250 books in its catalogue. Yapı Kredi Publishing sells more than one million books a year and is one of the biggest in the country.

In addition to its publishing activities, the Culture and Arts Company also opened 25 exhibitions in Istanbul. These also travelled to Ankara, and major cities like Balıkesir, Bursa, Afyon and Izmir. Last year the Fausto Zonaro exhibition drew a hundred thousand visitors while the "Urartu: War and Aesthetics" exhibition attracted nearly sixty thousand. Outdoor events staged by the company at Beyoğlu's Istiklal Street, Büyükada (one of Istanbul's Princes' Islands), and on Bosphorus ferries reached even larger audiences. In addition, a total of 400 cultural and artistic events were organized outside Istanbul, attracting thousands of people.

Yapı ve Kredi Bankası
Anonim Şirketi

Consolidated Financial Statements
Together With
Report of Independent Auditors
December 31, 2003

TABLE OF CONTENT

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 Bank) and its subsidiaries (the Group) as of December 31, 2003 and the related consolidated income, changes in equity and cash flow statements for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2003. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

As explained in detail in Note 7, the Bank has a receivable from a government agency as of December 31, 2003. In accordance with the opinion taken from Banking Regulation and Supervision Agency (BRSA), the Bank has calculated and recorded interest income accrual on such receivable only for the three months period between July 1, and September 30, 2002 and has not recorded any income accrual for other periods. The Bank in its Board of Directors meeting held on December 25, 2003 has taken a decision to initiate legal procedures against the Undersecretariat of the Turkish Treasury. Settlement amount of this receivable depends on the results of the legal process initialized against the Undersecreteriat of the Turkish Treasury.

In our opinion except for the effects of the matter explained in the third paragraph above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we would like to draw attention to the following;

As explained in further detail in Note 2, the accompanying financial statements as of December 31, 2002 have been restated for the differences in application of International Accounting Standard 29 (Financial Reporting in Hyperinflationary Economies) with respect to conversion factors, initial year of restatement and assumptions used for restatement of capital contributions in line with the inflation indices and application methodologies defined by Turkish regulatory authorities.

As explained in more detail in Note 32, as a result of the process started by BRSA on June 18, 2002 for the transfer of management, control and shareholding rights (excluding dividends) of Pamukbank T.A.Ş (another bank in the Çukurova Group and a shareholder of the Bank) to Saving Deposit Insurance Fund (SDIF), an agreement was signed on January 31, 2003 among BRSA, SDIF and the Çukurova Group. With the mentioned agreement, the transfer of Pamukbank to SDIF is finalized and in line with the provisions of Banking Act 4389 it was concluded that SDIF will continue to exercise the partnership rights of Pamukbank T.A.Ş. Moreover the shares of the Bank, which are held by Pamukbank T.A.Ş. and its subsidiaries, are taken over by SDIF. In line with the mentioned agreement, the shares of the Bank owned by SDIF, and the Çukurova Group will be sold to third parties by the Çukurova Group within two years after the agreement date so that the direct and indirect participation of the Çukurova Group in the Bank will be reduced to less than 10%. In case, the sale cannot be realized within this period, a reputable investment bank that will mutually be authorized by SDIF and the Çukurova Group, will realize the sales.

As explained in detail in Note 32, as of December 31, 2002 the Bank, taking also the opinion of the BRSA, has classified the Çukurova Group risks as medium and long term restructured loans, cancelled the provisions set for these loans and recorded the interest and income accruals until December 31, 2002 in the accompanying financial statements in line with the Financial Restructuring Agreement (FRA) which was signed between the Bank and Çukurova Group and became effective after the agreement mentioned in the preceding paragraph. The collection of the restructured receivable in nine years is directly related with the Çukurova Group's ability to pay its debts.

At the Board of Directors' meeting held on February 26, 2004 and numbered 61/10 it was decided that the settlement of the interest installment receivable along with its accrued interest amounting to USD 98,937,601 as of December 31, 2003 calculated as per FRA, is to be made by acquiring Turkcell İletişim Hizmetleri A.Ş.'s shares that are not traded in İstanbul Stock Exchange (ISE), without using a brokerage agency for the transaction and over the "fair value" determined based on the last 30 working days' weighted average transaction price (each share - TL 14,718 full). It is also decided that the Çukurova Group will have a call option to buy the shares back at value that is equal to the USD value of the shares at the date of acquisition by the Bank plus interest accrued thereon at the rate of Libor+3.5% between acquisition and option date. Such option will be valid until the date set forth in the agreement dated January 31, 2003 signed by BRSA, SDIF and Çukurova Group. The agreement, signed on January 31, 2003 among BRSA, SDIF and Çukurova representatives, comprise the article that some portion of the risks mentioned above can be collected by means of the sales of assets owned by the Çukurova Group. In case of total or partial sales of assets of the Çukurova Group to third parties, the 55% of revenue will be used in the payment of debt to the Bank and SDIF whereas in case of sales of assets pledged in favor of SDIF, the total amount of collection will be given to SDIF. However if requested by the Çukurova Group, a portion of revenue on pledged items' sales, which is to be approved by SDIF, can be used for the payment of the Çukurova Group risk to the Bank.

As explained in Note 32.1.d) subsequent to December 31, 2003, the Bank finalized restructuring process for USD 77,565,815 of cash loans, accrued interest and other asset balances due from non-consolidated subsidiaries and associates amounting to TL 226,569 billion as of December 31, 2003. Discussions regarding the restructuring of the remaining portion of such receivable amounts are in progress.

As required by the agreement signed among BRSA, SDIF and the Çukurova Group, all necessary precautions will be taken in order for the capital adequacy ratio of the Bank not to fall below 10%. In case the capital adequacy ratio falls below 10% and if the Çukurova Group is unable to increase capital, the necessary capital will be provided by SDIF.

Ernst & Young

May 28, 2004
Istanbul, Turkey

CONSOLIDATED BALANCE SHEET
As at December 31, 2003
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

ASSETS

	Notes	2003	2002 (As restated)
Cash and balances with the central banks	4	**270,682**	495,232
Deposits with banks and other financial institutions	4	**774,141**	650,557
Other money market placements	4	**80,023**	371,221
Reserve deposits at the central banks	5	**1,007,135**	1,102,977
Trading securities	6	**3,064,263**	3,892,219
Available for sale securities	6	**2,415,185**	1,056,785
Held to maturity securities	6	**832,983**	865,794
Originated loans and advances	7	**9,425,611**	9,631,673
Factoring receivables	8	**269,979**	180,632
Minimum lease payments receivable	9	**316,832**	284,456
Derivative financial instruments	22	**3,810**	7,688
Investment in joint ventures	10	**414,522**	453,995
Investments in unconsolidated subsidiaries	11	**4,950**	9,925
Investments in associates	12	**279,395**	339,791
Investment properties	13	**18,188**	19,189
Premises and equipment	14	**2,166,866**	2,267,682
Intangibles	15	**149,640**	156,279
Other assets	16	**716,191**	756,721
Deferred tax asset	21	**150,817**	92,840
Total assets		**22,361,213**	22,635,656
LIABILITIES			
Deposits from other banks	17	**171,985**	147,220
Customers' deposits	17	**14,209,198**	15,386,966
Other money market deposits	17	**2,150,940**	1,954,395
Funds borrowed	18	**711,181**	961,453
Debt securities	18	**276,000**	8,539
Insurance technical reserves	20	**649,525**	584,977
Factoring payables	8	**126,548**	86,525
Derivative financial instruments	22	**4,577**	2,701
Other liabilities and provisions	19	**1,070,499**	662,032
Income taxes payable	21	**4,842**	13,502
Deferred tax liability	21	**13,736**	22,608
Total liabilities		**19,389,031**	19,830,918
Minority interest		**103,644**	96,767
Equity			
Share capital issued	23	**3,769,554**	3,769,554
Net unrealized gains		**135,430**	27,669
Reserve for general banking risk	24	**-**	85,425
Currency translation differences		**(68,030)**	(25,917)
Legal reserves and accumulated deficit	24	**(1,064,280)**	(2,294,355)
Profit for the year		**95,864**	1,145,595
Total equity		**2,868,538**	2,707,971
Total liabilities and equity		**22,361,213**	22,635,656

The accompanying policies and explanatory notes on pages 42 through 95 form an integral part of the financial statements.

Yapı ve Kredi Bankası Anonim Şirketi

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2003
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Notes	2003	2002 (As restated)
Interest income			
Interest on originated loans and advances		**1,579,719**	2,396,031
Interest on securities		**855,118**	904,484
Interest on deposits with banks and other financial institutions		**106,988**	182,450
Interest on other money market placements		**11,120**	131,996
Interest on financial leases		**38,027**	33,809
Interest income from factoring advances		**19,262**	18,878
Other interest income		**790**	3,120
Total interest income		**2,611,024**	3,670,768
Interest expense			
Interest on deposits		**(2,066,820)**	(2,324,831)
Interest on other money market deposits		**(458,712)**	(433,401)
Interest on funds borrowed		**(92,514)**	(124,164)
Interest on debt securities		**(5,885)**	(18,267)
Total interest expense		**(2,623,931)**	(2,900,663)
Net interest income (expense)		**(12,907)**	770,105
Provision for possible loan, lease and factoring receivable losses, (net)	7,8,9	**5,910**	420,534
Net interest income (expense) after provision for possible loan, lease and factoring receivable losses		**(6,997)**	1,190,639
Foreign exchange gain (loss)		**29,537**	(241,250)
Net interest income (expense) after foreign exchange gain (loss) and provision for possible loan, lease and factoring receivable losses		**22,540**	949,389
Other operating income			
Fees and commissions income		**193,381**	229,663
Income from banking services		**469,127**	454,599
Trading income, net		**476,427**	460,304
Other income	28	**508,237**	687,922
Other operating expense			
Fees and commissions expense		**(189,305)**	(197,912)
Salaries and employee benefits	27	**(405,041)**	(381,615)
Depreciation and amortization	13, 14, 15	**(194,104)**	(187,991)
Taxes other than on income		**(58,963)**	(27,752)
Other expenses	28	**(887,923)**	(1,133,715)
Profit (loss) from operating activities		**(65,624)**	852,892
Loss from associates and joint ventures	10, 12	**(23,960)**	(5,343)
Profit (loss) from operating activities before income tax, monetary gain and minority interest		**(89,584)**	847,549
Income tax credit	21	**71,714**	110,753
Monetary gain		**127,331**	196,758
Net profit from ordinary activities		**109,461**	1,155,060
Minority interest		**(13,597)**	(9,465)
Net profit		**95,864**	1,145,595
Earnings per share :			
Basic (Full TL)	25	**127**	1,522

The accompanying policies and explanatory notes on pages 42 through 95 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2003
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	Share Capital	Net unrealized gains (losses)	Reserve for general banking risk	Currency translation differences	Legal reserves and accumulated profits (deficit)	Total
At January 1, 2002						
As previously stated	3,162,372	68,154	-	(11,382)	(1,475,857)	1,743,287
Effect of changes in conversion factors and restatement of share capital (Note 2)	607,182	-	-	-	(752,257)	(145,075)
At January 1, 2002 (as restated)	3,769,554	68,154	-	(11,382)	(2,228,114)	1,598,212
Net gain (loss) on available for sale financial assets	-	(40,485)	-	-	-	(40,485)
Retained earning increase from change in participation percentages	-	-	-	-	21,166	21,166
Dividends declared	-	-	-	-	(1,982)	(1,982)
Currency translation differences	-	-	-	(14,535)	-	(14,535)
Net profit for the year (as restated)	-	-	-	-	1,145,595	1,145,595
Reserve for general banking risk	-	-	85,425	-	(85,425)	-
At December 31, 2002	3,769,554	27,669	85,425	(25,917)	(1,148,760)	2,707,971
Net gain (loss) on available for sale financial assets	-	**107,761**	-	-	-	**107,761**
Dividends declared	-	-	-		**(945)**	**(945)**
Currency translation differences	-	-	-	**(42,113)**	-	**(42,113)**
Net profit for the year	-	-	-	-	**95,864**	**95,864**
Reversal of reserve for general banking risk	-	-	**(85,425)**	-	**85,425**	**-**
At December 31, 2003	**3,769,554**	**135,430**	-	**(68,030)**	**(968,416)**	**2,868,538**

The accompanying policies and explanatory notes on pages 42 through 95 form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2003
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	2003	2002 (As restated)
Cash flows from operating activities		
Interest received	**2,559,609**	3,604,822
Interest paid	**(2,564,167)**	(2,942,522)
Loss from associates	**(23,960)**	(5,343)
Fees and commissions received	**193,381**	229,663
Income from banking services	**469,127**	454,599
Trading income (loss)	**476,427**	460,304
Recoveries of loans previously written off	**12,899**	31,386
Fees and commissions paid	**(189,305)**	(197,912)
Cash payments to employees and other parties	**(405,041)**	(381,615)
Cash received from other operating activities	**694,561**	726,187
Cash paid for other operating activities	**(813,686)**	(905,386)
Income taxes paid	**(12,366)**	(42,564)
Cash flows from operating activities before changes in operating assets and liabilities	**397,479**	1,031,619
Changes in operating assets and liabilities		
Net (increase) decrease trading securities	**719,967**	(2,654,621)
Net (increase) decrease in bank accounts	**97,862**	(3,154)
Net decrease (increase) in reserve deposits at the Central Banks	**95,842**	108,500
Net decrease (increase) in originated loans and advances	**295,916**	1,700,552
Net (increase) decrease in factoring receivables	**(89,088)**	(50,062)
Net decrease (increase) in minimum lease payments receivable	**(26,244)**	(62,882)
Net (increase) decrease in other assets	**29,479**	138,049
Net decrease in deposits from other banks	**24,765**	(71,813)
Net (decrease) increase in customers' deposits	**(1,223,704)**	(1,781,724)
Net increase (decrease) in other money market deposits	**197,239**	1,284,348
Net increase in factoring payables	**40,023**	35,352
Net increase (decrease) in other liabilities	**509,027**	97,987
Net cash used by operating activities	**1,068,563**	(227,849)
Cash flows from investing activities		
Purchases of available for sale securities	**(570)**	(178,651)
Proceeds from sale and redemption of available for sale securities	**(1,103,500)**	1,206,174
Purchases of held to maturity securities	**(671,309)**	(531,858)
Proceeds from redemption of held to maturity securities	**577,681**	1,014,748
Acquisition of subsidiaries and associates net of cash acquired	**(1,712)**	(504,051)
Disposal of subsidiaries and associates net of cash disposed	**106,556**	73,338
Purchases of investment property	**(28)**	-
Purchases of premises and equipment	**(105,966)**	(244,244)
Proceeds from the sale of premises and equipment	**11,162**	38,993
Purchase of intangible assets	**-**	(68,696)
Proceeds from intangible assets	**43**	3,157
Net cash provided by investing activities	**(1,187,643)**	808,910
Cash flows from financing activities		
Proceeds from issue of share capital	**-**	-
Retained earnings from change in participation percentage	**-**	21,166
Repayments of funds borrowed and debt securities	**12,419**	(2,022,471)
Dividends paid to minority interests	**(945)**	(1,982)
Payment of finance lease liabilities	**-**	(8,445)
Net cash used in financing activities	**11,474**	(2,011,732)
Effect of net foreign exchanges difference and monetary gain (loss) on cash and cash equivalents	**(182,831)**	(852,627)
Net (decrease) increase in cash and cash equivalents	**(107,606)**	(1,430,671)
Cash and cash equivalents at beginning of year	**1,413,688**	3,696,986
Cash and cash equivalents at end of year	**1,123,251**	1,413,688

The accompanying policies and explanatory notes on pages 42 through 95 form an integral part of the financial statements.

1. CORPORATE INFORMATION

General

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 headquarter and registered office of the Bank is Yapı Kredi Plaza D Blok, Büyükdere Caddesi, Levent 80620, İstanbul, Turkey.

The consolidated financial statements of the Bank are authorized for issue by the management on April 7, 2004. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

In accordance with the decision of the BRSA dated June 18, 2002 and numbered 742, the management and control of Pamukbank T.A.Ş. (another bank in the Çukurova Group and a shareholder of the Bank), was transferred to the SDIF but then, as a result of the decision of the General Assembly of Administrative Lawsuit Chambers of the Council of State dated November 22, 2002 and numbered 2002/892 YK, related with the suspension of the execution of the resolution of the BRSA regarding the take over of Pamukbank by SDIF, SDIF has transferred the management, control and privileges related with shareholding of Pamukbank T.A.Ş. to its former owners as of January 24, 2003. Following that, an agreement has been signed among the BRSA, SDIF and the Çukurova Group on January 31, 2003. With this agreement, the transfer of management, control, and shareholding rights (excluding dividends) of Pamukbank T.A.Ş. to SDIF is finalized and in line with the provisions of Banking Law numbered 4389, it was concluded that SDIF will continue to exercise the partnership rights of Pamukbank T.A.Ş. in the Bank due to the fact that the shareholders of Pamukbank T.A.Ş. have lost the qualification of being a bank owner in accordance with the Article 7/2d of Banks Act. Moreover, the shares of the Bank held by Pamukbank T.A.Ş. and its subsidiaries are taken over by SDIF and within the scope of the above mentioned agreement, the shares of the Bank owned by SDIF and the Çukurova Group will be sold to third parties by the Çukurova Group within two years after the agreement date so that direct and indirect participation of the Çukurova Group in the Bank will be reduced to less than 10%. In case, the sale cannot be realized within this period, a reputable investment bank that will mutually be authorized by SDIF and the Çukurova Group will realize the sales.

Currently, the Bank is managed by an independent board under the supervision of BRSA and Çukurova Group.

Nature of Activities of the Bank / Group

The Bank is a full-service financial institution engaged in corporate, retail, international and investment banking businesses through a network which includes 425 domestic branches, an offshore banking branch in Bahrain, four overseas representative offices in Germany 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, associates, and joint ventures in information technology, tourism, telecommunication, 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 Group".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by International Accounting Standards Committee (IASC) that remain in effect. The consolidated financial statements have been prepared on an historical cost convention except for the measurement at fair value of derivative financial instruments, trading securities and available-for-sale financial assets.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Banking Law, accounting standards promulgated by the Turkish Capital Market Board, Turkish Commercial Code and Tax Legislation. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. The major adjustments which are reflected to be in conformity with IFRS constitute:

(a) Consolidation of nonfinancial subsidiaries

(b) Deferred tax

(c) Employee benefits

Adjustments on 2002 financial statements

In relation to new regulatory reporting requirements issued by the Banking Regulation and Supervision Agency (BRSA) which also requires application of IAS 29 ("Financial Reporting in Hyperinflationary Economies") in the statutory financial statements of the banks operating in Turkey effective December 31, 2001, BRSA has announced inflation indices to be used by banks, which are different from the ones used in IFRS financial statements for the years prior to 1995. Furthermore BRSA accepted year 1970 as the first year for the restatement.

The inflation indices and application methodology defined by BRSA are also accepted by the Capital Market Board and the Ministry of Finance in 2003. Therefore the Group decided to adjust for the differences in application of IAS 29 with respect to conversion factors, initial year for restatement and assumptions used for restatement of capital contributions of the Bank in its IFRS financial statements retroactively.

The cumulative effect resulting from the related changes is reflected as an adjustment of the opening balances at January 1, 2002 in the consolidated statement of changes in equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The effects of the restatement on the financial statements as of December 31, 2002 are as follows:

a) "Premises and equipment" balance decreased by TL 12,531;
b) "Intangibles" balance increased by TL 5,859;
c) "Other assets" balance decreased by TL 37,691;
d) "Deferred tax asset" balance increased by TL 18,071;
e) "Share capital issued" balance increased by TL 607,182;
f) "Legal reserves and accumulated deficit" balance decreased by TL 752,257;
g) "Profit for the year" balance increased by TL 118,783;
h) "Depreciation and amortization" balance decreased by TL 28,770;
i) "Other expense" balance decreased by TL 28,046;
j) "Income tax (credit)" balance increased by TL 18,071;
k) "Monetary gain" balance increased by TL 43,896.

Measurement Currency, Reporting Currency and Translation Methodology

Measurement Currency for the Bank and Its Subsidiaries Which Operate in Turkey :

Measurement currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The restatement for the changes in the general purchasing power of TL as of December 31, 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%. As of December 31, 2003, the three year cumulative rate has been 181 % (2002 - 227 %) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three year period ended December 31, 2003 are given below:

Dates	Index	Conversion Factors
December 31, 2001	4,951.7	1.491
December 31, 2002	6,478.8	1.139
December 31, 2003	7,382.1	1.000

The main guidelines for the above mentioned restatement are as follows :

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2003.
- monetary assets and liabilities reported in the consolidated balance sheet are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property transferred to share capital from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity (except for the statutory revaluation adjustment which is eliminated) are restated by applying the relevant conversion factors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2003
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- the effect of general inflation on the net monetary position is included in the income statement as monetary gain(loss).
- all items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets (which have been calculated based on the restated gross book values and accumulated depreciation/amortization).

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 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 Group could return or settle the same values of equity to its shareholders.

Measurement and Reporting Currencies of Foreign Subsidiaries and Translation Methodology

The measurement and reporting currencies are as follows at December 31, 2003 and 2002:

	Local Currency	Measurement Currency
Yapı Kredi Bank Deutschland A.G. (YK Deutschland)	Euro	Euro
Yapı Kredi Holding B.V. (YK Holding)	Euro	USD
Yapı Kredi Moscow (YK Moscow)	RUR	USD
Yapı Kredi International Financial Services Ltd. (YK International)	USD	USD
Yapı Kredi Bank Nederland N.V. (YK Nederland)	Euro	Euro

Because of the international nature of the foreign subsidiaries' activities and the fact that some foreign subsidiaries transact more of their business in USD or EURO than in any other currency, those foreign subsidiaries has adopted these currencies as their measurement currency.

The majority of foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organizationally autonomous.

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are also translated at year-end exchange rates, which is considered as a proxy to restate such income statement amounts at year-end purchasing power of TL. 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 subsidiaries were taken to equity as a translation gain (loss).

On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction and restated thereafter.

(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to December 31 each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The consolidated financial statements of the Group include the Bank and its subsidiaries, which it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The subsidiaries included in consolidation and their shareholding percentages at December 31, 2003 and 2002 are as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			2003	2002
Yapı Kredi Sigorta A.Ş.	Turkey	Insurance	**66.31**	66.31
Yapı Kredi Finansal Kiralama A.O.	Turkey	Leasing	**65.40**	69.13
Yapı Kredi Faktoring A.Ş.	Turkey	Factoring	**99.98**	99.98
Yapı Kredi Yatırım Menkul Değerler A.Ş.	Turkey	Investment banking	**99.99**	99.99
Yapı Kredi Emeklilik Sigorta A.Ş.	Turkey	Insurance	**99.99**	99.99
Yapı Kredi Bank Deutschland A.G.	Germany	Banking	**97.50**	97.50
Yapı Kredi Holding B.V.	Netherlands	Holding	**100.00**	100.00
Yapı Kredi Moscow	Russia	Banking	**99.70**	99.70
Yapı Kredi Yatırım Ortaklığı A.Ş.	Turkey	Investment Trust	**51.47**	51.47
Yapı Kredi International Financial Services Ltd.	Ireland	Financial Services	**100.00**	100.00
Bayındırlık İşleri A.Ş.	Turkey	Construction	**84.86**	84.86
Akdeniz Marmara Turizm İnşaat ve Ticaret A.Ş.	Turkey	Construction	**99.99**	99.99
Yapı Kredi Nederland N.V.	Netherlands	Banking	**100.00**	100.00

The purchase method of accounting is used for acquired businesses. Subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

All significant intercompany balances and transactions are eliminated on consolidation.

Investment in Associates

The Group's investments in associates are accounted for under the equity method of accounting. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. The investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates. The Group's investments in associates include goodwill (net of accumulated amortization) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in Joint Venture

The Group's interest in its joint venture is accounted for by equity basis of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee.

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Foreign currency translation rates used by the Bank as of respective year-end are as follows :

Dates	USD / TL (full)	EURO / TL (full)
December 31, 2001	1,440,000	1,236,412
December 31, 2002	1,595,000	1,662,309
December 31, 2003	1,380,000	1,725,276

Premises and Equipment

Premises and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and land improvements	50 years
Furniture and fixtures, equipment, leased equipment	5-17 years
Leasehold improvements	Over the term of respective leases

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of premises and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

Investment Properties

Investment properties are stated at cost less accumulated depreciation and any impairment in value. Investment properties are depreciated on a straight-line basis over the estimated useful lives of 50 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Research and Development Costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the group purchases or sells 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. The Group maintains four separate securities portfolio, as follows:

Trading securities

Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. After initial recognition, trading securities are remeasured at fair value based on quoted bid prices. All related realized and unrealized gains or losses are recognized in trading income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Held to maturity securities

Investment securities with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognised or impaired, as well as through the amortization process.

Interest earned whilst holding held to maturity securities is reported as interest income.

Originated loans and advances to government

Debt securities that are purchased from government at original issuance and not classified as trading are classified as originated loans and advances and carried at amortized cost using the effective yield method less any impairment in value. Interest earned on such securities is reported as interest income.

Available for sale securities

All other investments are classified as available for sale. Available for sale securities are subsequently carried at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Interest earned on available for sale investments is reported as interest income. Dividends received are included in dividend income.

For investments that are actively traded in organized 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. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

Repurchase and Resale Transactions

The Group enters into short-term sales of securities 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 of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements.

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 Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion of financial asset. The Group derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Originated Loans and Advances to Customers

Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as loans originated by the Group and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognized when cash is advanced to borrowers.

Provisions for Possible Loan, Lease, Factoring Receivable Losses

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectable amounts in the Group's loan and receivable portfolio and losses under guarantees and commitments. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan; such loans are considered impaired and classified as "loans in arrears". The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

The Group ceases to accrue interest on those loans that are classified as "loans in arrears" and for which the recoverable amount is determined primarily in reference to fair value of collateral.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance for impairment account. A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write offs are charged against previously established allowances and reduce the principle amount of a loan. Recoveries of loans written off in earlier period are included in income.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan losses expense. Unwinding of the discount is treated as income and remaining provision is then reassessed.

Deposits and Funds Borrowed

Deposits and funds borrowed are initially recognized at cost. After initial recognition, all interest bearing liabilities are subsequently measured at amortized cost using effective yield method, less amounts repaid. Amortized cost is calculated by taking into account any discount or premium on settlement. Gain or loss is recognized in the income statement when the liability is derecognized or impaired as well as through the amortization process.

Employee Termination Benefits

In accordance with existing social legislation, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the financial statements, the Group has reflected a liability calculated using the Projected Unit Credit Method and based upon estimated inflation rates and factors derived using the Company and its Turkish subsidiaries' experience of personnel terminating their services and being eligible to receive such benefits and discounted by using the current market yield at the balance sheet date on government bonds.

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. As of December 31, 2003, since the financial statements of the Fund bear no deficit, there is no further liability to be recognized in the consolidated financial statements.

Provisions

Provisions are recognized when the Group 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Group as Lessee

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as Lessor

Finance Lease

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized immediately as expenses.

Operating Lease

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in income on a straight - line basis over the lease term.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on a daily pro-rated basis for the policies issued after January 1, 2003 and one twenty-fourths method for the policies issued before January 1, 2003, which assumes that premium revenues are realized on average in the middle of each month.

In calculating the provision for unearned premium, reinsurance commissions are deferred with the same rates used in unearned premium calculation and included in current year unearned premium reserve.

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 due to premiums of life 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 20, 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.

Factoring Receivables and Factoring Payables

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for possible losses. Factoring payables are recognized at original factored amount less advances extended against factoring receivables, interest and factoring commissions charged, and then carried at amortized cost.

Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

Commission income and fee for various banking services are recorded as income when collected. Dividends are recognized when the shareholders' right to receive the payments is established.

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income 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 date.

Derivative Financial Instruments

The Group enters into transactions with derivative instruments including forwards and swaps in the foreign exchange and capital markets. These derivative transactions are considered as effective economic hedges under the 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. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value.

Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group.

Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. SEGMENT INFORMATION

Segment information is prepared on the following bases:

Business segments

The Group conducts the majority of its business activities in the financial sector.

Year ended December 31, 2003

	Banking	Leasing	Factoring	Insurance	Construction	Consolidated
Net interest income	(98,304)	22,863	16,885	45,649	-	(12,907)
Provision for possible loan, lease and factoring receivable losses	1,064	4,805	41	-	-	5,910
Foreign exchange gain/loss	28,925	2,656	77	(2,121)	-	29,537
Other operating income	1,188,239	7,028	5,080	446,825	-	1,647,172
Other operating expense	(1,221,704)	(14,710)	(13,033)	(468,899)	(16,990)	(1,735,336)
Profit (loss) from operating activities	(101,780)	22,642	9,050	21,454	(16,990)	(65,624)
Income/loss from associates	(23,960)	-	-	-	-	(23,960)
Unallocated items:						
Income tax						71,714
Monetary gain						127,331
Minority interest						(13,597)
Net profit (loss)	(125,740)	22,642	9,050	21,454	(16,990)	95,864
Other segment information						
Segment assets	20,171,501	343,211	277,863	767,355	107,366	21,667,296
Investment in associates/ventures	693,917	-	-	-	-	693,917
Total assets	20,865,418	343,211	277,863	767,355	107,366	22,361,213
Segment liabilities	18,275,691	199,489	214,898	694,034	4,919	19,389,031
Total liabilities	18,275,691	199,489	214,898	694,034	4,919	19,389,031
Capital expenditures						
Tangible fixed assets	100,283	229	469	4,985	-	105,966
Intangible fixed assets	-	-	-	-	-	-
Depreciation	162,925	440	299	3,657	961	168,282
Amortization	16,773	103	46	-	-	16,922
Impairment losses	9,895	-	-	1,112	-	11,007

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December 31, 2003
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3. SEGMENT INFORMATION (continued)

Year ended December 31, 2002

	Banking	Leasing	Factoring	Insurance	Construction	Consolidated
Net interest income	697,639	27,232	15,421	29,813	-	770,105
Provision for possible loan, lease and factoring losses	433,705	(12,630)	(541)	-	-	420,534
Foreign exchange gain/loss	(246,383)	13,971	(8,368)	(470)	-	(241,250)
Other operating income	1,342,939	6,459	3,918	477,092	2,080	1,832,488
Other operating expense	(1,423,727)	(17,856)	(8,020)	(478,366)	(1,016)	(1,928,985)
Profit from operating activities	804,173	17,176	2,410	28,069	1,064	852,892
Income (loss) from associates	(5,343)	-	-	-	-	(5,343)
Unallocated items :						
Income tax						110,753
Monetary gain						196,758
Minority interest						(9,465)
Extraordinary items						-
Net profit	798,830	17,176	2,410	28,069	1,064	1,145,595
Other segment information						
Segment assets	20,560,096	311,892	198,319	673,177	98,386	21,841,870
Investment in associates/joint ventures	793,786	-	-	-	-	793,786
Total assets	21,353,882	311,892	198,319	673,177	98,386	22,635,656
Segment liabilities	18,765,273	238,181	174,406	638,488	14,570	19,830,918
Total liabilities	18,765,273	238,181	174,406	638,488	14,570	19,830,918
Capital expenditures						
Tangible fixed assets	89,980	342	623	8,225	-	99,170
Intangible fixed assets	16,143	30	35	-	-	16,208
Depreciation	148,405	65	223	3,807	1,016	154,106
Amortization	28,247	155	507	-	-	28,909

Geographical segments

The Group's activities are conducted predominantly in Turkey.

Transactions between the business segments are on normal commercial terms and conditions. Those transactions are eliminated in consolidation.

Year ended December 31, 2003

	Turkey	**EU Countries**	**OECD Countries**	**Off-shore**	**USA**	**Other**	**Consolidated**
Net interest income	**(15,668)**	**(8,048)**	-	-	-	**10,809**	**(12,907)**
Provision for possible loan, lease and factoring receivable losses	**18,445**	**(12,088)**	-	-	-	**(447)**	**5,910**
Foreign exchange loss	**21,460**	**9,319**	-	-	-	**(1,242)**	**29,537**
Other operating income	**1,623,940**	**18,243**	-	-	-	**4,989**	**1,647,172**
Other operating expense	**(1,695,008)**	**(33,443)**	-	-	-	**(6,885)**	**(1,735,336)**
Profit/ loss from operating activities	**(46,831)**	**(26,017)**	-	-	-	**7,224**	**(65,624)**
Other segment information							
Segment assets	**18,768,354**	**1,248,006**	**208,472**	**419,168**	**15,356**	**1,007,940**	**21,667,296**
Investment in associates/joint ventures	**657,298**	-	**36,619**	-	-	-	**693,917**
Total assets	**19,425,652**	**1,248,006**	**245,091**	**419,168**	**15,356**	**1,007,940**	**22,361,213**
Capital expenditures							
Tangible fixed assets	**105,429**	**407**	-	-	-	**130**	**105,966**
Intangible fixed assets	-	-	-	-	-	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2003
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3. SEGMENT INFORMATION (continued)

Year ended December 31, 2002

	Turkey	EU Countries	OECD Countries	Off-shore	USA	Other	Consolidated
Net interest income	717,275	42,099	-	-	-	10,731	770,105
Provision for possible loan, lease and factoring receivable losses	483,891	(63,931)	-	-	-	574	420,534
Foreign exchange gain/loss	(235,189)	(5,171)	-	-	-	(890)	(241,250)
Other operating income	1,794,148	33,494	-	-	-	4,846	1,832,488
Other operating expense	(1,871,006)	(51,078)	-	-	-	(6,901)	(1,928,985)
Profit / loss from operating activities	889,119	(44,587)	-	-	-	8,360	852,892
Other segment information							
Segment assets	18,666,253	2,069,055	130,867	544,773	192,869	238,053	21,841,870
Investment in associates	752,140	-	41,646	-	-	-	793,786
	19,418,393	2,069,055	172,513	544,773	192,869	238,053	22,635,656
Capital expenditures							
Tangible fixed assets	96,275	2,676	-	-	-	219	99,170
Intangible fixed assets	16,018	190	-	-	-	-	16,208

4. CASH AND CASH EQUIVALENTS

	2003	2002
Cash on hand	**204,121**	188,447
Balances with the central banks	**66,561**	306,785
Cash and balances with the central banks	**270,682**	495,232
Deposits with banks and other financial institutions	**774,141**	650,557
Funds lent under reverse repurchase agreements	**26,428**	45,511
Interbank placements	**53,595**	325,710
Other money market placements	**80,023**	371,221
Cash and cash equivalents in the balance sheet	**1,124,846**	1,517,010
Less: Time deposits with original maturities of more than three months	**(1,595)**	(103,322)
Cash and cash equivalents in the cash flow statement	**1,123,251**	1,413,688

4. CASH AND CASH EQUIVALENTS (continued)

As of December 31, 2003 and 2002, interest range of deposits and placements are as follows:

	2003				2002			
	Amount		**Effective interest rate**		Amount		Effective interest rate	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Central bank	**63**	**66,498**	**-**	**0.41-0.8%**	63	306,722	-	1.28%
Deposits with banks and other financial institutions	**5,013**	**769,128**	**26.55%**	**1.58-2.98%**	20,593	629,964	55,23%	1.00%-10.00%
Funds lent under reverse repurchase agreements	**26,428**	**-**	**27.19**	**-**	35,957	9,554	44,00%	-
Interbank placements	**37,000**	**16,595**	**26.00%**	**2.28%**	325,710	-	44,00%	-
Total	**68,504**	**852,221**			382,323	946,240		

As at December 31, 2002, USD 20,183,000 (TL 36,667), portion of deposits with banks and other financial institutions is kept as cash guarantee for one of the suppliers of Digital Platform İletişim Hizmetleri A.Ş. (Digital Platform).

As at December 31, 2003, TL 61,032 (2002 - TL 278,519) of the balances with the Central Bank represent funds deposited for liquidity requirements as per Turkish Banking Regulations and TL 84,856 (2002 - TL 50,187) of the deposits with banks and other financial institutions represents the amounts blocked for insureds per Turkish Insurance Regulations.

5. RESERVE DEPOSITS AT THE CENTRAL BANKS

	2003	2002
- Turkish lira	**212,047**	312,004
- Foreign currency	**795,088**	790,973
	1,007,135	1,102,977

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such reserves are deposited with the Central Bank.

As of December 31, 2003, reserve deposit rates applicable for Turkish Lira liabilities were 6% (2002 - 6%) and for foreign currency liabilities were 11% (2002 - 11%).

As of December 31, 2003, the interest rates applied for Turkish lira and foreign currency reserve deposits are 16% (2002 - 25%) and for USD 0.41 % and Euro 0.8% (2002 - USD 0.8% and EURO 1.43%), respectively.

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6. INVESTMENTS IN SECURITIES

Trading Securities

	2003		2002	
	Amount	**Effective interest rates**	Amount	Effective interest rates
Trading securities at fair value				
Debt instruments				
Turkish government bonds	**1,672,705**	**26.45%*-65.08%* 1.92%**-6.83%****	1,036,821	49.80%-102.80%
Turkish treasury bills	**206,325**	**28.56%-64.18%**	596,068	48.80%-78.20%
Turkish corporate bonds	**67,931**	**7.41%-11.72%**	204,563	11.79%-21.01%
Eurobonds issued by the Turkish government	**932,332**	**4.10%-11.44%**	1,877,675	6.84%-15.03%
Foreign government bonds	**16,609**	**4.25%-5.50%**	4,014	9.73%-10.38%
Foreign corporate bonds	**43,645**	**5.70%**	46,406	11.72%-12.34%
	2,939,547		3,765,547	
Others				
Mutual funds	**36,460**		46,787	
Equity securities	**88,256**		79,885	
	124,716		126,672	
Total trading securities	**3,064,263**		3,892,219	

Available for sale securities

	2003		2002	
	Amount	**Effective interest rates**	Amount	Effective interest rates
Available for sale securities at fair value				
Debt instruments				
Turkish government bonds	**911.243**	**29.86%*-68.90%* 4.44%****	21,635	47.41%-63.83%
Turkish treasury bills	**241,787**	**61.36%**	4,476	56.89%
Turkish corporate bonds	**4,124**	**7.00%**	6,067	12.75%-15.00%
Eurobonds issued by the Turkish government	**443,345**	**8.62%-10.78%**	145,700	7.00%-11.88%
Foreign government bonds	**37,784**	**10% - 17%**	16,002	10.00%-14.00%
Foreign corporate bonds	**19,594**	**9% - 20%**	15,923	5.00%-20.00%
	1,657,877		209,803	
Others				
Mutual funds	**400,543**		498,470	
Equity instruments	**175,381**		152,122	
Listed	**108,287**		79,798	
Unlisted	**67,094**		72,324	
	575,924		650,592	
Total available for sale securities at fair value	**2,233,801**		860,395	
Available for sale securities at cost				
Equity instruments - unlisted	**181,384**		196,390	
Total available for sale securities	**2,415,185**		1,056,785	

* TL denominated securities
** FC denominated securities

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6. INVESTMENTS IN SECURITIES (continued)

As of December 31, 2003 and 2002 unlisted equity securities in available for sale securities at fair value include 14.80% investment in a group company operating in tourism industry, and owns various hotels in different regions of Turkey. Remaining 85.20% of the shares are held by the mutual funds established in Netherlands for purposes of investments in real estate projects which are also owned by the Bank.

As of December 31, 2003 equity investments amounting to TL 39,864 (restated cost (2002 - TL 39,864) is valued as TL 56,562 (2002 - 72,324), representing the fair value assessed by an independent expert; and the mutual funds are carried at TL 400,543 (USD 290,248,632) (2002 - TL 486,032; USD 267,534,796).

The Group in accompanying financial statements has not consolidated such subsidiary and classified both its direct equity investment and the above referred mutual funds as available for sale securities on the basis that control is intended to be temporary and these are held exclusively with an intention for sale. As explained in Note 32.2.h), the negotiations about the sale are in progress.

Equity securities which are not listed and whose fair values could not be reliably measured are reflected at cost.

As of December 31, 2003 and 2002, available for sale securities at cost constitute mainly 72.36% of Fintur Technologies B.V., established in the Netherlands, and 25.21% of Digital Platform with restated costs of TL 80,979 and TL 93,055 respectively. The Bank has no control in the management of these two companies and as explained in Note 32, there is an option given to Çukurova Group to purchase these companies.

Held to maturity securities

	2003		2002	
	Amount	**Effective interest rates**	Amount	Effective interest rates
Held to maturity securities at amortized cost				
Debt instruments				
Turkish government bonds	**502,337**	**51.61%-66.54%**	548,307	54.93%-71.86%
Turkish treasury bills	**137,984**	**61.99%**	24,935	56.10%
Turkish corporate bonds	**67,082**	**11.29%**	85,771	10.41%-12.86%
Eurobonds issued by the Turkish government	**125,580**	**8.17%-10.77%**	165,632	7.00%-10.95%
Foreign government bonds	**-**		40,204	3.20%-8.50%
Foreign corporate bonds	**-**		945	3.92%
Total held to maturity securities	**832,983**		865,794	

On November 10, 2003 Turkcell İletişim Hizmetleri A.Ş bonds (nominal value-USD 13,100,000) included in the securities held-to-maturity portfolio were redeemed early since the issuer used its call option.

6. INVESTMENTS IN SECURITIES (continued)

As of December 31, 2003, the carrying value and the nominal amounts of securities kept in the Central Bank, in İstanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Incorporation), and other authorative bodies for legal requirements and as a guarantee for stock exchange and money market operations, and insurance blockage are as follows:

	2003		2002	
	Nominal	**Carrying Value**	Nominal(*)	Carrying Value
Trading Securities	**416,463**	**407,232**	769,716	874,708
Available for Sale Securities	**12,455**	**12,934**	22,071	23,639
Held to Maturity Securities	**713,061**	**663,901**	658,995	675,001
Originated Loans and Advances	**14,694**	**14,865**	123,000	113,657
Total	**1,156,673**	**1,098,932**	1,573,782	1,687,005

(*) Historic balance

Carrying value of debt instruments given as collateral under repurchase agreements are:

	2003	2002
Trading Securities	**1,410,414**	2,040,729
Available for sale securities	**985,782**	9,992

As of December 31, 2003, investment in securities includes bonds issued by a certain related party which are classified as trading securities amounting to TL 55,252 (2002 - TL 188,126), available for sale securities amounting to TL 1,275 (2002 - TL 4,193) and held to maturity securities amounting to TL 67,082 (2002 - TL 85,771).

7. ORIGINATED LOANS AND ADVANCES

	2003						
	Amount				**Effective interest rates**		
	Turkish Lira	**Foreign currency**	**Foreign currency indexed**	**Total**	**Turkish Lira**	**Foreign currency**	**Foreign currency indexed**
Corporate loans	**959,806**	**5,016,641**	**138,969**	**6,115,416**	**45.17%**	**5.31%**	**8.50%**
Loans to government	**651,538**	**127,473**	**-**	**779,011**	**60.58%**	**2.94**	**-**
Consumer loans	**551,641**	**3,727**	**61,666**	**617,034**	**40.17%**	**8.00%**	**8.81%**
Credit cards	**1,753,033**	**-**	**-**	**1,753,033**	**89.28%**	**-**	**-**
Total loans	**3,916,018**	**5,147,841**	**200,635**	**9,264,494**			
Loans in arrears	**603,513**	**225,290**	**-**	**828,803**			
Less: Reserve for possible loan losses	**(510,821)**	**(156,865)**	**-**	**(667,686)**			
Total	**4,008,710**	**5,216,266**	**200,635**	**9,425,611**			

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7. ORIGINATED LOANS AND ADVANCES (continued)

	2002						
	Amount				Effective interest rates		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	766,201	5,613,846	191,134	6,571,181	58.37%	7.79%	10.03%
Loans to government	962,316	98,467	-	1,060,783	58.20%	3.21%	-
Consumer loans	338,042	10,465	44,767	393,274	50.27%	10.00%	8.86%
Credit cards	1,331,045	-	-	1,331,045	102.00%	-	-
Total loans	3,397,604	5,722,778	235,901	9,356,283			
Loans in arrears	678,715	370,432	215	1,049,362			
Less: Reserve for possible loan losses	(684,285)	(89,472)	(215)	(773,972)			
Total	3,392,034	6,003,738	235,901	9,631,673			

Breakdown of loans to government:

	2003			
	Turkish Lira	**Foreign Currency**	**Foreign Currency Indexed**	**Total**
Government Bonds and treasury bills that are directly purchased from the government	**25,828**	-	-	**25,828**
Loans granted to directly Turkish Treasury	-	**125,711**	-	**125,711**
Loans granted to other governmental institutions	**625,710**	**1,762**	-	**627,472**
Total	**651,538**	**127,473**	-	**779,011**

	2002			
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total
Government Bonds and treasury bills that are directly purchased from the government	249,632	-	-	249,632
Loans granted to directly Turkish Treasury	-	98,467	-	98,467
Loans granted to other governmental institutions	712,684	-	-	712,684
Total	962,316	98,467	-	1,060,783

As of December 31, 2003, loans granted to governmental institutions include TL 625,710 (2002 - TL 712,684) 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. 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.

7. ORIGINATED LOANS AND ADVANCES (continued)

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, 2002, in line with the opinion taken from BRSA, the Bank has calculated income accrual at a nominal amount of TL 89,132 for the period between June 30, 2002 and September 30, 2002 and reflected in the financial statements. The Group decided to initiate legal action against the Undersecretariat of Treasury by the decision of BOD numbered 60/41 and dated December 25, 2003.

As of December 31, 2003, had the Group applied the interest rate applied on government bonds declared by State Planning Organization on a quarter basis, then the net income and shareholders' equity would be higher by TL 319,752 and TL 524,620 respectively.

Movements in the reserve for possible loan losses:

	2003	2002
Reserve at beginning of year	773,972	1,616,957
Provision for possible loan losses	114,108	432,508
Recoveries	(115,172)	(866,213)
Provision net of recoveries	(1,064)	(433,705)
Write offs during the year	(24,179)	(11,436)
Monetary gain	(81,043)	(397,844)
Reserve at end of year	**667,686**	773,972

As of December 31, 2003, loans and advances on which interest is not being accrued, or where interest is suspended, amounted to TL 828,803 (2002- TL 1,049,362). There is no uncollected interest accrued on impaired loans.

As explained in Note 32, in 2002 the Bank has reclassified the risks of the Çukurova Group, which have been classified in the loans in arrears as at December 31, 2001, to performing loans portfolio.

In October 2002 the Bank, together with a group of other banks, signed a financial restructuring agreement with two loan customers classified under loans in arrears with loan amounts of TL 51,043. In accordance with the provisions of the restructuring agreement the loan receivable of the Bank as of June 30, 2002 was determined as USD 74,693,578. USD 25,156,368 of this amount will be repaid according to a long-term repayment schedule with Libor + 2.5% interest rate. Remaining USD 49,537,210 plus interest accruing thereon at Libor rate, will be recovered within a period of seven years through sale of the shares of the loan customers (comprising 70.59% of the outstanding shares in one of the company at the nominal amount TL 58,231 and 48.86% of the outstanding shares of the other company at the nominal amount of TL 16,844) which were transferred to the Bank in May 2003 at a value of USD 51,983,768 (nominal amount). Guarantors according to a repayment will repay any residual uncovered amounts.

As of December 31, 2003 the Group reclassified such structured loan to performing portfolio, reversed previously provided reserve of TL 37,607 (historical) and reflected the loan amount at the estimated net recoverable amount of USD 82,242,085 calculated based on the estimated fair value of the shares using quoted market prices and other collaterals and estimated future cash flows.

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8. FACTORING RECEIVABLES AND PAYABLES

	2003						
	Amount				**Interest rates**		
	Turkish Lira	**Foreign currency**	**Foreign currency indexed**	**Total**	**Turkish Lira**	**Foreign currency**	**Foreign currency indexed**
Open accounts	**67,425**	**144,202**	**27,715**	**239,342**	**35.49%-55.70%**	**4.24%-5.29%**	**10.00%**
Checks receivable	**30,570**	**67**	**-**	**30,637**			
Total factoring receivables	**97,995**	**144,269**	**27,715**	**269,979**			
Doubtful factoring receivables	**813**	**625**	**-**	**1,438**			
Less: Reserve for possible losses	**(813)**	**(625)**	**-**	**(1,438)**			
Net factoring receivables	**97,995**	**144,269**	**27,715**	**269,979**			
Factoring payables	**(39,689)**	**(76,962)**	**(9,897)**	**(126,548)**			
Net funds in use	**58,306**	**67,307**	**17,818**	**143,431**			

	2002						
	Amount				Interest rates		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Open accounts	37,792	118,410	12,110	168,312	42.21%-63.81%	2.99%-8.73%	10.00%
Checks receivable	12,258	62	-	12,320	-	-	-
Total factoring receivables	50,050	118,472	12,110	180,632	-	-	-
Doubtful factoring receivables	973	816	-	1,789	-	-	-
Less: Reserve for possible losses	(973)	(816)	-	(1,789)	-	-	-
Net factoring receivables	50,050	118,472	12,110	180,632	-	-	-
Factoring payables	(17,765)	(66,916)	(1,844)	(86,525)	-	-	-
Net funds in use	32,285	51,556	10,266	94,107	-	-	-

Movements in the reserve for possible losses :

	2003	2002
Reserve at beginning of year	**1,789**	1,830
Provision for possible losses	**-**	639
Recoveries	**(41)**	(98)
Provision net of recoveries	**(41)**	541
Factoring receivables written off during the year	**(92)**	-
Monetary gain	**(218)**	(582)
Reserve at end of year	**1,438**	1,789

9. MINIMUM LEASE PAYMENTS RECEIVABLES

Gross investment in finance leases:

	2003	2002
Not later than 1 year	**247,623**	208,185
Later than 1 year and not later than 5 years	**116,154**	153,950
Later than 5 years	**18,653**	6,942
Minimum lease payment receivables, gross	**382,430**	369,077
Less: Unearned interest income	**(55,410)**	(68,301)
Net investment in finance leases	**327,020**	300,776
Less: Reserve for impairment	**(10,188)**	(16,320)
Minimum lease payments receivables, net	**316,832**	284,456

Net investment in finance leases may be analyzed as follows:

	2003	2002
Not later than 1 year	**212,760**	169,616
Later than 1 year and not later than 5 years	**99,283**	130,470
Later than 5 years	**14,977**	690
	327,020	300,776

As of December 31, 2003 and 2002, TL 358,855 and TL 328,224 of gross lease receivables are denominated in foreign currency (mainly US$ and Euro), respectively. The effective interest rates for minimum lease receivable denominated in US$ is 7.9%, in Euro 8.6%, and in TL 32% (2002 - in US$ 10.82%, in Euro 10.54 %, and in TL 48.45 %)

Movements in the reserve for impairment:

	2003	2002
Reserve at beginning of year	**16,320**	5,090
Provision for impairment	**665**	12,630
Recoveries	**(5,470)**	-
Provision net of recoveries	**(4,805)**	12,630
Monetary gain	**(1,327)**	(1,400)
Reserve at end of year	**10,188**	16,320

10. INVESTMENT IN JOINT VENTURES

As of December 31, 2002 in line with the Financial Restructuring Agreement, explained in more detail in Note 32, signed between the Bank and the Çukurova Group companies, Bank received 50% shares of A-Tel Pazarlama ve Servis Hizmetleri A.Ş. (A-TEL, an unlisted company based in Turkey specialized in marketing of pre-paid GSM cards of Turkcell İletişim Hizmetleri Anonim Şirketi) corresponding to seven million shares with TL 7,000 billion nominal value. Such shares are valued as U.S. Dollars 268,906,707 and deducted from the total receivable of U.S. Dollars 2,213 million of the Çukurova Group. According to the agreement, the valuation of the A-TEL shares, are made based on the assumption that the Service Rendering Agreement between A-TEL and Turkcell İletişim Hizmetleri A.Ş. dated July 9, 1999 and Distribution Rendering Agreement dated August 1, 1999 will continue to be valid.

At the date of acquisition (December 31, 2002) the difference between the fair value of the Group's share in identifiable assets and liabilities of A-Tel (TL 398,591 historical) and the consideration given (USD 268,906,707; equivalent of TL 439,530 historical) was reflected as a goodwill arising on acquisition and amortized over a period of 10 years.

As of December 31, 2003 the investment in joint venture is accounted for under the equity method.

The Group's share of the assets and liabilities, revenues and expenses of the joint venture which are accounted for by the equity method in the consolidated financial statements at December 31, 2003 and for the year then ended are as follows :

	2003
Current assets	17,053
Non-current assets	424,411
	441,464
Current Liabilities	(26,942)
Net asset value	**414,522**
Revenues	249,424
Cost of sales	(220,544)
Administrative expenses	(65,763)
Finance cost	(569)
Profit before tax	(37,452)
Income tax expense	(2,021)
Net loss	**(39,473)**

As described in detail in Note 32, in May 2003, Capital Market Board (CMB) requested the Group to claim repayment of USD 94.8 million from the seller (Çukurova İthalat ve İhracat A.Ş - Çukurova İthalat) on the basis that the value of A-Tel was overstated at acquisition. Subsequently in 2004 Çukurova Group has submitted a letter of commitment to the Group declaring that the related amount including the interest accrued since the acquisition date will be paid to the Bank given that Çukurova İthalat ve İhracat A.Ş. fails its case against CMB.

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11. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

The breakdown of unconsolidated subsidiaries is comprised of the following:

	Participation **2003**	Percentage 2002	Participation **2003**	Amount 2002
Halk Reasürans A.Ş.	**95.78%**	95.78%	**-**	6,171
Yapı Kredi Sigorta Aracılık Hizmetleri A.Ş.	**99.99%**	99.99%	**-**	392
Yapı Kredi Kart Hizmetleri A.Ş.	**100.00%**	100.00%	**851**	851
Ascot Telecommunication Investment N.V.	**100.00%**	100.00%	**-**	464
Yapı Kredi Portföy Yönetimi A.Ş.	**97.50%**	97.50%	**2,353**	1,628
Other	**-**	-	**1,746**	419
			4,950	9,925

As of December 31, 2003 the participations in Halk Reasürans A.Ş., Yapı Kredi Aracılık Hizmetleri A.Ş. and Ascot Telecommunication Investment N.V. have been written off.

In addition to the above for the purposes of these consolidated financial statements, as of December 31,2003 and 2002 the Bank's participations in the following subsidiaries have been written off.

	Ownership (%)		Restated Cost	
Name	**2003**	2002	**2003**	2002
Comag Continental Madencilik Sanayi ve Ticaret A.Ş.	**90.87**	90.87	**105,448**	104,935
Agro-San Kimya Sanayi ve Ticaret A.Ş.	**99.17**	99.17	**49,929**	49,929
Auer İmalat A.Ş.	**96.27**	96.27	**43,355**	43,355
Tifdruk Matbaacılık Sanayi A.Ş.	**96.10**	96.10	**26,957**	26,957
Yapı Kredi Teknoloji Hizmetleri A.Ş.	**99.42**	99.42	**9,543**	9,543
Yapı Kredi Kültür - Sanat Yayıncılık Ticaret ve Sanayi A.Ş.	**99.99**	99.99	**3,207**	3,207
Çukurova Havacılık A.Ş.	**30.00**	30.00	**4,649**	4,649

12. INVESTMENTS IN ASSOCIATES

The following is a list of the investments in associates:

			2003			2002		
Entity	Principle Activities	Country of Business	**Carrying Value**	**Ownership Interest**	**Group's Share of Income**	Carrying Value	Ownership Interest	Group's Share of Income
Turkcell Holding A. Ş.	Holding	Turkey	**218,007**	**20.02%**	**30,513**	256,923	20.02%	18,882
YK Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Real Estate	Turkey	**20,353**	**26.01%**	**(7,489)**	27,313	26.01%	(9,942)
Banque de Commerce et Placements SA,	Banking	Switzerland	**36,618**	**30.67%**	**1,240**	41,648	30.67%	1,213
Groupe SEB İstanbul Ev Aletleri A.Ş	Retail	Turkey	**4,417**	**32.00%**	**(8,751)**	13,907	32.00%	(15,496)
			279,395		**15,513**	339,791		(5,343)

13. INVESTMENT PROPERTIES

At January 1, 2003, net	19,189
Additions	28
Capitalized subsequent expenditure	-
Disposals	-
Transfers to/from inventories and owner occupied properties	-
Depreciation	(388)
Provision for impairment	(641)
At December 31, 2003	18,188

14. PREMISES AND EQUIPMENT

	Land and Buildings	Equipment and Motor Vehicles	Leasehold improvements	Continuing Investments	Total
At January 1, 2003, net of accumulated depreciation	1,759,670	476,520	20,623	10,869	2,267,682
Additions	18,701	61,265	7,338	18,662	105,966
Disposals	(5,333)	(5,023)	(9)	(797)	(11,162)
Transfers	-	250	-	(23,320)	(23,070)
Impairment	(11,007)	-	-	-	(11,007)
Depreciation charge for the year	(50,037)	(109,737)	(8,508)	-	(168,282)
Exchange adjustment	6,739	-	-	-	6,739
At December 31, 2003, net of accumulated depreciation	1,718,733	423,275	19,444	5,414	2,166,866
At December 31, 2002					
Cost	3,011,486	1,114,585	67,868	10,869	4,204,808
Accumulated depreciation	(1,251,816)	(638,065)	(47,245)	-	(1,937,126)
Net carrying amount	1,759,670	476,520	20,623	10,869	2,267,682
At December 31, 2003					
Cost	**3,102,322**	**1,169,198**	**74,056**	**5,414**	**4,350,990**
Accumulated depreciation	**(1,294,468)**	**(745,923)**	**(54,612)**	-	**(2,095,003)**
Accumulated impairment provision	**(89,121)**	-		-	**(89,121)**
Net carrying amount	**1,718,733**	**423,275**	**19,444**	**5,414**	**2,166,866**

The impairment loss of TL 89,121 represents the write-down of certain property and equipment to recoverable amount in the land and buildings segment. The recoverable amount was based on the selling price disclosed in independent appraisal report.

The carrying value of premises and equipments under finance leases at December 31, 2003 is TL 57,356 (2002-TL 63,080). Leased assets are pledged as securities for the related finance lease obligations.

Continuing investments are mainly comprised of expenditures made for various constructions and other banking projects. The transfers amounting to TL 23,070 represent balance transferred to intangible assets (See Note 15).

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15. INTANGIBLES

	Goodwill	Intangibles	Total
At January 1, 2003, net of accumulated amortization	106,007	50,272	156,279
Additions	-	-	-
Disposals	-	(43)	(43)
Transfers	-	23,070	23,070
Exchange adjustment	(1,643)	(2,589)	(4,232)
Amortization charge for the year	(8,512)	(16,922)	(25,434)
At December 31, 2003, net of accumulated amortization	**95,852**	**53,788**	**149,640**
At December 31, 2002			
Cost	135,475	146,744	282,219
Accumulated amortization	(29,468)	(96,472)	(125,940)
Net carrying amount	106,007	50,272	156,279
At December 31, 2003			
Cost	**134,260**	**157,855**	**292,115**
Accumulated amortization	**(38,408)**	**(104,067)**	**(142,475)**
Net carrying amount	**95,852**	**53,788**	**149,640**

Other intangibles mainly comprises capitalized software development expense. Goodwill arising on acquisition of investment in joint venture (A-TEL) amounting to TL 46,630 is amortized on a straight-line basis over its economic useful life of 10 years.

16. OTHER ASSETS

	2003	2002
Asset held for resale	382,387	456,550
Due from insureds, net	94,333	76,068
Long-term receivables	33,097	46,450
Inventory	28,745	36,155
Receivable from lease payments outstanding, net	9,702	16,577
Payments for credit cards settlements	28,572	18,584
Deferred expenses	3,438	15,932
Prepaid expenses	25,955	15,857
Advances given	45,997	13,698
Miscellaneous	46,031	60,850
Loans given to insureds	13,342	-
Individual Retirement System Receivables	4,592	-
Total	**716,191**	756,721

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16. OTHER ASSETS (continued)

Assets held for resale are stated at cost less accumulated reserve for impairment of TL 56,309 based on the valuations made by independent appraisal firms. The reserve provided for impairment in 2003 is TL 23,332.

The Group 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 Group 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, 2003, the book value of such receivable is TL 33,097 (2002- TL 46,450) after considering the partial collections made through 1995 to 2003 and the resolution of court cases against the State Bank. The related amount is classified in long-term receivables within other assets.

As of December 31, 2003 advances given includes TL 31,716 of related party balances that will be classified either as restructured loans or as participation capital increase contribution in line with the opinion of BRSA. Subsequent to the balance sheet date, TL 20,045 of the related amount is classified as restructured loan (Note 32.1.d).

17. DEPOSITS

Deposits from other banks

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	17,297	11,722	1.00%	-	4,663	6,149	1.00%	-
Time	48,059	94,907	20.64%	2.70%	27,087	109,321	42.07%	2.52%
Total	**65,356**	**106,629**			31,750	115,470		

Customers' deposits

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	327,268	1,087,510	1.00%	-	255,280	1,395,767	1.00%	-
Time	2,881,969	5,332,083	23.45%	2.35%	2,516,026	5,555,461	45.71%	3.37%
Total	**3,209,237**	**6,419,593**			2,771,306	6,951,228		
Commercial and other								
Demand	885,150	655,210	1.00%	-	760,033	694,495	1.00%	-
Time	1,908,736	1,131,272	23.45%	2.35%	1,784,456	2,425,448	45.71%	3.37%
Total	**2,793,886**	**1,786,482**			2,544,489	3,119,943		
Total	**6,003,123**	**8,206,075**			5,315,795	10,071,171		

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17. DEPOSITS (continued)

Other money market deposits

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	321,735	-	25.90%	-	1,052,327	-	39.60%	-
-Due to banks	1,307,944	496,189	25.90%	2.90%	417,192	370,844	39.60%	2.70%
	1,629,679	**496,189**			1,469,519	370,844		
Interbank deposits	16,722	8,350	**25.73%**	**2.61%**	114,032	-	41.70%	-
Total	**1,646,401**	**504,539**			1,583,551	370,844		

18. FUNDS BORROWED AND DEBT SECURITIES

Funds Borrowed

	2003				2002			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short term	**70,028**	**480,636**			66,296	661,572		
Fixed interest	**70,028**	**397,202**	**23.20%**	**3.44%**	66,296	235,353	44.90%	5.13%
Floating interest	-	**83,434**	-	**5%-5.35%**	-	426,219	-	2.67%-4.17%
Medium/long term	-	**160,517**	-		-	233,585		
Fixed interest	-	**157,223**	-	**3.44%**	-	189,606	-	5.21%
Floating interest	-	**3,294**	-	**2.6%-5.75%**	-	43,979	-	2.67%-4.17%
Total	**70,028**	**641,153**			66,296	895,157		

Repayments of medium/long term borrowing are as follows:

	2003		2002	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2004	-	-	89,277	28,783
2005	**100,309**	**2,382**	68,248	4,537
2006	**32,599**	**613**	7,808	974
2007	**6,210**	**267**	5,477	451
2008	**12,668**	**32**	12,688	32
Thereafter	**5,437**	-	6,108	9,202
Total	**157,223**	**3,294**	189,606	43,979

As of December 31, 2003 and 2002 foreign currency funds borrowed 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 and debt to equity ratio of YK Leasing.

Debt securities

In December 2003, the Bank issued U.S Dollars 200,000,000 of floating rate (Libor + 1.5%) notes through securitization of its diversified payment rights. The securitization agreement has a maturity of 1 year with an option to extent the maturity to 5 years.

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19. OTHER LIABILITIES AND PROVISIONS

	2003	2002
Payables to merchants (credit cards)	**511,024**	185,033
Trade payables	**101,477**	84,329
Other payables and accrued expense	**54,886**	75,657
Taxes and duties payable	**60,288**	55,890
Loan loss reserve for non-cash loans	**6,479**	45,120
Cash collaterals	**48,315**	36,066
Transitory payables	**119,020**	33,308
Salary payments of public and private institutions	**28,336**	25,754
Due to insurance and reinsurance companies	**24,491**	25,735
Employee termination benefits	**24,932**	24,699
Provisions for credit card promotions	**10,766**	20,644
Money received from invoice payments of customers for institutions	**11,476**	18,479
Payment orders	**16,104**	14,693
Resource utilization fund	**12,870**	11,458
Miscellaneous	**40,035**	5,167
Total	**1,070,499**	662,032

As of December 31, 2002, loan loss reserve for non-cash loans includes TL 29,158 provision set for the risks of the Çukurova Group Companies, which have not been included in the restructuring.

The breakdown of payable to merchants due from credit card transactions of member firms is as follows:

Payable to merchant	**2003**	2002
Blocked accounts of members firms	**449,047**	139,386
Turkcell card accounts	**13,719**	5,983
Unblocked accounts of members firms	**8,136**	11,905
Other	**40,122**	27,759
Total	**511,024**	185,033

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 1,390 million and TL 1,260 million at December 31, 2003 and December 31, 2002, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2003 and December 31, 2002, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

IAS 19 (revised) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans.

19. OTHER LIABILITIES AND PROVISIONS (continued)

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2003	2002
Discount rate	**25%**	43%
Expected rates of salary/limit increases	**18%**	35%

The movement in provision for retirement pay liability is as follows :

At January 1, 2002	27,683
Paid during the year	(9,741)
Increase during the year	4,606
Monetary loss	2,151
At December 31, 2002	24,699
Paid during the year	(7,558)
Increase during the year	10,895
Monetary gain	(3,104)
At December 31, 2003	**24,932**

20. INSURANCE TECHNICAL INCOME AND EXPENSE AND INSURANCE TECHNICAL RESERVES

Insurance Technical Income and Expense

	2003	2002
Premium income, net	**343,907**	326,781
Investment income	**108,004**	145,310
Total insurance technical income (Note 28)	**451,911**	472,091
Claims paid, net	**234,655**	229,830
Provision for unearned premiums	**2,360**	8,044
Provision for mathematical reserve	**44,615**	87,400
Provision for profit share	**70,747**	62,260
Provision for IBNR incurred but not reported claims	**926**	3,650
Provision for earthquake reserve	**912**	(14,834)
Commissions paid, net	**24,642**	13,816
Acquisition costs	**5,354**	503
Other technical expenses	**6,593**	7,500
Total insurance technical expenses (Note 28)	**390,804**	398,169
Income (loss) from insurance operations, net	**61,107**	73,922

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20. INSURANCE TECHNICAL INCOME AND EXPENSE AND INSURANCE TECHNICAL RESERVES (continued)

Insurance Technical Reserves

	2003	2002
Profit share reserve	**247,407**	209,027
Mathematical reserve	**259,390**	245,771
Unearned premium reserve	**107,782**	105,851
Outstanding claim reserve	**30,465**	20,725
IBNR reserve	**4,481**	3,603
Total	**649,525**	**584,977**

21. INCOME TAXES

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in the countries in which the Group companies operate. In Turkey the corporation tax rate for the fiscal year ended December 31, 2002 was 30% plus an additional 10% fund levy, giving an effective tax rate of 33%. A 19.8% withholding tax was applied to investment deductions, which were exempt from corporation tax. Until April 24, 2003,where distributions had been made in respect of 2002 and prior years, withholding taxes of 5.5% and 16.5% (both including the additional 10% fund levy) applied to distributions made by either public or private corporations, respectively. This withholding tax only applied to amounts distributed that had been subject to corporation tax.

Law No. 4842, effective from April 24, 2003, abolished the 10% fund levy. Beginning with 2003, the effective corporation tax rate reverted to 30%. However, with Law No. 5035 published at January 2, 2004, only for the year 2004 the corporation tax will be calculated at 33%.

Effective from April 24, 2003, income from 2002 and prior years will not be subject to withholding taxes if it is undistributed, is transferred to share capital or is distributed to resident tax-paying corporations. Where profits are distributed to resident taxpaying real persons, to those who are exempt from income and corporate tax, to those who are not income or corporation tax payers, to non-resident corporations, to non-resident real persons and to those who are exempt from income tax, a 10% withholding tax is applied. However profit distributions up to December 31, 2003 shall be subject to an effective tax rate of 11% due the continuation of the fund levy until that date. On the other hand, profit distributions on income from December 31, 1998 and prior years, profit distributions on income from 2002 and prior years which had been exempt from corporation tax and income which had been subject to 19.8% withholding tax due to investment incentive certificates obtained based on applications made prior to April 24, 2003 will not be subject to withholding tax.

Effective from April 24, 2003, investment incentive certificates will not be required to utilize an investment deduction in calculating the corporate income tax base. No withholding taxes will apply to the investment deduction; however the deduction will be limited to 40%. Investment deductions made as a result of holding investment incentive certificates for which application was made prior to April 24, 2003, and unused investment deductions carried forward from previous periods due to insufficient taxable profits, will be subject to a 19.8% withholding tax. Where, however, investment certificates were obtained based on applications made prior to April 24, 2003, an exemption from this withholding tax is available if written notification was made to the tax authorities before May 15, 2003. In this case the investment deduction will be limited to 40%. With the Law No. 5024 published on December 30, 2003, tax-paying corporations which did not notify the tax authorities were given right to make a notification until the filing date of first quarterly temporary tax return subsequent to the date Law No. 5024 became effective which is January 1, 2004.

21. INCOME TAXES (continued)

The tax legislation provides for a temporary tax of 30% (25% before April 24, 2003) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. However, in accordance with Law No. 5035, effective from January 2, 2004, temporary taxes for the year 2004 will be calculated and paid at the rate of 33%.

In 2003 and prior years corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code without any adjustment for inflation accounting. With Law No. 5024 published on December 30, 2003 related with changes in Procedural Tax Code, Income Tax Law and Corporation Tax Law, starting from January 1, 2004, taxable income will be derived from the financial statements whic are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet will not be subject to corporation tax, and similarly accumulated deficits arising from such application will not be deductable for tax purposes. Moreover, accumulated tax loss carryforwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years.

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Tax Amnesty Law No.4811 published on February 27, 2003 provided immunity for tax inspection and additional assessments to those tax payers who utilized the option to increase their tax bases for the years 1998-2001 with the rates or amounts specified in the law. In March 2003, the Bank (YKB) applied to the tax authorities for declaration of additional taxes amounting to TL 29,942 (historical) to benefit from the advantages of the Tax Peace Law No. 4811. The Bank utilizing this option expensed TL 29,942 in 2003.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Major components of income tax expense for the years ended December 31, 2003 and 2002 are:

Consolidated income statement	**2003**	2002
Current income tax		
Current income tax charge	**18,269**	36,212
Deferred income tax		
Relating to origination and reversal of temporary differences	**(89,983)**	(146,965)
Income tax reported in consolidated income statement	**(71,714)**	(110,753)
Consolidated statement of changes in equity		
Deferred income tax		
Unrealized gain on available-for-sale financial assets	**36,509**	12,483
Income tax benefit reported in equity	**36,509**	12,483

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21. INCOME TAXES (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the group's effective income tax rate for the years ended December 31, 2003 and 2002 was as follows :

	2003	2002
Net profit/loss from ordinary activities before income tax and loss from associates	**67,199**	1,049,650
At Turkish statutory income tax rate of 30% (2002 -33%)	**20,160**	346,385
Effect of different income tax rates	**(1,829)**	15,935
Income not subject to tax	**(172,731)**	(198,999)
Expenditure not allowable for income tax purposes (including goodwill amortization)	**159,795**	135,410
Unutilized tax losses	**667**	-
Utilization of previously unrecognized tax losses	**(38,275)**	(376,519)
Effect of change in deferred tax rate from 33% to 30%	**-**	(12,889)
Other	**(39,501)**	(20,076)
Income tax credit	**(71,714)**	(110,753)

Deferred income tax

Deferred income tax at December 31, relates to the following:

	2003	2002
Deferred income tax liabilities		
Year end interest income accruals	**4,633**	11,814
Revaluations of available-for-sale financial assets to fair value	**36,036**	25,327
Difference between tax and book values of premises, equipment, leased assets and intangibles assets	**5,050**	152,340
Others	**4,582**	5,957
Gross deferred income tax liabilities	**50,301**	195,438
Deferred income tax assets		
Retirement pay liability	**7,480**	7,616
Loan loss provision	**36,875**	31,767
Deferred tax on tax loss carry forward	**101,304**	151,109
Impairment on fixed assets	**291**	22,303
Impairment on investments	**13,230**	23,075
Provisions for credit card promotions	**3,230**	6,194
Unearned premium reserve	**2,204**	12,715
Others	**22,768**	10,891
Gross deferred income tax assets	**187,382**	265,670
Net deferred income tax liability	**13,736**	22,608
Net deferred income tax asset	**150,817**	92,840

During 2003, deferred tax liability attributable to restatement differences mainly on "premises and equipment", "intangibles" and "assets held for resale" are reversed as the new tax regulation has retrospectively affected the tax basis of assets and liabilities as of December 31, 2003 and accordingly temporary differences arising from restatement of non-monetary assets have become permanent differences as further discussed above.

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21. INCOME TAXES (continued)

Movement of net deferred tax (liability) asset can be presented as follows:

	2003	2002
Balance at January 1	**70,232**	(102,828)
Deferred income tax recognized in income statement	**89,983**	146,965
Deferred income tax recognized in equity	**(20,654)**	18,740
Monetary gain/loss	**(2,480)**	7,355
Balance at December 31	**137,081**	70,232

The Group has tax losses arising in Turkey of TL 303,041 (2002- TL 989,272) at nominal amounts that are available for five years for offset against future taxable profits of the entities in which the losses arose.

22. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative 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 and swaps.

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed 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.

The fair of financial instrument is calculated by using forward exchange rates at the balance sheet date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	2003								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives held for trading									
Forward purchase contract	**2,434**	**(4,524)**	**74,460**	**52,619**	**18,089**	**3,752**	**-**	**-**	**-**
Forward sale contract	**1,118**	**(49)**	**77,869**	**56,031**	**18,036**	**3,802**	**-**	**-**	**-**
Currency swap purchase	**240**	**(4)**	**795,270**	**795,270**	**-**	**-**	**-**	**-**	**-**
Currency swap sale	**18**	**-**	**783,912**	**783,912**	**-**	**-**	**-**	**-**	**-**
						-	**-**	**-**	**-**
	3,810	**(4,577)**	**1,713,511**	**1,687,832**	**36,125**	**7,554**	**-**	**-**	**-**

	2002								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading									
Forward purchase contract	24	(2,660)	127,946	51,247	22,552	24,584	29,563	-	-
Forward sale contract	2,292	(5)	130,920	51,567	22,896	25,927	30,530	-	-
Currency swap purchase	10	(6)	839,667	837,847	900	-	920	-	-
Currency swap sale	5,362	(30)	825,798	823,979	872	-	947	-	-
	7,688	(2,701)	1,924,331	1,764,640	47,220	50,511	61,960	-	-

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23. SHARE CAPITAL ISSUED

	2003	2002
Number of common shares, TL one thousand, par value		
Authorized, issued and outstanding in 2003 and 2002	**752,345 million**	752,345 million

As of December 31, 2003 and 2002, the Bank's subscribed and issued share capital in historical terms is TL 752,345.

The movement of the share capital of the Bank (in numbers and in historical TL) is as follows:

	2003		2002	
	Number (Million)	**TL**	Number (Million)	TL
At January 1	**752,345**	**752,345**	752,345	752,345
Shares issued in				
- bonus shares from revaluation fund	**-**	**-**	-	-
- bonus shares from general reserve	**-**	**-**	-	-
- bonus shares from dividends declared	**-**	**-**	-	-
At December 31	**752,345**	**752,345**	752,345	752,345

As of December 31, 2003 and 2002, the composition of shareholders and their respective % of ownership in historical TL can be summarized as follows:

	2003	
	Amount	**%**
Publicly Traded	**313,224**	**41.63**
Sınai ve Mali Yatırım Holding A.Ş. (*)	**115,223**	**15.32**
Saving Deposit Insurance Fund (SDIF) (**)	**97,032**	**12.90**
Baytur İnşaat Taahhüt A.Ş.	**82,888**	**11.02**
Çukurova Holding A.Ş.	**66,651**	**8.86**
T. Genel Sigorta A.Ş.	**41,456**	**5.51**
Others	**35,871**	**4.76**
Total	**752,345**	**100.00**
Restatement effect	**3,017,209**	
Restated share capital	**3,769,554**	

(*) Shareholder rights are transferred to SDIF except the dividend collection right.
(**) By the agreement signed between BRSA and Çukurova Group, the share controlled by Pamukbank A.Ş. and subsidiaries are transferred to SDIF.

23. SHARE CAPITAL ISSUED (continued)

	2002	
	Amount	%
Publicly Traded	314,594	41.82
Sınai ve Mali Yatırım Holding A.Ş.	115,223	15.32
Baytur İnşaat Taahhüt A.Ş.	82,888	11.02
Pamukbank T.A.Ş.	74,518	9.91
Çukurova Holding A.Ş.	66,651	8.86
T. Genel Sigorta A.Ş.	41,546	5.51
Others	56,925	7.56
Total	752,345	100.00
Restatement effect	3,017,209	
Restated share capital	3,769,554	

24. LEGAL RESERVES AND ACCUMULATED PROFITS (DEFICIT)

Legal Reserves

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 entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless 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, 2003, the Bank's legal reserves amount to TL 36,907 (2002 - TL 36,907) at nominal values.

The statutory general reserve and statutory current year profit are available for distribution, subject to the reserve requirements referred to above. However, as explained in more detail in Note 32.2.b), the Bank will not distribute any profit in line with the provisions of the agreement among BRSA, SDIF and the Çukurova Group.

As of December 31, 2003, the Group reversed its general banking risk reserve provided in 2002 at the amount of TL 85,425 for possible losses that may occur in the future due to changes in the market.

As of December 31, 2003 retained earnings include undistributed funds at the amount of TL 8,587 before deferred tax due to earthquake losses to be incurred in the future.

Dividends

On March 31, 2004 general meeting of the Bank approved the statutory financial statements of the Bank as of December 31, 2003 and authorized the Board of Directors to net-off the current year income with accumulated deficit in line with BRSA legislation.

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25. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through December 31, 2003.

There are no dilution of shares as of December 31, 2003 and 2002.

The following reflects the income and share data used in the basic earnings per share computations:

	2003	2002
Net profit (loss) attributable to ordinary shareholders for basic earnings per share	**95,864**	1,145,595
Weighted average number of ordinary shares for basic earnings per share (million)	**752,345**	752,345

There have been no other transactions involving ordinary shares or potential ordinary shares since the balance sheet date and before the completion of these financial statements.

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26. RELATED PARTY DISCLOSURES

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 ultimate owner of the Group is Mr. Mehmet Emin Karamehmet and his family who controls 58.18% at December 31, 2002 of which 12.90% was transferred to SDIF on January 31, 2003. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders and other Çukurova Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

The following transactions have been entered into with related parties:

Related party		Cash loans	Non-cash loans	Loans in arrears	Short-term placements	Minimum lease payments receivable	Factoring receivables	Other assets	Deposits	Interest income	Interest expense	Commission income
Shareholders	**2003**	**457,328**	**34,204**	-	-	-	-	-	**272**	**22,772**	**(833)**	**264**
	2002	596,433	47,061	-	147,683	-	-	-	70,140	28,183	(2,253)	117
Associates	**2003**	**166,384**	**467,874**	**129,845**	-	-	-	**31,716**	**269,807**	**11,804**	**(8,051)**	**3,670**
	2002	110,272	654,136	100,009	-	20,944	-	-	174,339	22,933	(33,739)	836
Others	**2003**	**2,444,171**	**98,621**	-	-	**9,604**	**8,331**	-	**89,844**	**114,786**	**(1,929)**	**1,126**
	2002	2,560,450	256,862	-	-	23,018	1,925	-	131,791	120,761	(3,875)	1,101

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27. SALARIES AND EMPLOYEE BENEFITS

	2003	2002
Staff costs		
Wages and salaries	**219,292**	199,273
Bonuses	**67,072**	52,897
Other fringe benefits	**93,493**	104,904
Provision for employee termination benefits	**10,895**	4,606
Cost of defined contribution plan (employers' share of social security premiums)	**14,289**	19,935
Total	**405,041**	381,615

The average number of employees for the years is:

	2003	2002
The Bank	**10,499**	10,420
Subsidiaries	**1,419**	1,252
Total	**11,918**	11,672

28. OTHER INCOME/OTHER EXPENSE

	2003	2002
Other income		
Insurance technical income	**451,911**	472,091
Reversal of provision for non -cash loans	**5,644**	165,619
Others	**50,682**	50,212
Total	**508,237**	687,922
Other expense		
Insurance technical expense	**390,084**	398,169
General and administrative expenses	**336,606**	402,513
Provision for non-cash loans	**-**	28,021
Saving deposit insurance fund premiums	**59,490**	105,191
Credit Card Promotion provisio	**-**	24,610
Impairment provision on premises, equipment and assets held for resale	**38,364**	103,847
Others	**63,379**	71,364
Total	**887,923**	1,133,715

29. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2003	2002
Contingencies		
Letters of guarantee	**6,744,438**	7,665,692
Letters of credit	**1,085,518**	1,175,975
Acceptance credits	**170,438**	241,183
Other	**92,795**	40,386
Commitments		
Cash loan limits	**11,403,212**	10,924,644
Credit card limits	**3,221,205**	1,938,457
Cheque commitments	**742,761**	-

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

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

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 believes that no provision is necessary for this contingency.

Other

The Group manages 6 (2002 - 6) open-ended investment funds which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

30. FINANCIAL RISK MANAGEMENT

Credit Risk

The Group identifies loan limits for each customer considering statutory regulations. In the process of loan granting the internal scoring system, financial analysis reports, geographical and industry concentration are considered within the limits defined. The limits defined by Board of Directors for each foreign bank are followed-up daily by Treasury Management for the transactions related with placements with domestic and correspondent banks or treasury operations such as forward buy and sell transactions. Moreover, daily positions and limit controls of each Treasury and Fund Management employee who is authorized for transactions in the market are controlled by the system. In loan granting process, primarily the liquid collaterals are obtained. Long-term projections of the companies are analyzed both by financial analysis specialists and head office when grating long-term and project finance loans. Since credit and interest risks are higher in long-term commitments, their pricing is coordinated with treasury management.

As a part of internal scoring system, the loan proposals received from branches are not accepted unless they include a detailed financial information of the companies. All loan customers are followed-up in the system with risk scores and risky customers are closely monitored by the Risk Management Department.

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30. FINANCIAL RISK MANAGEMENT (continued)

The audited financial statements of the companies are obtained for the loans granted according to the materiality of the loans granted.

The Group has control limits over the positions of forward, options and similar agreements.

The non-cash risks of the customers whose cash risks are classified as non-performing are subject to provision in accordance with Provisioning Regulation. These risks are classified within the same group with the non-performing loans when they are liquidated.

Segment information of cash and non-cash loans is as follows:

	2003		2002	
	Cash	**Non-cash**	Cash	Non-cash
Finance	**1,183,627**	**957,988**	1,759,658	1,154,104
Main metal product, processed materials	**651,535**	**1,385,698**	848,708	837,299
Textile, fabrics, yarn industry	**830,988**	**459,649**	586,716	630,669
Construction	**437,490**	**1,887,431**	342,383	2,342,814
Government	**167,154**	**-**	331,208	-
Transportation, communication, travel agency	**151,614**	**259,107**	277,686	390,314
Food and beverage, tobacco	**389,576**	**423,011**	182,133	341,997
Wholesale and retail trade	**259,572**	**647,660**	168,907	589,807
Automotive industry	**236,742**	**188,635**	141,113	369,801
Optics and electrical equipments	**76,915**	**451,553**	58,140	378,810
Chemical industry	**108,282**	**77,329**	49,444	381,804
Paper production and publishing	**45,928**	**65,929**	37,110	95,862
Agriculture	**26,269**	**22,167**	23,728	18,717
Petroleum products	**30,718**	**247,363**	20,519	-
Foreign trade	**18,572**	**4,123**	20,258	25,536
Tourism	**118,293**	**97,830**	525	116,132
Other (including credit card balances)	**3,036,876**	**917,716**	3,233,219	1,449,570
Corporate loans	**7,770,151**		8,081,455	
Consumer loans	**603,026**		379,313	
Interest accruals	**891,317**		895,515	
Loans in arrears	**828,803**		1,049,362	
Provision for possible loan losses	**(667,686)**		(773,972)	
	9,425,611	**8,093,189**	9,631,673	9,123,236

Liquidity Risk

The major funding source of the Group is its stable deposit base provided by quality banking service, widespread branches and effective usage of alternative distribution channels. In parallel to market conditions, despite the average maturities of deposits are short-term, they are renewed on the maturities and consequently provide a long-term funding source.

The Group has short-term and liquid assets in interbank placements and securities portfolio against liquidity risk. Major part of the securities portfolio comprises of the securities, which are actively traded in markets and foreign currency indexed bonds, which are barely traded, are not included in the Bank's portfolio.

The liquidity risk and the maturity structure of assets and liabilities are weekly reported to Asset and Liability Committee and to the top level Risk Committee.

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30. FINANCIAL RISK MANAGEMENT (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 Years	Total
As at December 31, 2003							
Assets							
Cash and balances with the central banks	270,682	-	-	-	-	-	270,682
Deposits with banks and other financial institutions	748,821	25,063	257	-	-	-	774,141
Other money market placements	78,616	-	1,407	-	-	-	80,023
Reserve deposits at the central banks	1,007,135	-	-	-	-	-	1,007,135
Trading securities	188,566	190,406	185,636	369,094	1,800,430	330,131	3,064,263
Available for sales securities	822,446	17,583	229,569	347,884	743,603	254,100	2,415,185
Held to maturity securities	421,225	137,984	81,111	-	128,751	63,912	832,983
Originated loans and advances	766,377	2,338,174	717,928	606,495	1,862,513	3,134,124	9,425,611
Factoring receivables	68,842	162,358	37,425	184	1,170	-	269,979
Minimum lease payments receivable	8,554	38,995	52,349	102,674	114,260	-	316,832
Derivative financial instruments	3,810	-	-	-	-	-	3,810
Investments in joint venture	-	-	-	-	-	414,522	414,522
Investments in unconsolidated subsidiaries	-	-	-	-	-	4,950	4,950
Investments in associates	-	-	-	-	-	279,395	279,395
Investment properties	-	-	-	-		18,188	18,188
Premises and equipment	-	-	-	-	-	2,166,866	2,166,866
Intangibles	-	-	-	-	-	149,640	149,640
Other assets	233,113	29,159	16,100	34,920	37,414	365,485	716,191
Deferred tax asset	11,588	256	283	6,256	132,434	-	150,817
Total assets	**4,629,775**	**2,939,978**	**1,322,065**	**1,467,507**	**4,820,575**	**7,181,313**	**22,361,213**
Liabilities:							
Deposits from other banks	122,556	12,895	7,680	8,061	20,793	-	171,985
Customers' deposits	6,459,393	4,350,640	2,507,033	581,163	289,579	21,390	14,209,198
Other money market deposits	2,090,799	-	-	60,141	-	-	2,150,940
Funds borrowed	76,132	152,313	138,127	178,988	152,456	13,165	711,181
Debt securities	-	-	-	276,000	-	-	276,000
Insurance technical reserves	568,199	25,048	27,744	28,534	-	-	649,525
Factoring payables	26,945	83,075	16,412	116	-	-	126,548
Derivative financial instruments	4,577	-	-	-	-	-	4,577
Other liabilities and provisions	986,665	14,019	31,047	38,508	-	260	1,070,499
Income taxes payable	-	4,842	-	-	-	-	4,842
Deferred Tax Liability	8,471	-	-	-	5,265	-	13,736
Total liabilities	**10,343,737**	**4,642,832**	**2,728,043**	**1,171,511**	**468,093**	**34,815**	**19,389,031**
Net liquidity gap	(5,713,962)	(1,702,854)	(1,405,978)	295,996	4,352,482	7,146,498	2,972,182
As at December 31,2002							
Total assets	4,458,611	2,633,786	1,737,298	1,793,597	3,484,074	8,528,290	22,635,656
Total Liabilities	11,321,643	5,343,137	1,858,923	731,092	545,354	30,769	19,830,918
Net liquidity gap	**(6,863,032)**	**(2,709,351)**	**(121,625)**	**1,062,505**	**2,938,720**	**8,497,521**	**2,804,738**

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30. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group follows-up the daily currency risk and reports the findings both to Asset and Liability Committee and Risk Committee. The foreign currency position is managed according to the expectations in the markets and within the limits defined by the statutory regulations and top management. The forward buy and sell transactions are generally realized to hedge risk on parity differences.

The concentrations of assets, liabilities and off balance sheet items:

	Turkish Lira	US Dollars	Euro	GBP	CHF	Others	Total
As at December 31, 2003							
Assets							
Cash and balances with the central banks	83,877	128,722	45,949	2,437	2,372	7,325	270,682
Deposits with banks and other financial institutions	5,013	351,608	401,923	9,172	96	6,329	774,141
Other money market placements	63,428	690	138	-	-	15,767	80,023
Reserve deposits at the central banks	212,047	166,700	625,247	-	-	3,141	1,007,135
Trading securities	1,795,624	766,356	502,283	-	-	-	3,064,263
Available sale securities	1,334,453	710,679	346,466	-	-	23,587	2,415,185
Held to maturity securities	640,321	167,099	25,563	-	-	-	832,983
Originated loans and advances	4,008,710	4,755,234	640,314	5,379	1,876	14,098	9,425,611
Factoring receivables	97,995	39,937	113,384	18,566	0	97	269,979
Minimum lease payments receivable	18,768	124,629	163,321	871	7,804	1,439	316,832
Derivative financial instruments	9	601	3,200	-	-	-	3,810
Investments in joint ventures	414,522	-	-	-	-	-	414,522
Investments in unconsolidated subsidiaries	4,765	69	116	-	-	-	4,950
Investments in associates	242,776	-	-	-	36,619	-	279,395
Investment properties	18,188	-	-	-	-	-	18,188
Premises and equipment	2,144,824	6,076	5,166	-	-	10,800	2,166,866
Intangibles	136,890	620	9,616	-	2,514	-	149,640
Other assets	642,418	35,998	36,072	179	119	1,405	716,191
Deferred tax asset	140,143	-	10,674	-	-	-	150,817
Total assets	**12,004,771**	**7,255,018**	**2,929,432**	**36,604**	**51,400**	**83,988**	**22,361,213**
Liabilities							
Deposits from other banks	65,356	76,530	25,710	4,226	137	26	171,985
Customers' deposits	6,003,123	5,020,727	3,048,240	73,194	47,341	16,573	14,209,198
Other money market deposits	1,646,401	384,636	118,332	-	-	1,571	2,150,940
Funds borrowed	70,028	395,497	217,584	10,720	9,526	7,826	711,181
Debt securities	-	276,000	-	-	-	-	276,000
Insurance technical reserves	389,087	192,047	68,391	-	-	-	649,525
Factoring payables	39,689	13,338	63,531	9,904	-	86	126,548
Derivative financial instruments	-	4,528	49	-	-	-	4,577
Other liabilities and provisions	882,473	70,725	104,055	1,550	738	10,958	1,070,499
Income taxes payable	2,858	-	1,984	-	-	-	4,842
Deferred tax liability	5,310	-	7,663	-	-	763	13,736
Total liabilities	**9,104,325**	**6,434,028**	**3,655,539**	**99,594**	**57,742**	**37,803**	**19,389,031**
Net balance sheet position	2,900,446	820,990	(726,107)	(62,990)	(6,342)	46,185	2,972,182
Off-balance sheet position							
Net notional amount of derivatives	(8,702)	(729,213)	622,414	73,455	44,379	5,615	7,948
Non- cash loans	2,803,155	3,231,699	1,675,850	13,089	119,964	249,432	8,093,189
At December 31, 2002							
Total assets	10,834,008	9,057,771	2,547,154	57,453	52,147	87,123	22,635,656
Total liabilities	8,167,490	8,160,580	3,289,570	116,296	74,687	22,295	19,830,918
Net balance sheet position	2,666,518	897,191	(742,416)	(58,843)	(22,540)	64,828	2,804,738
Off-balance sheet net notional position	(12,634)	(521,219)	427,564	59,158	68,567	(10,541)	10,895

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30. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

The monitoring of interest rate sensitive assets and liabilities and sensitivity analysis regarding the effect of interest rate fluctuations on financial statements are performed by the related departments and periodically reported to the Asset and Liability Committee and to the top level Risk Committee.

In parallel to the fluctuations in the market, the funding cost of the Bank is daily followed-up by Treasury Management and the related departments and branches are informed regarding the minimum and maximum limits on currency basis. The demands that are not within the limits defined by Treasury Management can only be accepted with the approval of Treasury Management. Moreover the daily reference interest rates, which results from the transactions in the market are determined according to the funding cost of the Bank and the income and loss differences between the applied interest rates by the branches, head office, and reference interest rate are calculated by the system. Since income and loss computed in this method is also utilized by the performance evaluations of Human Resources Department, sensitive work is performed by wide network of branches.

Moreover, the Group has aimed to decrease interest rate risk by evaluating its liquidity in assets with variable interest rate.

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30. FINANCIAL RISK MANAGEMENT (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at December 31, 2003								
Assets:								
Cash and balances with the central banks	-	-	-	-	-	-	270,682	270,682
Deposits with banks and other financial institutions	692,069	78,722	10,546	-	20	-	(7,216)	774,141
Other money market placements	78,616	-	1,407	-	-	-	-	80,023
Reserve deposits at the central banks	968,564	-	-	-	-	-	38,571	1,007,135
Trading securities	360,504	666,094	223,840	81,903	1,386,289	244,647	100,986	3,064,263
Available for sale securities	60,927	35,334	232,770	342,146	725,177	234,084	784,747	2,415,185
Held to maturity securities	431,577	137,984	94,477	1,846	103,187	63,912	-	832,983
Originated loans and advances	549,474	2,344,154	717,928	3,343,484	1,854,974	393,251	222,346	9,425,611
Factoring receivables	68,936	163,528	37,425	68	-	-	22	269,979
Minimum lease payments receivable	8,554	38,995	52,349	102,674	114,260	-	-	316,832
Derivative financial instruments	-	-	-	-	-	-	3,810	3,810
Investments in joint venture	-	-	-	-	-	-	414,522	414,522
Investments in unconsolidated subsidiaries	-	-	-	-	-	-	4,950	4,950
Investments in associates	-	-	-	-	-	-	279,395	279,395
Investment properties	-	-	-	-	-	-	18,188	18,188
Premises and equipment	-	-	-	-	-	-	2,166,866	2,166,866
Intangibles	-	-	-	-	-	-	149,640	149,640
Other assets	68,992	2,766	3,932	58,601	29,116	-	552,784	716,191
Deferred tax asset	-	-	-	-	-	-	150,817	150,817
Total assets	**3,288,213**	**3,467,577**	**1,374,674**	**3,930,722**	**4,213,023**	**935,894**	**5,151,110**	**22,361,213**
Liabilities:								
Deposits from other banks	100,625	12,895	7,680	8,061	20,793	21	21,910	171,985
Customers' deposits	3,598,129	4,350,640	2,507,033	581,163	289,579	13,195	2,869,459	14,209,198
Other money market deposits	2,090,799	-	-	60,141	-	-	-	2,150,940
Funds borrowed	67,820	152,561	138,127	178,740	152,456	13,165	8,312	711,181
Debt securities	-	-	-	276,000	-	-	-	276,000
Insurance technical reserves	511,981	-	-	-	-	-	137,544	649,525
Factoring payables	26,505	83,075	16,412	-	-	-	556	126,548
Derivative financial instruments	-	-	-	-	-	-	4,577	4,577
Other liabilities and provisions	755,138	13,750	24,546	38,388	-	4,363	234,314	1,070,499
Income taxes payable	-	-	-	-	-	-	4,842	4,842
Deferred tax liability	-	-	-	-	-	-	13,736	13,736
Total liabilities	**7,150,997**	**4,612,921**	**2,693,798**	**1,142,493**	**462,828**	**30,744**	**3,295,250**	**19,389,031**
Total interest sensitivity gap	**(3,862,784)**	**(1,145,344)**	**(1,319,124)**	**2,788,229**	**3,750,195**	**905,150**	**1,855,860**	**2,972,182**

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30. FINANCIAL RISK MANAGEMENT (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at December 31, 2002								
Assets								
Cash and balances with the central banks	298,737	-	-	-	-	-	196,495	495,232
Deposits with banks and other financial institutions	497,177	15,281	19,414	56,150	27,759	-	34,776	650,557
Other money market placements	371,221	-	-	-	-	-	-	371,221
Reserve deposits at the central banks	1,102,977	-	-	-	-	-	-	1,102,977
Trading securities	82,117	954,958	566,682	327,835	1,274,808	559,158	126,661	3,892,219
Available for sale securities	535,040	18,709	-	40,018	88,490	33,791	340,737	1,056,785
Held to maturity securities	942	144,487	454,207	-	166,157	85,247	14,754	865,794
Originated loans and advances	646,583	1,955,732	664,833	1,291,167	1,015,947	3,782,020	275,391	9,631,673
Factoring receivables	62,160	118,472	-	-	-	-	-	180,632
Minimum lease payments receivable	14,498	50,457	36,122	59,053	123,636	690	-	284,456
Derivative financial instruments	6,775	830	15	68	-	-	-	7,688
Investments in joint venture	-	-	-	-	-	-	453,995	453,995
Investments in unconsolidated subsidiaries	-	-	-	-	-	-	9,925	9,925
Investments in associates	-	-	-	-	-	-	339,791	339,791
Investment properties	-	-	-	-	-	-	19,189	19,189
Premises and equipment	-	-	-	-	-	-	2,267,682	2,267,682
Intangibles	-	-	-	-	-	-	156,279	156,279
Other assets	119,216	25,329	11,366	13,675	1,866	-	585,269	756,721
Deferred tax asset	-	-	-	-	-	-	92,840	92,840
Total assets	**3,737,443**	**3,284,255**	**1,752,639**	**1,787,966**	**2,698,663**	**4,460,906**	**4,913,784**	**22,635,656**
Liabilities:								
Deposits from other banks	63,008	8,053	3,715	1,419	60,212	-	10,813	147,220
Customers' deposits	5,079,392	4,965,279	1,563,141	447,904	223,464	2,210	3,105,576	15,386,966
Other money market deposits	1,822,091	114,032	-	18,272	-	-	-	1,954,395
Funds borrowed	153,118	232,665	246,837	140,418	169,618	18,797	-	961,453
Debt securities	-	-	8,539	-	-	-	-	8,539
Insurance technical reserves	2,359	4,825	18,256	78,403	-	-	481,134	584,977
Factoring payables	19,609	66,916	-	-	-	-	-	86,525
Derivative financial instruments	1,006	254	703	738	-	-	-	2,701
Other liabilities and provisions	123,645	8,681	5,899	751	4,415	-	518,641	662,032
Deferred tax liability	-	-	-	-	-	-	22,608	22,608
Income taxes payable	-	-	-	-	-	-	13,502	13,502
Total liabilities	**7,264,228**	**5,400,705**	**1,847,090**	**687,905**	**457,709**	**21,007**	**4,152,274**	**19,830,918**
Net liquidity gap	**(3,526,785)**	**(2,116,450)**	**(94,451)**	**1,100,061**	**2,240,954**	**4,439,899**	**761,510**	**2,804,738**

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30. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

The interest rate risk and foreign currency risk, which are the main components of market risk is followed-up daily by the Bank's Board of Directors and top level risk committee.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulatory and Supervision Agency (BRSA). These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2003, the Group's capital adequacy ratio on a consolidated basis in line with the requirements of BRSA is 20.49 %.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2003	2002	**2003**	2002
Financial assets				
Originated loans and advances	**9,425,611**	9,631,673	**9,425,611**	9,631,673
Investments held to maturity	**832,983**	865,794	**880,510**	869,491
Minimum lease payments receivables	**316,832**	284,456	**304,717**	311,016
Financial liabilities				
Deposits from other banks	**171,985**	147,220	**171,985**	147,220
Customer deposits	**14,209,198**	15,386,966	**14,209,198**	15,386,966
Funds borrowed	**711,181**	961,453	**711,181**	961,453

As of December 31, 2003 and 2002, the fair values of originated loans and advances to customers, customer deposits, deposits from other banks and funds borrowed could not be presented due to impracticality. However, management believes that the fair value of mentioned financial assets and liabilities are considered to approximate carrying value resulting from assessing the various risk components of the respective portfolios.

Fair values of financial assets and liabilities carried at cost, including deposits with banks and other financial institutions, balances with the central banks, other money market placements, reserve deposits, factoring receivables, and payables, debt securities and other money market deposits are considered to approximate their respective carrying values due to their short term nature.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristics or by discounting the expected future cash flows at prevailing interest rates.

32. SUBSEQUENT AND OTHER EVENTS

1. Subsequent Events

a) At the Board of Directors' meeting held at February 26, 2004 and numbered 61/10 it was decided that the settlement of the interest installment receivable along with its accrued interest amounting to USD 98,937,601 as of December 31, 2003 calculated as per Financial Restructuring Agreement (FRA), is to be made by acquiring Turkcell İletişim Hizmetleri A.Ş.'s shares that are not traded in İstanbul Stock Exchange (ISE), without using a brokerage agency for the transaction and over the "fair value" determined based on the last 30 working days' weighted average transaction price (each share - TL 14,718 full). It is also decided that the Çukurova Group will have a call option to buy the shares back at value that is equal to the USD value of the shares at the date of acquisition by the Bank plus interest accrued thereon at the rate of Libor+3.5% between acquisition and option date. Such option will be valid until the date set forth in the agreement dated January 31,2003 signed by Çukurova Group, SDIF and BRSA.

b) As of January 1, 2004 retirement pay liability ceiling was increased to TL 1.485.

c) At the general meeting of Yapı ve Kredi Bankası A.Ş. as of March 31, 2004, member of the Board of Directors were changed except for the general manager.

d) The Group has loan, interest accrual and other asset balances of TL 226,569 receivable from three companies that are associates/subsidiaries of the Group. As of March 25, 2004, the group restructured a balance of USD 77,565,185 and classified it as performing loan. The discussions with these companies in order to restructure the remaining balances continue as of the date these financial statements are approved for issuance.

2. Other Events

a) In accordance with the decision of the BRSA dated June 18, 2002 and numbered 742, the management and control of Pamukbank T.A.Ş., was transferred to the SDIF. In accordance with Article 8/2c at the Banks Act, the control and shareholding rights (excluding dividends) of Pamukbank will be used by SDIF due to the fact that the shareholders of Pamukbank T.A.Ş. who hold direct or indirect shares of 10% or more have lost the qualification of being a bank owner, in line with the Article 7/2d of Banks Act. As a result of the decision of the General Assembly of Administrative Lawsuit Chambers of the Council of State dated November 22, 2002 and numbered 2002/892 YK, related with the suspension of the execution of the resolution of the BRSA regarding the take over of Pamukbank by SDIF, SDIF has transferred the management, control and privileges relating with shareholding of Pamukbank T.A.Ş. to its former owners as of January 24, 2003.

Following that, an agreement has been signed among the BRSA, SDIF and the Çukurova Group on January 31, 2003. With this agreement, the transfer of management, control, and shareholding rights (excluding dividends) of Pamukbank T.A.Ş. to SDIF is finalized and in line with the provisions of Banking Law numbered 4389, it was concluded that SDIF will continue to exercise the partnership rights of Pamukbank T.A.Ş. in the Bank. Moreover, the shares of the Bank held by Pamukbank T.A.Ş. and its subsidiaries are taken over by SDIF and within the scope of the above mentioned agreement, the shares of the Bank owned by SDIF and Çukurova Group will be sold to third parties by Çukurova Group within two years after the agreement date so that direct and indirect participation of Çukurova Group in the Bank will be reduced to less than 10%. In case, the sale cannot be realized within this period, a reputable investment bank that will mutually be authorized by SDIF and Çukurova Group will realize the sales.

32. SUBSEQUENT AND OTHER EVENTS (continued)

b) In addition to the matters explained above in a), the agreement signed among BRSA, SDIF, and the Çukurova Group on January 31, 2003 require that;

i) All necessary precautions will be taken in order for the capital adequacy ratio of the Bank not to fall below 10%. In case the capital adequacy ratio falls below 10% and if Çukurova Group is unable to increase capital, the necessary capital will be provided by SDIF.

ii) Until the sale of the shares of the Bank, the Bank will not distribute any profit or in case of a profit distribution, the Bank will increase its capital so that profit will remain within the Bank.

iii) Çukurova Holding A.Ş. has the right to purchase all shares of Turkcell Holding A.Ş. and Turkcell İletişim Hizmetleri A.Ş. which are directly or indirectly owned by the Bank within two years from the starting date of the agreement by means of payment in cash, whether up front or in installments. It was accepted by SDIF, which is the minority shareholder of the Bank, that the purchase prices of these stocks will be calculated by taking into consideration the last 30 days the weighted average closing prices of these shares' realized prior to the purchase transaction. The right to determine the management and auditing principles of these shares will belong to the Çukurova Holding A.Ş. until the purchase transaction is realized.

iv) Çukurova Group is able to purchase all Fintur Technologies BV shares and/or all Digital Platform Hizmetleri A.Ş. shares owned by the Bank within one year starting from the agreement date at their net book value prevailing at the date of transfer by means of payment in cash and/or in exchange of shares of T. Genel Sigorta A.Ş and/or Banque de Commerce et de Placements S.A. over their book values.

v) If applicable to all parties, the merger of the Bank and Pamukbank A.Ş. will be considered.

vi) The members of the Board of Directors will be selected by SDIF among the candidates suggested by the shareholders of the Bank such that the suggested number is twice the number of members required in the Board of Directors. These candidates will be identified from the list prepared by an internationally reputable consultancy firm which will be authorized by all parties.

vii) A "Participation Management Committee" will be formed in order to create a synergy for the Bank and its subsidiaries in their relations with other Group companies. The Board will not be a decision making body and will have four members of which two will be selected by SDIF and the other two will be selected by the Bank.

c) As of December 31, 2003 and 2002 the Bank has a receivable from a government institution amounting to TL 625,710. In line with the opinion taken from BRSA, the Bank, has calculated income accrual amounting to TL 89,132, only for three month period between July 1 and September 30, 2002 and reflected such accrual in the financial statements. Based on the Board of Directors' decision meeting, numbered 60/41 held at December 25, 2003, the Bank decided to open a lawsuit against the Undersecretariat of Turkish Treasury in order to collect the above mentioned receivable. The final recoverable amount of this receivable is dependent upon the outcome of the lawsuit. Had the Bank applied the interest using the average simple interest rates of debt securities announced by the State Planning Organization for years 2002 and 2003 quarterly, as of December 31, 2003, the Bank's net profit would have been increased by TL 319,752 and the shareholders' equity would have been increased by TL 524,620.

32. SUBSEQUENT AND OTHER EVENTS (continued)

d) With the letter numbered OFD/902 and dated May 30, 2003 the Capital Market board (CMB) has required that the Bank would demand a payment at the amount of US Dollars 94.8 million from Çukurova İthalat ve İhracat Anonim Şirketi (Çukurova İthalat) related with the overstatement of value in the acquisition of 50% shares of A-Tel Servis Hizmetleri Anonim Şirketi in connection with Financial Restructuring Agreement. In return to the Bank's demand Çukurova İthalat has filed a litigation with the file numbered 2003/1254 at Ankara 5th Supreme Court for the cancellation of CMB decision. Çukurova İthalat has also agreed and committed to pay the above mentioned amount under the conditions of Financial Restructuring Agreement in case that the case is lost. However, with the Board of Directors decision dated December 31, 2003 and numbered 60/43, the Bank management rejected the Çukurova Group term payment proposal and filed a litigation against Çukurova İthalat with the file number 2004/3 at Istanbul 7th Supreme Court.

As the counterparty of the case, Çukurova İthalat ve İhracat A.Ş., committed to pay related receivable in cash with its interest (due based on an interest rate of Libor+3.5), with the condition that the case opened in Ankara 5th Administrative Court against the decision of Capital Market Board numbered 26/653 and dated May 30, 2003 is failed, and related decision is finalized at the end of all legal processes, the case numbered 2004/3 followed in Istanbul 7th Supreme Court is renounced in line with decision of BOD numbered 61/13, dated March 11, 2004.

e) In line with the decision of BRSA numbered 1083 published in the Official Gazette dated July 3, 2003 and numbered 25157, all customer saving deposits are taken under the guarantee of saving deposits insurance fund until July 5, 2004. After July 5, 2004 the saving deposits up to TL 50 billion will be under the insurance guarantee.

f) The Bank's Board of Directors responded to for the request made by Çukurova Group to related parties about extending the purchase option of Fintur Technologies B.V. and Digital Platform İletişim Hizmetleri A.Ş. shares by Çukurova Group at their net book value in the Bank's records within one year (January 31, 2004) as indicated by the article 27 of main principles of the agreement signed among BRSA, SDIF and Çukurova Group on January 31, 2003 that the option can be extended until May, 2004.
As of the date that these financial statements are approved for issuance, no commitment from Çukurova Group for exercising the purchase option has been obtained.

g) The Bank obtains expertise reports for its immovables in terms of materiality, in order to determine their fair values and provides reserves for impairment, as deemed necessary. Accordingly, in line with the Board of Directors' decisions Eskidji Müzayedecilik Ticaret İthalat ve İhracat A.Ş started to sell the excess immovables which are carried at their inflation adjusted book values with an auction method and in case losses arose, these losses were reflected in the accompanying financial statements as of December 31, 2003. For the remaining immovables that are not subject to sale, the Bank did not use the base values determined by the auction firm for fair value consideration since the Bank will decide whether to sell or keep these immovables if appropriate conditions occur in the future.

h) The management agreed with a consultancy firm specialized in tourism industry, in order to sell its investment in tourism industry (mainly hotels). Board of Directors authorized Bank's management to sell agreed investments within the range determined by the decision dated December 25, 2003 and numbered 60/41.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2003

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2003

33. UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK

The Bank's own unconsolidated balance sheets and income statements for inclusion in the consolidated financial statements prepared in accordance with IFRS as of and for the years ended December 31, 2003 and 2002 are included in the Appendix for information purposes only. In the unconsolidated financial statements, the Bank opted to account for investments in subsidiaries at restated cost in accordance with IAS 27.

UNCONSOLIDATED BALANCE SHEET

As at December 31, 2003

(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	2003	2002 (As restated)
ASSETS		
Cash and balances with the central banks	**260,973**	465,725
Deposits with banks and other financial institutions	**520,068**	670,390
Other money market placements	**78,482**	325,011
Reserve deposits at the central banks	**968,563**	1,082,417
Trading securities	**2,646,148**	3,600,288
Available for sale securities	**2,046,908**	804,686
Held to maturity securities	**807,420**	798,630
Originated loans and advances	**8,861,665**	8,944,562
Derivative financial instruments	**2,378**	2,472
Investment in joint ventures	**414,522**	453,995
Investments in subsidiaries	**618,707**	661,716
Investments in associates	**420,673**	368,490
Premises and equipment	**2,054,989**	2,132,441
Intangibles	**94,078**	46,879
Other assets	**527,159**	569,924
Deferred tax asset	**134,004**	60,705
Total assets	**20,456,737**	20,988,331
LIABILITIES AND EQUITY		
Deposits from other banks	**182,442**	171,299
Customers' deposits	**13,395,121**	14,823,576
Other money market deposits	**2,142,590**	1,936,123
Funds borrowed	**451,329**	724,938
Debt securities	**276,000**	8,539
Derivative financial instruments	**4,716**	2,600
Other liabilities and provisions	**909,531**	519,532
Total liabilities	**17,361,729**	18,186,607
Equity		
Share capital issued	**3,769,554**	3,769,554
Net unrealized gains	**117,282**	19,331
Reserve for general banking risk	**-**	85,425
Legal reserves and accumulated profits (deficit)	**(975,469)**	(2,376,025)
Profit (loss) for the year	**183,641**	1,303,439
Total equity	**3,095,008**	2,801,724
Total liabilities and equity	**20,456,737**	20,998,331

UNCONSOLIDATED BALANCE SHEET

For the year ended December 31. 2003
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2003)

	2003	2002 (As restated)
Interest income		
Interest on originated loans and advances	**1,521,843**	2,297,901
Interest on securities	**767,176**	876,351
Interest on deposits with banks and other financial institutions	**114,213**	196,008
Interest on other money market placements	**10,920**	131,996
Other interest income	**318**	400
Total interest income	**2,414,470**	3,502,656
Interest expense		
Interest on deposits	**(2,008,450)**	(2,225,365)
Interest on other money market deposits	**(461,778)**	(433,401)
Interest on funds borrowed	**(96,665)**	(145,282)
Interest on debt securities	**-**	(18,267)
Total interest expense	**(2,566,893)**	(2,822,315)
Net interest income	**(152,423)**	680,341
Provision for possible loan losses	**13,599**	498,843
Net interest income (expense) after provision for possible loan	**(138,824)**	1,179,184
Foreign exchange loss	**21,970**	(241,164)
Net interest income (loss) after foreign exchange loss and provision for possible loan losses	**(116,854)**	938,020
Other operating income		
Fees and commissions income	**151,928**	174,985
Income from banking services	**468,969**	454,599
Trading income, net	**450,898**	417,172
Dividend income from subsidiaries and associates	**10,131**	38,441
Other income	**63,919**	195,854
Other operating expense		
Fees and commissions expense	**(193,405)**	(191,688)
Salaries and employee benefits	**(338,560)**	(301,340)
Depreciation and amortization	**(179,752)**	(170,787)
Taxes other than on income	**(57,571)**	(27,752)
Other expenses	**(394,876)**	(641,894)
Profit (loss) from operating activities before income tax, monetary gain and extraordinary items	**(135,173)**	885,610
Income tax (credit)	**93,311**	140,371
Monetary gain	**225,503**	277,458
Net profit (loss) from ordinary activities	**183,641**	1,303,439
Extraordinary items	**-**	-
Net profit (loss)	**183,641**	1,303,439

EXECUTIVE MANAGEMENT

Berrin Avcılar
Subsidiaries & Real Estate

Mehmet Duru
Advertising and Public Relations

Erhan Özçelik
Corporate Sales and Marketing

Ülkü Feyyaz Taktak
Human Resources

İsmet Bardakçı
Legal Affairs

Tülay Güngen
Retail Banking Marketing

Alpaslan Özlü
Technology

Selçuk Tamer
Operations

Semih Çağlar
Internal Audit

Ahmet İlerigelen
Credit

Muzaffer Öztürk
Retail Banking Sales

Reha Yolalan
Financial Analysis and Risk Management

Haşim Fırat Çelikkan
Commercial Banking

Hüseyin İmece
Treasury & Financial Institutions

Nazan Somer
Credit Cards

Birol Yücel
Financial Affairs

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