TEB

TÜRK EKONOMİ BANKASI

Annual Report 2002

Notwithstanding the continuing difficulties in domestic financial markets during 2001 and 2002, TEB expanded its branch network and enhanced the capabilities of its alternative distribution channels to reach a wider client base.

In this year's annual report, we have chosen to represent TEB's geographical coverage and have therefore, included watercolour illustrations of landmarks at some of the places where TEB is located.

We would like to thank Bülent Çetinor, for his valuable contribution to our annual report with his watercolour illustrations.

Contents

TEB's basic strategy is to establish and build long-term relationships with selected companies and individuals in Turkey by providing them with a full range of banking and financial services.

Bank Profile

With the objective of gradually building a group of financial institutions, the Çolakoğlu Group acquired Kocaeli Halk Bankası in 1981, a small-scale regional bank originally established in 1927. The Bank's name was subsequently changed to Türk Ekonomi Bankası (TEB) and its services were expanded to cover corporate, commercial and private banking operations. With these changes, the Bank was able to offer an increasingly sophisticated range of financial products to a vast client base including private businesses, multinational companies and wealthy individuals in Turkey.

During the 1980s, while other Turkish banks were developing extensive countrywide branch networks, TEB became more specialised and consolidated its financial strength emphasising trade finance and advisory services.

In the 1980s, TEB pioneered the beginning of private banking services in Turkey, and was the first to provide such services through branch offices. In 1995, TEB began expanding its branch network, thus making its products available to companies as well as individuals in all the major regions of the country. Currently, TEB is operating through a network of geographically and economically well-chosen 74 branch locations in Turkey in addition to an offshore branch in Bahrain. The core business lines of TEB are corporate, commercial, private and retail banking as well as treasury activities.

Notwithstanding the continuing difficulties in domestic financial markets, TEB boldly expanded its financial services, and enhanced the capabilities of its technology-based alternative distribution channels, especially the Call Centre.

TEB pays special attention to interactions with clients and to the quality of services it offers. In the coming years, TEB plans to continue to expand the scope of its products and services to meet the requirements of its clients as it broadens its geographical reach.

As part of its strategy to build an integrated financial services group, TEB established TEB Leasing, TEB Investment, TEB Factoring, TEB Insurance, The Economy Bank N.V. in the Netherlands, TEB Asset Management and TEB Precious Metals. The creation of these subsidiaries reinforces the importance that TEB places on meeting the diverse financial needs of its clients.

Thanks to the flexibility of TEB's balance sheet and strong financial position, 2002 has been another year of successful financial and operational results. The strong performance and the synergy between the Bank and the subsidiaries, as well as the expansion of its distribution network, have underpinned TEB's reputation as one of Turkey's most successful and well-integrated banking and financial services groups.

TEB owes much of this success to the senior management who comply fully with international standards, corporate governance principles and ethical values of the banking profession. Senior staff regularly review strategic goals and decisions, analysing the risks related to financial markets, lending, and liquidity as well as managerial and implementation issues. TEB and its subsidiaries have been able to distance themselves from the recent economic difficulties affecting the Turkish financial services industry, thanks to their prudent approach and conservative policies, closely monitoring asset growth and inherent risk, emphasising liquidity, and keeping the quality of the client-base high.

TEB is a listed company on the Istanbul Stock Exchange where approximately 20% of its shares are currently being traded. Similarly, TEB shares are listed and traded as GDRs on the London Stock Exchange.

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Financial Highlights

(TL in billion, US$ in million)

	2002**		2001**		2000**	
	US$*	TL	US$*	TL	US$*	TL
Total Assets	1,435	2,353,552	1,150	1,663,651	1,395	937,378
Marketable Securities	52	85,337	109	157,280	110	74,125
Loans, net	493	807,734	319	460,993	343	230,485
Total Deposits	1,049	1,720,571	739	1,069,329	658	442,106
Shareholders' Equity	153	250,859	123	178,032	151	101,822
Interest Income	198	325,085	251	363,141	231	155,204
Interest Expense	(103)	(169,680)	(193)	(279,493)	(100)	(67,472)
Net Income/Loss	11	17,925	(9)	(12,421)	12	7,822
Consolidated Net Income/(Loss)	14	23,549	(27)	(39,025)	16	10,414

** Converted at the year-end rate of US$ 1 = TL 1,639,745 for 2002, US$ 1 = TL 1,446,638 for 2001 and US$ 1 = TL 671,765 for 2000.*

*** Extracted from audited bank-only financial statements based on IAS.*

Ratios And Key Operational Indicators

	2002	2001	2000
Capital Adequacy Ratio	15.40%	13.26%	11.24%
ROE	7.15%	(6.96)%	9.11%
ROA	0.76%	(0.71)%	0.87%
Number of Staff	1,673	1,262	1,358
Number of Branches	74	71	54

TEB's Ratings From Major Rating Agencies*

Moody's Investor Service

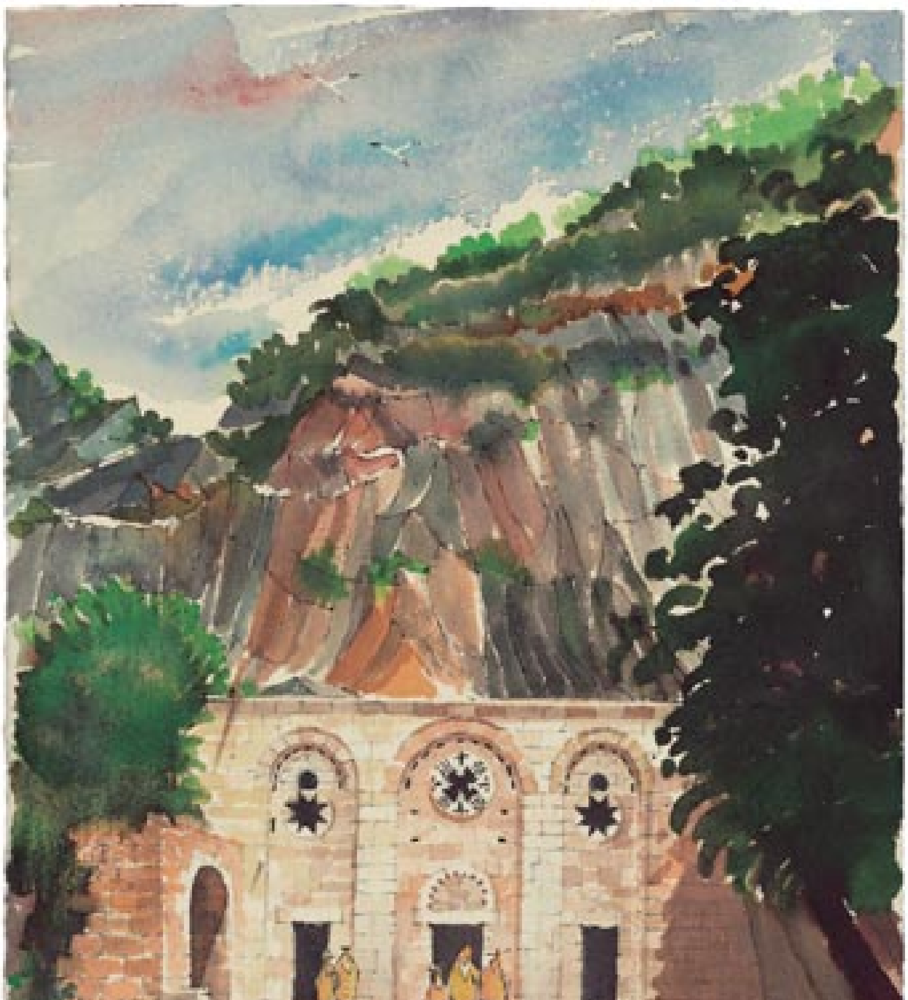
Banking Financial Strength	Foreign Currency Bank Deposit
D+ (D+)	B3 (B3)

FitchRatings

LC Long-term	FC Long-term	Individual	National
B- (B-)	B- (B-)	C/D	A (tur)
LC Short-term	FC Short-term	Support	
B (B)	B (B)	4T	

Note: Country ceilings are given in brackets.

** As of May 2003*



St. Peter's Church in Antakya (Antioch)

Carved into a rocky hillside, the earliest examples of churches in Christianity, and it serves as a museum now.

We take particular pride in observing that TEB has, once again, been one of the highest-rated Turkish banks in its peer group, having been assigned 'D+' and 'B3' ratings by Moody's, and 'A (tur) National' and 'C/D Individual' ratings by FitchRatings.

Report of the Board of Directors

Dear Shareholders,

This has been a year when measures were taken to correct the damage caused by a series of crises in the past two years, particularly by the shocking devaluation experienced in February 2001. It was a time when it became necessary to achieve stability at the macro-economic level, attempt to resolve the problems in the banking sector and improve public finances.

Under the impact of high inflation and devaluation, the national income shrank by 9.4% in 2001. During 2002, national income grew by 6.5% due to increased exports, smaller current account deficit, turnaround in industrial output and resumed expansion in the real sector. Exchange rates increased by 22% during the year, while the year-on-year inflation rate was around 31%.

A Banking Sector Restructuring Programme was launched not only to strengthen the sector where structural issues had become unmanageable in the wake of economic tremors, but also to enhance its operational efficiency. The implementation of this programme curbed the market risk of, and led to a major improvement in, the capital base of a number of privately-owned banks whose financial structure and profitability performance were found impaired in the course of the three-tier audit of their 2001 year-end financial statements. Banks whose equity remained below a certain level were taken over by the SDIF (Savings Deposits Insurance Fund) before eventually exiting the system. Those banks requiring additional capital received fresh funds from the shareholders or were provided with government support under the same restructuring programme.

At present, there are 55 banks active in the sector. Taking a general overview of the situation as of the end of the third quarter of 2002, inflation-adjusted figures are as follows:

- Total assets: US$ 117.8 billion
- Total deposits: US$ 80 billion
- Total marketable securities held: US$ 46.7 billion
- Total lending: US$ 28 billion.

These numbers indicate that the rate at which deposits are being channelled into lending is as low as 35%, and that some 60% of these resources are invested in the banks' marketable securities portfolio. In other words, 60 of every 100 Turkish liras that banks receive as deposits are either lent directly to the Turkish Treasury, or are indirectly used by the Government.

Changes that are being introduced into the banking sector are, indeed, substantial reforms, which will lead to reshaping the fundamentals of the banking system in Turkey. A major goal of these reforms is to enhance the transparency of the system so as to make it possible for supervisory authorities and international markets to keep a closer watch on the performance of the banks. Obviously, stable macro-economic balances very much depend on the existence of a healthy and robust banking system. In this respect, the additional restructuring measures that will be implemented in 2003 will have a crucial effect on fulfilling the macro-economic targets.

In its 2002 financial statements, our Bank reported a gross profit of TL 37,816 billion and a net profit of TL 17,925 billion after setting aside tax provisions. Shareholders' equity reached TL 251 trillion (US$ 153 million) and the capital adequacy ratio stood at 15.40%.

Looking at other major items on our balance sheet and comparing them with the previous year's figures, we see that total assets rose by 8% year-on-year to TL 2,354 trillion (US$ 1,435 million). Total deposits, accounting for 73% of the balance sheet, rose by 12% to TL 1,720 trillion, representing the Bank's most important source of funding. Thanks to our policy of exacting credit allocation and systematic monitoring, our loan portfolio consisting of carefully selected customers reached TL 808 trillion.

Foreign currency accounts represent 79% of total deposits: 95% of TL accounts and 99% of FX accounts are fixed-term deposits with maturities in the 0-3 month range. TL cash credits make up 44% and FX cash credits 56% of the total lending portfolio: 77% of TL loans and 48% of FX loans have maturities in the 0-3 month range. Our marketable securities portfolio is worth TL 85,337 billion, and accounts for only 3.6% of our total assets.

We have increased the number of corporate banking branches from eight to ten. Our commercial banking services, which target those companies with somewhat smaller capital resources and turnover, are now being provided through 55 commercial branches located in the major business centres around the country.

Our private banking activities, a service line that TEB pioneered in Turkey, targeting a select group of customers, have been reorganised in order to better reflect the diversification in our personal banking products, our analysis of customer expectations, and the expansion in our branch network. This service is now being provided under the responsibility of the Private Banking Centre.

In the area of consumer banking, we have been focusing our attention on the sale of mutual funds and on risk exposure. The customer base in this service line has grown by nearly 90% over the previous year. Despite difficulties and the turmoil that beset the economy during 2002, our mutual funds outperformed all others, providing above-average yields, and ranking among the top ten. TEB mutual funds are also available through Citibank branches. A similar agreement has been concluded with ABN Amro Bank NV, which will be selling TEB mutual funds starting in 2003.

Our traditional activities in the area of precious metal trading continued with success in the course of last year. The Bank played an important role, accounting for 34% of total gold imported into Turkey in 2002 while its subsidiary, TEB Precious Metals, accounted for 28% of total silver imports. This company is also the leading trader in Turkey's silver market, commanding a 19% share, representing 42 tons of silver.

During 2002, we acquired three branches of the SDIF-controlled banks, two in Istanbul and one in Gaziantep while a number of currently existing TEB branches, whose performance remained below expectations were either closed down, or merged with others. The application we submitted to the authorities in Bahrain, seeking a permit to open an offshore branch

TEB Financial Services Group where TEB is the controlling shareowner, was set up to provide our customers with financial services in addition to the already existing banking products. The Group, as a whole, has enjoyed a successful year in 2002, thanks to the synergy created within the group.

has been approved, and the necessary steps have been taken to start branch operations in March 2003. The number of TEB branches, including this new offshore branch, now adds up to 75.

As of year-end 2002, our intermediation in export and import activities stood, respectively, at US$ 1,636 million and US$ 2,246 million. In other words, TEB has been responsible for the handling of 4.7% of Turkey's exports and 4.6% of her imports in the course of the year.

Our commitment to risk management processes has been further strengthened last year thanks to the effective work of our Risk Management Group, set up in line with the requirements of BRSA's regulations concerning the internal audit of banks and their risk management systems. Risk awareness and management have always been important elements of TEB's vision. We are pleased to point out that our organisational set up and the action we have taken in this direction have placed the Bank in a pioneering position in Turkey in terms of achieving risk-control effectiveness required by the supervisory authority.

With regard to staffing and organisational structure, our primary consideration has always focused on efficiency as well as productivity, and on practices capable of achieving both. The number of employees has increased to 1,673, paralleling the widening of our branch network and the rising diversity of products and services on offer.

Ratings assigned to Turkish banks by international rating agencies have changed in the course of the year 2002, reflecting movements and trends in the country's economy. Despite such volatility, we take particular pride in observing that TEB has, once again, been one of the highest-rated Turkish banks in its peer group, having been assigned 'D+' and 'B3' ratings by Moody's, and 'A (tur) National' and 'C/D Individual' ratings by FitchRatings.

TEB stock, first offered to the public in 2000, maintained its position in the Istanbul Stock Exchange (ISE) National-50 Index during 2002, despite a very weak market. These stocks consistently outperformed both the ISE National-100 and the ISE Banking Sector indices.

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We would like to extend our gratitude to all of our employees for their untiring efforts towards achieving the results presented in this report. Last but not least, our particular thanks go to our shareholders for their continuous support.

Board of Directors

Yavuz Canevi
Chairman

Dr. Akın Akbaygil
Vice Chairman, Managing Director and General Manager

Varol Civil
Executive Director and Deputy General Manager

Aydın Esen
Executive Director

Cihat Madanoğlu
Executive Director

İsmail Yanık
Executive Director

Refael Taranto
Director

Hakan Tıraşın
Secretary to the Board

Auditors

Güney Serbest Muhasebecilik Mali Müşavirlik A.Ş., an affiliated firm of Ernst and Young International

Senior Officers

Meral Arıkan
Assistant General Manager

Ünsal Aysun
Assistant General Manager

Funda Hanoğlu
Assistant General Manager

Ümit Leblebici
Assistant General Manager

Sevinç Özşen
Assistant General Manager

Mehmet Sönmez
Assistant General Manager

Nuri Tuncalı
Assistant General Manager

As of May 2003

Against a backdrop of political turmoil and the uncertainties regarding the outcome of the general elections which increased market volatility, economic growth performance in 2002 has been better than earlier estimations.

Turkish Economy in 2002

On the back of the enhanced economic programme and the hopes for additional financial support from the IMF -after the 9/11 attacks- year 2002 started in a relatively more optimistic atmosphere. In February, IMF approved the new stand-by arrangement amounting to US$ 16 billion for the 2002-2004 period, immediately releasing loans worth US$ 9.1 billion. Upon receipt, a portion of the loans was used by the Central Bank to repay US$ 6.1 billion worth of the outstanding Supplemental Reserve Facility (SRF), which turned out to be relatively more costly than the stand-by loans. Meanwhile, the international rating agencies released supportive reports, revising Turkey's credit rating upward.

Despite the governance of a three-party coalition government, the programme remained largely on track. The structural reforms were implemented; such as the enactment of the public procurement law, the public debt management law and the tobacco law, the launch of banking sector restructuring programme, the situation of the SDIF banks, and to some extent the downsizing of the public sector personnel. Meanwhile, the "Istanbul Approach" aiming at rehabilitating ailing companies under excessive financial burden, due to high level of indebtedness, came on stream. In support of this approach, World Bank decided to grant a loan of US$ 500 million to be used in strengthening small and medium sized firms. In this environment, borrowing abilities improved and Treasury successfully rolled over the debt to market by 118% in the first four months, while raising US$ 2.1 billion through Eurobond issues. Business circles and markets, sceptical during the early months, started to grow more positive.

Early signs of economic recovery started to emerge in May. Independence and autonomy newly bestowed upon the Central Bank, coupled with structural changes imposed by the Banking Regulation and Supervision Agency (BRSA), contributed substantially to building confidence in the markets. Longer-term bond yields standing at around 70-75% levels by the end of 2001 dropped to 50-55% range in early May. In the meantime, the market consensus for year-end CPI inflation forecasts converged to 35%, in line with the Government's initial target.

While macro-economic balances had been showing signs of improvement, disputes behind the scenes within the coalition government regarding constitutional amendments necessary for the EU membership process started to surface in May. Following the hospitalisation of the PM Ecevit, fears about the future of the Government intensified. The situation aggravated as disagreements between the smaller coalition partners MHP and ANAP started to grow in his absence. Under this environment, interest rates increased by nearly 2500 basis points before soaring to 77% levels in mid-June. The Turkish lira depreciated by nearly 25% against the FX basket (US$ 1 + € 0.77) and the US$/TL exchange rate climbed to 1,680,000 levels from an average 1,344,000 in the first four months of 2002.

At this time, more radical events emerged in Turkish politics. Disputes within the rank and file of the major coalition partner, DSP (Democratic Left Party), came into light, as PM Ecevit's absence due to ill health continued. One of the three deputy prime ministers, Mr. Özkan resigned from DSP and his post. Within a few days 50 more MPs from DSP resigned. The growing uncertainty deepened following MHP's (Nationalist Act Party) call for early elections. Finally, the coalition leaders agreed on the election date as 3 November 2002, and reiterated their commitment to the economic programme. Shortly thereafter the minor coalition partner ANAP (Motherland Party) took the initiative, speeding up the preparations for the EU compliance legislation package.

The Parliament adopted the proposal for early general elections and approved the entire EU compliance legislation package by early August. Thus, Turkey had met her initial obligations and was on schedule for the forthcoming EU summit. However, with the general elections ahead and worries about possible US intervention in Iraq, EU enthusiasm weakened. Interest rates remained at the 65-70% range, while the US$/TL exchange rate stood at around 1,650,000.

The results of the November 3 elections saw the AKP (Justice and Development Party) as the winner of a decisive victory obtaining 66% of total seats with 34.3% of total votes. A single party government after so many years of coalition helped to restore confidence. The party leader Mr. Tayyip Erdoğan and the Prime Minister Abdullah Gül held several meetings in the US and European capitals ahead of the Copenhagen Summit. Meanwhile, talks with IMF reflected a very positive tone. Bond yields dropped to the 50% range in early December, while the US$/TL exchange rate was down to TL 1,550,000.

However, the early spark of optimism faded away following the outcome of the December 12-13 Copenhagen Summit. Instead of giving a firm date, the summit concluded with a conditional "date for date", according to which accession negotiations with Turkey would start without delay, provided that Turkey's reforms and their implementation were found satisfactory during the December 2004 review. Moreover, negotiations between Greek and Turkish Cypriots remained unresolved and EU offered more time for both sides to reach an agreement so as to join the Union, as a united island.

Following disappointment at the Copenhagen Summit, by mid-December markets quickly turned their focus to developments in Iraq and the pending economic issues. Delayed structural reforms and AKP's high spending targets caused some concern about the future of the economic programme. By the end of the year, yields recorded 56% and the US$/TL exchange rate stood slightly below 1,650,000. Notwithstanding these developments, 2002 ended with mostly positive macro-economic results.

Against a backdrop of political turmoil and the uncertainties regarding the outcome of the general elections which increased market volatility, economic growth performance in 2002 has been better than earlier estimations. The relatively more favourable business environment stimulated stock replenishment. Strong exports and tourism oriented sectors, coupled with inventory building and the slightly improving domestic demand helped to revive economic activity.

On the expenditure side, recovery in private consumption remained weak due to the decline in real wages and high unemployment. The drop in public investment outlays continued, while public sector consumption, rising exports and inventory building contributed positively to gross domestic product (GDP).

On the supply side, industrial value added increased by 8.8% in the first nine months of 2002, while value added in the services sector improved by 5.8% and agricultural output recorded 5.0% real growth. As a result, the real GDP growth rate amounted to 6.5% while the growth rate of gross national product (GNP) was slightly less at

GROWTH IN GROSS DOMESTIC PRODUCT IN TERMS OF EXPENDITURE (%)

	1997	1998	1999	2000	2001	3Q02
Private Consumption Exp.	8.4	0.6	(2.6)	6.2	(9.2)	1.1
Public Consumption Exp.	4.1	7.8	6.5	7.1	(8.5)	5.9
Public Fixed Capital Formation	28.4	13.9	(8.7)	19.6	(22.0)	9.5
Private Fixed Capital Formation	11.9	(8.3)	(17.8)	16.0	(34.9)	(10.5)
GDP	7.5	3.1	(4.7)	7.4	(7.5)	6.5

Source: State Institute of Statistics (SIS)

Fiscal balances were on track for the most part of the year, until various deviations occurred in the fourth quarter when spending for civil service pension funds and the social security administration could not be cut as planned.

REAL GROWTH BY SECTORS (%)

	1997	1998	1999	2000	2001	3Q02
Agriculture	(2.3)	8.4	(5.0)	3.9	(6.5)	5.0
Industry	10.4	2.0	(5.0)	6.0	(7.5)	8.8
Services	8.6	2.4	(4.5)	8.9	(7.7)	5.8
GDP	7.5	3.1	(4.7)	7.4	(7.5)	6.5
GNP	8.3	3.9	(6.1)	6.3	(9.5)	6.2

Source: State Institute of Statistics (SIS)

6.2%, reflecting the continuing outflow of net factor income. This compares favourably with the Government's annual GNP growth target initially set at 3.0% but later revised upward to 6.5%.

Fiscal balances were on track for the most part of the year, until various deviations occurred in the fourth quarter when spending for civil service pension funds and the social security administration could not be cut as planned. Furthermore, rising energy prices squeezed margins and the weak performance of State Economic Enterprises (SEEs) continued. During the political crisis, authorities were reluctant to take the necessary measures to eliminate the fiscal gap while growth in non-interest expenditure accelerated in the pre-election period. Despite improved performance on the revenue side, rising expenditure claims, mainly due to a sharp increase in military spending, could not be offset, particularly in the last month. According to our estimations, the primary balance of the consolidated government sector yielded a surplus equal to approximately 4.5% of GNP. However, excluding the privatisation revenue, interest receipts and Central Bank profits -as is the case with the IMF definitions- the consolidated government primary surplus remains at about 3%, compared to the target set at 5.3% of GNP.

Budget revenues reached TL 76.4 quadrillion (US$ 50.7 billion), exceeding the initial target by TL 5.2 quadrillion (US$ 3.4 billion). With the gradually rising domestic demand, the Value Added Tax (VAT) collection rose by 9% in real terms. On the other hand, due to the low level of real wages, income tax collection remained 15% (y-o-y in real terms) below the previous year's level. The share of income taxes in total tax revenues plummeted to 32% from 40-45% levels observed during the previous few years. Non-tax

CONSOLIDATED BUDGET (JANUARY-DECEMBER, US$ BILLION)

	2001	2002	Chg. (%)	Real Chg. in TL terms (%)
Revenue	42.2	50.7	20.2	1.7
Tax Revenue	32.4	39.6	22.2	3.4
Non-Tax Revenue	9.8	11.1	13.5	(4.0)
Expenditure	65.4	76.6	17.1	(0.9)
Non-Interest	32.0	42.2	31.9	11.6
Personnel	12.4	15.4	24.2	5.1
Other Recurrent	4.2	5.2	24.5	5.4
Investment	3.4	4.6	35.6	14.8
Transfer	12.1	17.0	41.4	19.6
Interest Payments	33.4	34.4	3.0	(12.9)
Primary Balance	10.2	8.5	(16.6)	(29.4)
Budget Balance	(23.3)	(25.9)	11.5	(5.6)

Source: Ministry of Finance

TEB Branch in İzmir

A neo-classical construction incorporating Art Nouveau elements both in its interior and exterior aspects.

By the end of 2002, fixed rate debt securities represented only 25% of the total. In a positive outlook where inflation is edging down and interest rates are decreasing, the average cost of the debt stock is expected to show a substantial decline.

COMPONENTS OF OUTSTANDING DOMESTIC DEBT (US$ BILLION)

	1997	1998	1999	2000	2001	2002
Total	30.6	37.0	42.4	54.2	84.5	91.4
G-Bonds	17.4	18.4	36.4	51.2	70.6	68.8
T-Bills	11.6	18.6	6.0	3.1	13.8	22.6
CB Advance Payments	1.7	0	0	0.	0	0

Source: Treasury Undersecretariat

revenues have been substantial, following US$ 2 billion profit transfer to Treasury from the Central Bank.

On the expenditure side, total budgetary spending amounted to TL 115.5 quadrillion (US$ 76.6 billion), in excess of the annual budgetary allocation of TL 98.1 quadrillion (US$ 65.1 billion). Interest expenditure turned out to be 21% above the initial estimate, as both nominal and real interest rates remained relatively high against the rate of inflation which remained below the target. The cost of domestic borrowing remained high due to political unrest, following PM Ecevit's hospitalisation in May. The compounded average yield at the Treasury auctions reached 63% against 45% which compares with 30% y-o-y rise in CPI. Total interest payments in 2002 represented nearly 19% of GNP, amounting to almost 45% of total budgetary expenditure. In addition, there has been a large slippage in the transfers to the social security system. In real terms, non-interest expenditure increased by 12% compared to the previous year.

Government's primary surplus thus reached TL 12.8 quadrillion (US$ 8.5 billion), amounting to 4.5% of GNP, which compares with 7.1% the year before. The overall budget deficit amounted to TL 39.1 quadrillion (US$ 25.9 billion), up from TL 28.6 quadrillion (US$ 23.3 billion) in 2001. The budget deficit was well above the initial target of TL 26.9 quadrillion. Including the rest of the public sector, the primary surplus is likely to remain at 4.0% of GNP against the target of 6.5%.

In 2002, the domestic debt stock increased by TL 27.7 quadrillion (US$ 18.4 billion) to TL 149.9 quadrillion (US$ 91.4 billion). Notwithstanding the political distress, Treasury has been successful in borrowing from the market, keeping the market debt roll-over ratio as high as 103%. Meanwhile, Treasury continued to channel resources to the public sector in order to facilitate the restructuring of the banking sector. Through early redemptions, the non-cash debt stock was sized down.

Excluding the securities, which were issued to the Central Bank by the Treasury in return of the IMF loans,

BREAKDOWN OF THE DOMESTIC DEBT STOCK (TL QUADRILLION)

	End-2001	(%)	End-2002	(%)
Total	122.2	100	149.9	100
Public sector	80.6	66	79.1	53
CBRT	32.6	27	28.1	19
IMF loans	13.8	11	9.7	7
Other	18.8	15	18.4	12
State banks	22.7	19	24.3	16
SDIF banks	15.1	12	11.0	7
Other public	10.2	8	15.7	11
Market	41.6	34	70.8	47

Source: Treasury Undersecretariat

COMPOSITION DOMESTIC DEBT STOCK OF BY INSTRUMENTS (TL QUADRILLION)

	2001		2002	
	(TL quadrillion)	(%)	(TL quadrillion)	(%)
Total	122.2	100	149.9	100
Cash	58.4	48	89.3	60
Fixed Rate	17.7	15	37.6	25
Floating Rate	11.4	9	17.4	12
FX-denominated	7.1	6	16.5	11
FX-indexed	22.1	18	17.8	12
IMF credit	13.8	11	9.7	6
Swap	7.7	6	7.6	5
Other	0.5	0	0.5	0
Non-Cash	63.8	52	60.6	40
Fixed Rate	-	0	-	0
Floating Rate	49.5	41	46.7	31
FX-denominated	12.4	10	11.9	8
FX-indexed	1.9	2	2.0	1

Source: Treasury Undersecretariat

domestic debt stock amounted to TL 140.2 quadrillion (US$ 85.5 billion) at the end of 2002. Excluding the IMF credits, the outstanding market debt amounted to TL 79.6 quadrillion while its share in the total debt stock reached 53% compared to 36% at the end of 2001. The non-cash debt stock, on the other hand, declined from TL 63.8 quadrillion to TL 60.6 quadrillion in 2002.

By the end of 2002, fixed rate debt securities represented only 25% of the total. In a positive outlook where inflation is edging down and interest rates are decreasing, the average cost of the debt stock is expected to show a substantial decline. However, on the flip side, the structure of the debt portfolio with a large FRN share is likely to increase the vulnerability of the debt dynamics to external shocks.

In 2002, the floating exchange rate -the main policy tool- has been fully integrated into the system, acting as a shock absorber based on a self-tuning mechanism. The apparent stability in exchange rates coupled with weak domestic demand and growing confidence in the sustainability of the programme helped to combat inflation. Notwithstanding the political distress and the volatility in the exchange rates during the summer months, favourable seasonal effects backed the disinflation efforts. The newly independent Central Bank's transparent monetary policy and implementation had a considerable impact on inflationary expectations. The annual WPI inflation recorded 30.8%, CPI inflation remained at 29.7% against the revised target of 31% from the initial 35%. Throughout the year, the FX basket (US$ 1 + € 0.77) appreciated by 22% against the Turkish lira.

ANNUAL INFLATION (%)

	1997	1998	1999	2000	2001	2002
Wholesale	91.0	54.3	62.9	32.7	88.6	30.8
Consumer	99.1	69.7	68.8	39.0	68.5	29.7

Source: State Institute of Statistics (SIS)

In accordance with the new economic programme, Central Bank conducted implicit inflation targeting, focusing on future inflation with a view to achieving price stability.

CENTRAL BANK BALANCE SHEET: SELECTED ITEMS (US$ BILLION)

	Dec 01	Mar 02	Jun 02	Sep 02	Dec 02
Foreign Assets	23.8	25.0	26.9	29.5	30.7
Domestic Assets	17.8	15.4	14.5	14.3	14.4
Foreign Exchange Liabilities	34.8	28.5	29.7	32.4	32.9
Central Bank Money	6.8	11.9	11.7	11.4	12.2
Reserve Money	5.5	6.5	5.7	6.2	6.5
Liabilities from OMO	0.8	4.7	5.4	4.3	5.2
Foreign Exchange Position	(11.0)	(3.5)	(2.8)	(3.0)	(2.2)
Net Domestic Assets	15.5	17.8	18.4	19.9	19.5

Source: Central Bank of the Republic of Turkey

In accordance with the new economic programme, Central Bank conducted implicit inflation targeting, focusing on future inflation with a view to achieving price stability. Targets identified for the main monetary aggregates, i.e. Base Money, Net International Reserves and Net Domestic Assets were comfortably reached at the end of the year. Base Money amounted to TL 10.7 quadrillion at the end of December, remaining below the targeted ceiling level and increasing by 37% in nominal terms.

Net International Reserves, specified in the programme, amounted to US$ (4.6) billion, exceeding the performance criterion floor of US$ (9.7) billion. Net Domestic Assets of the Central Bank and Treasury, combined, recorded TL 28.6 quadrillion at the year-end, remaining below the indicative ceiling value of TL 33.1 quadrillion.

M2YR, the broad money supply including foreign exchange deposits and repo agreements, which remained stagnant in 2001, slightly narrowed by 1.8% in real terms during 2002. Foreign exchange denominated deposits increased by 9% in US$ terms, reaching US$ 44.3 billion. On the other hand, in the face of exchange rate risk, the repo volume declined further by 24% in real terms on top of the 73% real drop in 2001. Turkish lira deposits showed little change, dropping slightly by 2.5% y-o-y.

Given the fragility of the banking system, and the slow recovery in the business climate, lending continued to shrink. FX loans declined by US$ 0.7 billion to US$ 8.8 billion, while Turkish lira credits dropped by 23% in real terms. As a result, loans-to-deposits ratio deteriorated, dropping to 25% at the end of 2002, which compares with 31% at year-end 2001, and 47% at year-end 2000.

MONETARY AGGREGATES (US$ BILLION)

	Dec 01	Mar 02	Jun 02	Sep 02	Dec 02
Currency in Circulation	3.3	3.7	3.7	3.9	4.4
M1	7.7	8.6	8.2	8.3	8.7
M2	32.6	37.5	34.0	33.9	37.5
Repo Transactions	1.9	2.7	2.4	2.1	1.7
Foreign Currency Deposits	40.8	40.3	40.9	42.4	44.3
M2YR	74.3	80.0	75.9	78.1	83.4

Source: Central Bank of the Republic of Turkey

BANK DEPOSITS AND LOANS (US$ BILLION)

	Dec 01	Mar 02	Jun 02	Sep 02	Dec 02
TL Deposits *	31.2	35.3	31.6	31.5	34.5
FX Deposits *	40.8	40.3	40.9	42.4	44.3
Loans by Deposit Banks	21.7	23.1	19.5	18.4	19.5

** of residents (excl. banks)*
Source: Central Bank of the Republic of Turkey

On the external front, the foreign trade deficit widened to US$ 15.8 billion from US$ 10.1 billion in the previous year.

With the improved programme credibility, expectations rose and the Turkish lira appreciated in the first quarter of 2002. Under the floating exchange rate system, the foreign exchange basket (US$ 1 + € 0.77) depreciated by 12% against the Turkish lira, compared to the previous quarter. Later in the year, political uncertainties caused volatility in the FX markets and weakened the Turkish lira. Domestic currency regained strength after the elections, as the political uncertainties faded out. In 2002, the average real effective exchange rate (Central Bank, WPI-based) appreciated by 18% y-o-y, remaining 8% above the average level in 1999.

In the first quarter, exporters successfully resisted the distortions due to the appreciating Turkish lira, realising the orders received earlier on in late 2001. Facing insufficient domestic demand, Turkish industries strengthened further their positions in overseas markets. As a result of this effort, export revenues amounted to US$ 35.1 billion, up 12% y-o-y, despite the relatively poor global economic conditions.

Imports increased by 23% to reach US$ 50.8 billion from US$ 41.4 billion the year before. Following the severe slump in 2001, imports remained sluggish in early 2002 due to weak consumption spending, before picking up later on the back of demand from the manufacturing sector. Revival in imports mainly stemmed from exporters' intermediate goods import demand, and stock building. The former rose by 23% y-o-y to US$ 36.9 billion, representing 73% of the total. As a result of the slight increase in volume, the total crude oil bill was up 5% to reach US$ 4.1 billion. Consumption goods imports, on the other hand, amounted to US$ 5.0 billion which compares with US$ 4.1 billion in 2001, and US$ 7.3 billion in 2000.

Consequently, the export/import ratio deteriorated, and was down to 69% from 76% in 2001, though still favourable compared to 51% in 2000. In 2002, exports to European Union countries rose by 12%, while the appreciation of euro against the US dollar by almost 18%

FOREIGN TRADE (US$ BILLION)

	1996	1997	1998	1999	2000	2001	2002
Exports	23.2	26.3	27.0	26.6	27.8	31.3	35.1
Imports	43.6	48.6	45.9	40.7	54.5	41.4	50.8
Exports/Imports (%)	53.2	54.1	58.7	65.4	51.0	75.7	69.0
Trade Balance	(20.4)	(22.3)	(18.9)	(14.1)	(26.7)	(10.1)	(15.8)

Source: State Institute of Statistics (SIS)

Export revenues amounted to US$ 35.1 billion, up 12% y-o-y, despite the relatively poor global economic conditions.

FOREIGN TRADE BY DESTINATION (JANUARY-DECEMBER, US$ BILLION)

	Exports		Imports	
	2002	2001	2002	2001
OECD Countries	23.0	20.6	32.6	26.0
EU	18.1	16.1	23.1	18.3
EFTA	0.4	0.3	2.4	1.5
Other OECD	4.5	4.2	7.0	6.2
Non-OECD Countries	10.7	9.8	17.7	15.1
European	3.4	2.7	6.3	5.3
African	1.6	1.5	2.6	2.8
American	0.2	0.3	0.6	0.4
Middle Eastern	3.4	3.6	3.6	3.3
Other Asian	1.8	1.5	4.3	3.0
Other	0.2	0.2	0.3	0.2
Turkish Free Trade Zones	1.4	0.9	0.6	0.3
Total	35.1	31.3	50.8	41.4

Source: State Institute of Statistics (SIS)

contributed positively to the export revenue. Among the major trading partners, the Russian market expanded the most, exports rising by 26% y-o-y.

In 2001, the sharp drop in imports, in line with economic contraction, coupled with exports and tourism revenues benefiting from the Turkish lira's devaluation, the current account yielded US$ 3.4 billion surplus, equal to 2.3% of GNP. In 2002, however, the moderate expansion in the trade deficit and the weak inflow of workers' remittances had a somewhat adverse impact on the current account balance. In the first eleven months of the year, the current account balance revealed US$ 182 million surplus.

On the services side, tourism revenues totalled US$ 8.2 billion at the end of November. The number of tourist arrivals increased by 14% y-o-y, bringing the total number to 13.2 million, well above the initial annual target of 12 million. Accordingly, net tourism revenues grew by 4% y-o-y in the first eleven months and recorded US$ 6.5 billion, compared to US$ 6.2 billion during the same period a year ago. However, total net income from other services -such as construction, transportation, other businesses and transport and freight- equalled to US$ 1.1 billion, thus remaining far below the previous year's figure of US$ 2.6 billion. Unfavourable global economic conditions played a significant role in the deterioration of the services income. Current transfers, mainly reflecting workers' remittances, declined by 7% y-o-y due to fears of political instability. Interest payments recorded under "investments balance" were, however, comparatively smaller in 2002, thus having a favourable effect on the current account balance.

In the year 2001, deterioration in the level of market confidence caused a capital flight of US$ 16 billion including the unrecorded outflow of US$ 2 billion. In 2002, improved market sentiment helped significantly to restore the capital account balance.

Foreign direct investments amounted to US$ 476 million, with a significant portion of the total reflecting UniCredito's payment for the acquisition of shares in the financial services partnership between the Koç Group and UniCredito. In 2001, foreign direct investments have been quite sturdy, covering the licence fee of GSM-1800

BALANCE OF PAYMENTS (JANUARY-NOVEMBER, US$ MILLION)

	2002 (a)	2001 (b)	Chg (a-b) (%)
Current Account	182	3,606	(95.0)
Exports (FOB)	31,793	28,682	10.8
Trunk trade	3,736	2,830	32.0
Imports (FOB)	(42,068)	(35,681)	17.9
Foreign trade balance	(6,539)	(4,169)	56.8
Balance of services	7,590	8,825	(14.0)
Transport and freight (net)	826	770	7.3
Tourism (net)	6,455	6,209	4.0
Construction serv. (net)	758	601	26.1
Other business serv. (net)	(82)	1,576	n/m
Financial and other serv. (net)	(367)	(331)	10.9
Investments balance (net)	(4,124)	(4,539)	(9.1)
Current transfers (net)	3,255	3,489	(6.7)
Capital Account	1,597	12,506	(87.2)
Direct Investment	476	2,760	(82.8)
Portfolio Investment	(826)	(4,538)	(81.8)
Long-term Capital	2,264	(918)	n/m
Short-term Capital	(317)	(9,810)	(96.8)
Net Errors & Omissions	(2,098)	(3,640)	(42.4)
Overall balance	(319)	(12,540)	(97.5)
IMF loans	6,365	8,258	(22.9)
Change in official reserves	6,046	4,282	41.2

Source: Central Bank of the Republic of Turkey

by the İşbank-Telecom Italia consortium, as well as the sale of Demirbank to HSBC. Seen in a historical perspective, foreign direct investments have been fairly modest, averaging US$ 474 million during the 1994-2000 period.

Treasury started the year 2002 with successful external borrowing operations. However, during the political distress in the summer months, Treasury's external borrowing activity came to a standstill. Market sentiment started to recover as early general elections came into the picture, and subsequently, Treasury accelerated bond issues in foreign capital markets. Indeed, Treasury raised US$ 3.3 billion through Global and Eurobond issues, thus exceeding the US$ 2.1 billion mark achieved in 2001, but remaining far below the US$ 7.5 billion level realised in 2000. Government's external borrowings through bond issues exceeded repayments of the same type. However, due to foreign investor bond sales, "portfolio investments" resulted in an outflow of US$ 826 million by the end of November 2002.

As the Government remained committed to the economic programme and continued the structural reforms, the long-term borrowing ability of the financial and non-financial sectors improved in 2002. Long-term capital inflow reached US$ 2.3 billion. Meanwhile, short-term capital outflow remained fairly limited, amounting to US$ 317 million.

On the whole, with US$ 1.6 billion capital inflow and a considerable volume of unregistered outflow estimated at US$ 2.1 billion, under the net errors and omissions item, the overall balance posted US$ 319 million of capital outflow.

Notwithstanding this situation, foreign exchange reserves increased by US$ 6.05 billion in the January-November 2002 period, as a result of the IMF loan worth US$ 6.36 billion. During the first nine months of the year, Turkey's outstanding external debt increased by US$ 12.3 billion and equalled to US$ 127.5 billion. US$ 1 billion of the increase in the debt stock stemmed from the "parity

Turkish economy ended 2002 with a fairly positive performance record where annual inflation stood at around 30%, and economic growth rate is estimated to have reached 6.5%, well above the initially targeted 3%.

OUTSTANDING EXTERNAL DEBT (US$ MILLION)

	1997	1998	1999	2000	2001	3Q02
Total	84,268	96,408	102,980	119,692	115,186	127,477
Medium and Long-term	66,577	75,634	80,059	91,391	98,945	113,406
Public Sector	49,765	51,954	52,692	62,238	70,030	82,068
Private Sector	16,812	23,680	27,367	29,153	28,915	31,338
Short-term	17,691	20,774	22,921	28,301	16,241	14,071

Source: Treasury Undersecretariat

effect", as the appreciation of euro against the US dollar amplified the US dollar equivalent of the euro denominated debt.

The medium to long-term gross external debt stock amounted to US$ 113.4 billion with US$ 14.5 billion increase over the first nine months of 2002, representing 90% of the total. The debt of the public sector increased by US$ 12 billion compared to the previous year. The main reason for this rise was the lending received from IMF. Indeed, IMF released US$ 12.4 billion worth of loans to Treasury in 2002. In return, the Central Bank made US$ 6.1 billion worth of repayments to the IMF. IMF loans, therefore, led to nearly US$ 6.3 billion net increase in the public sector debt stock. By the end of September 2002, total IMF loans amounted to US$ 19.4 billion. Treasury's external borrowing through bond issues in international capital markets resulted in US$ 1.7 billion net increase in the central government debt stock during the first nine months of 2002. Meanwhile, public sector borrowings from the international institutions other than IMF, bilateral lenders and commercial banks increased by US$ 1 billion. The private sector medium to long-term debt stock increased by US$ 2.4 billion compared to year-end 2001, and reached US$ 31.4 billion in September 2002, as the non-financial sector took advantage of the improved financing opportunities.

Meanwhile, short-term debt stock declined by US$ 2.2 billion, as the banking sector continued to reduce its short-term short FX positions. As of end-September 2002, short-term debt represented 11% of the total stock, against 14% the year before and 24% at the end of 2000. Short-term debt stock narrowed to US$ 14.1 billion at the end of September 2002. At the same time, commercial banks' share in short-term debt sized down to US$ 16.9 billion in 2000, to US$ 8.0 billion in 2001, and finally to US$ 5.7 billion at the end of the third quarter in 2002.

Turkish economy ended 2002 with a fairly positive performance record where annual inflation stood at around 30%, and economic growth rate is estimated to have reached 6.5%, well above the initially targeted 3%. However, the economy is still fairly fragile with hefty public debt and persisting high real interest rates. Under the IMF agreement, Turkey is committed to achieving a high public sector primary surplus equal to 6.5% of GNP in 2003. In order to fulfil this rigorous budget target, Government has to maintain austere fiscal measures. External risks, particularly with regard to Iraq have already taken their toll by raising the risk premium on the interest rates, adversely affecting the delicate debt dynamics. The outcome of the Iraqi operation, and the degree of adherence to the IMF stand-by programme will inevitably shape the economic background and the market sentiment in 2003.

Cappadocia, Central Anatolia

A unique landscape formed by winds shaping the soft sandstone hills.

The Corporate Banking Division is striving to offer more and more sophisticated services and products. In a fast changing market environment, it tailors solutions to meet even the most complicated financial requirements of its corporate clients.

Overview of Activities in 2002

Corporate Banking

TEB's services, geared to the corporate world, are grouped in two Divisions: the Corporate Banking Division and the Commercial Banking Division. This functional separation of duties aims at increasing TEB's market effectiveness in different segments of the corporate world, while it provides faster and more efficient services to meet differing needs.

The Corporate Banking Division provides services to relatively larger companies and multinational corporations, offering them a full range of sophisticated banking products. Operating with eight corporate branches in 1999, time of its inception, the Division now has ten branches, having responded to clients' demands.

The Corporate Banking Division is striving to offer more and more sophisticated services and products. In a fast changing market environment, it tailors solutions to meet even the most complicated financial requirements of its corporate clients. TEB, operating more like a business partner, facilitates clients' cash flows by utilising innovative cash management services.

Other corporate banking services and products made available by the Corporate Banking Division include foreign trade transactions, electronic banking, project finance, leasing and factoring - utilising the most up-to-date methods. One of TEB's major advantages is its expertise in import and export transactions; it is continuously strengthening its market position within the corporate segment dealing with foreign trade.

In an effort to expand its market penetration among foreign companies, TEB has recently established a Foreign Companies Division. This Division will pursue active marketing practices in this segment of corporate banking.

In the years ahead, TEB's target is to differentiate itself from the competition with relationship management schemes, operational efficiency, and electronic banking platforms. It plans to be the "first choice" of large-scale and multinational corporations in Turkey.

Commercial Banking

Targeting a broader client base, TEB designed its business policies on the basis of economic developments in 2002. In a highly competitive market, the strategy is to increase the number of commercial clients, particularly in the manufacturing sector.

There is a complete range of commercial banking products and services at TEB, which are designed to meet the clients' entire banking requirements from loans and cash management to investment. The Bank's comprehensive approach contributes to the maximisation of the clients' cash flow and business assets, thus streamlining the financial management process. By providing financial consultancy services, TEB guides commercial clients in their move from general mass-market financial products to services, which are focused to their needs.

TEB continued to pursue active marketing policies in 2002. Increased market penetration based on personal contact with clients, which is a major component of commercial banking, was achieved by adding new commercial branches to the existing network, which totalled 55 at year-end. In this context, some branches were shifted to more strategic locations in order to enhance TEB's competitive advantage.

The backbone of TEB's commercial banking activities was restructured in 2002. It included the continuation of a high quality client portfolio, production of custom-made solutions to better address specific business segment requirements, and the implementation of new cash management practices. Efficiency was given particular attention while marketing plans and strategies were geared toward concurrently attaining a balance between profitability for the Bank, on the one hand, and client satisfaction, on the other.

The synergy, which exists between the Commercial Banking Division, Corporate Banking Division, and the Cash Management Unit continued to grow in 2002, and led to positive results mainly through sound cooperation between commercial and corporate branches in the promotion of new cash management services.

Close relationship between TEB and the Group companies, i.e. TEB Insurance, TEB Leasing and TEB Factoring, continued in 2002 whereby these financial service companies effectively responded to the needs of the commercial banking clients with services other than conventional banking products.

Cash Management Services

By further improving its service and product portfolio offered under cash management services, TEB has maintained its lead and pioneering position in the corporate market. Advantages and opportunities have been created due to TEB's ability to develop client-oriented cash management solutions and long-term multi-faceted relationships have been established with broad-based corporate clientele.

In a marketplace characterised by volatility and intense competition, traditional banking practices need to be complemented by high value-added and technology-driven services. Cash management services at TEB are highly dependent on its IT infrastructure as well as the Bank's organisational capabilities. Cash management services help corporate and commercial clients to manage their time and resources more effectively by organising collections and payments. Such services ease accounting, follow-up and collection burdens for companies that sell through a wide network of distributors or regional offices and help them plan their cash flow. TEB offers cash management services along with regular banking transactions through the TEB Access System, an on-line real-time electronic service platform available to corporate clientele. By the end of 2002, the number of clients utilising this platform increased by 241% over the previous year, now totalling 4,547 companies served by TEB's Commercial and Corporate Banking Divisions.

TEB continued to arrange legal and utility payments of companies, an important funding source in the form of call deposits.

TEB introduced Continuous Cheques, Direct Debiting, Cheque Automation, Complete Payment and Reconciliation Systems to more than 300 companies in 2002. These systems, specifically developed by TEB, greatly facilitate routine payments, collection and reconciliation processes of companies with their parametric structures. During the year, TEB maintained its position as the Bank with the largest number of clients making use of this product line.

Bank cheques are the most preferred payment instruments in Turkey. TEB's cheque clearing volume, supported by other cash management products, has a market share of 4.2%, ranking tenth among private banks.

TEB continued to arrange legal and utility payments of companies, an important funding source in the form of call deposits. Through intense marketing activities, branch offices substantially increased the volume of utility collections by 100% through off-line and/or on-line collection systems. This performance placed TEB among the top ten within the banking industry.

Structured Finance

The Structured Finance Division provides tailor-made advisory, corporate finance and international capital market services including syndicated loans, international capital market issues, project finance, commodity finance and structured trade finance transactions for the Bank and its corporate clients.

2002 has been another year of success for the Bank's international borrowing. TEB was one of the seven banks able to obtain financing from international syndicated loan markets, demonstrating the high level of trust within the international banking community for the Bank. The deal was heavily oversubscribed, but TEB only raised US$ 100 million as planned at the beginning, and has been the only Turkish bank having requested a considerable scale-back from the syndication participants.

In addition to the syndicated loan facility in 2002, TEB obtained a subordinated convertible loan facility from IFC – a first in the Turkish financial sector. The subordinated convertible loan is part of the A-B-C facility the Bank secured from the IFC. A-Loan is a five-year, US$ 20 million facility that will provide investment and trade finance opportunities to the Bank's clients, C-Loan is a seven-year, US$ 15 million subordinated convertible facility and B-Loan, which has not yet been utilised, is a commercial loan facility up to US$ 50 million, which may be raised from international money markets at the Bank's request.

In 2002, the Structured Finance Division expanded its commodity finance activities geared to the traditional agro export products of the country, and maintained its market lead in tobacco financing. TEB provided approximately US$ 120 million of self-liquidating export finance facilities to producers, obtained through syndicated loans from international banks. Other loan facilities were obtained from international banks, where TEB acted as an agent.

Retail Banking

TEB consolidated its success with a wide range of products and services in retail banking in 2002. Addressing the needs of target clients, the Retail Banking Division at TEB developed new products and services while improving the scope and quality of the existing ones, in order to achieve wider utilisation.

Credit and Debit Cards

TEB targeted low risk clients and aimed to position its credit cards as the first choice of clients. The marketing strategy was geared to increasing the volume of spending made by TEB credit cards while raising client loyalty.

TEB credit and debit cards were renewed with a new concept in 2002. TEB enlarged its product range by launching Maestro Debit Cards. Instalment schemes for credit card payments started in 2002 and payments were enabled through the Call Centre and the Internet Branch. The Virtual Credit Card, which provides secure shopping via the Internet was re-designed and re-launched. Offering discounts of up to 30% on purchases to TEB credit cardholders, members of the TEB Discount Club reached hundreds of member merchants.

Credit cardholders accumulated Free Points on their credit card transactions and were able to redeem these points by choosing various gifts from the Free Shop Gift Catalogue or by buying certificates of TEB's B-Type Liquid Mutual Funds.

Reaching 1,000 member merchants, total spending made by TEB credit cards increased by 45% in 2002.

Consumer Credits

Despite the difficult economic conditions, no major problems were encountered in consumer credits allocated with favourable interest rates during the year, due in part to the careful credit evaluation process to which TEB adheres. In 2002, consumer credits made up 1.26% of the total credit portfolio.

Maiden's Tower in Istanbul (Tower of Leander)

As the legends goes, the Maiden's Tower was built on a small island at the entrance of the Bosphorus.

Alternative Distribution Channels

TEB offers a number of retail banking services via its Internet Branch, Call Centre and ATMs, which serve as alternatives to the branches. TEB's alternative delivery channels are positioned to be market leaders within their respective segments in terms of customer-oriented services that are made available. In 2002, TEB became the first and only bank in Turkey which allows US dollar withdrawals from its ATMs. Due to newly integrated services and improvements on the current distribution infrastructure in 2002, new client acquisition and cross selling of products showed an impressive increase. In 2003, with the help of new client acquisition and promotional campaigns, increases of over 100% have been targeted.

Investment Advisory

In the establishment and management of mutual funds, TEB abides by principles purposefully designed to meet expectations of both individual and institutional investors. Making use of the Savings Evaluation Service, TEB clients can invest their savings by choosing TEB mutual funds, or alternatively, they may choose to go through the Risk Profile Evaluation Survey to determine their risk-return profiles. In 2002, the launch of new products and services widened TEB's mutual funds client base by 91%.

Mutual Funds

Asset management has always been an area of substantial significance at TEB. The Bank has been a pioneer with regard to the introduction of new products to the mutual fund business. Key elements in TEB's mutual fund strategy have been the diversification of distribution channels coupled with the extension of the client base.

Since the launch of its first mutual fund in 1993, TEB has become one of the leading mutual fund management institutions in Turkey. TEB and its investment-banking arm, TEB Investment, currently offer nine open-end mutual funds, of which seven are publicly traded and two are dedicated to institutional clients. The Bank is the founder of five funds and TEB Investment created the remaining four. The management of these funds is subcontracted to TEB Asset Management.

In 2002, along the lines dictated by its growth strategy, TEB continued to strengthen its position in the market by offering mutual funds from all of its alternative distribution channels and launching mutual fund-related new products and services. TEB will continue to expand its share in the funds market in 2003, by providing individual and institutional clients mutual funds, which best cater to their financial requirements, and risk-return profiles. In addition to alternative delivery channels, Citibank is another distribution channel for TEB mutual funds.

In 2002, along the lines dictated by its growth strategy, TEB continued to strengthen its position in the market by offering mutual funds from all of its alternative distribution channels and launching mutual fund-related new products and services.

PERFORMANCE OF TEB MUTUAL FUNDS

Type of Fund	2002 Price Appreciation (in % US$)	2002 Year-end Net Asset Value (US$ million)	2001 Price Appreciation (in % US$)	2001 Year-end Net Asset Value (US$ million)
A Type Variable	7.02%	10.6	(8.23)%	16.5
B Type Liquid	29.90%	155.0	3.0%	38.8
A Type Variable Composite	11.64%	3.3	(0.46)%	3.2

Following the high rate of devaluation of Turkish lira against US dollar in the course of 2001, assets of TEB mutual funds dropped to US$ 103 million (including private funds) at the end of the year. However, by the end of 2002, total assets under management reached US$ 205 million (including private funds).

Although the economic crisis continued into 2002, all TEB mutual funds generated returns above the ongoing market average, while six funds were among the top ten most successful mutual funds in the market in terms of yield.

In 2003, TEB will start selling four of ABN Amro Bank's mutual funds aiming to extend its market share by offering mutual funds of other financial institutions. This will allow TEB clients to choose from a wider range of products, and to enjoy the opportunity of accessing international funds that best match their risk profile.

Private Banking

TEB has been a pioneer in initiating private banking services in Turkey in the 1980s, and was the first to offer such services through branch offices dedicated to this purpose.

In a bid to optimise service quality, thereby satisfying the banking needs of its clients, TEB completed the restructuring of its Private Banking Division in 2002. In coordination with the expansion of TEB's branch network, the previously decentralised private banking services at TEB have now been gathered under one roof, which is the Private Banking Centre. In order to widen the geographic coverage and thus make the private banking services available nation-wide, TEB's private bankers work in close collaboration with all TEB branches around the country.

TEB offers a complete range of financial services to meet the short, medium and long-term needs of its private banking clientele through the convenience and experience of long-term relationships. TEB's classical private banking practices concentrate on the requirements and expectations of its valued clients. The private banking team focuses on direct personalised contacts, applies client risk evaluation processes, analyses and defines personal preferences and tailors solutions matching overall objectives.

Strong market penetration in this field has always been a major target in TEB private banking strategy. The targeted private banking clientele are owners,

Amsterdam

Amsterdam is a handsome city intersected by hundreds of canals - the Venice of the north.

The philosophy of private banking at TEB is a combination of personalised service, trust, confidentiality, continuity, expertise, and productivity.

shareholders and executives of companies covered within TEB's corporate or commercial banking activities. Therefore, TEB's strong market positioning and reputable brand name are significant elements attracting private banking clients, and enhancing TEB's private banking franchise.

The philosophy of private banking at TEB is a combination of personalised service, trust, confidentiality, continuity, expertise, and productivity. It is based on advice regarding asset allocation, which reflects the client's risk/return profile; on long-term relations with clients and their families; and on generating added value through service quality and right judgement.

TEB Private Banking constantly fine-tunes its product range. The products and model investment portfolios designed by the Asset Allocation Committee are constantly monitored and adapted to market conditions evaluating the economic, political, and global environment. Model investment portfolios are regularly reviewed and reshaped following routine meetings. Clients receive a summary on the economic outlook and investment opportunities on which to base their evaluation when deciding on their own investments.

The modelling of investment selections draws an overall investment strategy but it is moulded to suit the clients' individual demands and needs. The preferred degree of risk, the proportion required in liquid assets, expected returns, cash flow as well as the investment time frame are unique preferences, and distinguishing features of clients.

In 2002, TEB invested in a client reporting system which has now made it possible to produce comprehensive statements including vital information to ensure that TEB meets the expectations of its most demanding clients. Portfolio statements include updated value of assets with all relevant transactions clearly documented, the reasons behind the change in value, the switching of funds between investment instruments, the breakdown by type of instruments, currency and maturity. TEB's private banking team believes protecting asset value depends on exact performance measurement, accompanied by a coherent performance reporting system.

Treasury

2002 will be remembered as a year when new heights were reached and new accomplishments were achieved at TEB's Treasury Division. Combining the Division's success in treasury operations with the Bank's excellent relationship with its correspondent banks, TEB was able to boost its foreign trade transactions in the Turkish market, increasing the share of its FX trading volume in the local market to unprecedented levels. Despite the Turkish market's lack of experience with the floating currency regime, the know-how of TEB staff in the FX market was one of the main reasons that the Bank's share of Turkish foreign trade FX transactions reached 5.5% of the national total. Thanks to its competitive pricing strategy, coupled with its fairly conservative risk perception, the Treasury Division was voted 'The Third Best Bank Treasury' in the Turkish FX market in 2002, a year marked by political volatility and economic hardship.

The Treasury Division strengthened its already robust standing, not only in FX markets, but also in money market operations. In 2002, TEB became one of the founding member banks of the newly established TRLIBOR, the money market reference rate.

In 2002, TEB was able to attract many new T-bill and Eurobond customers as a result of the flight to quality. Especially in the Eurobond market, TEB provided customers with a variety of choices and very competitive prices, thus introducing this very lucrative market to its clients. As usual, TEB was one of a handful of banks in Turkey that continued to be active in the T-bill and Bonds market; consequently, TEB's trading volume in this market was well over TL 9 quadrillion, representing 2.8% market share.

In addition to furthering its penetration into national and multinational companies, the Treasury Marketing Unit (TMU) has been able to include potential commercial banking customers in its active client portfolio in tandem with the enhancement of the Bank's commercial banking strategy. Due to the uncertainty in exchange rates arising from the nature of the floating exchange rate regime, the TMU has informed its clients of the probable risks, which companies involved in foreign trade are likely to incur, and has presented them with hedging tools to better manage such risks. To this end, TMU has encouraged its customers to execute forward transactions, which in turn, raised the Bank's forward transaction volume. With its capacity to offer structured and tailor-made solutions to match the client's specific requirements, TMU has been strengthening its position by applying client risk management services to scrutinise and observe risks related to domestic clients' balance sheets.

International

Trade finance has traditionally been a core business activity of TEB. The upward trend in the Bank's share in international trade continued in 2002, as a result of the strong position the Bank enjoys both in the local and international markets. This rising trend is also a reflection of corporate clients' appreciation of the service quality of TEB in trade finance, which is directly associated with its international credibility and excellent reputation.

Due to its highly liquid position, TEB's need for international borrowing remained limited in 2002, although it enjoyed large cash credit lines from international financial institutions. In October, in line with its policy to support Turkish exporters, the Bank decided to go to the international loan market for a syndicated facility for US$ 70 million. Following an over-subscription, TEB preferred to scale down the loan to US$ 100 million in line with its 2003 projections.

In 2002, TEB continued to respond to clients' requirements for medium-term import financing under the Export Credit Agencies' (ECAs) cover. Demand for such products continued throughout 2002, and the Bank intermediated many new ECA transactions either as a guarantor or direct borrower.

In addition to furthering its penetration into national and multinational companies, the Treasury Marketing Unit (TMU) has been able to include potential commercial banking customers in its active client portfolio in tandem with the enhancement of TEB's commercial banking strategy.

TEB has always been successful in sustaining its credibility at a high level even under difficult economic conditions, and stands ready to serve its clients in their international trade activities.

Investor Relations

Since going public in February 2000, the Bank has been pursuing a new, and more marketing-oriented approach to investor relations. In this context, the Bank participated in the first non-deal road show in September 2002. During the road show, existing and potential institutional investor clients in London, Paris, New York, Connecticut and Boston were visited and given extensive information regarding developments at the Bank.

Also during the year, TEB found the opportunity to meet with its international shareholders by participating in two investor forums held in London, and arranged by London-based brokerage houses.

Another initiative by the Investor Relations Division was the arrangement of periodic conference calls to investors to inform them about financial developments in the Bank's balance sheet. The first conference call took place in October, following the announcement of the third quarter results.

The Division's mailing list and Internet site were thoroughly updated in 2002.

Operations

The scope of the Centralised Operations Department (TEBOPS) has grown further in 2002 encompassing additional operational processes conducted by the branches. TEBOPS, established in May 2000, gathers all branch credit, international and client operations under one roof and enables transactions to be conducted by experienced and specialised staff.

Year 2002 activities of TEBOPS will be summarised under the three headings below:

- Credits Module under the Centralised Operations Project
- New Teller Concept Project
- Restructuring of Branch Operations

Credits Module under the Centralised Operations Project

The entire credit process infrastructure made up of allocation and follow-up phases has been changed and structured on a platform where all applications are controlled by the system through a limit-risk-collateral equation. By August 2002, all infrastructure enhancement work was completed and all credit operations were transferred to this new infrastructure within a transition plan.

New Teller Concept Project

This project has been developed to change the profile of TEB tellers - the initial contact point for the client. Utilising a more personal approach, tellers have been

The Pearl Monument in Bahrain

A beautiful tower topped by a pearl now dominates the skyline of modern Bahrain, a commercial centre in the Persian Gulf.

In addition to regulatory requirements, TEB adopted an internal risk management system to assist its own decision-making processes. Prior to the implementation of this system, an extensive background study had been conducted to collect trading book and market data.

trained to direct customers to other services within the Bank, if necessary, and cross-sell other banking products in addition to routine conduct of transactions.

Within the scope of the project, organisational changes have been made, new hardware installed, existing systems improved and ergonomics of the workspace redesigned. These changes have been applied in a modular format; results of this project are expected during 2003.

Restructuring of Branch Operations

The purpose of this project was to adapt branch operations to the new workflow that came about following centralisation. Within the scope of this project, branches were grouped according to their workload. Two new job positions were created based on new operational requirements; operational risk was reduced, while at the same time, substantial workflow efficiency was attained.

Risk Management

The Internal Control and Risk Management Group was established in 2001 to work alongside the Board of Internal Auditors, as part of the Bank's risk management and internal control systems structure.

The Risk Management Group is responsible for:

- Analysing, identifying, measuring, monitoring, reporting and controlling risk,

- Establishing and applying risk management policies, guidelines and rules in conformity with the principles set forth by the top management and approved by the Board of Directors.

As part of its mission statement, TEB seeks controlled growth in line with overall economic trends, a capital adequacy ratio exceeding the industry average, prudent credit allocation policies, high asset quality as well as high liquidity levels. TEB aims to maintain its strong financial position, coupled with an adequate return on capital, in parallel with the ongoing macro-economic developments.

The ultimate goal of risk management is to safeguard TEB's assets by striking the right balance between risk and return, in compliance with the Bank's goals and strategies.

Internal Control, Market Risk, Credit Risk and Operational Risk Departments are independent units, each one reporting to the executive board member responsible for internal control and risk management.

Market Risk

Market risk refers to the risk of loss resulting from volatility in interest rates, exchange rates, equity prices, and commodity prices that arise from the Bank's trading, investment and funding activities.

During 2002, the Market Risk Department measured interest and foreign exchange risk arising from the positions held by the Bank on and off the balance sheet using standard methods, and prepared legal and in-house reports.

In addition to regulatory requirements, TEB adopted an internal risk management system to assist its own decision-making processes. Prior to the implementation of this system, an extensive background study had been conducted to collect trading book and market data. All relevant data are being updated on a daily basis.

Standard methods, as well as other tools, are used to measure and manage market risk exposures. Value-at-Risk (VaR) methods -Historical Simulation, Monte Carlo and VarCovar- are applied to estimate the potential loss arising from portfolios with predetermined probability and holding period, using market movements.

Credit Risk

Credit risk is the potential for loss when a client or counter-party fails to meet its repayment obligations to the Bank. The Credit Allocation and Risk Monitoring Department adheres to the Bank's traditionally prudent credit allocation and review policies whereby all credit clients are assigned internal ratings. Parallel to the Basel Committee Capital Accord II, studies are continuing to determine the risk weighting of assets based on the probability of default and to improve the current internal rating system.

Counter-party limits are reviewed periodically by the Credit Allocation Committee and exposures of the Bank and that of its subsidiaries are monitored daily by the Credit Risk Department.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic, reputation and systemic risks.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

TEB's first objective is to achieve qualitative standards of the Basel Committee, by applying policy and procedures, ensuring the strict observance of internal code of conduct and also developing internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning and disaster recovery and also incident management are the main areas of concern with regard to operational risk mitigation controls.

Internal Control

TEB sees its internal control policies and mechanisms as an integrated process to which all Bank staff, from the members of the Board of Directors to all levels of management, should actively participate. The role and

In 2002, the Internal Control Centre focused on devising and implementing measures and procedures that are geared to minimising losses that might arise from counter-party, credit, market, legal and operational risks.

contribution of every TEB employee in the internal control systems of the Bank has been clearly defined.

In 2002, the Internal Control Centre focused on devising and implementing measures and procedures that are geared to minimising losses that might arise from counter-party, credit, market, legal and operational risks.

Another major undertaking during 2002 was the updating of the Bank's existing control mechanisms to identify and block money laundering and terror-financing activities in compliance with international rules and regulations.

Human Resources

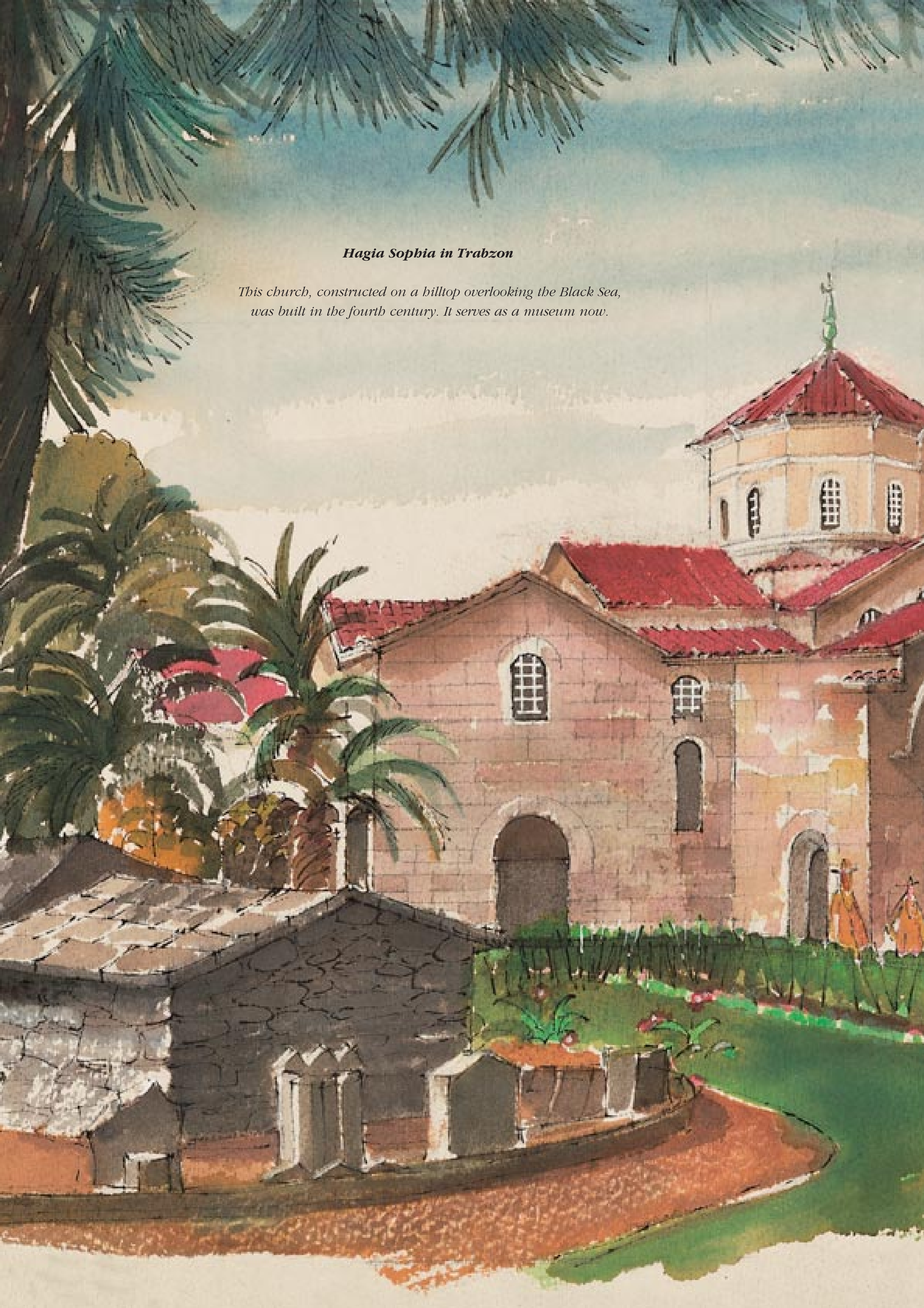
The year started with abundant HR activities following the acquisition of 21 branch offices from the SDIF-controlled banks in late 2001. In the second half of the year, another three fully staffed branches were acquired and a new branch was opened. With new additions and new recruitments to fill vacant positions in existing branches, a total of 693 new personnel joined TEB while 282 left, increasing the total number of personnel to 1,673 at year-end.

TEB and its Group companies participated in a series of programmes known as Career Days at leading universities across Turkey. Management Trainee programmes at TEB are directed toward developing tomorrow's managers and in 2002, a total of 29 management trainees, selected through a series of tests and interviews, completed their MT courses. In November, five trainees were assigned to Head Office departments and 24 were appointed to serve at branch offices.

One of the most notable events of 2002 was the start of the e-learning project within the credit card training programme. TEB has pioneered the virtual training centre concept in Turkey in coordination with its HR, IT and Retail Banking Divisions. A test was conducted at the end of the credit cards programme, and successful results prompted a series of similar training programmes in mutual funds, foreign trade, and treasury products.

Consultancy was received from an international consultation firm in the area of calculating bonuses for top-level managers. Within the scope of this task, job descriptions of high ranking TEB executives and general managers from companies within the TEB Financial Services Group were re-defined, the business ranking system updated and personal performance criteria for top level officers was set forth. This system and its peripherals will be put into effect at the beginning of 2003.

In an effort to increase operational efficiency and reduce workload, the paperless office project started with six applications on the Intranet. The first Intranet applications were mainly performance evaluation forms, payroll and annual vacation leave forms.



Hagia Sophia in Trabzon

This church, constructed on a hilltop overlooking the Black Sea, was built in the fourth century. It serves as a museum now.

Information Technology

In 2002, centralisation of the core banking application software, TEBIS, which started the previous year, was completed successfully, on time and within budget limits. Running in parallel with the Oracle Application Servers, the remote branches make use of the client server TEBIS application via the Intranet, lowering cost of programming and software distribution than ever before. The hardware infrastructure of the new central system model has proven to be successful and fault tolerant; investments for the communications infrastructure were completed successfully in 2002.

In the previous year, the Retail Banking Branch operated as the Call Centre of the Bank serving only those customers that moved their accounts to that branch. This branch was capable of delivering only a fraction of the services that a regular branch offered. The Umbrella Project that was started and completed in 2002, facilitated serving all customers of all TEB branches without any functional limitation by the Call Centre.

Further arrangements have been made in retail banking applications such that each customer now has a single password to manage his/her Internet Branch, Call Centre, credit card and debit card operations. Also, with the latest IVR Project, Call Centre customers are now recognised by the IVR, eliminating the need to contact a sales representative when information services are required from the Bank.

With the development of the TEBBiz application, TEB branch and headquarters users may watch real-time market data from within a single user interface. Using this application, the Intranet has evolved into a new structure that provides rapid access to both static information including TEB products, announcements, phone directory and real-time market data, stock prices, FX rates and market news.

TEB Financial Services Group

TEB NV
(The Economy Bank NV)

TEB NV, a wholly owned subsidiary of TEB, became operational in Amsterdam, the Netherlands, in November 1998. It was expected that a growing synergy would develop from the activities of the TEB Financial Services Group companies and TEB NV.

The Bank offers foreign trade finance, corporate banking, private banking and correspondent banking services. The presence and availability of TEB financial services beyond national borders is yet another indication of TEB's aim to become the EU market's Turkish Market Specialist.

TEB NV has a paid-up capital of € 25 million, and is 100% owned by TEB.

TEB Investment
(TEB Yatırım Menkul Değerler A.Ş.)

TEB Investment is the Bank's investment banking subsidiary, providing corporate finance, fixed income and equity brokerage services to Turkish and international institutional and retail investors.

TEB Investment enjoys a significant origination capacity for corporate finance transactions and has the financial strength to underwrite security issues.

TEB Investment has a paid-up capital of TL 10,000 billion, of which 74.80% belongs to TEB.

TEB Leasing
(TEB Finansal Kiralama A.Ş.)

The Bank's long-term equipment financing subsidiary, TEB Leasing, provides financial leasing services to corporate clients investing in machinery and equipment. Since its establishment in 1997, the company has been able to secure itself a leading position in the sector in terms of financial aggregates. Its business philosophy is to identify the adequate financing method that responds to the particulars of the investment.

TEB Leasing has a paid-up capital of TL 10,000 billion, of which 68.76% belongs to TEB.

TEB Factoring
(TEB Factoring A.Ş.)

As a further step toward the Bank's objective of becoming a fully integrated financial services group, TEB Factoring was established in 1997 to provide both domestic and international factoring services. A member of FCI - Factors Chain International, TEB Factoring is entitled to take part in export-related and forfaiting transactions.

TEB Factoring has a paid-up capital of TL 6,200 billion, of which 65.80% belongs to TEB.

TEB Investment enjoys a significant origination capacity for corporate finance transactions and has the financial strength to underwrite security issues.

TEB Insurance
(TEB Sigorta A.Ş.)

TEB's non-life insurance subsidiary, TEB Insurance, provides risk coverage to corporate clients in the areas of fire, marine, accident and engineering insurance. TEB Insurance was the first Turkish insurance company to be rated by an international rating agency. FitchRatings awarded an 'A- (tur)' rating to TEB Insurance in January 2001, which was interpreted as a major event in the Turkish insurance industry.

TEB Insurance has a paid-up capital of TL 3,325 billion, of which 50% belongs to TEB.

TEB Asset Management
(TEB Portföy Yönetimi A.Ş.)

The management of TEB's mutual funds, which had been the responsibility of TEB Investment until January 2000, was turned over to TEB Asset Management with a view toward enhancing efficiency and independence. TEB Asset Management is one of the country's larger fund managers with an extensive Internet distribution capacity and has a marketing agreement with Citibank.

TEB Asset Management has a paid-up capital of TL 1,500 billion, of which 55.89% belongs to TEB.

TEB Precious Metals
(TEB Kıymetli Madenler A.Ş.)

TEB Precious Metals is involved in importing, and domestic trading, of precious metals, and is the leading gold trading company on the Istanbul Gold Exchange with a market share of 48% and 36.2 tons. It is one of the major traders in silver in Turkey with 60.4 tons, representing a market share of 38%.

TEB Precious Metals has a paid-up capital of TL 100 billion, of which 66% belongs to TEB.

Varlık Investment Trust
(Varlık Yatırım Ortaklığı A.Ş.)

Varlık Investment Trust is a closed-end mutual fund whose shares are traded on the ISE. The company was incorporated in early 1998, following the approval of the Turkish Capital Markets Board.

Varlık Investment Trust has a paid-up capital of TL 500 billion, of which 24.40% belongs to TEB.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH
REPORT OF INDEPENDENT AUDITORS
DECEMBER 31, 2002

ERNST & YOUNG

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To the Board of Directors of
Türk Ekonomi Bankası Anonim Şirketi

We have audited the accompanying consolidated balance sheet of Türk Ekonomi Bankası Anonim Şirketi (the Bank - a Turkish corporation) and its subsidiaries as of December 31, 2002 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, 2002. 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.

The consolidated financial statements of Türk Ekonomi Bankası Anonim Şirketi for the year ended December 31, 2001 were audited by other auditors who have ceased operations and whose report dated June 12, 2002 expressed an unqualified opinion on those statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Türk Ekonomi Bankası Anonim Şirketi and its subsidiaries as of December 31, 2002 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

March 5, 2003
Istanbul, Turkey

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED BALANCE SHEET
As at December 31, 2002

(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2002)

ASSETS	Notes	2002	2001
Cash and balances with the Central Bank	4	430,766	192,993
Deposits with banks and other financial institutions	4	1,039,578	534,692
Other money market placements	4	414,125	805,833
Reserve deposits at the Central Bank	5	133,072	132,482
Trading securities	6	53,650	9,012
Investment securities	6	57,245	202,935
Originated loans and advances	7	1,326,555	1,224,355
Factoring receivables	8	66,966	53,516
Minimum lease payments receivable	9	85,780	61,840
Derivative financial instruments	19	4,058	666
Investments in unconsolidated subsidiaries	10	337	820
Investments in associates	11	446	501
Premises and equipment	12	42,349	40,905
Intangible assets	13	3,742	3,303
Other assets	14	29,307	25,183
Total assets		3,687,976	3,289,036

The accompanying policies and explanatory notes on pages 48 through 79 form an integral part of the consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED BALANCE SHEET
As at December 31, 2002

(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2002)

LIABILITIES AND EQUITY	Notes	2002	2001
Deposits from other banks	15	105,668	89,055
Customers' deposits	15	2,714,223	2,121,862
Other money market deposits	15	22,828	265,676
Funds borrowed			
- Subordinated loan	16	24,919	-
- Other funds borrowed	16	394,661	417,788
Factoring payables	8	27,983	14,204
Derivative financial instruments	19	4,568	543
Other liabilities and provisions	17	108,519	117,255
Income taxes payable	18	13,396	15,860
Deferred tax liability	18	2,082	3,913
Total liabilities		3,418,847	3,046,156
Minority interest		11,897	10,347
Equity			
Share capital issued	20	55,125	55,125
Adjustment to share capital	20	181,945	405,554
Currency translation differences		6,312	5,162
Legal reserves and accumulated profits (deficit)	21	13,850	(233,308)
Total equity		257,232	232,533
Total liabilities and equity		3,687,976	3,289,036

The accompanying policies and explanatory notes on pages 48 through 79 form an integral part of the consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2002

(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2002)

	Notes	2002	2001
Interest income			
Interest on originated loans and advances		206,298	255,343
Interest on securities		58,543	81,051
Interest on deposits with banks and other financial institutions		62,624	229,004
Interest on other money market placements		85,354	13,014
Interest on financial leases		22,871	48,310
Other interest income		18,010	44,173
Total interest income		453,700	670,895
Interest expense			
Interest on deposits		(179,439)	(333,228)
Interest on other money market deposits		(28,723)	(585)
Interest on funds borrowed		(50,176)	(148,286)
Other interest expense		(1,408)	(291)
Total interest expense		(259,746)	(482,390)
Net interest income		193,954	188,505
Provision for possible loan, lease and factoring receivables losses	7, 8, 9	(15,205)	(10,172)
Net interest income (expense) after provision for possible loan, lease and factoring receivables losses		178,749	178,333
Foreign exchange gain (loss)		(14,378)	(38,863)
Net interest income after foreign exchange gain (loss) and provision for possible loan, lease and factoring receivables losses		164,371	139,470
Other operating income			
Fees and commissions income		24,713	35,509
Income from banking services		20,645	22,441
Trading income (loss)		21,711	23,991
Other income	25	17,503	24,730
Total other operating income		84,572	106,671
Other operating expense			
Fees and commissions expense		(17,277)	(15,671)
Salaries and employee benefits	24	(60,098)	(63,312)
Depreciation and amortization	12, 13	(13,632)	(13,615)
Taxes other than on income		(13,050)	(17,153)
Other expenses	25	(49,400)	(61,186)
Total other operating expense		(153,457)	(170,937)
Profit (loss) from operating activities before income tax, monetary gain (loss) and minority interest		95,486	75,204
Income tax	18	(28,328)	(18,177)
Monetary gain (loss)		(42,667)	(114,884)
Net profit (loss) from ordinary activities		24,491	(57,857)
Minority interest		(942)	6,798
Net profit (loss)		23,549	(51,059)
Earnings per share			
Basic		214	(463)

The accompanying policies and explanatory notes on pages 48 through 79 form an integral part of the consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2002

(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2002)

	Notes	Share capital	Adjustment to share capital	Currency translation differences	Legal reserves and accumulated profits (deficit)	Total
At January 1, 2001		55,125	405,554	(407)	(183,502)	276,770
Effect of change in consolidation structure		-	-	-	153	153
Transfer to general banking reserves		-	-	-	1,100	1,100
Currency translation differences		-	-	5,569	-	5,569
Net loss for the year		-	-	-	(51,059)	(51,059)
At December 31, 2001		55,125	405,554	5,162	(233,308)	232,533
Accumulated losses netted off	20	-	(223,609)	-	223,609	-
Currency translation differences		-	-	1,150	-	1,150
Net profit for the year		-	-	-	23,549	23,549
At December 31, 2002		55,125	181,945	6,312	13,850	257,232

The accompanying policies and explanatory notes on pages 48 through 79 form an integral part of the consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2002

(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2002)

	2002	2001
Cash flows from operating activities		
Interest received	470,780	797,535
Interest paid	(275,761)	(595,640)
Fees and commissions received	24,713	35,509
Income from banking services	20,645	22,441
Trading income (loss)	21,711	23,991
Recoveries of loans previously written off	1,004	2,008
Fees and commissions paid	(17,277)	(15,671)
Cash payments to employees and other parties	(60,098)	(63,312)
Cash received from other operating activities	17,503	35,522
Cash paid for other operating activities	(62,450)	(78,339)
Income taxes paid	(40,185)	(32,631)
Cash flows from operating activities before changes in operating assets and liabilities	100,585	131,413
Changes in operating assets and liabilities		
Net (increase) decrease trading securities	(44,638)	(6,890)
Net (increase) decrease in reserve deposits at the Central Bank	754	(27,207)
Net (increase) in originated loans and advances	(119,205)	(71,013)
Net (increase) decrease in factoring receivables	(15,133)	56,752
Net (increase) decrease in minimum lease payments receivable	(23,940)	36,232
Net (increase) decrease in other assets	(4,124)	5,918
Net increase (decrease) in deposits from other banks	16,410	(23,025)
Net increase in customers' deposits	600,093	580,000
Net increase (decrease) in other money market deposits	(242,876)	163,732
Net increase in factoring payables	13,779	11,185
Net increase (decrease) in other liabilities	(8,736)	15,118
Net cash from operating activities	272,969	872,215
Cash flows from investing activities		
Purchases of available-for-sale securities	(17,520)	(87,177)
Proceeds from sale and redemption of available-for-sale securities	153,515	6,690
Purchases of held-to-maturity securities	(39,725)	(29,439)
Proceeds from redemption of held-to-maturity securities	49,413	100,122
Disposal of subsidiaries and associates net of cash disposed	(483)	-
Purchases of premises and equipment	(15,265)	(12,074)
Proceeds from the sale of premises and equipment	1,623	799
Purchase of intangible assets	(1,854)	-
Net cash provided by (used in) investing activities	129,204	(21,079)
Cash flows from financing activities		
Proceeds from funds borrowed	351,418	179,489
Repayments of funds borrowed	(390,961)	(1,022,019)
Net cash provided by (used in) financing activities	(39,543)	(842,530)
Effect of net foreign exchanges difference and monetary gain (loss) on cash and cash equivalents	(43,664)	(5,522)
Net increase in cash and cash equivalents	319,466	3,084
Cash and cash equivalents at beginning of year	1,533,518	1,530,434
Cash and cash equivalents at end of year	1,852,984	1,533,518

The accompanying policies and explanatory notes on pages 48 through 79 form an integral part of the consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2001)

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası A.Ş. (a Turkish joint stock company – TEB, the Bank) was incorporated in Turkey. Certain shares of the Bank, representing 20% of the total, are listed on the Istanbul Stock Exchange. The registered office address of TEB is located at Meclis-i Mebusan Caddesi, No: 35, Fındıklı-İstanbul/Turkey. The Bank was originally incorporated in 1927 and in 1982 was acquired by the Çolakoğlu Group and renamed as Türk Ekonomi Bankası A.Ş..

The consolidated financial statements of the Bank were authorized for issue by the management on March 5, 2003. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue. The parent and the ultimate parent of the Bank is TEB Mali Yatırımlar A.Ş..

Nature of Activities of the Bank / Group

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

The operations of the Group consist of banking, leasing, factoring, insurance, brokerage and portfolio management in capital markets, which are conducted mainly with local customers.

The Bank provides banking services through 74 (2001-71) branches and 1,673 employees (2001 – 1,263) (excluding the subsidiaries) as of December 31, 2002 in Turkey.

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 IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the 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 and accounting standards promulgated by the other relevant laws and regulations. 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. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of Turkish lira, deferred taxation, and employee termination benefits. The effects of the differences between IFRS and the generally accepted accounting principles in the United States or countries other than Turkey, in which the IFRS financial statements may be used, have not been quantified herein.

Reclassifications on 2001 Financials

The Group has made certain reclassifications in the consolidated financial statements as of December 31, 2001 to be consistent with the current year presentation.

Such reclassifications relate to certain classifications in asset, liability and income statement accounts and presentation of cash flow statement using direct method and are made primarily to be consistent with the financial statement reporting format prescribed by the Banking Regulation and Supervision Agency (BRSA) effective December 31, 2002, which is also in line with the international banking practices.

Changes in Accounting Policies

The Group adopted IAS 39 - Financial Instruments: Recognition and Measurement in 2001. The financial effects of adopting IAS 39 were reported in previous years' consolidated financial statements.

Measurement and Reporting Currency and Translation Methodology

Measurement and Reporting Currency and Translation Methodology 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, 2002 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, 2002, the three-year cumulative rate has been 227% (2001- 308%) 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, 2002 are given below:

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

- Monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2002 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.

- 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:

As of December 31, 2002 and 2001, foreign subsidiaries (The Economy Bank NV and Petek International) have adopted Euro as their measurement and reporting currency.

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to 31 December 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, 2002 and 2001 are as follows:

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		2002	2001
The Economy Bank N.V. (Economy Bank)	The Netherlands	100.0	100.0
Petek International Holdings B.V. (Petek International)	The Netherlands	100.0	100.0
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey/Istanbul	91.8	91.8
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey/Istanbul	88.6	88.6
TEB Finansal Kiralama A.Ş. (TEB Leasing)	Turkey/Istanbul	72.5	72.5
TEB Factoring A.Ş. (TEB Factoring)	Turkey/Istanbul	70.8	70.8
TEB Sigorta A.Ş. (TEB Sigorta) (*)	Turkey/Istanbul	50.0	50.0

(*) The management of the Company is controlled by the Bank representatives.

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank - Commercial bank, which deals mainly with trade and commodity finance.

Petek International - Private holding company.

TEB Yatırım - Rendering brokerage and investment banking services to customers in line with the rules of the Capital Markets Board of Turkey.

TEB Portföy - Private company managing portfolios, which are made up of the capital market instruments according to the rules of the related regulation and the Capital Market Law by making portfolio management agreements with the clients.

TEB Leasing - Leasing of industrial machinery, office equipment, various equipment and transport vehicles.

TEB Factoring - Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Sigorta - Rendering all types of property and casualty insurance services.

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, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates.

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 Group as of respective year-ends are as follows:

Dates	TL (full) / US$
December 31, 2000	671,765
December 31, 2001	1,446,638
December 31, 2002	1,639,745

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 shareholders' equity as a translation gain (loss).

Premises and Equipment

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

The initial cost of premises and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period in the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of premises and equipment.

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

Buildings and land improvements	50 years
Machinery and equipment	5 years
Office equipment	5 years
Furniture, fixtures and vehicles	5 years
Leasehold improvements	Lease period, not less than 5 years

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 are written down to their recoverable amount. Impairment losses are recognized in the income statement. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of premises and equipment.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. 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.

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. The Group maintains three 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 exists. 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/(loss), net.

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 include debt securities primarily government bonds and treasury bills initially recognized at cost, which is the fair value of consideration given for them and 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 derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held-to-maturity 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 in income. Gold and share certificates and investment funds participation certificates are initially recorded at cost which is the fair value of the consideration given for them, including transaction costs and subsequently stated at fair value based on the quoted market prices at the balance sheet date. Any changes in the carrying value of gold, share certificates and investment fund participation certificates during the year are charged or credited to the statement of income.

Available-for-sale securities also include debt securities primarily government bonds and treasury bills. Debt securities classified as 'available-for-sale' are stated at fair values, with resulting gain/(loss) and recognized in the statement of income. Fair value is determined by reference to their quoted market prices at the balance sheet date.

Foreign currency denominated debt securities are valued at their closing prices and translated at the foreign currency year-end rate of exchange on the balance sheet date.

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.

All regular way purchases and sales of financial assets are recognized on the settlement date. 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.

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.

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 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 expired.

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 and 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. On the portfolio basis, management estimates that a 1.5% lump sum allowance over net investments in direct financing leases to third parties (excluding related parties) is adequate to cover future, potential or unforeseen uncollectible amounts in rentals receivable and in the net investment in direct financing leases.

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. The reserve is also reviewed for compliance with the Tax Procedural Law and Government Decrees and Communiqués issued by the BRSA with respect to classification of loans and minimum reserve requirements.

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 and reduce the principal amount of a loan. Recoveries of loans written off in earlier periods 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 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. Such amounts are recognized in the accompanying financial statements as earned. The total reserve represents the estimated amount of liability required in accordance with IAS 19 (Revised 1998) - Employee Benefits.

In the financial statements the Group has reflected a liability calculated using the Projected Unit Credit Method and based upon estimated limit increase 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 average current market yield at the balance sheet date on government bonds.

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.

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. These include rent agreements of branch premises, which are cancelable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as Lessor

Finance leases

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.

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 also includes coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments.

Commission income, fee for various banking services and dividends are recorded as income when collected.

Insurance premium income represents premiums on policies written during the period, net of cancellations. Unearned premiums, set aside to provide for the period of risk extending beyond the date of the balance sheet, are determined from premiums written during the period, less reinsurance, on the basis that, premiums are written on the middle day of each month (the twenty-fourth basis).

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 for the taxable temporary differences associated with investments in subsidiaries and associates, 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. 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, swaps and options 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 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.

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.

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 following areas:

Year ended December 31, 2002:

	Banking	Leasing	Factoring	Brokerage, Insurance and Other	Eliminations	Group
Net interest income	166,060	22,649	2,146	3,099	-	193,954
Provision for possible loan, lease and factoring receivable losses	(14,562)	(631)	(12)	-	-	(15,205)
Foreign exchange gain/loss	2,004	(9,065)	662	1,822	(9,801)	(14,378)
Other operating income	64,547	2,030	1,752	27,161	(10,918)	84,572
Other operating expense	(127,519)	(4,157)	(3,723)	(20,876)	2,818	(153,457)
Profit/loss from operating activities	90,530	10,826	825	11,206	(17,901)	95,486
Income/loss from associates	-	-	-	-	-	-
Unallocated items	-	-	-	-	-	-
Income tax	(24,259)	(1,385)	(163)	(2,521)	-	(28,328)
Monetary gain/loss	(40,232)	(3,721)	(1,813)	(6,196)	9,295	(42,667)
Minority interest	-	-	-	-	(942)	(942)
Extraordinary items	-	-	-	-	-	-
Net profit/loss	26,039	5,720	(1,151)	2,489	(9,548)	23,549
Other segment information						
Segment assets	3,572,331	133,848	72,417	49,648	(140,714)	3,687,530
Investment in associates	446	-	-	-	-	446
Unallocated assets	-	-	-	-	-	-
Total assets	3,572,777	133,848	72,417	49,648	(140,714)	3,687,976
Segment liabilities	3,245,172	111,535	63,977	22,032	(23,869)	3,418,847
Unallocated liabilities	-	-	-	-	-	-
Total liabilities	3,245,172	111,535	63,977	22,032	(23,869)	3,418,847
Capital expenditures						
Tangible fixed assets	14,800	35	35	395	-	15,265
Intangible fixed assets	1,593	8	137	116	-	1,854
Investment properties	-	-	-	-	-	-
Depreciation	10,191	203	229	1,585	-	12,208
Amortization	1,132	45	50	197	-	1,424
Impairment losses	-	-	-	-	-	-
Other non-cash expenses						
Provision for restructuring	-	-	-	-	-	-

Year ended December 31, 2001:

	Banking	Leasing	Factoring	Brokerage, Insurance and Other	Eliminations	Group
Net interest income	114,824	40,458	21,187	11,400	636	188,505
Provision for possible loan, lease and factoring receivable losses	(9,214)	(244)	(714)	-	-	(10,172)
Foreign exchange gain/loss	34,668	(36,565)	(18,710)	348	(18,604)	(38,863)
Other operating income	97,913	1,627	3,381	43,238	(39,488)	106,671
Other operating expense	(137,761)	(5,427)	(6,178)	(38,745)	17,174	(170,937)
Profit/loss from operating activities	100,430	(151)	(1,034)	16,241	(40,282)	75,204
Income/loss from associates	-	-	-	-	-	-
Unallocated items	-	-	-	-	-	-
Income tax	(14,808)	(1,196)	1,690	(3,863)	-	(18,177)
Monetary gain/loss	(91,951)	(13,279)	(7,530)	(15,906)	13,782	(114,884)
Minority interest	-	-	-	-	6,798	6,798
Extraordinary items	-	-	-	-	-	-
Net profit/loss	(6,329)	(14,626)	(6,874)	(3,528)	(19,702)	(51,059)
Other segment information						
Segment assets	3,201,343	88,494	70,203	51,565	(123,070)	3,288,535
Investment in associates	501	-	-	-	-	501
Unallocated assets	-	-	-	-	-	-
Total assets	3,201,844	88,494	70,203	51,565	(123,070)	3,289,036
Segment liabilities	2,908,675	71,900	60,612	26,331	(21,362)	3,046,156
Unallocated liabilities	-	-	-	-	-	
Total liabilities	2,908,675	71,900	60,612	26,331	(21,362)	3,046,156

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

Geographical segments:

The Group conducts majority of its business activities with local customers and therefore, geographical segments are insignificant.

4. CASH AND CASH EQUIVALENTS

	2002	2001
Cash on hand	87,952	188,671
Balances with the Central Bank	342,814	4,322
Cash and balances with the Central Bank	430,766	192,993
Deposits with banks and other financial institutions	1,039,578	534,692
Funds lent under reverse repurchase agreements	7,051	131,388
Interbank placements	407,074	674,445
Other money market placements	414,125	805,833
Cash and cash equivalents in the balance sheet	1,884,469	1,533,518
Less: Time deposits with original maturities of more than three months	(31,485)	-
Cash and cash equivalents in the cash flow statement	1,852,984	1,533,518

As of December 31, 2002 and 2001, interest range of deposits and placements are as follows:

	2002				2001			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish lira	Foreign currency	Turkish lira	Foreign currency	Turkish lira	Foreign currency	Turkish lira	Foreign currency
Balances with the Central Bank	14,800	328,014	-	0.5%	2,520	1,802	-	0.86%
Deposits with banks and other financial institutions	42,884	996,694	42% - 71.5%	0.45% - 5%	514,868	19,824	55% - 60%	1% - 9%
Funds lent under reverse repurchase agreements	7,051	-	42%	-	-	131,388	-	1.9% - 3.45%
Interbank placements	228,244	178,830	44% - 45.25%	1% - 1.5%	138,271	536,174	59% - 62%	2.75% - 4%
Total	292,979	1,503,538			655,659	689,188		

5. RESERVE DEPOSITS AT THE CENTRAL BANK

	2002	2001
- Turkish lira	10,162	9,803
- Foreign currency	122,910	122,679
Total	133,072	132,482

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to reserve a certain portion of their deposits other than interbank deposits. Such reserves are deposited with the Central Bank.

As of December 31, 2002, reserve deposit rates applicable for Turkish lira deposits were 6% (2001- 4%) and 11% (2001- 11%) for foreign currency deposits.

Effective from August 2001 and 2002, the Central Bank has started to give interest for the Turkish lira and foreign currency reserves deposited, respectively. As of December 31, 2002, the interest rates applied for Turkish lira and foreign currency reserve deposits are 25% and 0.55% (December 31, 2001 - 40% and 0%), respectively.

6. INVESTMENTS IN SECURITIES

Trading Securities:

	2002 Amount	2001 Amount
Trading securities at fair value		
Debt instruments		
Turkish government bonds	21,793	4,797
Turkish treasury bills	22,210	4,215
Foreign currency government bonds	1,475	-
Eurobonds issued by the Turkish government	7,900	-
	53,378	9,012
Others		
Precious metals	272	-
Total trading securities	53,650	9,012

Investment Securities:

	2002 Amount	2002 Effective interest rate	2001 Amount	2001 Effective interest rate
Available-for-sale securities at fair value				
Debt instruments				
Turkish government bonds	-	-	145,282	62% - 68%
Turkish treasury bills	298	43.8%	-	-
Eurobonds issued by the Turkish government	17,213	3.5%	8,036	8.1% - 12.3%
	17,511		153,318	
Others				
Precious metals	-	-	196	-
Total available-for-sale securities at fair value	17,511		153,514	
Available-for-sale securities at cost				
Equity instruments - unlisted	9	-	9	-
Total available-for-sale securities	17,520		153,523	

	2002 Amount	2002 Effective interest rate	2001 Amount	2001 Effective interest rate
Held-to-maturity securities at amortized cost				
Debt instruments				
Turkish government bonds	265	43.8%	49,412	62% - 64%
Eurobonds issued by the Turkish government	1,308	8.1% - 12.3%	-	-
Turkish treasury bills	36,553	44.6% - 56.1%	-	-
Foreign currency government bonds	1,599	-	-	-
Total held-to-maturity securities	39,725		49,412	
Total investment securities	57,245		202,935	

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

	2002	2001
Trading securities	25,579	-
Available-for-sale	-	141,246

As of December 31, 2002, the carrying value and the nominal amounts (in historical terms) of government securities kept in the Central Bank and in Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Settlement and Custody Bank) for legal requirements and as a guarantee for stock exchange and money market operations are TL 38,417 and TL 35,270 (2001 - TL 49,412 and TL 34,500), respectively.

7. ORIGINATED LOANS AND ADVANCES

	2002					
	Amount			Effective interest rate		
	Turkish lira	Foreign currency	Foreign currency indexed	Turkish lira	Foreign currency	Foreign currency indexed
Corporate loans	258,139	961,381	74,747	25% - 90%	2.75% - 16%	3.5% - 8%
Consumer loans	12,319	346	5,937	0.36% - 84%	3.5% - 4.7%	9% - 10.8%
Credit cards	13,677	1,180	-	93%	93%	-
Total loans	284,135	962,907	80,684			
Loans in arrears	20,212	-	-			
Less: Reserve for possible loan losses	(21,343)	(40)	-			
	283,004	962,867	80,684			

	2001					
	Amount			Effective interest rate		
	Turkish lira	Foreign currency	Foreign currency indexed	Turkish lira	Foreign currency	Foreign currency indexed
Corporate loans	212,940	949,311	5,137	8.5% - 140%	1.7% - 26%	6% - 11%
Consumer loans	31,383	-	-	12% - 120%	-	-
Credit cards	13,893	870	-	96% - 102%	96% - 102%	-
Total loans	258,216	950,181	5,137			
Loans in arrears	22,641	-	-			
Less: Reserve for possible loan losses	(11,820)	-	-			
	269,037	950,181	5,137			

Movements in the reserve for possible loan losses:

	2002	2001
Reserve at beginning of year	11,820	9,575
Provision for possible loan losses	15,540	11,222
Recoveries	(978)	(2,008)
Provision net of recoveries	26,382	18,789
Loans written off during the year	(6)	(432)
Monetary gain	(4,993)	(6,537)
Reserve at end of year	21,383	11,820

As of December 31, 2002, loans and advances on which interest is not being accrued, or where interest is suspended, amounted to TL 20,212 (2001- TL 22,641). There is no uncollected interest accrued on impaired loans.

8. FACTORING RECEIVABLES AND PAYABLES

	2002			
	Amount		Effective interest rate	
	Turkish lira	Foreign currency	Turkish lira	Foreign currency
Open accounts	14,380	24,793	53% - 58%	5% - 6%
Checks receivable	28,218	-	53% - 58%	5% - 6%
Notes receivable	908	-	53% - 58%	5% - 6%
Doubtful factoring receivables	572	-	-	-
Total factoring receivables	44,078	24,793		
Less: Reserve for possible losses	(637)	-	-	-
Less: Deferred income	(1,268)	-	-	-
Net factoring receivables	42,173	24,793		
Factoring payables	13,104	14,879		
Funds in use, net	29,069	9,914		

	2001			
	Amount		Effective interest rate	
	Turkish lira	Foreign currency	Turkish lira	Foreign currency
Open accounts	21,270	23,562	59% - 62%	7% - 8%
Checks receivable	8,429	-	59% - 62%	-
Notes receivable	551	-	59% - 62%	-
Doubtful factoring receivables	812	-	-	-
Total factoring receivables	31,062	23,562		
Less: Reserve for possible losses	(812)	-		
Less: Deferred income	(296)	-		
Net factoring receivables	29,954	23,562		
Factoring payables	-	14,204		
Funds in use, net	29,954	9,358		

Movements in the reserve for possible losses:

	2002	2001
Reserve at beginning of year	812	493
Provision for possible losses	12	714
Recoveries	-	-
Provision net of recoveries	824	1,207
Factoring receivables written off during the year	-	-
Monetary gain	(187)	(395)
Reserve at end of year	637	812

9. MINIMUM LEASE PAYMENTS RECEIVABLES

Gross investment in finance leases, receivable:

	2002	2001
Not later than 1 year	64,450	45,684
Later than 1 year and not later than 5 years	32,342	28,066
Later than 5 years	1,451	-
Minimum lease payments receivables, gross	98,243	73,750
Less: Unearned interest income	(11,151)	(10,870)
Net investment in finance leases	87,092	62,880
Less: Reserve for impairment	(1,312)	(1,040)
Minimum lease payments receivables, net	85,780	61,840

Net investment in finance leases may be analyzed as follows:

	2002	2001
Not later than 1 year	56,431	38,343
Later than 1 year and not later than 5 years	29,290	24,537
Later than 5 years	1,371	-
	87,092	62,880

As of December 31, 2002 and 2001, TL 97,410 and TL 65,705 of gross lease receivables are denominated in foreign currency (mainly US$ and euro) and Turkish lira, respectively and the effective interest rates are 13.92% to 14.84% (2001 - 17.52% to 16.14%) for foreign currency and 69% to 92% for Turkish lira (2001 - 59.09%).

Movements in the reserve for impairment:

	2002	2001
Reserve at beginning of year	1,040	1,503
Provision for impairment	657	244
Recoveries	(26)	-
Provision net of recoveries	1,671	1,747
Minimum lease payments receivables written off during the year	(48)	-
Monetary gain	(311)	(707)
Reserve at end of year	1,312	1,040

10. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

Investment in unconsolidated subsidiaries

The breakdown of unconsolidated subsidiaries is comprised of the following:

	Participation Percentage		Participation Amount	
	2002	2001	2002	2001
TEB Kıymetli Madenler A.Ş.	66.1	66.1	337	337
Factors International Holding S.A.	-	99.9	-	483
			337	820

According to the General Meeting of Factors International Holding S.A. held on December 28, 2001, it was decided to liquidate Factors International Holding S.A. in 2002. Accordingly, in 2002, Factors International Holding S.A was liquidated.

These investments were not consolidated on grounds of immateriality.

11. INVESTMENTS IN ASSOCIATES

The following comprise investments in associates:

			2002			2001		
Entity	Principle Activities	Country of Business	Carrying Value	Ownership Interest	Group's Share (*) of Income	Carrying Value	Ownership Interest	Group's Share (*) of Income
Varlık Yatırım Ortaklığı A.Ş.		Turkey	446	34.0%	19	501	34.0%	124
			446		19	501		124

(*) Group's share of income represents statutory share of net income at related year-ends.

12. PREMISES AND EQUIPMENT

	Land and Buildings	Leased Assets	Motor Vehicles	Furniture, Office Equipment and Leasehold Improvements	Total
At January 1, 2002, net of accumulated depreciation	8,367	13,673	2,129	16,736	40,905
Additions	-	5,489	1,409	8,367	15,265
Disposals	-	-	(109)	(1,514)	(1,623)
Depreciation charge for the year	(225)	(5,271)	(918)	(5,794)	(12,208)
Exchange adjustment	-	-	1	9	10
At December 31, 2002, net of accumulated depreciation	8,142	13,891	2,512	17,804	42,349
At December 31, 2001					
Cost	10,973	27,512	4,666	42,675	85,826
Accumulated depreciation	(2,606)	(13,839)	(2,537)	(25,939)	(44,921)
Accumulated impairment	-	-	-	-	-
Net carrying amount	8,367	13,673	2,129	16,736	40,905
At December 31, 2002 Cost	10,973	32,949	5,479	47,266	96,667
Accumulated depreciation	(2,831)	(19,058)	(2,967)	(29,462)	(54,318)
Accumulated impairment	-	-	-	-	-
Net carrying amount	8,142	13,891	2,512	17,804	42,349

13. INTANGIBLES

	Software Licenses and Other
At January 1, 2002, net of accumulated amortization	3,303
Additions	1,854
Disposals	(1)
Amortization charge for the year	(1,424)
Exchange adjustment	10
At December 31, 2002, net of accumulated amortization	3,742
At December 31, 2001	
Cost	7,534
Accumulated amortization	(4,231)
Net carrying amount	3,303
At December 31, 2002	
Cost	9,398
Accumulated amortization	(5,656)
Net carrying amount	3,742

14. OTHER ASSETS

	2002	2001
Insurance premium receivables	15,984	14,081
Transitory accounts and prepaid expenses	2,044	2,797
Value added taxes receivable	1,104	-
Prepaid taxes	492	3,280
Others	9,683	5,025
	29,307	25,183

15. DEPOSITS

Deposits from other banks

	2002				2001			
	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	747	19,183	0% - 5%	-	1,297	4,317	0% - 5%	-
Time	32,785	52,953	41% - 49%	2.5% - 3.75%	20,322	63,119	54% - 62%	3.5% - 6%
Total	33,532	72,136			21,619	67,436		

Customers' deposits

	2002				2001			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish lira	Foreign currency	Turkish lira	Foreign currency	Turkish lira	Foreign currency	Turkish lira	Foreign currency
Savings								
Demand	17,258	2,725	0% - 5%	-	6,561	4,678	0% - 5%	-
Time	151,983	65,260	28% - 65%	0.75% - 5%	103,482	98,726	33% - 75%	1% - 8.5%
	169,241	67,985			110,043	103,404		
Commercial and other								
Demand	86,957	460,164	0% - 5%	-	58,068	338,767	0% - 5%	-
Time	108,733	1,821,143	28% - 65%	0.75% - 5%	106,401	1,405,179	33% - 75%	1% - 8.5%
	195,690	2,281,307			164,469	1,743,946		
Total	364,931	2,349,292			274,512	1,847,350		

Other money market deposits

	2002				2001			
	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	9,812	-	28.21% - 41%	-	134,306	131,370	51.28% - 64.1%	1.5% - 3.45%
-Due to banks	13,016	-	44% - 44.1%	-	-	-	59%	-
	22,828	-			134,306	131,370		
Interbank deposits	-	-	-	-	-	-	-	-
Other money market deposits	-	-	-	-	-	-	-	-
Total	22,828	-			134,306	131,370		

16. FUNDS BORROWED

	2002				2001			
	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								
Fixed interest	37,169	19,422	36% - 71%	4% - 7.42%	53,508	31,643	8.45% - 65%	1.75% - 13.00%
Floating interest	-	269,296	-	1% - 6.22%	-	246,809	-	1.75% - 13.00%
Medium/long-term								
Fixed interest	-	682	-	-	71	782	100%	2.44% - 13.02%
Floating interest	-	93,011	-	2% - 8%	-	84,975	-	2.44% - 13.02%
Finance lease obligations	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-
Total	37,169	382,411			53,579	364,209		

Repayments of medium long-term borrowing are as follows:

	2002		2001	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2002	-	-	-	6,435
2003	-	9,379	213	10,770
2004	682	24,430	640	27,821
2005	-	15,131	-	17,467
2006	-	12,916	-	14,910
2007	-	11,478	-	7,572
Thereafter	-	19,677	-	-
	682	93,011	853	84,975

The Bank has signed an agreement with the International Finance Corporation (IFC) on July 17, 2002, to receive a US$ 85 million financing facility. The facility consists of three separate loans. The first loan is a US$ 15 million, 7-year term, subordinated convertible loan, bearing an interest rate of Libor + 4.5% and matching BRSA's Tier II Capital definitions as well as contributing to the Bank's capital adequacy ratio in a positive manner. The second loan is a US$ 20 million medium-term loan facility to be lent as working capital, investment or export pre-finance needs to TEB's clients with 3-month to 5-year maturity from IFC's own account. The third part of the loan allows for the syndication of up to US$ 50 million from private commercial banks when markets recover.

17. OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions

	2002	2001
Payment orders	27,641	38,911
Transitory accounts	14,893	21,766
Insurance technical reserves	11,961	10,619
Taxes other than on income	11,212	7,242
Trade payables	5,318	-
Employee termination benefits	4,318	3,805
Others	33,176	34,912
	108,519	117,255

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 1.260 and TL 0.978 at December 31, 2002 and December 31, 2001 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, 2002 and 2001, 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. Accordingly, the principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	2002	2001
Discount rate	43%	70%
Expected rates of limit increases	35%	60%

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

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

At January 1, 2001	3,976
Paid during the year	(611)
Increase during the year	2,422
Monetary gain	(1,982)
At December 31, 2001	3,805
At January 1, 2002	3,805
Paid during the year	(479)
Increase during the year	1,909
Monetary gain	(917)
At December 31, 2002	4,318

Insurance Technical Reserves

	2002	2001
Unearned premiums reserve	13,278	11,231
Unearned premiums reserve reinsurer's share	(5,203)	(4,099)
	8,075	7,132
Deferred commission income	2,006	1,839
Claim provision	5,918	3,458
Claim provision, reinsurer's share	(4,038)	(1,810)
	1,880	1,648
Total	11,961	10,619

18. 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 effective corporate tax rate including the fund levied is 33%. Items exempted from corporation tax (except dividends collected) are subject to income tax at the effective rate of 11% or 19.8%. In case of dividend distributions in the form of cash, depending on public or privately owned status of the entity, 5% or 15% income tax (plus 10% additional fund) is calculated over that portion of the distributed amount which is subject to 33% corporation tax and paid to tax authorities on behalf of shareholders.

In Turkey, tax regulations do not provide a procedure for final agreement of tax assessments. Tax returns are filed within the fourth month after the end of the year to which they relate to and tax authorities may examine the accounting records and revise assessments within five years.

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.

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

	2002	2001
Consolidated income statement		
Current income tax		
Current income tax charge	29,156	31,095
Deferred income tax		
Relating to origination and reversal of temporary differences	(828)	(12,918)
Income tax expense reported in consolidated income statement	28,328	18,177

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 was as follows:

	2002	2001
Net profit/loss from ordinary activities before income tax	51,877	(32,882)
At Turkish statutory income tax rate of 33%	17,120	(10,851)
Effect of different income tax rates in other countries	243	313
Income not subject to tax	(36,234)	(21,177)
Expenditure not allowable for income tax purposes	33,228	57,479
Utilization of previously unrecognized tax losses	(4,536)	-
Effect of restatement and other	18,507	(7,587)
Income tax	28,328	18,177

Deferred income tax

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

	Consolidated Balance Sheet 2002	Consolidated Balance Sheet 2001
Deferred income tax liabilities		
Restatement of premises and equipment and intangible assets (including leased assets)	5,892	6,254
Deferred gains and losses on foreign exchange contracts	1,339	220
Deferred acquisition costs related to insurance contracts	1,212	1,116
Others	592	1,337
Gross deferred income tax liabilities	9,035	8,927
Deferred income tax assets		
Loan loss provisions	2,010	1,593
Unearned premium reserve and claim provisions	1,886	1,945
Deferred gains and losses on foreign exchange contracts	1,507	179
Post-employment benefits	1,424	1,256
Others	126	41
Gross deferred income tax assets	6,953	5,014
Net deferred income tax liability	2,082	3,913
Net deferred income tax asset	-	-

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

	2002	2001
Balance at January 1	3,913	23,560
Deferred income tax recognized in income statement	(828)	(12,918)
Monetary gain/loss	(1,003)	(6,729)
Balance at December 31	2,082	3,913

Deferred income tax liabilities have not been established for the withholding and other taxes that would be payable on the unremitted earnings of certain subsidiaries incorporated in Turkey, as it is not certain whether such amounts will be permanently reinvested or received in cash. Such unremitted earnings totaled TL 7,530 at December 31, 2002 (2001 - TL 1,400) at nominal values. If such amounts are collected in cash in the form of dividends, they will be subject to withholding tax at the effective rates of 5.5% to 16.5% depending on whether the subsidiary is publicly quoted or not.

19. 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, swaps, futures and options.

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 value of derivative financial instruments 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.

2002	Fair value assets	Fair value liabilities	Notional amount in Turkish lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 months	More than 5 years
Derivatives held-for-trading									
Forward purchase contract	3,320	-	127,959	89,817	17,810	16,233	4,099	-	-
Forward sale contract	-	2,414	131,052	92,844	17,516	16,593	4,099	-	-
Currency swap purchase	738	-	151,844	128,895	-	22,949	-	-	-
Currency swap sale	-	2,154	153,188	130,705	-	22,483	-	-	-
	4,058	4,568	564,043	442,261	35,326	78,258	8,198	-	-

2001	Fair value assets	Fair value liabilities	Notional amount in Turkish lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 months	More than 5 years
Derivatives held-for-trading									
Forward purchase contract	653	-	114,481	78,642	11,113	4,707	20,019	-	-
Forward sale contract	-	535	114,469	78,938	10,874	4,675	19,982	-	-
Currency swap purchase	13	-	14,467	14,467	-	-	-	-	-
Currency swap sale	-	8	14,641	14,641	-	-	-	-	-
	666	543	258,058	186,688	21,987	9,382	40,001	-	-

The Bank has certain structured transactions with foreign financial institutions, which the Bank has a right to set off the recognized amounts and intends to settle on a net basis. As of December 31, 2001, such transactions which are due for settlement in 2002, are reflected net in the balance sheet as the net of financial liabilities and financial assets in the form of foreign currency share certificates with call and put options and Eurobonds with swap commitments of TL 38,573.

20. SHARE CAPITAL

	2002	2001
Number of common shares, TL 500 (in full TL), par value		
Authorized 110,250 million; Issued and outstanding 110,250 million in 2002 and 2001	110,250 million	110,250 million

Share of TL 500 nominal value each trade on the Istanbul Stock Exchange in the form of units of two shares with a combined nominal value of TL 1,000 each.

As of December 31, 2002 and 2001, the Bank's historical subscribed and issued share capital was TL 55,125 (historical terms).

There is no increase in share capital of the Bank during 2002 and 2001.
As of December 31, 2002 and 2001, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	2002		2001	
	Amount	%	Amount	%
TEB Mali Yatırımlar A.Ş.	38,631	70.08	38,631	70.08
Publicly traded	11,025	20.00	11,025	20.00
Çolakoğlu Metalurji A.Ş.	4,740	8.60	4,740	8.60
Other shareholders	729	1.32	729	1.32
	55,125	100.00	55,125	100.00
Restatement effect	181,945		405,554	
	237,070	100.00	460,679	100.00

As allowed by the BRSA, the Bank has set off prior year losses against legal reserves and restatement effect of share capital.

21. 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, 2002, the Group's legal reserves, which were included within the legal reserves and accumulated deficit balance amount to TL 7,294 (2001 - TL 7,068) at nominal values.

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

Dividends

There are no dividends declared and authorized in 2001. The profit appropriation for 2002 will be resolved in the annual general meeting of the shareholders to be held in March 2003.

22. 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, which are shown in the table below, without consideration through December 31, 2002.

	Number of Shares (in millions) Issued Attributable to			
	Transfers from Retained Earnings	Transfers from Revaluation Surplus	Reinvestment of Dividend Payments	Total
1995 and before	32	247	2,969	3,248
1996	-	330	1,270	1,600
1997	1,022	596	4,382	6,000
1998	529	682	7,277	8,488
1999	600	2,062	16,338	19,000
2000	-	-	26,068	26,068
2001	-	-	-	-
2002	-	-	-	-
	2,183	3,917	58,304	64,404

There is no dilution of shares as of December 31, 2002 and 2001.

The following reflects the income (in full TL) and share data (in billions) used in the basic earnings per share computations:

	2002	2001
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	214	(463)

	2002	2001
Weighted average number of ordinary shares (in billions) for basic earnings per share	110.25	110.25

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

23. 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 Group is controlled by TEB Mali Yatırımlar A.Ş. which owns 70.08% (2001 – 70.08%) of ordinary shares, and included in Çolakoğlu Group of companies. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders and Çolakoğlu 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		Placements with bank	Cash loans	Non-cash loans	Minimum lease payments receivable	Premium receivable	Fund lent under securities resale agreements	Funds borrowed	Deposits taken	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Shareholders	2002	-	103,147	6,730	-	2,496	-	-	187,132	43,311	2	(2,450)	925	(813)
	2001	-	21,505	505	10	4,068	-	-	63,938	23,168	15,299	(9,570)	48	(73)
Others	2002	17,461	10,154	4,373	34	2,382	-	44,146	759,241	24,485	739	(13,645)	687	(1,019)
	2001	19,296	107,876	6,432	216	3,826	131,155	35,131	326,718	15,676	21,975	(44,605)	2,682	(405)

Cash loans granted to related parties include TL 102,553 (2001 – TL 123,899) of cash collateralized loans.

24. SALARIES AND EMPLOYEE BENEFITS

	2002	2001
Staff costs		
Wages and salaries	46,106	49,410
Bonuses	1,505	793
Other fringe benefits	5,480	5,785
Provision for employee termination benefits	1,909	2,422
Cost of defined contribution plan (employers' share of social security premiums)	5,098	4,902
Total	60,098	63,312

The average number of employees during the year is:

	2002	2001
The Bank	1,570	1,301
Subsidiaries	318	324
Total	1,888	1,625

25. OTHER INCOME/OTHER EXPENSES

Other income

	2002	2001
Fund management fees	4,522	5,537
Insurance technical income	5,518	7,131
Others	7,463	12,062
Total	17,503	24,730

Other expenses

	2002	2001
Rent expense	11,506	13,258
SDIF premium	8,898	11,121
Advertisement expenses	3,798	3,749
Various administrative expenses	25,198	33,058
Total	49,400	61,186

26. 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:

	2002	2001
Letters of guarantee		
- issued by the Bank	553,430	577,640
- obtained by consolidated subsidiaries from other banks	27,203	24,150
Letters of credit	321,987	28,222
Acceptance credits	40,361	219,377
Total non-cash loans	942,981	849,389
Other commitments	122,968	269,605
Credit card limit commitments	67,335	63,971
	1,133,284	1,182,965

Trust Assets

The nominal values of the assets held by the Group in fiduciary, agency or custodian capacities amounted to TL 1,539,865 (2001 - TL 1,185,674) and € 40.2 million (2001 - € 1,468 million) at December 31, 2002 and 2001, respectively.

Letters of Guarantee Given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of December 31, 2002 and 2001, in line with the requirements of IGM letters of guarantee amounting to US$ 1,610,000 had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of December 31, 2001 and 2002, according to the general requirements of the ISE, letters of guarantee amounting to TL 1,902 (in historical terms) and US$ 17 million had been obtained from various local banks and were provided to the ISE for bond market transactions. Also, as of December 31, 2002 and 2001, according to the general requirements, letters of guarantee amounting to TL 2,346 and TL 572 (2001 - TL 252) (in historical terms) were given to the Capital Markets Board, respectively.

Other

The Group manages nine open-ended investment funds which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable 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.

As of December 31, 2002 and 2001, the total value of the investment funds managed by the Group amounted to TL 327,529 and TL 194,436 respectively.

27. FINANCIAL RISK MANAGEMENT

General

The Risk Management Group is headed by a dedicated member of the Board who is assigned as Risk Supervisor. The Group reports to the Board of Directors and manages Market Risk, Credit Risk and Operational Risk.

Board of Directors sets limits and risks taken for all money, capital and commodity markets and counterparties.

Credit Risk

Credit risk represents the risk generating from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally.

Credit Risk Department is established, the internal rating system for corporate credits is being used by the Credit Control Department and a scoring system for retail banking was put in effect in 2001. The rating of the firms, credit limit and guarantee acceptance processes are taken into consideration all together in accordance with conservative lending policies applied by the Credit and Risk Follow-up Group. Accordingly the follow-up of credit risk is established. Sectoral counterparty credit limits are set on individual borrowers and groups. Money market placement lines and risks of the Group companies are monitored centrally by an in-house Line Limit System.

The risks and limits generated from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity are performed daily. Risk limits are determined for the transactions taking place daily and the risk concentration of the off-balance sheet transactions are followed up by the system.

The credibility of the debtors of the Bank is assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Majority of the accepted statements presenting the financial position of the borrowers are audited statements.

Transaction limits for the forward and other similar agreement positions held by the Bank is determined by the Board of Directors and transactions take place within these limits.

Foreign country and institution risks of the Bank are generally determined for foreign countries and institutions, which are considered at the investment level, in other words, which are stated as carrying minimum level of default risk by the international rating companies. Accordingly, the likely risks that may occur are minor risks when the financial structure of the Bank is considered.

Sectoral break down of cash and non-cash loans is as follows:

	2002		2001	
	Cash	Non-cash	Cash	Non-cash
Financial institutions and discounted bills	208,221	85,026	187,499	87,934
Metals	184,191	90,187	85,380	68,143
Textiles	152,815	103,716	78,453	88,338
Chemicals and chemical products	123,582	71,710	108,783	54,475
Food, beverage, tobacco	102,275	102,349	86,289	91,320
Wholesale and retailing	101,465	82,645	65,119	53,690
Transportation	64,409	30,860	60,788	37,422
Ready-to-wear textiles	63,379	37,606	95,986	23,373
Wood products	61,204	24,412	85,503	24,828
Machinery	32,118	35,658	19,572	42,578
Construction	25,662	28,228	22,456	14,496
Tourism, transportation, warehousing	24,402	24,456	15,147	31,144
Mining, other than metals	18,659	9,651	7,184	6,919
Electricity and optic devices	16,604	15,095	115,058	13,488
Fuel products	12,524	7,096	32,395	1,206
Fiber and plastic	10,290	29,196	15,297	49,719
Leather and leather products	3,370	1,993	2,516	1,236
Others	72,051	39,898	65,025	12,541
Corporate loans	1,277,221	819,782	1,148,450	702,850
Consumer loans	31,176	10,358	32,413	11,957
Letters of guarantee secured by counter guarantees	-	48,550	-	51,458
Confirmed and collateralized letters of credit	-	37,088	-	58,974
Interest accruals	19,329	-	32,671	-
Loans in arrears	20,212	-	22,641	-
Provision for possible loan losses	(21,383)	-	(11,820)	-
	1,326,555	915,778	1,224,355	825,239

Liquidity Risk

Liquidity risk occurs when there is insufficient amount of cash inflows to fulfill the cash outflows completely on time.

Liquidity risk may occur when market penetration is not enough, when the open positions cannot be closed at a suitable price and sufficient amount due to barriers and conditions at the markets. The Bank's policy is to establish a liquid asset structure that provides comfort in meeting all kinds of liabilities by liquid assets. The Board of Directors of the Bank continuously determines the liquidity ratios and related standards, and controls them, in order to keep this structure.

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by deposits, and in addition to this source, it makes use of prefinancing and syndication products to generate additional sources. The Bank is a net lender in interbank money markets.

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.

	Undistributed	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 years	1 to 5 years	Over 5 years	Total
As at December 31, 2002								
Assets:								
Cash and balances with the Central Bank	-	430,766	-	-	-	-	-	430,766
Deposits with banks and other financial institutions	-	1,014,347	13,493	9,035	2,703	-	-	1,039,578
Other money market placements	-	414,125	-	-	-	-	-	414,125
Reserve deposits at the Central Bank	-	133,072	-	-	-	-	-	133,072
Trading securities	-	368	16,281	10,760	6,719	18,588	934	53,650
Investment securities	-	572	17,213	1,600	1,307	36,553	-	57,245
Originated loans and advances	-	406,846	256,497	305,136	156,907	201,169	-	1,326,555
Factoring receivables	-	-	66,966	-	-	-	-	66,966
Minimum lease payments receivable	-	4,685	13,728	12,978	22,919	31,470	-	85,780
Derivative financial instruments	-	1,532	704	1,822	-	-	-	4,058
Investments in unconsolidated subsidiaries	337	-	-	-	-	-	-	337
Investments in associates	446	-	-	-	-	-	-	446
Premises and equipment	42,349	-	-	-	-	-	-	42,349
Intangible assets	3,742	-	-	-	-	-	-	3,742
Other assets	13,323	3,276	2,814	6,221	3,673	-	-	29,307
Total assets	60,197	2,409,589	387,696	347,552	194,228	287,780	934	3,687,976
Liabilities:								
Deposits from other banks	-	102,036	2,632	1,000	-	-	-	105,668
Customers' deposits	-	2,249,893	163,022	53,367	82,626	165,315	-	2,714,223
Other money market deposits	-	22,828	-	-	-	-	-	22,828
Funds borrowed	-	33,289	32,427	80,793	188,757	64,637	19,677	419,580
Factoring payables	-	-	27,983	-	-	-	-	27,983
Derivative financial instruments	-	2,690	563	1,082	233	-	-	4,568
Other liabilities and provisions	77,501	8,472	4,645	5,908	11,961	-	32	108,519
Income taxes payable	13,396	-	-	-	-	-	-	13,396
Deferred tax liability	2,082	-	-	-	-	-	-	2,082
Total liabilities	92,979	2,419,208	231,272	142,150	283,577	229,952	19,709	3,418,847
Net liquidity gap	(32,782)	(9,619)	156,424	205,402	(89,349)	57,828	(18,775)	269,129
As at December 31, 2001								
Total assets	266,487	1,966,346	286,436	266,484	362,919	140,364	-	3,289,036
Total liabilities	151,775	1,910,705	294,132	208,940	315,494	165,110	-	3,046,156
Net liquidity gap	114,712	55,641	(7,696)	57,544	47,425	(24,746)	-	242,880

Market Risk

The interest rate and exchange rate risks of the financial positions taken by the Bank related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to Value-at-Risk (VAR) is taken into consideration. Scenario analysis and stress tests are used additionally in market risk computations.

In order to measure the market risk of the Bank, the Board of Directors has established risk management strategies in accordance with the proposals of the Senior Management Risk Committee and these strategies are required to be followed up periodically. The Board of Directors evaluates the basic risks faced and determines limitations accordingly. The limits are revised periodically. Additionally, the Board of Directors requires the risk management group and senior management to take necessary precautions to consider, evaluate, and control the variety of risks the Bank faces.

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into account. Net short and long position of Turkish lira equivalent of each foreign currency is calculated. The value, which will be a base for calculating the share capital requirement, is computed by taking the higher absolute value of the position by adding to absolute net gold position. Share capital requirement is computed over of this amount. The Board of Directors sets limits for the positions, which are followed up daily. Additionally, possible value changes in the existing or possible foreign currency positions are observed together with the follow-up of the foreign currency risk in accordance with the provisions of the "Communiqué on Internal Control and Risk Management Systems of Banks".

The Board of Directors of the Bank determines the short position limits that the Bank can hold in accordance with the present legal limitations. The Treasury Department of the Bank is responsible for the management of Turkish lira or foreign currency price, liquidity and affordability risks that could occur in the domestic and international markets. The Risk Control Department continuously controls risk and risk related transactions occurring in the money markets and prepares weekly reports for the Bank's Asset-Liability Committee. The related principles and limitations of the counterparties are determined by the Loan Committee. The limits concerning the maturity structure of the foreign currency transactions and interest rates are monitored by the Asset-Liability Committee.

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

	Turkish lira	US dollars	Euro	Japanese Yen	Others	Total
As at December 31, 2002						
Assets:						
Cash and balances with the Central Bank (or central banks)	20,933	409,822	11	-	-	430,766
Deposits with banks and other financial institutions	42,884	787,297	146,701	1,834	60,862	1,039,578
Other money market placements	235,295	178,830	-	-	-	414,125
Reserve deposits at the Central Bank (or central banks)	10,162	122,910	-	-	-	133,072
Trading securities	43,779	2,687	6,912	-	272	53,650
Investment securities	37,125	1,599	-	17,213	1,308	57,245
Originated loans and advances	283,004	793,657	226,656	-	23,238	1,326,555
Factoring receivables	42,173	6,238	9,835	-	8,720	66,966
Minimum lease payments receivable	4,822	31,918	43,129	-	5,911	85,780
Derivative financial instruments	3,743	-	315	-	-	4,058
Investments in unconsolidated subsidiaries	337	-	-	-	-	337
Investments in associates	446	-	-	-	-	446
Premises and equipment	41,940	-	409	-	-	42,349
Intangible assets	3,614	-	128	-	-	3,742
Other assets	26,389	2,064	748	5	101	29,307
Total assets	796,646	2,337,022	434,844	19,052	100,412	3,687,976
Liabilities:						
Deposits from other banks	33,532	39,758	7,979	3	24,396	105,668
Customers' deposits	364,931	2,028,520	267,990	804	51,978	2,714,223
Other money market deposits	22,828	-	-	-	-	22,828
Funds borrowed	37,169	354,487	14,001	-	13,923	419,580
Factoring payables	13,104	3,688	5,478	-	5,713	27,983
Derivative financial instruments	4,568	-	-	-	-	4,568
Other liabilities and provisions	61,702	5,433	39,443	-	1,941	108,519
Income taxes payable	11,711	-	1,685	-	-	13,396
Deferred tax liability	2,082	-	-	-	-	2,082
Total liabilities	551,627	2,431,886	336,576	807	97,951	3,418,847
Net on-balance sheet position	245,019	(94,864)	98,268	18,245	2,461	269,129
Off-balance sheet position						
Net notional amount of derivatives	(40,527)	169,107	(103,839)	(18,082)	(11,096)	(4,437)
Non-cash loans	-	-	-	-	-	-
At December 31, 2001						
Total assets	758,565	2,100,439	355,230	382	74,420	3,289,036
Total liabilities	549,162	2,127,306	292,837	363	76,488	3,046,156
Net on-balance sheet position	209,403	(26,867)	62,393	19	(2,068)	242,880
Off-balance sheet position	(2,104)	10,805	(8,990)	72	55	(162)

Interest Rate Risk

Interest rate risk measures the probability of loss related to the changes in interest rates depending on the Bank's position. This is managed by the Treasury Department. The Board of Directors determines the interest rate risk limits. The Risk Control Department calculates, controls and reports the interest rate risk.

All types of sensitivity analysis are calculated by the risk management group and reported to the Asset-Liability Committee. The Asset-Liability Committee monitors the interest rate risk and takes these into consideration in defining the repricing strategies.

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 years	1 to 5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2002								
Assets:								
Cash and balances with the Central Bank	342,814	-	-	-	-	-	87,952	430,766
Deposits with banks and other financial institutions	948,322	13,493	9,035	2,703	-	-	66,025	1,039,578
Other money market placements	414,125	-	-	-	-	-	-	414,125
Reserve deposits at the Central Bank	133,072	-	-	-	-	-	-	133,072
Trading securities	2,694	32,002	11,148	6,822	666	46	272	53,650
Investment securities	265	53,766	1,600	1,307	-	-	307	57,245
Originated loans and advances	406,846	256,497	305,136	156,907	201,169	-	-	1,326,555
Factoring receivables	-	66,966	-	-	-	-	-	66,966
Minimum lease payments receivable	4,685	13,728	12,978	22,919	31,470	-	-	85,780
Derivative financial instruments	1,532	704	1,822	-	-	-	-	4,058
Investments in unconsolidated subsidiaries	-	-	-	-	-	-	337	337
Investments in associates	-	-	-	-	-	-	446	446
Premises and equipment	-	-	-	-	-	-	42,349	42,349
Intangible assets	-	-	-	-	-	-	3,742	3,742
Other assets	3,276	2,814	6,221	3,673	-	-	13,323	29,307
Total assets	2,257,631	439,970	347,940	194,331	233,305	46	214,753	3,687,976
Liabilities:								
Deposits from other banks	102,036	2,632	1,000	-	-	-	-	105,668
Customers' deposits	2,249,893	163,022	53,367	82,626	165,315	-	-	2,714,223
Other money market deposits	22,828	-	-	-	-	-	-	22,828
Funds borrowed	33,289	198,619	75,374	101,744	10,554	-	-	419,580
Factoring payables	-	27,983	-	-	-	-	-	27,983
Derivative financial instruments	2,690	563	1,082	233	-	-	-	4,568
Other liabilities and provisions	-	-	5,908	11,961	-	32	90,618	108,519
Income taxes payable	-	-	-	-	-	-	13,396	13,396
Deferred tax liability	-	-	-	-	-	-	2,082	2,082
Total liabilities	2,410,736	392,819	136,731	196,564	175,869	32	106,096	3,418,847
On-balance sheet interest sensitivity gap	(153,105)	47,151	211,209	(2,233)	57,436	14	108,657	269,129
Off-balance sheet interest sensitivity gap	-	-	-	-	-	-	-	-
Total interest sensitivity gap	(153,105)	47,151	211,209	(2,233)	57,436	14	108,657	269,129

Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Bank's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by 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, 2002, the Bank's capital adequacy ratio on an unconsolidated basis is 15.40% (2001- 13.26%).

28. 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	
	2002	2001	2002	2001
Financial assets				
Originated loans and advances to customers	1,326,555	1,224,355	1,326,487	1,194,505
Investments held-to-maturity	39,725	49,412	39,136	49,071
Minimum lease payments receivables	85,780	61,840	86,000	59,411
	1,452,060	1,335,607	1,451,623	1,302,987
Financial liabilities				
Deposits from other banks	105,668	89,055	105,658	89,055
Customer deposits	2,714,223	2,121,862	2,713,694	2,121,937
Funds borrowed	419,580	417,788	422,614	408,537
	3,239,471	2,628,705	3,241,966	2,619,529

Fair values of remaining financial assets and liabilities carried at cost, including deposit with banks and other financial instruments, balances with the Central Bank, reserve deposits, other money market placements, deposits, factoring receivables and payables, funds borrowed under securities repurchase agreements and promissory notes 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.

The interest used to determine the fair values of financial instruments, applied on the balance sheet date to reflect active market price quotations are as follows:

Originated loans and advances:

	Interest Rates Applied (%)	
Currency	December 31, 2002	December 31, 2001
Turkish lira	37.59	67.00
US dollar	5.71	7.31
Euro	5.38	6.63

Lease contract receivables:

	Interest Rates Applied (%)	
Currency	December 31, 2002	December 31, 2001
Turkish lira	70.71	70.00
US dollar	11.26	15.00
Euro	13.31	17.00
Swiss franc	9.97	-

Deposits:

	Interest Rates Applied (%)	
Currency	December 31, 2002	December 31, 2001
Turkish lira		43.87 58.00
US dollar	2.51	2.75
Euro	2.60	4.00

Funds borrowed:

	Interest Rates Applied (%)	
Currency	December 31, 2002	December 31, 2001
Turkish lira	45.23	59.00
US dollar	3.25	4.75
Euro	5.67	5.80

29. SUBSEQUENT AND OTHER EVENTS

i) The Bank is in the process of establishing a branch in Bahrain in an offshore bank status based on the permission of the Under Secretariat of Treasury to the Prime Ministry of Turkish Republic and the branch is planned to start operations in March 2003.
ii) As of January 1, 2003, retirement pay liability ceiling was increased to TL 1.324.
iii) In 2002, three branches have been acquired from banks, which are under the control of the Savings Deposits Insurance Fund.

30. UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK

The Bank's own unconsolidated balance sheets and income statements prepared in accordance with IFRS as of and for the years ended December 31, 2002 and 2001, 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. These financial statements have been included within the consolidated financial statements as of the respective dates.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
UNCONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2002

(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2002)

ASSETS	2002	2001
Cash and balances with the Central Bank	430,654	173,379
Deposits with banks and other financial institutions	331,085	251,553
Other money market placements	407,074	674,444
Reserve deposits at the Central Bank	133,072	132,482
Trading securities	31,298	9,012
Investment securities	54,039	196,773
Originated loans and advances	807,734	603,163
Derivative financial instruments	4,394	666
Investments in subsidiaries and associates	106,816	94,712
Premises and equipment	37,234	34,125
Intangible assets	2,964	2,324
Deferred tax assets	43	-
Other assets	7,145	4,087
Total assets	2,353,552	2,176,720

LIABILITIES AND EQUITY		
Deposits from other banks	60,147	23,762
Customers' deposits	1,637,596	1,375,348
Other money market deposits	22,828	134,306
Funds borrowed		
- Subordinated loan	24,919	-
- Other funds borrowed	270,478	305,604
Derivative financial instruments	4,568	730
Other liabilities and provisions	71,684	92,770
Income taxes payable	10,473	9,003
Deferred tax liability	-	2,262
Total liabilities	2,102,693	1,943,785
Equity		
Share capital issued	55,125	55,125
Adjustment to share capital	181,945	405,554
Legal reserves and accumulated profits (deficit)	13,789	(227,744)
Total equity	250,859	232,935
Total liabilities and equity	2,353,552	2,176,720

Appendix 2/2

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
UNCONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2002
(Currency - In billions of Turkish lira in equivalent purchasing power at December 31, 2002)

INCOME STATEMENT	2002	2001
Interest income		
Interest on originated loans and advances	160,105	194,967
Interest on securities	57,030	71,131
Interest on deposits with banks and other financial institutions	17,427	73,255
Interest on other money market placements	85,848	126,351
Other interest income	4,675	1,348
Total interest income	325,085	467,052
Interest expense		
Interest on deposits	(111,058)	(262,818)
Interest on other money market deposits	(28,770)	(585)
Interest on funds borrowed	(28,493)	(99,954)
Other interest expense	(1,359)	(2,332)
Total interest expense	(169,680)	(365,689)
Net interest income	155,405	101,363
Provision for possible loan losses	(14,521)	(9,214)
Net interest income (expense) after provision for possible loan losses	140,884	92,149
Foreign exchange gain (loss)	1,127	35,221
Net interest income after foreign exchange gain (loss) and provision for possible loan losses	142,011	127,370
Other operating income		
Fees and commissions income	9,846	12,715
Income from banking services	19,193	25,766
Trading income (loss)	18,776	20,282
Other income	9,325	30,988
Total other operating income	57,140	89,751
Other operating expense		
Fees and commissions expense	(15,150)	(11,715)
Salaries and employee benefits	(46,109)	(46,782)
Depreciation and amortization	(10,967)	(10,688)
Taxes other than on income	(12,418)	(15,884)
Other expenses	(36,459)	(46,881)
Total other operating expense	(121,103)	(131,950)
Profit (loss) from operating activities before income tax and monetary gain (loss)	78,048	85,171
Income tax	(19,891)	(9,473)
Monetary gain (loss)	(40,232)	(91,950)
Net profit (loss)	17,925	(16,252)

Directory of TEB Branches*

Main
Tel : (0212) 252 67 67
Fax : (0212) 249 63 10

Adana
Tel : (0322) 458 90 33
Fax : (0322) 459 00 63

Aksaray
Tel : (0212) 632 68 78
Fax : (0212) 632 69 68

Altıyol
Tel : (0216) 414 85 84
Fax : (0216) 414 60 86

Altunizade
Tel : (0216) 474 35 63
Fax : (0216) 474 10 52

Ankara
Tel : (0312) 468 11 32
Fax : (0312) 467 01 49

Antakya
Tel : (0326) 225 28 80
Fax : (0326) 225 28 87

Antalya
Tel : (0242) 248 48 01
Fax : (0242) 248 06 69

A.O.S. Çiğli
Tel : (0232) 376 83 43
Fax : (0232) 376 83 50

Avcılar
Tel : (0212) 690 21 90
Fax : (0212) 690 22 10

Aydın
Tel : (0256) 213 67 80
Fax : (0256) 213 90 96

Bahçeşehir
Tel : (0212) 669 23 00
Fax : (0212) 669 23 11

Bahrain
Tel : (+9073) 54 00 70
Fax : (+9073) 54 00 71

Bakırköy
Tel : (0212) 543 66 36
Fax : (0212) 543 74 24

Balıkesir
Tel : (0266) 244 01 30
Fax : (0266) 245 00 97

Bayramyeri
Tel : (0258) 264 94 64
Fax : (0258) 264 85 45

Bayrampaşa
Tel : (0212) 565 28 50
Fax : (0212) 565 33 36

Bebek
Tel : (0212) 287 79 31
Fax : (0212) 287 79 39

Beşiktaş
Tel : (0212) 227 70 65
Fax : (0212) 236 09 94

Beşyüzevler
Tel : (0212) 477 57 57
Fax : (0212) 477 57 65

Beylikdüzü
Tel : (0212) 852 33 80
Fax : (0212) 852 33 91

Bursa
Tel : (0224) 224 41 61
Fax : (0224) 224 42 92

Bursa Free Zone
Tel : (0224) 524 86 20
Fax : (0224) 524 86 26

Call Centre
Tel : (0212) 444 0 666
Fax : (0212) 292 86 66

Çarşı
Tel : (0232) 469 73 10
Fax : (0232) 469 73 19

Çiftehavuzlar
Tel : (0216) 330 12 35
Fax : (0216) 330 24 19

Çukurova Corporate
Tel : (0322) 457 14 12
Fax : (0322) 457 14 62

Davutpaşa
Tel : (0212) 501 92 08
Fax : (0212) 612 23 28

Denizli
Tel : (0258) 241 28 01
Fax : (0258) 241 28 10

Ege Corporate
Tel : (0212) 489 10 60
Fax : (0212) 445 10 38

Eskişehir
Tel : (0222) 220 24 24
Fax : (0222) 234 24 24

Etiler
Tel : (0212) 257 78 00
Fax : (0212) 257 39 39

Gayrettepe
Tel : (0212) 356 21 51
Fax : (0212) 356 21 36

Gaziantep
Tel : (0342) 215 41 00
Fax : (0342) 215 41 19

Gebze
Tel : (0262) 643 02 65
Fax : (0262) 643 02 75

Gülsokak
Tel : (0232) 463 00 02
Fax : (0232) 463 42 37

Güneşli
Tel : (0212) 630 91 10
Fax : (0212) 630 91 21

Güneydoğu Corporate
Tel : (0342) 322 05 80
Fax : (0342) 322 05 89

Harbiye
Tel : (0212) 234 12 16
Fax : (0212) 231 64 67

Işıkkent
Tel : (0232) 436 47 70
Fax : (0232) 436 47 73

İkitelli
Tel : (0212) 549 17 05
Fax : (0212) 549 16 43

İmes San. Sit.
Tel : (0216) 527 12 01
Fax : (0216) 527 12 10

İskenderun
Tel : (0326) 614 19 19
Fax : (0326) 613 22 25

İstanbul Free Zone
Tel : (0212) 465 04 41
Fax : (0212) 465 04 38

İzmir
Tel : (0232) 489 10 60
Fax : (0232) 482 33 72

İzmit
Tel : (0262) 322 36 00
Fax : (0262) 322 36 04

Kadıköy
Tel : (0216) 445 08 38
Fax : (0216) 445 08 37

Kahramanmaraş
Tel : (0344) 231 20 81
Fax : (0344) 231 20 91

Karabağlar
Tel : (0232) 254 53 43
Fax : (0232) 265 06 60

Karadeniz Ereğli
Tel : (0372) 322 52 08
Fax : (0372) 322 52 16

Kartal
Tel : (0216) 379 93 93
Fax : (0216) 598 10 50

Kayseri
Tel : (0352) 222 11 23
Fax : (0352) 232 30 18

Karşıyaka
Tel : (0232) 364 55 00
Fax : (0232) 369 85 20

Kemalpaşa
Tel : (0232) 877 06 60
Fax : (0232) 877 06 61

Konya
Tel : (0332) 236 10 67
Fax : (0332) 236 20 64

Kozyatağı
Tel : (0216) 355 07 37
Fax : (0216) 355 07 40

Levent
Tel : (0212) 283 70 50
Fax : (0212) 282 33 37

Maçka
Tel : (0212) 219 38 70
Fax : (0212) 219 38 71

Malatya
Tel : (0422) 325 42 62
Fax : (0422) 325 48 07

Marmara Corporate
Tel : (0224) 272 72 00
Fax : (0224) 273 03 98

Mecidiyeköy
Tel : (0212) 274 53 44
Fax : (0212) 274 37 33

Mersin
Tel : (0324) 238 68 40
Fax : (0324) 238 68 53

Mersin Free Zone
Tel : (0324) 238 83 47
Fax : (0324) 238 83 51

Merter
Tel : (0212) 637 21 10
Fax : (0212) 637 21 09

Orta Anadolu Corporate
Tel : (0312) 447 74 40
Fax : (0312) 447 74 02

Private Banking Centre
Tel : (0212) 345 00 00
Fax : (0212) 345 00 84

Samsun
Tel : (0362) 432 99 88
Fax : (0362) 435 33 27

Suadiye
Tel : (0216) 385 58 40
Fax : (0216) 385 55 86

Sultanhamam
Tel : (0212) 514 11 51
Fax : (0212) 514 51 61

Trabzon
Tel : (0462) 323 08 70
Fax : (0462) 323 08 83

Trakya Corporate
Tel : (0212) 474 03 04
Fax : (0212) 474 15 77

Ulus
Tel : (0312) 309 03 08
Fax : (0312) 309 03 26

Uşak
Tel : (0276) 224 51 64
Fax : (0276) 212 37 72

Ümraniye
Tel : (0216) 461 60 71
Fax : (0216) 461 60 78

Yeşilköy
Tel : (0212) 662 45 99
Fax : (0212) 662 46 01

Zeytinburnu
Tel : (0212) 679 20 75
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* As of May 2003

Financial Calendar

Announcement of financial results:

1st Quarter	: Within six weeks from March 31
2nd Quarter	: Within eight weeks from June 30
3rd Quarter	: Within six weeks from September 30
Year-end	: Within ten weeks from December 31

Annual General Meeting of Shareholders: No later than March 31

Information for Shareholders

ISE Ticker Symbol	: <TEBNK.IS>
GDR Ticker Symbol	: <TKKKYP(144A)
Reuters Code	: <TURAq.L> on SEAQ International on the London Stock Exchange
Bloomberg Code	: <TURA LI>

Enquiries

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