TEB

TÜRK EKONOMİ BANKASI

Annual Report 2001

THE IZMIR BRANCH OFFICE BUILDING REFLECTS MANY BUSINESS VALUES TO WHICH TEB ADHERES - IT IS STRONGLY-BUILT AND TRADITIONAL WHILE AT THE SAME TIME DYNAMIC AND EFFICIENT. THE VISUAL MATERIAL PRESENTED IN THIS YEAR'S ANNUAL REPORT INCLUDES THE ELEGANT FAÇADE AND INTERIORS OF THIS BUILDING AS WELL AS THE OLD VAULT CONTAINED WITHIN ITS PREMISES.

THE BUILDING WAS CONSTRUCTED AT THE TURN OF THE 20TH CENTURY BY AN ITALIAN ARCHITECT FOR AN ITALIAN BANK. IT IS A NEO-CLASSICAL CONSTRUCTION INCORPORATING ART NOUVEAU ELEMENTS BOTH IN ITS INTERIOR AND EXTERIOR ASPECTS. THE VAULT, STILL IN USE TODAY, DATES BACK TO THE TIME OF THE BUILDING'S CONSTRUCTION; IT IS DEVOID OF ANY ELECTRONIC COMPONENTS AND ONLY WORKS UTILISING MECHANICAL ARMS AND LOCKS.

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Bank Profile

TEB AND ITS SUBSIDIARIES HAVE LARGELY ALIENATED THEMSELVES FROM THE RECENT ECONOMIC DIFFICULTIES THAT AFFECTED THE FINANCIAL SERVICES INDUSTRY IN TURKEY THANKS TO THEIR PRUDENT APPROACH AND CONSERVATIVE POLICIES CONTROLLING ASSET GROWTH AND INHERENT RISK, EMPHASISING LIQUIDITY AND KEEPING THE QUALITY OF THE CLIENT-BASE HIGH.

With the objective of gradually developing a full-service financial institution, 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 and commercial as well as private banking operations. With these changes, the Bank was able to offer an increasingly sophisticated range of financial products to private businesses, multinational companies and wealthy individuals in Turkey.

During the 1980s, while other Turkish banks developed extensive countrywide branch networks, TEB adopted a strategy of specialisation and consolidated its financial strength with particular emphasis on trade finance and advisory services.

TEB has also been a pioneer in initiating private banking services in Turkey in the 1980s 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, the core business lines of TEB are corporate, commercial, private and retail banking as well as treasury activities.

TEB was not affected by the difficulties that had started with the liquidity squeeze in financial markets in November 2000 and carried forward into 2001 resulting in a sharp devaluation in February. Throughout the year, TEB boldly expanded its financial services, adding 21 new branches to its physical network and implementing technology-based alternative distribution channels.

TEB attaches great importance to client relations and to the quality of services it offers. Its 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, which respond to the needs of these companies, their affiliates, key shareholders, management and employees. TEB has consistently improved the quality of its services offered through its 71 branches located in major traditional as well as emerging business areas of Turkey. Additionally, its Call Centre Branch, "Telepati Retail Finance Centre", has been specifically designed to answer the needs of retail banking clientele. In the coming years, TEB will

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.

continue to expand the scope of its products and services to meet the needs of its clients while broadening its geographical reach.

As part of its strategy to build an integrated financial services group, TEB has 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. TEB Research, a unique and independent information resource in Turkey, merged with TEB Investment in 2001 to create further synergy with the Group's investment banking activities. TEB Investment continues to provide highly reliable economic and financial analyses to institutional investors in Turkey and around the world.

Thanks to the flexibility of TEB's balance sheet and strong financial position, 2001 has been another year of successful financial and operational results. The subsidiary companies have rapidly gained market share and an excellent reputation for the delivery of high quality services. 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 and ethical values of the banking profession. Senior staff constantly reviews strategic goals and decisions, analysing risk related to financial markets, lending and liquidity as well as managerial and implementation issues. TEB and its subsidiaries have largely alienated themselves from the recent economic difficulties that affected the financial services industry in Turkey thanks to their prudent approach and conservative policies controlling asset growth and inherent risk, emphasising liquidity and keeping the quality of the client-base high.

Currently, approximately 20% of TEB's shares are listed and traded on the Istanbul Stock Exchange and as GDRs, on the London Stock Exchange.

Financial Highlights

(TL in billions, US$ in millions)

	2001**		2000**		1999**	
	US$*	TL	US$*	TL	US$*	TL
Total Assets	1,150	1,663,651	1,395	937,378	1,259	845,519
Marketable Securities	109	157,280	110	74,125	345	231,644
Loans, net	319	460,993	343	230,485	227	152,237
Total Deposits	739	1,069,329	658	442,106	613	411,741
Shareholders' Equity	123	178,032	151	101,822	104	69,833
Interest Income	251	363,141	231	155,204	235	157,581
Interest Expense	(193)	(279,493)	(100)	(67,472)	(100)	(67,343)
Net Income/Loss	(9)	(12,421)	12	7,822	22	14,614
Consolidated Net Income/(Loss)	(27)	(39,025)	16	10,414	51	21,010

(*) Converted at the year-end rate of US$ 1 = TL 1,446,638 for 2001, US$ 1 = TL 671,765 for 2000 and US$ 1 = TL 542,703 for 1999.

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

Ratios And Key Operational Indicators

	2001	2000	1999
Capital Adequacy	13.26%	11.24%	10.10%
ROE	(6.96)%	9.11%	23.37%
ROA	(0.71)%	0.87%	1.66%
Number of Staff	1,262	1,358	1,408
Number of Branches	71	54	46

TEB's Ratings From Major Rating Agencies*

Moody's Investor Service

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

Fitch

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 parenthesis.

(*) As of July 2002


TEB

Report of the Board of Directors

OUR BUSINESS ACTIVITIES IN 2001 WERE CENTRED ON CORPORATE AND COMMERCIAL BANKING, WHILE RETAIL BANKING ACTIVITIES WERE DELIBERATELY SLOWED DUE TO UNCOOPERATIVE MARKET CONDITIONS.

Year 2001 will be remembered as a turning point for the Turkish banking system when success stories were spoken of along with failure. While some banks failed and left the business, a few took advantage of market developments and fortified their presence.

The IMF-supported economic programme launched at the beginning of 2000, aiming to curb chronic inflation became inoperative in February 2001 from the effects of the liquidity and interest rate crises experienced in the last quarter of 2000. The programme initially targeted easing burdens on the financial system with new fiscal policies, restructuring public sector administration and bringing stability and confidence in capital markets. The year 2001 started and continued with the deep impact of the devaluation in February, which severely affected financial and manufacturing industries concurrently.

The successive blows to the financial sector stressed once more the necessity to implement the long-neglected structural reforms without delay. The banking industry was the most affected by these crises.

• The number of banks taken over by the Savings Deposits Insurance Fund (SDIF), whose balance sheet compositions deteriorated and with capital adequacy ratios below levels precluding their normal course of operations, increased to 19 with the eight taken over during 2001.

• The balance sheet footing of the entire banking sector decreased by 20% to US$ 117 billion in real terms. The share of private and state-owned banks decreased while the share of SDIF banks increased.

• Turkish lira deposits decreased by 20% and FX deposits increased by 33% due to uncertainties and volatility in FX rates. Maturity of deposits greatly shortened and concentrated on one month.

• It has become more difficult to raise funding in international markets and the amount of funds obtained from abroad decreased by about 40%.

• Credits in bank balance sheets decreased while the volume of investment securities increased, partly due to the value increase of FX-based securities.

• Bank capital eroded significantly and profitability was greatly reduced due to the devaluation of the Turkish lira, losses incurred in funding operations because of high interest rates and high amounts of non-performing loans.

A series of policy measures were implemented by the authorities to control these negative developments - directly or indirectly affecting the entire financial sector, revitalize the banking industry by straightening their financial structure and enabling them to perform at international banking standards. Under the IMF's sponsorship, a new economic programme called "Strengthening the Turkish Economy - Turkey's Transition Programme" was launched under these main guidelines:

• Restructuring of the state-owned banks,

• Changes in the Central Bank Law to enable independent monetary policy applications,

WITH WELL-CALCULATED STEPS TOWARD RISK-TAKING AND THE PRUDENT MANAGEMENT OF ALL BANKING OPERATIONS, TEB ENTERS 2002 AS A SUCCESSFUL MEMBER OF THE TEB FINANCIAL SERVICES GROUP.

- Changes in the Banking Law as required by EU directives and the enactment of a Communiqué on the Principles of Establishment and Operations of Banks,

- Promoting bank mergers and acquisitions by bringing certain tax advantages,

- Tax incentives to enable capital increases through the sales of real estate and participation stocks,

- Enacting regulations on the Principles of Risk Management and Internal Audit at Banks as well as on the Measurement and Assessment of Capital Adequacy,

- Regulations concerning Reserves for Non-Performing Loans and FX Position Audits,

- Application of a different withholding tax rate on securities investments and accrued interest on banks' compulsory deposits with the Central Bank.

In addition to these measures, a three-tier audit system has been imposed on banks - a radical and unusual application in the banking industry. Under this system, 2001 year-end bank financial statements will be audited by two separate independent auditing firms and a third audit shall be conducted by the Banking Regulation and Supervision Agency (BRSA). The purpose of this complicated audit system is to observe the real effects of the successive crises on the banking sector and to identify the additional capital requirements of the banks.

TEB has successfully passed through all of these audits and as can be seen from our financial statements presented in this report, our Capital Adequacy Ratio at year-end 2001 stood at 13.26% - well above the minimum requirement of 8%. The BRSA has confirmed that TEB has sufficent equity base and no need for additional capital. This is a clear evidence of our Bank's financial strength and capital adequacy.

The continuing adverse economic conditions have demonstrated once more that adherence to prudent banking practices always helps avoid difficulties and creates new opportunities for those with a solid standing. While TEB was not affected by the crises, an opportunity for growth emerged at a time of severe distress to many peers. At the end of the year, TEB acquired 21 branch offices from the SDIF banks.

Market, credit and operational risk constitute the integral parts of regular banking activity. Likewise, TEB is dedicated to a strict risk management process to which all senior managers actively participate. To adhere to the Banking Regulation and Supervision Agency ruling, a Risk Management Division was established in 2001, incorporating three separate departments for market, credit and operational risk.

Risk-taking limits are closely monitored and observed on a daily basis against authorised limits set by the Management Committee and approved by the Board of Directors. In the case of new product development, thorough risk assessment precedes its launching, resorting to adequate accounting and operational procedures and controls.

Our business activities in 2001 were centred on corporate and commercial banking, while retail banking activities were deliberately slowed due to uncooperative market conditions. Other than the expected cutbacks in private banking, treasury and capital market-related activities, business was as usual in these segments.

At the end of 2001, we achieved a balance sheet total of TL 1,663,651 billion (US$ 1.1 billion) while 58% of our assets were made up of liquid assets and 70% FX-based assets. These ratios are well above industry averages.

While observing strict conservative credit allocation policies, we increased our total outstanding cash credits by 94% to TL 460,993 billion, reaching 28% of total assets. Of the total cash credits, 44% is denominated in Turkish lira and 56% in foreign currency, with 45% of the Turkish lira cash credits with maturities of 0-3 months and 72% of FX credits having maturities of 0-6 months. Despite the difficulties, non-performing loans continued to make up an insignificant ratio of 3.77%.

Non-cash credits reached TL 590 trillion, consisting mainly of short-term letters of guarantee issued for domestic commercial transactions and import guarantees as well as acceptance credits.

Total deposits, an important funding source for TEB, increased significantly by 26% to TL 1,069,329 billion at the end of the year as a result of flight to quality during times of market distress. Deposits represent 66% of total liabilities and foreign currency accounts make up 81% of total deposits.

In 2001, TEB accounted for export and import transactions of US$ 1,694 million and US$ 1,886 million, respectively. These figures represent approximately 4.6% of Turkey's total imports and 5.5% of total exports.

The number of branch offices rose to 71 at the end of 2001. Some branches with insufficient performance level were closed and 21 branches were acquired from the SDIF banks. With new branches added to TEB's countrywide network, the number of personnel increased from 1,262 at the end of December 2001 to 1,524 at the end of March 2002.

With well-calculated steps toward risk-taking and the prudent management of all banking operations, TEB enters 2002 as a successful member of the TEB Financial Services Group.

TEB's shares, quoted and traded on the Istanbul Stock Exchange since February 2000, were among the least affected by the crisis during 2001. They were previously included in the ISE National-100 Index but were later elevated to rank among the stocks constituting the ISE National-50 Index.

The Board of Directors would like to express its appreciation to the shareholders and the Bank's conscientious and loyal staff for their lasting dedication in making 2001 a successful year, despite the difficulties in the Turkish economy. We are confident that TEB will continue to prosper and to meet its objectives in the future.

Board of Directors

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Chairman

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

Varol Civil
Executive Director and Deputy General Manager

Cihat Madanoğlu
Executive Director

İsmail Yanık
Executive Director

Alparslan Karagülle
Director

Refael Taranto
Director

Hasan T. Çolakoğlu
Adviser to the Board

Hakan Tıraşın
Secretary to the Board

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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

Legal Counsel

Prof. Dr. Seza Reisoğlu
Prof. Dr. Devrim Ulucan

Auditors

A.A. Aktif Analiz Serbest Muhasebecilik Mali Müşavirlik A.Ş.,
Member of Andersen Worldwide

As of July 2002

The Turkish Economy in 2001

THE CRISIS THAT EMERGED IN FEBRUARY 2001, AND THE SUBSEQUENT SHARP DEVALUATION OF THE TURKISH LIRA, SERIOUSLY HURT CONFIDENCE AND CREATED AN UNCERTAIN ECONOMIC OUTLOOK. AMIDST THIS ATMOSPHERE, ECONOMIC ACTIVITY SUFFERED HEAVILY.

The year 2001 started in a mood characterised by lack of confidence and high market volatility in the aftermath of the November 2000 financial crisis. Government's announcement of strengthened economic and financial policies with an action plan for structural reforms, coupled with IMF's approval of additional US$ 7.4 billion Supplemental Reserve Facility (SRF), helped to build up confidence. Indeed, the reshaped policies turned out to be more rigorous and strict than the original programme, complemented with a round-the-clock timetable for structural reforms. In early 2001, the programme started to gain public confidence, interest rates declined, The Central Bank of the Republic of Turkey (CBRT) restored its FX reserves, and structural reforms were enacted. There was solid improvement ahead of Treasury's ever-largest redemption, O/N rates levelled at 45%, and interest rates were around 60-65%.

However, at this point, the second and deeper turmoil in financial markets was triggered by political stress in Ankara. The political tension between President Sezer and Prime Minister Ecevit on February 19 was interpreted as a serious threat to the stabilisation programme, leading to US$ 7.6 billion worth of FX demand within a few hours. The CBRT tried to maintain its tight monetary policy and urge FX sales. However, growing panic in the banking sector increased the FX demand, and drained market liquidity. Consequently, state banks, regular borrowers in the interbank markets, were led into a severe liquidity squeeze. Ultimately, O/N rates soared to 4,000-5,000% in two days, and bond yield reached 200%.

In a chaotic atmosphere, on February 22, Turkey's crawling peg exchange rate regime, implemented for 14 months since the inception of the stabilisation programme was abandoned, and a new policy of free floating rates was introduced. The TL/US$ exchange rate rose by 40% in the first day of the float. Within this context, Treasury Undersecretary and the CBRT Governor resigned. Mr. Kemal Derviş, Vice-President at IBRD, was appointed as the Minister in charge of the Economy in early March. The general outlook of a new economic programme was announced in mid-March, and the programme was finalised in May. IMF affirmed its support to Turkey's reinforced economic reform programme and approved an additional US$ 8 billion stand-by arrangement on May 15.

The crisis that emerged in February 2001, and the subsequent sharp devaluation of the Turkish lira, seriously hurt confidence and created an uncertain economic outlook. Amidst this atmosphere, economic activity suffered heavily. Rising layoffs, combined with Government's tight fiscal policies and the real decline in income and wealth, depressed significantly the domestic demand. The sharp increase in interest rates, followed by a significant decline in loans, put strain on demand. Furthermore, occasional political disputes contributed to eroding public confidence; thus, disturbing markets and further weakening the economic outlook.

Unsurprisingly, export and tourism oriented sectors were the beneficiaries of the devaluation of the Turkish lira, while the September 11 events had a negative impact on tourism. The contraction in gross national product (GNP) was much higher than that in gross domestic product, with continuing outflow of net factor income. The outflow of income, which includes external debt interest payments and profit transfers, rose by 16% in real terms in the year 2001, while income received, mainly remittances of workers abroad, contracted by 25%, due to adverse conditions at home.

UNSURPRISINGLY, EXPORT AND TOURISM ORIENTED SECTORS WERE THE BENEFICIARIES OF THE DEVALUATION OF THE TURKISH LIRA, WHILE THE SEPTEMBER 11 EVENTS HAD A NEGATIVE IMPACT ON TOURISM.

The Turkish Economy in 2001 continued

FISCAL BALANCES HAVE BEEN ONE AREA WHERE GOVERNMENT HAS BEEN MOST SUCCESSFUL IN THE YEAR 2001. WHILE HIGHER THAN EXPECTED INFLATION COUNTERBALANCED THE HIGHER THAN EXPECTED ECONOMIC CONTRACTION, BUDGETARY EXPENDITURES WERE KEPT IN LINE WITH PROJECTIONS.

On the expenditure side, the contraction stemmed from the decline in durable goods expenditures in the private sector (30% decline), as well as the drop in public and private investment outlays. Rising exports, on the other hand, contributed positively to GDP.

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

	1996	1997	1998	1999	2000	2001
Private Consumption Exp.	8.5	8.4	0.6	(2.6)	6.2	(9.0)
Public Consumption Exp.	8.6	4.1	7.8	6.5	7.1	(8.6)
Public Fixed Capital Formation	24.4	28.4	13.9	(8.7)	19.6	(22.0)
Private Fixed Capital Formation	12.1	11.9	(8.3)	(17.8)	16.0	(35.1)
GDP	7.0	7.5	3.1	(4.7)	7.4	(7.4)

Source: State Institute of Statistics (SIS)

On the supply side, industrial value added contracted by 7.5%, while value added in the services sector declined by 7.6%. In addition, agricultural output registered 6.1% real contraction, compared to a meagre 3.9% growth in 2000.

REAL GROWTH BY SECTORS (%)

	1996	1997	1998	1999	2000	2001
Agriculture	4.4	(2.3)	8.4	(5.0)	3.9	(6.1)
Industry	7.1	10.4	2.0	(5.0)	6.0	(7.5)
Services	7.3	8.6	2.4	(4.5)	8.9	(7.6)
GDP	7.0	7.5	3.1	(4.7)	7.4	(7.4)
GNP	7.1	8.3	3.9	(6.1)	6.3	(9.4)

Source: State Institute of Statistics (SIS)

The pass-through of the sharp devaluation of the Turkish lira to domestic prices resulted in two-digit monthly inflation figures right after the shift to the floating exchange rate regime in February 2001, at a critical time when annual inflation was down to its 19-year low. Seasonal effects, reflected by relatively lower price increases or decreases in agricultural prices, helped to slow down inflation in the summer months.

However, the soaring exchange rate from July onwards, in line with the rising FX demand, due to worries regarding the implementation of the programme, led to higher inflation in September and October. Finally, news in the media announcing additional lending from IMF led to a sharp decline in the exchange rate in November and December, creating positive market sentiment and inflation gradually losing pace. Government policy adjusting public sector prices (mainly oil and electricity) in line with the current rate of exchange, in order to improve the fiscal position of the state enterprises, contributed to the inflationary dynamics in 2001. In the face of runaway devaluation, CPI increases lagged behind WPI increases, reflecting the subdued domestic demand, and WPI increases were lower than devaluation. While the FX basket (US$ 1 + Euro 0.77) rose by 112%, year-end inflation recorded 89% in terms of WPI and 69% in terms of CPI, significantly higher than 33% and 39%, respectively, registered the year before.

THE EXTRAORDINARY AND SHARP RISE IN THE DOMESTIC DEBT STOCK DURING 2001 IS MAINLY DUE TO DEBT THROUGH RECAPITALIZATION AND RESTRUCTURING OF THE BANKING SECTOR.

ANNUAL INFLATION (%)

	1996	1997	1998	1999	2000	2001
Wholesale	84.9	91.0	54.3	62.9	32.7	88.6
Consumer	79.8	99.1	69.7	68.8	39.0	68.5

Source: State Institute of Statistics (SIS)

Fiscal balances have been one area where Government has been most successful in the year 2001. While higher than expected inflation counterbalanced the higher than expected economic contraction, budgetary expenditures were kept in line with projections. Moreover, the primary balance of the consolidated government sector yielded a surplus amounting to 5.9% of GNP. This compares favourably with the target set at 5.5% of GNP.

Despite the economic contraction, Value Added Tax (VAT) revenue rose by 5% in real terms (deflated by the average CPI increase), partly reflecting the one percentage point rise in VAT rates in May and the amount which accrued from the GSM licence transfer in February. With gradual increases during the whole year, Oil Consumption Tax (OCT) recorded 12% real rise over the previous year. Overall, OCT and VAT constituted 33% of tax revenues in the year 2001, which compares with 29% in 2000. Non-interest expenditures were reduced by 2.7% in real terms in the year 2001. The only expenditure item where real increase occurred was investments with 8.4% rise. However, this item represents only 10% of total non-interest expenditure. On the other hand, despite the inflation-adjustment mechanism, personnel expenditure dropped in real terms.

CONSOLIDATED BUDGET (JANUARY-DECEMBER, US$ BILLION)

	2000	2001	Chg. (%)
Revenue	54.1	42.2	(22.0)
Tax Revenue	42.5	32.4	(23.8)
Non-Tax Revenue	11.6	9.8	(15.5)
Expenditure	74.7	65.4	(12.4)
Non-Interest	41.9	32.0	(23.6)
Personnel	16.0	12.4	(22.6)
Other Recurrent	5.8	4.2	(27.3)
Investment	4.0	3.4	(14.9)
Transfer	16.2	12.1	(25.5)
Interest Payments	32.7	33.4	2.1
Primary Balance	12.2	10.2	(16.4)
Budget Balance	(20.6)	(23.3)	13.0

Source: Ministry of Finance

Government's primary surplus thus reached TL 12.5 quadrillion (US$ 10.2 billion) amounting to 7% of GNP, compared to 6% the year before. Nevertheless, considerable increase in Government debt, following the restructuring of the banking sector, together with the rise in interest rates in the aftermath of the February crisis, led to 30% real increase in total interest payments. Due to the sharp devaluation, interest payments did not vary much in US dollar terms compared to the year before. The overall budget deficit amounted to TL 29 quadrillion (US$ 23 billion), up from US$ 21 billion in 2000.

COMPONENTS OF OUTSTANDING DOMESTIC DEBT (US$ BILLION)

	1996	1997	1998	1999	2000	2001
Total	29.3	30.6	37.0	42.4	54.2	84.5
G-Bonds	11.6	17.4	18.4	36.4	51.2	70.6
T-Bills	14.2	11.6	18.6	6.0	3.1	13.8
CBRT Advance Payments	3.5	1.7	0	0	0	0

Source: Treasury Undersecretariat

In 2001, the domestic debt stock increased by TL 85,779 trillion (US$ 69.8 billion) to TL 122,199 trillion (US$ 84.5 billion). The extraordinary and sharp rise in the domestic debt stock during 2001 is mainly due to debt through recapitalization and restructuring of the banking sector. Indeed, Treasury securitised all the accrued duty losses of state banks and extended bonds to those taken over by, and transferred to, the Savings Deposits Insurance Fund (SDIF), in an effort to strengthen their equity base. Furthermore, Treasury replaced existing low-yield securities with market-rate Government paper to avoid new losses. Throughout the year, Treasury regularly rescheduled the non-cash debt and eased redemptions. The replacement of the early redeemed securities (of the state and SDIF banks) including the accrued term interests with new bonds, also contributed to the expansion of the debt stock. All duty losses were securitised by the end of 2001 and the government bonds given to state and SDIF banks amounted to TL 37,800 trillion, 31% of total domestic debt stock.

Following the financial crisis, worries emerged regarding the sustainability of the debt stock, hindering external borrowing. However, thanks to US$ 9.6 billion IMF credit allocated for budget financing, Government's need for domestic borrowing remained limited, keeping domestic borrowing at 76% of the redemptions. The domestic debt swap operation in June proved successful, reducing the financing requirements by around TL 7,000 trillion. Treasury swapped TL 9,800 trillion worth of securities, thereby extending the average maturity of the cash debt stock from 8 to 20 months at the end of June. Steps taken to ensure debt sustainability paid off, and the average maturity of cash domestic borrowings rose from 14 months in 2000 to 18 months in 2001. However, the cost of borrowing soared significantly. Average annual compounded yield at Treasury's discounted auctions recorded 99.6% against 36% in 2000.

BREAKDOWN OF THE DOMESTIC DEBT STOCK (TL QUADRILLION)

	End-2000	(%)	End-2001	(%)
TOTAL	51.5		122.2	
Public Sector	27.3	53	80.6	66
CBRT	1.5	3	32.6	27
IMF Loans	0.0	0	13.8	11
Other	1.5	3	18.8	15
State Banks	18.0	35	22.7	19
Securitised	2.9	6	22.7	19
Unsecuritised	15.1	29	0.0	0
SDIF Banks	3.9	7	15.1	12
Other Public	4.0	8	10.2	8
Market	24.2	47	41.6	34

Source: Treasury Undersecretariat

STEPS TAKEN TO ENSURE DEBT SUSTAINABILITY PAID OFF, AND THE AVERAGE MATURITY OF CASH DOMESTIC BORROWINGS ROSE FROM 14 MONTHS IN 2000 TO 18 MONTHS IN 2001. HOWEVER, THE COST OF BORROWING SOARED SIGNIFICANTLY.

The Turkish Economy in 2001 continued

ON THE EXTERNAL FRONT, THERE HAS BEEN A SIGNIFICANT DROP IN THE FOREIGN TRADE DEFICIT, AS IMPORTS DECLINED SHARPLY DUE TO WEAKENING DOMESTIC DEMAND, WHILE EXPORTS ENJOYED THE PRICE ADVANTAGE THAT CAME WITH DEVALUATION.

Moreover, Government aimed at removing the state and SDIF banks from O/N borrowing dealings with third parties to relieve the pressure on short-term interest rates. Central Bank provided liquidity to state and SDIF banks through repurchase agreements and enabled them to close their O/N fundings with private banks. On the other hand, Treasury issued FX-denominated bonds of TL 13,800 trillion (US$ 9.6 billion) to CBRT to make use of IMF loans. IMF loans and the operation for the rehabilitation of the banks thus enlarged the CBRT's debt securities portfolio to TL 32,600 trillion by the end of 2001.

Although domestic debt to the market amounted to TL 41,600 trillion, its share in total debt stock dropped by 13%. As of year-end 2001, the domestic debt stock reached 68% of GNP, up from 41% in 2000.

Following the instability in the markets that emerged in November 2000, CBRT had to inject substantial liquidity to the public sector and banks, through open market operations and cash credit, thus temporarily suspending the Net Domestic Assets (NDA) rule requiring them to remain within a narrow band. As IMF reassured its support and the markets calmed down, CBRT announced its intention to reduce gradually the excess NDA created during the crisis. In the first half of 2001, the monetary framework was to continue along the pre-announced exchange rate path, while a progressively widening band would be introduced in the second half.

The crisis that emerged in February 2001 inevitably led to a drastic change in the monetary policy. First, CBRT tried to remain committed to the monetary policy by not providing liquidity to the markets. However, while certain banks were lacking TL liquidity, others were willing to close their short FX positions, causing concurrent FX and TL demand. In a chaotic atmosphere, on the third day of the crisis, Turkey's exchange rate policy implemented for 14 months since the inception of the stabilisation programme was abandoned and a new policy of free floating rates was introduced. After abandoning the crawling peg policy, CBRT stopped controlling NDA limits and started to provide TL and FX to the markets in an effort to ensure financial stability. A detailed monetary policy was announced on May 15, 2001, together with the new economic programme. Accordingly, in the short-term, the aim of the monetary policy was to minimise the inflationary impact of devaluation, while in the medium-term, the ultimate goal was set as price stability. For this purpose, inflation targeting policy was to be implemented as and when conditions became favourable. Ceilings in the form of performance criteria were imposed on the

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

	Dec 00	Mar 01	Jun 01	Sep 01	Dec 01
Foreign Assets	24.2	23.4	33.8	38.2	41.5
Domestic Assets	(1.7)	25.6	22.1	24.2	23.8
Foreign Exchange Liabilities	21.1	(2.1)	11.7	14.0	17.8
Central Bank Money	1.5	25.1	28.3	33.6	34.8
Reserve Money	8.8	(1.7)	5.5	4.6	6.8
Liabilities from OMO	(7.7)	5.5	5.2	5.1	5.5
Foreign Exchange Position	3.1	0.4	(6.2)	(9.4)	(11.0)
Net Domestic Assets*	4.9	5.5	10.5	11.7	14.3

Source: Central Bank of the Republic of Turkey
** Stand-by definition, modified in the year 2001*

TURKISH EXPORTS GAINED PRICE COMPETITIVENESS WITH THE SIZEABLE REAL DEPRECIATION OF THE TURKISH LIRA. EXPORT PRICES BY THE END OF 2001 WERE 5% LOWER THAN THAT OF END-2000.

decrease in Net International Reserves (NIR) and on Net Domestic Assets (NDA), in line with the restructuring operation in the banking sector, as well as the amount and timing of supplementary external IMF financing. Accordingly, while NDA expanded significantly with the Treasury issuing bonds to use the IMF financing for budget purposes and the Bank's direct bond purchases from the state and SDIF banks, NIR was allowed to decline in line with the use of IMF financing for budgetary purposes. Meanwhile, indicative upper limits consistent with the inflation and growth targets were set for the money base, determined as the basic operational target under the programme. By the end of the year, the indicative target on the money base was converted into a performance criterion, and CBRT met comfortably the targets regarding the monetary aggregates.

M2YR, the broad money supply including foreign exchange deposits and repo agreements, remained constant in real terms, against 3.2% rise in 2000. In fact, foreign exchange denominated deposits increased by 12% in US dollar terms, reaching US$ 40.4 billion. On the other hand, in the face of rapid devaluation, repo volume registered 73% real decline, while Turkish lira deposits dropped by 17% despite a relative improvement at the end of the year, which came with increased confidence.

MONETARY AGGREGATES (US$ BILLION)

	Dec 00	Mar 01	Jun 01	Sep 01	Dec 01
Currency in Circulation	5.6	3.4	3.5	3.3	3.7
M1	12.2	7.8	7.9	6.8	7.3
M2	48.8	36.2	31.8	27.6	32.3
Repo Transactions	36.3	3.6	4.6	2.6	1.9
Foreign Currency Deposits	8.9	34.5	35.7	39.5	40.4
M2YR	94.0	71.3	70.8	68.8	73.8

Source: Central Bank of the Republic of Turkey

While FX loans declined by US$ 3 billion to US$ 9.5 billion, Turkish lira loans dropped by 45% in real terms. As a result, loans-to-deposits ratio deteriorated to 31% at the end of 2001, which compares with 47% the year before.

BANK DEPOSITS AND LOANS (US$ BILLION)

	Dec 00	Mar 01	Jun 01	Sep 01	Dec 01
TL Deposits*	45.9	34.7	30.0	25.5	30.8
FX Deposits*	36.3	34.5	35.7	39.5	40.8
Loans by Deposit Banks	38.6	26.5	23.2	21.1	21.7

** of residents (excl. banks)*

Source: Central Bank of the Republic of Turkey

On the external front, there has been a significant drop in the foreign trade deficit, as imports declined sharply due to weakening domestic demand, while exports enjoyed the price advantage that came with devaluation.

Following the abandonment of the currency pegging regime in February 2001, the Turkish lira depreciated significantly against the hard currencies. From the start of the floating exchange rate system till year-end, the foreign exchange basket (US$ 1 + ğ 0.77) appreciated by 108% against the Turkish lira. Even with the moderate appreciation of the Turkish lira during the last quarter, the average real effective exchange rate (Central Bank, WPI-based) remained 9% below its 1999 level.

FOREIGN TRADE (US$ BILLION)

	1995	1996	1997	1998	1999	2000	2001
Exports	21.6	23.2	26.3	27.0	26.6	27.8	31.3
Imports	35.7	43.6	48.6	45.9	40.7	54.5	41.4
Exports/Imports (%)	60.6	53.2	54.1	58.7	65.4	51.0	75.7
Trade Balance	(14.1)	(20.4)	(22.3)	(18.9)	(14.1)	(26.7)	(10.1)

Source: State Institute of Statistics (SIS)

Turkish exports gained price competitiveness with the sizeable real depreciation of the Turkish lira. Export prices by the end of 2001 were 5% lower than that of end-2000. Respectively, export revenue soared to US$ 31.3 billion in 2001 against US$ 27.8 billion in 2000. Despite the adverse external economic environment and the distortionary effects of the financial crisis, arising from growing economic uncertainties, high volatility of interest and exchange rates, and inflationary pressures, Turkey was successful in raising total exports by 13% in 2001.

On the other hand, the economic crisis had a considerable negative impact on consumer confidence, and led to a substantial fall in domestic spending. In 2001, imports decreased by 24% to US$ 41.4 billion, which compares with US$ 54.5 billion the year before.

Consumer goods imports, which include passenger cars as well, dropped by 43% to US$ 3.1 billion. Due to weak investment demand, capital goods imports dropped by 39% from US$ 11.3 billion to US$ 7 billion. Likewise, imports of intermediate goods decreased by 16%. In addition, reduced world energy prices played a positive role in the declining value of imports. Despite some 10% rise in the import volume, the total value of the crude oil bill declined by 8%. Indeed, the price of crude oil, which was as high as US$ 30 per barrel in November 2000, fell down to US$ 19 at the end of 2001.

Consequently, the export/import ratio recovered to 76% from 51% the year before. In 2001, exports to European Union countries rose by 11%, the appreciation of US dollar against Euro by almost 5.5% creating a negative impact on the export revenue. Meanwhile, exports to CIS countries grew by 20%, exceeding, by far, the 8% increase in 2000.

Throughout 2000, positive economic prospects, declining interest rates and sustained economic activity had a stimulating effect on consumption. With the over-heating of US dollar, compounded by the oil price turbulence in world markets, the current account recorded the highest-ever deficit of US$ 9.8 billion at the end of 2000. After the two financial crises in November 2000 and February 2001, however, domestic

THE DEVALUATION OF THE TURKISH LIRA LED TURKEY TO STAND OUT AS AN INEXPENSIVE TOURISM DESTINATION, THUS IMPROVING NET TOURISM REVENUES BY 7% YEAR-ON-YEAR.

The Turkish Economy in 2001 continued

THE INHERENT STRENGTH OF THE PROGRAMME, IMF'S STRONG SUPPORT, AND THE AVAILABILITY OF NEW FINANCE, WHICH EASED WORRIES REGARDING THE ROLLOVER OF THE DOMESTIC DEBT, HAVE BEEN THE MAIN INGREDIENTS CREATING AN OPTIMISTIC OUTLOOK FOR THE YEAR 2002.

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

	Exports	Imports		
	2001	2000	2001	2000
OECD Countries	20.6	19.0	26.0	35.7
EU	16.1	14.5	18.3	26.6
EFTA	0.3	0.3	1.5	1.2
Other OECD	4.1	4.2	6.2	7.9
Non-OECD Countries	9.6	7.9	15.1	18.3
European	3.2	2.3	5.8	6.3
African	1.5	1.3	2.8	2.7
American	0.3	0.2	0.4	0.6
Middle Eastern	2.9	2.6	2.8	4.2
Other Asian	1.5	1.4	3.0	4.4
Other	0.2	0.4	0.2	0.2
Turkish Free Trade Zones	0.9	0.9	0.3	0.5
Total	31.3	27.8	41.4	54.5

Source: State Institute of Statistics (SIS)

demand slowed down and the current account deficit narrowed significantly, yielding a surplus at the end of April. Current account balance showed a surplus each month after February until December, cumulating to a total of US$ 3.4 billion at year-end 2001.

On the services side, terrorist attacks of September 11 and the events in the aftermath seriously hit the tourism industry. However, successful performance during the summer months helped in ending the year with a record high figure of tourist arrivals

BALANCE OF PAYMENTS (US$ MILLION)

	2001 (a)	2000 (a)	Chg (a-b) (%)
Current Account	3,396	(9,819)	n/m
Foreign Trade Balance	(4,490)	(22,375)	(79.9)
Exports (FOB)	35,258	31,667	11.3
Trunk Trade	3,039	2,946	3.2
(-) Imports (FOB)	(39,748)	(54,042)	(26.4)
Invisibles Balance	4,083	7,331	(44.3)
Tourism (net)	6,352	5,923	7.2
Interest (net)	(4,381)	(3,463)	26.5
Other (net)	2,112	4,871	(56.6)
Workers' Remittances	3,803	5,225	(27.2)
Capital Account	(14,198)	9,610	n/m
Direct Investment	2,769	112	2.372
Portfolio Investment	(4,515)	1,022	n/m
Long-Term Capital	(1,131)	4,276	n/m
Short-Term Capital	(11,321)	4,200	n/m
Net Errors & Omissions	(2,122)	(2,788)	(23.9)
Overall Balance	(12,924)	(2,997)	331.2
IMF Loans	10,230	3,351	n/m
Change in Official Reserves	(2,694)	354	n/m

Source: Central Bank of the Republic of Turkey

DUE TO THE NEGATIVE ECONOMIC OUTLOOK, TREASURY'S EXTERNAL BORROWING ACTIVITY REMAINED AT STANDSTILL UNTIL LATE OCTOBER. SOON AFTER THE MARKET SENTIMENT STARTED TO RECOVER IN THE LAST QUARTER OF THE YEAR, TREASURY RAISED US$ 1.5 BILLION THROUGH GLOBAL AND EUROBOND ISSUES.

that reached 11.6 million. The devaluation of the Turkish lira led Turkey to stand out as an inexpensive tourism destination, thus improving net tourism revenues by 7% year-on-year. Despite shrinking revenues under the "others item" which covers insurance, freight and non-classified FX revenue appearing in banks' transactions and the hefty interest payments, the narrowing trade deficit had a positive impact on the current account surplus. Meanwhile, economic uncertainties adversely affected workers' remittances, which declined from US$ 5.2 billion to US$ 3.8 billion in 2001. In the year 2000, foreign capital inflow, encouraged by the positive economic atmosphere, reached US$ 9.6 billion. In 2001, however, the worsened sentiment generated by poor economic conditions, worries regarding political stability and high market volatility resulted in capital outflow worth US$ 14.2 billion.

Payment as the second tranche of the licence fee of GSM-1800 by the İşbank-Telecom Italia consortium, and the amount due for the transfer of Demirbank to HSBC were received by the Treasury in 2001, bringing foreign direct investment to US$ 2.8 billion.

Due to the negative economic outlook, Treasury's external borrowing activity remained at standstill until late October. Soon after the market sentiment started to recover in the last quarter of the year, Treasury raised US$ 1.5 billion through Global and Eurobond issues. Along with the earlier borrowings in January and in early February, Treasury's total bond issues in 2001 amounted to US$ 2.1 billion, far below the US$ 7.5 billion mark the year before. Government's external borrowings through bond issues were just enough to cover the repayments of the same type. However, due to foreign investor bond sales, "portfolio investments" ended up with an outflow of US$ 4.5 billion by the end of 2001.

Long-term borrowing by the financial and non-financial sectors as well as the public sector was designed so as to offset repayments. Long-term capital outflows were limited to US$ 1.1 billion. However, short-term capital outflows reached US$ 11.3 billion, due to net debt repayments amounting to US$ 9.5 billion. The banking sector was quick to close their short FX positions, and repaid US$ 7.7 billion against short-term liabilities. Fresh borrowing by the non-financial sector remained at a low level. Commercial credits amounting to US$ 1.8 billion were reimbursed.

Meanwhile, the fairly substantial and negative "Net Errors and Omissions" figure denoted significant levels of unregistered capital outflows. Notwithstanding the sizeable current account surplus, the hefty capital outflows led to a decline in reserves amounting to US$ 12.9 billion. However, Central Bank's total reserves were down by no more than US$ 2.7 billion, thanks to US$ 10.2 billion net credits released by IMF. Central Bank reserves totalled US$ 18.7 billion at the end of the year.

During 2001, Turkey's outstanding external debt dropped by US$ 3.5 billion and equalled US$ 115.1 billion at year-end. The "parity effect", the sharp appreciation of US dollar against Euro and the Japanese yen played a significant role in the decline of the debt stock.

Following the devaluation shock, most banks and corporations rushed to close their short-term FX positions. As of end-2001, short-term debt represented 14% of the total stock, against 24% the year before. Short-term debt stock, equal to US$ 28.3 billion at the end of 2000, dropped to US$ 20.1 billion in September 2001, and further narrowed to US$ 16.3 billion at the end of 2001. At the same time, commercial banks' share in short-term debt sized down from 60% to 50%. Short-term debt of the deposit money banks declined to US$ 8.1 billion, which compares with US$ 16.9 billion at the end of 2000.

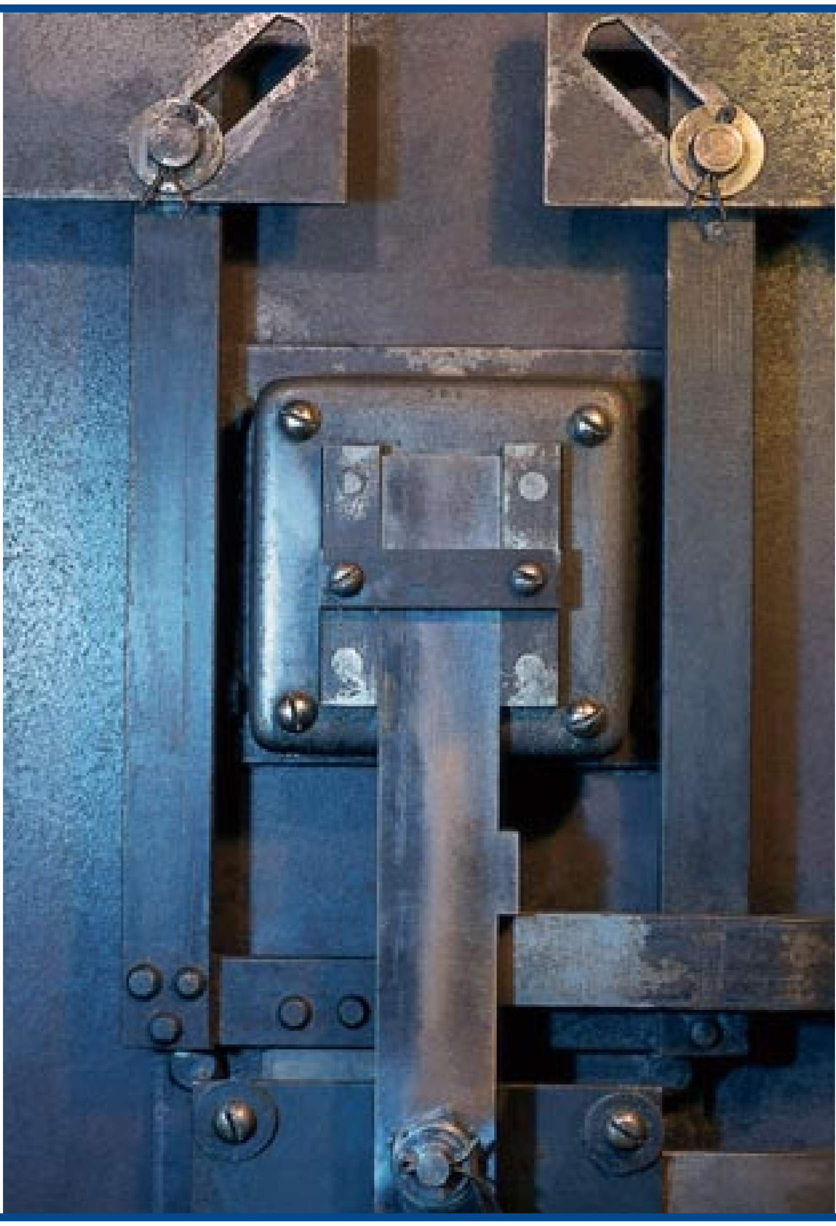
On the other hand, notwithstanding large external debt repayments by the public sector and the drop in private sector medium to long-term debt by US$ 224 million, the medium-long term gross external debt stock amounted to US$ 98.8 billion with US$ 8.5 billion increase over the whole year. The main reason for the expansion was the IMF credits. Net IMF loans released in 2001 amounted to US$ 10.2 billion. On the other hand, Treasury's external borrowing through bond issues in international capital markets amounted only to US$ 683 million as of September 2001, but later gained pace in the last quarter to reach US$ 2.1 billion for the whole year.

OUTSTANDING EXTERNAL DEBT (US$ MILLION)

	1996	1997	1998	1999	2000	2001
Total	79,194	84,182	96,313	102,120	118,615	115,110
Medium and Long-Term	62,122	66,491	75,539	79,199	90,314	98,765
Public Sector	51,389	49,679	51,858	51,832	61,161	69,836
Private Sector	10,733	16,812	23,680	27,367	29,153	28,929
Short-Term	17,072	17,691	20,774	22,921	28,301	16,345

Source: Treasury Undersecretariat

IMF extended credits to Turkey worth approximately US$ 11 billion in 2001. Despite successful implementation of the programme, Turkey had to bridge a financing gap in 2002. In this context, IMF approved, on February 4, 2002, US$ 16 billion worth of stand-by credits to support Government's economic programme in the period 2002-2004, aiming to achieve sustained economic growth by restoring financial and macro-economic stability, through fiscal adjustment, disinflation under the inflation targeting framework, and structural reforms. The inherent strength of the programme, IMF's strong support, and the availability of new finance, which eased worries regarding the rollover of the domestic debt, have been the main ingredients creating an optimistic outlook for the year 2002.



THE ESTABLISHMENT OF BANK-CLIENT-SUPPLIER-DISTRIBUTOR RELATIONSHIPS IN DIFFERENT SECTORS OF THE ECONOMY CREATED ADDITIONAL BUSINESS OPPORTUNITIES FOR TEB.

Overview of Activities in 2001

THE CORPORATE BANKING DIVISION CONCENTRATES ON LARGER-SCALE COMPANIES WITH AN ANNUAL TURNOVER EXCEEDING PREDETERMINED CRITERIA, AS WELL AS CONGLOMERATES AND MULTINATIONAL COMPANIES, OFTEN REQUIRING MORE COMPLEX AND SOPHISTICATED FINANCIAL INSTRUMENTS AND SERVICES.

Corporate Banking

Corporate banking activities at TEB are separated into two divisions: the Corporate Banking Division and the Commercial Banking Division. This functional breakdown allows TEB to focus on specific segments of the corporate market, thus increasing efficiency and response to the diverse requirements of the corporate clients.

The Corporate Banking Division concentrates on larger-scale companies with an annual turnover exceeding specific predetermined criteria, as well as conglomerates and multinational companies, often requiring more complex and sophisticated financial instruments and services. Eight TEB branches are designated solely as corporate banking branches. These off-high-street branches are fully equipped to handle the most complex corporate banking activities and are manned accordingly.

The Corporate Banking Division is able to serve the diverse needs of clients using an assortment of contemporary financial tools. These include foreign trade financing facilities, cash management services, project finance, investment banking, factoring and leasing in addition to conventional banking practices. Large-scale companies that TEB serves have relatively high expectations; consequently, the services and products provided are tailored to meet their specific requirements. Likewise, the organisational structure of the corporate banking branches is designed to actively respond to the needs of the most demanding clients. The advisory services available within the Division provide extra value to TEB's clientele.

Commercial Banking

TEB has pursued an expansion strategy in its commercial banking activities following the parameters of the economic programme implemented since the beginning of 2000. However, when problems first surfaced in November 2000 and continued in 2001, TEB temporarily ceased expansion by opening new branches for a time following a policy that enabled downsizing of the asset size and cutting-back on the liabilities.

During crisis times when sales, profits and shareholders' equity of companies contracted, TEB successfully reduced its credit exposure in the first two quarters of the year, thanks to its asset quality. During this time, TEB continued to serve its corporate clientele uninterruptedly and strengthened its assets with companies in good financial positions despite economic difficulties in the marketplace. With positive signs of an economic recovery, as of the third quarter of 2001, the Commercial Banking Division, actively sought new clientele and made an effort to have existing clients fully utilize their credit limits and thereby absorbing the excess liquidity of the Bank.

BENEFITING FROM GROUP SYNERGY, SPECIAL EMPHASIS WAS PLACED ON THE PROVISION OF INSURANCE, FACTORING AND LEASING SERVICES OF THE TEB FINANCIAL SERVICES GROUP IN AN EFFORT TO COMPLETE THE SPECTRUM OF FINANCIAL PRODUCTS AVAILABLE TO COMMERCIAL CLIENTS.

The establishment of bank-client-supplier-distributor relationships in different sectors of the economy created additional business opportunities for TEB. In this chain of relationships, cash transactions of clients were routed to TEB branches and credit lines were made available to sound and profitable companies posing minimum risk. These activities, jointly carried forward with the Corporate Banking Division, shaped marketing and client acquisition activities of the Division in 2001. Benefiting from Group synergy, special emphasis was placed on the provision of insurance, factoring and leasing services of the TEB Financial Services Group in an effort to complete the spectrum of financial products available to commercial clients.

The satellite branches, which were established in 2000 to reduce operational costs, continued to serve successfully during 2001. Some full service branches were reorganised in accordance with client needs and efficiency requirements and the number of branches delivering commercial banking services increased to 53.

Trends in the commercial marketplace as well as the activities of TEB's peers were followed closely and previously determined strategies were revised continuously in an attempt to improve service quality and provide clients with the most suitable tailor-made services. In this respect, 2001 has been a successful year for the Commercial Banking Division as it continued meeting the needs of clients. The Division sought to determine and apply methods of improving efficiency and effectiveness in major areas of commercial banking activity.

For the years ahead, the Commercial Banking Division targets increasing its market penetration by attracting new clientele with good financial positions or with potential for improvement and growth, thus expanding and diversifying the client portfolio.

Structured Finance

Despite a major shrinkage in markets, the Structured Finance Division continued providing tailor-made advisory services to TEB's corporate clients during 2001. These services guide clients in the accomplishment of their special projects and provide them with the most suitable solutions. In addition to advisory services, the Division also tries to structure financing for these projects from money or capital markets by employing TEB's well-established international correspondent network, where needed.

The Structured Finance Division expanded its commodity finance activities in agro industries in 2001; the tobacco industry is a good example of such activities. TEB provided US$ 125 million self-liquidating commodity finance credits to tobacco merchants during the year. These funds were raised through bilateral loan facilities from international creditors with TEB acting as a creditor, guarantor and agent.

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 created due to TEB's ability to develop client-oriented cash management solutions, long-term multi-faceted relationships have been established with broad-based corporate clientele.

In a marketplace characterised by volatility and intense competition, traditional banking services 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 on its 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 on 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" which is an on-line real-time electronic service available to corporate clientele. The number of clients utilising this system increased by 200% over the previous year and reached 2,000 companies, served by TEB's Commercial and Corporate Banking Divisions, by the end of 2001.

Additionally, TEB introduced Continuous Cheques, Direct Debiting, Cheque Automation, Complete Payment and Reconciliation Systems to more than 200 companies in 2001. These systems, specifically developed by TEB, greatly facilitate routine payment, 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 of this product line.

Bank cheques are the most preferred payment instruments in Turkey. TEB's cheque clearing volume, supported with other cash management products, rose by 88% in 2001, ranking 9th among private banks with a market share of 4.1%.

TEB continued to organise legal and utility payments of companies, which is an important funding source in the form of call deposits. Through marketing activities, branch offices achieved a substantial increase in the volume of utility collections reaching 100% through off-line and/or on-line collection systems. This performance placed TEB among the top ten within the banking industry.

STRONG MARKET
PENETRATION HAS
ALWAYS BEEN A
VALUABLE ASSET FOR TEB.

Overview of Activities in 2001 continued

THE TEB PRIVATE BANKING TEAM IS EQUIPPED WITH A LONG TRACK RECORD OF EXPERTISE AND EXPERIENCE AND CONTINUALLY STRIVES FOR EXCELLENCE.

Private Banking

TEB offers a complete range of financial services to meet short, medium and long-term needs of its private banking clientele through the convenience and experience of long-term relationships. The philosophy of private banking at TEB is a combination of personalised service, trust, confidentiality, continuity, expertise and productivity. Built on this unique combination of principles, TEB offers advice to clients on their portfolios, taking into account their overall risk-return expectations, establishes long-term relationships with clients and their families and ensures an added-value that is the result of its fine service quality and rightful assessments.

Strong market penetration has always been a valuable asset for TEB. Target private banking clientele includes owners, shareholders and executives of companies covered within the corporate or commercial banking activities of TEB. Therefore, TEB's strong market positioning and reputable brand name are factors enhancing its private banking franchise.

In a bid to optimise service quality, thereby further satisfying the banking needs of its clientele, TEB carried out the restructuring of its Private Banking Division in 2001. The previously decentralised private banking services at TEB have now been gathered under the roof of a Private Banking Centre following the restructuring process initiated in October 2001. The Private Banking Centre became operational in December 2001, and the project of physically moving the Centre to its new offices will be completed before the end of the first quarter of 2002.

The TEB Private Banking team is equipped with a long track record of expertise and experience and continually strives for excellence. The acknowledged expertise and in-depth understanding of the markets together with outstanding research service provided by a variety of global and local brokerage houses plus the research material produced by the Research Department at TEB Investment, optimise decision-making, while enhancing the advisory capacity of the private banking staff.

Producing clear and detailed statements with clearly stated vital information ensures that TEB meets even the most exacting demands of its clientele. 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 is aware that the primary role of protecting assets should accompany exact performance measurement together with a coherent and disciplined performance reporting system.

IN 2001, DESPITE A SUBSTANTIAL DROP IN TURKEY'S IMPORT VOLUME DUE TO THE FINANCIAL CRISES THAT RESULTED IN THE DEVALUATION OF THE TURKISH LIRA, THE BANK FURTHER INCREASED ITS SHARE IN INTERNATIONAL TRADE FINANCE BY PROVIDING ITS CORPORATE CLIENTS WITH CASH AND NON-CASH FACILITIES.

Retail Banking

Adding a new line of business to its excellent corporate, commercial and private banking services, TEB launched retail banking operations with a unique brand in March 2000. With the introduction of "Telepati" TEB created a strong brand, based on the belief that 'the solution is ready the moment you think of it.' Telepati offers a wide range of non-banking services such as investment and insurance plus a variety of non-financial services like medical support, car, home and information services. Operating 24 hours a day, seven days a week, Telepati employs all contemporary alternative distribution channels. Clients can access all Telepati services through the Internet Branch at www.teb.com.tr and Telepati Interactive Voice Response System. All TEB branches are furnished with Telepati corners where marketing teams are involved in direct face-to-face sales with clients. Telepati booths installed in various organisations also add to the visibility of the brand as well as to direct sales.

Utilising the Savings Evaluation System, one of the outstanding services of Telepati, TEB clients can invest their savings in their choice of TEB mutual funds or alternatively, may choose to go through the Telepati Risk Profile Evaluation Survey to determine their risk-return profiles. The use of Telepati Credit Cards allows cardholders access to a variety of valuable gifts by accumulating Free Points, including certificates of TEB's B-type Liquid Mutual Fund.

The Retail Banking Division at TEB aims at developing new products while improving the scope and quality of its existing products and services in order to achieve wider utilisation. The Division underwent some organisational changes during the year to accomplish these goals. In this context, campaigns were organised to support credit card marketing activities and discounts were provided to cardholders by contracted merchants in an effort to promote Telepati credit card usage. Cardholders were given the opportunity to take their annual vacations by spending the Free Points accumulated on their credit cards.

Domestic spending using Telepati credit cards rose by 67% in 2001. With face-to-face marketing efforts directed at cross-selling by the Direct Marketing Team, an increasing number of contracted companies for salary payments and the direct sales efforts of the branches yielded a 51% increase in automatic and regular payment orders. Active since 1997 as an issuer, TEB started credit card acquisition activities in December 2000 by installing POS machines at contracted merchants.

In addition to the Telepati Call Centre and the Internet Branch, TEB has entered into agreement with several banks to provide access to their ATMs in a wide geographical range. A member of "Common Point," a group of banks sharing ATMs, TEB credit and debit cardholders may reach the Bank through a large number of shared ATMs throughout the country.

No major problems were encountered in consumer credits allocated with favourable interest rates during 2001, due in part to the careful credit evaluation process to which they adhere. In spite of difficult market conditions in 2001, non-performing consumer loans in the total consumer loans portfolio were an insignificant 1%, well below the industry average.

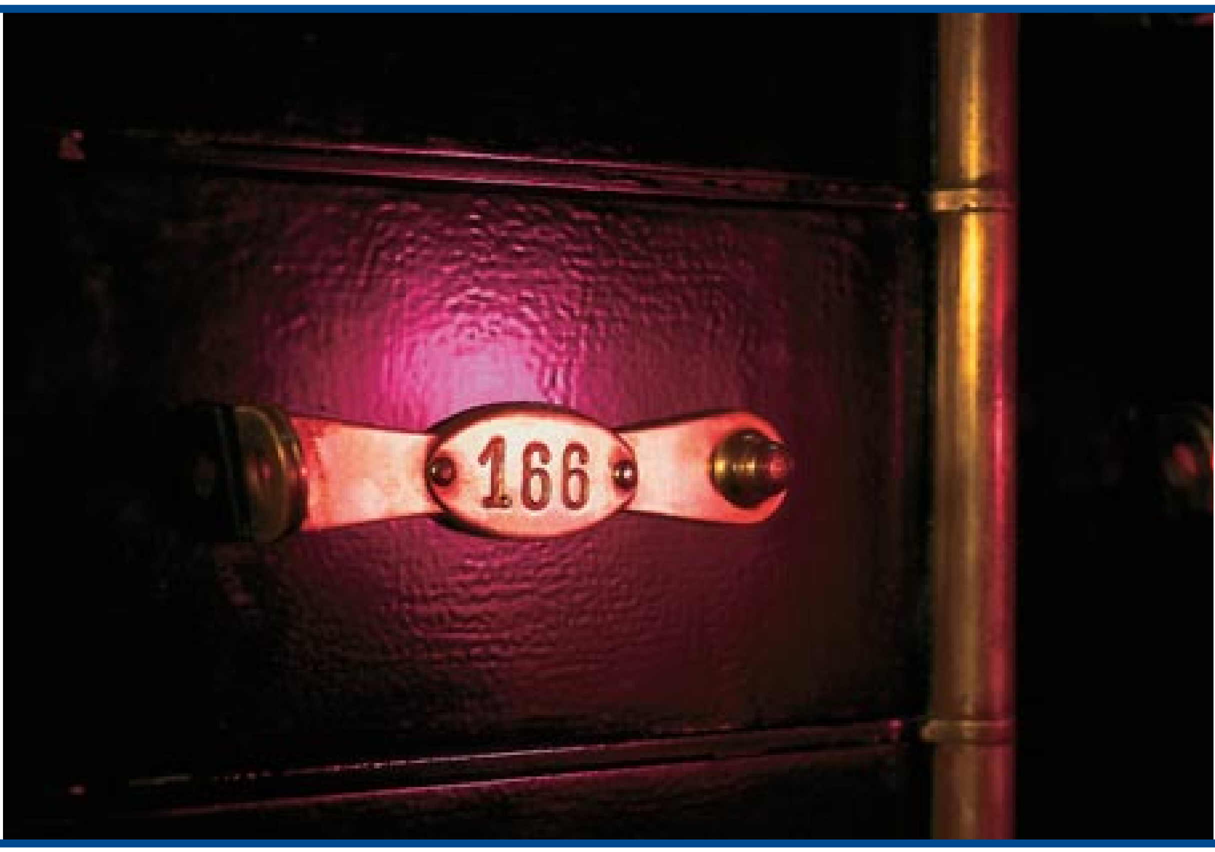
International

Trade finance remains one of the core business activities of TEB. In 2001, despite a substantial drop in Turkey’s import volume due to the financial crises that resulted in the devaluation of the Turkish lira, the Bank further increased its share in international trade finance by providing its corporate clients with cash and non-cash facilities.

In 2001, TEB’s international borrowing decreased compared to the previous year’s figure. This was mainly due to the Bank’s high liquidity and the drastic increase in consumer deposits due to “flight to quality”, which constitutes a low funding base for the Bank. In June, the Bank repaid the syndicated facility of US$ 80 million without any appetite for a renewal. This fact shaped TEB’s funding strategy throughout the year, although TEB was one of the few Turkish Banks that still enjoyed large cash credit lines from international financial institutions in 2001. In line with its policy to support Turkish exporters, the Bank decided to enter the syndicated loan market in November after the repayment of the US$ 100 million facility in September. The new facility, which was originally mandated for US$ 70 million, was oversubscribed due to high demand. Nevertheless, the Bank preferred to scale down the loan to US$ 100 million.

In 2001, TEB continued to support the needs of its clients for medium-term import financing under Export Credit Agencies’ (ECAs) coverage such as Germany’s Hermes, Italy’s SACE, Switzerland’s ERG and the USA’s GSM programmes. Indeed, the demand for such products increased substantially in 2001 and TEB intermediated more ECA transactions than ever, either as a guarantor or direct borrower.

TEB was successful in maintaining its high credibility even under crisis conditions and is ready to serve its clients in their international trade activities uninterruptedly in the coming years, regardless of the surrounding economic developments.



THANKS TO ITS STRATEGY, TEB WAS ABLE TO KEEP THE LIQUIDITY, GAP AND ASSET/LIABILITY DURATION MANAGEMENT UNDER CONTROL AT ALL TIMES.

Overview of Activities in 2001 continued

IN THE YEAR AHEAD, TEB WILL COMBINE ITS CONSERVATIVE STRATEGY AND PRUDENT MANAGEMENT STYLE WITH A MORE GROWTH-ORIENTED APPROACH, ENABLING IT TO INCREASE ITS MARKET SHARE IN BOTH THE CORPORATE SECTOR AND INTERBANK MARKET WHILE MAINTAINING A WATCHFUL EYE ON POTENTIAL RISK.

Treasury

The year 2001 was filled with changes and difficulties for many of the banks in Turkey. The crisis triggered by the sharp depreciation of the Turkish lira, which reached over 140% at its peak, created a major liquidity squeeze that wreaked havoc in both the capital and money markets. Thanks to its strategy, TEB was able to keep the liquidity, gap and asset/liability duration management under control at all times. As a result of this strategy, TEB continued to enjoy a strong liquidity position necessary for survival under such duress, which the market imposed upon all players.

After the Turkish lira was left to float freely, following a brief period of disarray, FX markets became the centre of attention not only in the treasuries of Turkish banks, but almost all over the country. Even under such adverse circumstances, TEB continued to maintain its reputation of accurate and competitive pricing for FX and derivative instruments, for domestic and international banks and corporate clients. In accordance with its innovative spirit, TEB was one of the first banks to trade US dollars/Turkish lira on the newly founded Istanbul Stock Exchange Derivatives Market.

The bonds and bills market, TEB's usual stronghold, collapsed in the aftermath of the currency crisis as the Treasury of Turkey discontinued the "market-making" practice. Despite this, TEB was able to attract many repo and T-bill clients due to the effect of flight-to-quality resulting from TEB's excellent reputation. TEB was one of a handful of banks in Turkey that continued to be an active member of the ISE Bonds and Bills Market soon after the crisis. Consequently, TEB's trading volume was almost TL 5 quadrillion, corresponding to a 2.19% market share.

The flight-to-quality effect made itself clear in the results of the Treasury Marketing Unit (TMU) as well. The TMU's efficient organisation coupled with the precise and competitive pricing of the FX Unit lured many clients, major multinationals among them, to TEB. Moreover, the TMU, with its ability to provide structured and customised solutions to match specific client requirements, has been strengthening its position by implementing client risk management services in order to analyse and monitor risks associated with domestic clients' balance sheets. Last but not least, the TMU has been able to serve the clientele's appetite for FX assets by offering them Eurobonds, thereby raising the turnover of the Bank in this asset class.

In the year ahead, TEB will combine its conservative strategy and prudent management style with a more growth-oriented approach, enabling it to increase its market share in both the corporate sector and interbank market while maintaining a watchful eye on potential risk.

IN 2001, TEB CONTINUED TO STRENGTHEN ITS POSITION AND TO INCREASE ITS SHARE OF THE MUTUAL FUNDS MARKET IN LINE WITH ITS GROWTH STRATEGY, ESPECIALLY EMPHASISING ALTERNATIVE DISTRIBUTION CHANNELS.

Banknotes Business

In 2001, TEB maintained its market share and position in the foreign banknotes business reaching a trading volume of US$ 6.1 billion and providing service in 12 cities. Combining its experience with quality, TEB is currently the leader in foreign banknotes business in Turkey.

Precious Metals

TEB has maintained its top position among the market participants in gold bullion trading with a 48% market share in 2001. TEB has imported 36.2 tons of gold within the course of the year and is still leading the market in gold bullion imports.

TEB Precious Metals, a subsidiary of the Bank, is one of the major traders in the silver business with 60.4 tons, representing a 38% market share. The Company imported 59.4 tons of silver in 2001 reaching a market share of 100% in imports.

Mutual Funds

Asset management has always been an area where TEB places substantial importance. It has been a pioneer in introducing new products into the mutual fund business. Despite economic turmoil, introduction of new products and extending the client base have been the key elements in TEB's mutual fund strategy.

Since the launch of its first mutual fund in 1993, TEB has become one of the leading mutual fund management institutions in the country. The TEB Financial Services Group currently offers a total of nine open-ended 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 is the founder of the other four, while their management is subcontracted to TEB Asset Management.

In 2001, TEB continued to strengthen its position in mutual funds market in line with its growth strategy, especially emphasising alternative distribution channels. Some of TEB's money market mutual funds can be traded 24 hours a day via TEB's Call Centre and the Internet Branch. The client base is expected to widen considerably in 2002 through strategic partnership agreements and the launching of new products. One of the basic strategies of TEB in 2002 will be to continue to increase its share in the mutual funds market by offering its individual and institutional clients mutual funds, which best serve their risk-return expectations.

Total assets under management at TEB mutual funds, which amounted to US$ 145 million as of December 31, 2000, decreased to US$ 103 million (including private funds) at the end of 2001, due to the high devaluation of the Turkish lira. Despite a devaluation of 114.30%, net asset value of TEB mutual funds decreased by only 28.97%.

Although the economic crisis that emerged in 2001 had a negative impact on the Turkish economy, all TEB mutual funds have generated returns above the market level. In managing the mutual funds, TEB abides by principles purposefully designed to meet expectations of both individual and institutional investors. By means of the Savings Evaluation System, TEB clients can invest their savings in their choice of TEB mutual funds or alternatively, they may choose to go through the Telepati Risk Profile Evaluation Survey to determine their risk-return profiles.

Although the funds are managed by the subsidiary company TEB Asset Management, the Bank nevertheless tightly monitors the operations via a joint committee of executives from the Bank and TEB Investment. The committee oversees the performance and sets the basic investment criteria. The overriding principle in fund management is to generate above market-level returns, while maintaining a well balanced portfolio of financial instruments, assuring absolute liquidity to the investor. Ability to provide efficient service and reliable information are also essential features of TEB mutual funds. Arthur Andersen is the independent auditor for all nine funds.

PERFORMANCE OF TEB MUTUAL FUNDS*

	2001 Year-end		2000 Year-end	
Type of Fund	2001 Price Appreciation (in % US$)	Net Asset Value (US$ millions)	2000 Price Appreciation (in % US$)	Net Asset Value (US$ millions)
Variable A	(6.5)%	16.3	(21.7)%	36.7
Variable B	3.5%	39.2	17.8%	96.9
Variable Composite A	0.8%	3.2	(16.0)%	8.5

** Private and TEB Investment funds excluded*

Risk Management

To comply with the ruling of the Banking Regulation and Supervision Agency dated February 8, 2001, the Internal Control Centre and the Risk Management Division were established alongside the Board of Internal Auditors. The Risk Management Centre is responsible for:

• identifying potential risk areas and measuring risks,
• establishing and applying risk management policies and the rules for implementation,
• analysing, monitoring, reporting, investigating and confirming risk,

within the principles set forth by the top management and approved by the Board of Directors.

TEB AIMS AT MAINTAINING ITS STRONG FINANCIAL POSITION COUPLED WITH AN ADEQUATE "RETURN ON CAPITAL" RATIO IN PARALLEL TO ONGOING MACROECONOMIC TRENDS.

Overview of Activities in 2001 continued

AS PART OF ITS MISSION STATEMENT, TEB SEEKS CONTROLLED GROWTH IN LINE WITH OVERALL ECONOMIC DEVELOPMENTS, A CAPITAL ADEQUACY RATIO EXCEEDING THE INDUSTRY AVERAGE, PRUDENT CREDIT ALLOCATION POLICIES, HIGH ASSET QUALITY AS WELL AS HIGH LIQUIDITY LEVELS.

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

The Risk Management Division oversees the implementation of risk management policy guidelines as determined by the Board of Directors. TEB's risk management system integrates all decision-making and implementation procedures for monitoring, controlling, amending if necessary, setting benchmark standards and reporting of all issues related to cash flow and risk-return structure.

Internal control center, market risk, credit risk and operational risk departments constitute Risk Management Group of the Bank and all reporting to an Executive Board Member responsible for risk management.

Internal Control
Internal Control is a process effected by the Board of Directors, Senior Management and all levels of personnel. As part of the Bank's Risk Management and Internal Control Systems structure, the Internal Control Centre was established in July 2001. The Bank's Internal Control Centre includes Treasury, Credit Operations and IT Control Departments and ensures all banking activities comply with applicable laws and regulations, supervisory requirements and the organisation's policies and procedures. Internal Control Centre also ensures the Bank's business continuity plan and information security policies are applied and updated properly.

Market Risk
Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates, market prices and volatilities that arise from the Bank's funding, investment and trading activities. During 2001, the Market Risk Department measured interest and foreign exchange rate risks of the positions held by the Bank on and off the balance sheet arising from fluctuations in financial markets. The Department also prepared the official reports on capital adequacy and developed the TEB Risk Control System, which monitors the risks of all TEB Financial Services Group companies on a consolidated basis.

Operational Risk
Operational risk is the risk of loss resulting from insufficient or failed internal processes, human behaviour and technical systems or from external occurrences. The Operational Risk Department has conducted studies geared to identifying operational risks and developed an Emergency Plan to cope with unexpected and disastrous events that might hinder the functioning of routine banking operations. The Department has also developed procedures to control and improve the IT systems of the Bank.

IMPROVEMENTS NECESSARY TO CONDUCT BANKING OPERATIONS IN A SWIFT, RELIABLE AND EFFICIENT ENVIRONMENT, AND CHANGES REQUIRED BY NEW REGULATIONS WERE MADE IN THE EXISTING SYSTEM IN A TIMELY MANNER. ADDITIONALLY, NEW SERVICES AND PRODUCTS WERE INTRODUCED, SUPPORTING THE DISTRIBUTION CHANNELS.

Credit Risk

Credit risk is the potential for loss when a client or a counter-party fails to meet its obligations to repay the Bank. While the Credit Risk Department was not functioning at the end of the year, the Credit Allocation and Risk Monitoring Division adhered to the Bank's traditionally prudent credit allocation and review policies whereby all credit clients have been assigned ratings.

With its vision rendering the control mechanisms readily functional within the administrative body enhanced with its corporate culture, which enables the spreading of risk awareness throughout the entire organisation, TEB aims to carry forward its reputation as a first-class bank.

Operations

The scope of the Centralised Operations Department (TEBOPS) has grown further in 2001 encompassing various 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.

The centralisation of international transactions of Anatolian branches was completed by the first half of 2001, and those of the Aegean branches by the end of October 2001. Foreign transactions of all TEB branches have thus been centralised, fulfilling the initial target of achieving standardised and swift operations in all routine banking transactions. As a secondary target, efficiency in workload has been achieved, resulting in a 40% reduction in foreign trade operations staff. Additionally, the centralisation of the EFT transactions of all Istanbul branches has been accomplished.

Other units within the Division, the Head Office Operations and the Treasury Operations Departments have performed their routine duties during the year and the Branch Operations Department has participated in a number of important TEB projects.

Information Technology

In 2001, structural changes were made to the main banking application software TEBIS and a centralised model was adopted instead of a distributed database architecture. All applications have been changed accordingly. A transition model was used where changes were realised, while the existing system was running with no restrains interfering in any of the service channels. It has been targeted that all branches will start using the new set-up in the first quarter of 2002.

To achieve the structural change, there has been investment in new hardware, the communications infrastructure was reorganised, and capacity increase was realised. The new model incorporates preventive measures to avoid hardware defects, and has spare backup facilities.

Improvements necessary to conduct banking operations in a swift, reliable and efficient environment, and changes required by new regulations were made in the existing system in a timely manner. Additionally, new services and products were introduced, supporting the distribution channels.

The Disaster Recovery Centre, built in Izmir in 2000, has been endowed with new facilities, while all necessary measures have been taken to ensure the safeguard of data in unexpected cases of emergency. In particular, as and when the centralised set up becomes fully operational, all banking operations will be able to switch to disaster recovery centre in case of a disaster.

In 2001, all in-bank communication equipment have been replaced with more up-date and higher capacity equipment, providing better security. The links between the Head Office and the branches were transferred to a high speed digital system, and many branch links were supplemented by auxiliary ISDN BRI lines.

Human Resources

Cost saving measures, necessitated by the unfavourable economic climate of 2001, have led to major changes in corporate policies. While staff downsizing was experienced in all sectors of the economy, the financial services industries were particularly affected.

In spite of these adverse industry developments, it has been a busy year for TEB's Human Resources Division. To accommodate the increase in the number of TEB branches in 2001, the number of personnel increased from 1,262 at the end of December 2001 to 1,524 at the end of March 2002. Rewarding schemes, started in 2000 to raise motivation and work efficiency among the personnel, continued throughout the year. As a result, personnel turnover rate stood at only 5% at the end of 2001.

For the first time in 2001, preparatory work was finalised regarding training programmes in a virtual environment - the e-learning project. The subject of the first e-learning programme, which is expected to take place in early 2002, will be credit cards. The project team, comprised of experts from Retail, IT and Human Resources Divisions, worked jointly to launch the first programme. The orientation training programme, prepared by the Human Resources Division, was also added to the e-learning project.

Technical training programmes were emphasised during 2002 when credits and financial training programmes received priority. Special training programmes, geared to specific needs, were organised for the personnel of the subsidiary companies, while help was extended for their recruitment processes.

Subsidiaries

SUBSIDIARIES UNDER TEB FINANCIAL SERVICES GROUP REINFORCE THE IMPORTANCE THAT TEB PLACES ON MEETING THE DIVERSE FINANCIAL NEEDS OF ITS CLIENTS.

TEB N.V.
(The Economy Bank N.V.)

TEB N.V., a wholly owned subsidiary of TEB, became operational in Amsterdam, the Netherlands, in November 1998 with the expectation that a growing synergy will gradually emerge from the activities of the TEB Financial Services Group companies and TEB N.V.

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 be the "Turkish Market Specialist" in the EU market.

TEB N.V. has a paid-up capital of ğ 21 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 investment banking, 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 capacity to underwrite securities.

TEB Investment has a paid-up capital of TL 6,650 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 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 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. Fitch 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 1,500 billion, of which 50% belongs to TEB.

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

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

TEB Asset Management has a paid-up capital of TL 1,000 billion, of which 55.89% belongs to TEB.

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

TEB Precious Metals is involved in the import 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. In addition, the Company is one of the major traders in silver with 60.4 tons, representing a 38% market share.

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 AS OF DECEMBER 31, 2001 AND 2000 TOGETHER WITH AUDITORS' REPORT

ARTHUR ANDERSEN

A.A. Aktif Analiz S.M.M.M. A.Ş.

To the Board of Directors of
Türk Ekonomi Bankası Anonim Şirketi:

1. We have audited the accompanying consolidated balance sheet of Türk Ekonomi Bankası Anonim Şirketi (the Bank-a Turkish corporation) and subsidiaries as of December 31, 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of TEB Portföy Yönetimi A.Ş., Petek International Holdings B.V. and TEB Sigorta A.Ş., which statements reflect total assets and total revenues constituting 1% and 2%, respectively, of the related consolidated totals as of December 31, 2001. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely upon the report of the other auditors.

2. 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.

3. In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph above present fairly, in all material respects, the consolidated financial position of Türk Ekonomi Bankası Anonim Şirketi and subsidiaries at December 31, 2001, and the consolidated results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

A.A. AKTİF ANALİZ
SERBEST MUHASEBECİLİK MALİ MÜŞAVİRLİK ANONİM ŞİRKETİ
Member of Andersen Worldwide

by

Esra Peri

İstanbul,
June 12, 2002.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2000
(Currency - Billions of Turkish lira in equivalent purchasing power at December 31, 2001)

ASSETS	December 31, 2001	December 31, 2000
CASH AND CURRENT ACCOUNTS WITH BANKS (Note 4)	149,120	114,067
CALL AND TIME DEPOSITS WITH BANKS (Notes 4, 16 and 19)	407,043	665,564
INTERBANK FUNDS SOLD (Notes 4 and 19)	515,473	344,776
FUNDS LENT UNDER SECURITIES RESALE AGREEMENTS (Notes 4, 16 and 19)	100,419	45,293
RESERVE DEPOSITS AT CENTRAL BANK (Notes 5 and 19)	101,255	79,836
MARKETABLE SECURITIES (Notes 6 and 19)	161,990	198,665
LOANS, net (Notes 7, 16 and 19)	935,765	880,035
LEASE CONTRACTS RECEIVABLES, net (Notes 8, 16 and 19)	47,264	74,956
FACTORING RECEIVABLES, net (Note 19)	40,902	84,915
DERIVATIVE FINANCIAL INSTRUMENT ASSETS (Note 20)	509	33,128
OTHER ASSETS (Note 13)	19,247	23,770
EQUITY PARTICIPATIONS, net (Note 6)	1,010	2,875
PREMISES AND EQUIPMENT, net (Note 9)	33,788	35,747
Total assets	2,513,785	2,583,627

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 2001	December 31, 2000
DEPOSITS (Notes 10, 16 and 19)		
Demand	314,956	131,041
Time	1,324,928	1,139,885
Total deposits	1,639,884	1,270,926
FUNDS BORROWED (Notes 11, 16 and 19)		
Local banks	29,082	47,774
Foreign banks	334,726	801,266
Under securities repurchase agreements	203,054	76,406
PROMISSORY NOTES, net (Notes 12 and 19)	5,407	11,884
INTERBANK FUNDS BORROWED (Notes 11 and 19)	-	1,509
DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES (Note 20)	415	44,868
OTHER LIABILITIES (Note 13)	94,939	73,427
TAXES PAYABLE:		
Taxes on income (Note 14)	12,122	5,958
Other taxes	5,535	6,943
Deferred income tax (Note 14)	2,991	18,012
Total liabilities	2,328,155	2,358,973
MINORITY INTEREST PAYABLE	7,908	13,121
SHAREHOLDERS' EQUITY:		
Share capital (Note 15)	352,095	352,095
Transfers to share capital	(220,825)	(220,825)
Retained earnings (Note 17)	80,394	60,933
Other reserves	5,083	(311)
Current year net income/(loss)	(39,025)	19,641
Total shareholders' equity	177,722	211,533
Total liabilities and shareholders' equity	2,513,785	2,583,627
CONTINGENCIES AND COMMITMENTS (Notes 16 and 20)		
Guarantees given	630,724	759,460
	630,724	759,460

The accompanying notes are an integral part of these balance sheets.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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

	2001	2000
INTEREST INCOME:		
Interest on loans	195,157	141,136
Fees and commissions on loans	5,518	940
Interest on marketable securities, net	61,947	82,873
Interest on deposits with banks	184,974	188,235
Other interest income (Note 22)	70,682	61,055
	518,278	474,239
INTEREST EXPENSE:		
Interest on funds borrowed	(113,334)	(72,371)
Interest on local currency deposits	(130,159)	(38,907)
Interest on foreign currency deposits	(124,972)	(90,882)
Other interest expense	(222)	(1,964)
	(368,687)	(204,124)
Net interest income	149,591	270,115
PROVISION FOR POSSIBLE LOAN LOSSES (Note 7)	(7,042)	(5,559)
Net interest income after provision for possible loan losses	142,549	264,556
FOREIGN EXCHANGE LOSS, NET	(29,703)	(77,096)
OTHER OPERATING INCOME:		
Income from banking services	25,723	41,894
Marketable securities trading income, net	18,336	12,737
Other income (Note 22)	31,950	17,926
	76,009	72,557
OTHER OPERATING EXPENSES:		
Salaries and employee benefits (Note 13)	(48,389)	(67,008)
Administration and other expenses	(59,473)	(65,369)
Taxation other than on income	(13,110)	(26,923)
Depreciation and amortization (Note 9)	(10,406)	(9,459)
	(131,378)	(168,759)
Income before provision for income tax, minority interest and monetary loss	57,477	91,258
PROVISION FOR INCOME TAX (Note 14)	(13,893)	(27,311)
Income before minority interest and monetary loss	43,584	63,947
MINORITY INTEREST	5,196	(6,103)
Income before monetary loss	48,780	57,844
MONETARY LOSS	(87,805)	(38,203)
Net income/(loss)	(39,025)	19,641
Earnings/(loss) per share (in full TL)	(354)	188
Weighted average number of shares outstanding (in billions)	110.25	104.54

The accompanying notes are an integral part of these statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Currency - Billions of Turkish lira in equivalent purchasing power at December 31, 2001)

	Total	Share Capital (*)	Adjustment to Share Capital	Legal and General Reserves/ (Accumulated Deficit) Net of Transfers to Share Capital	Other Reserves	Current Year Net Income/(Loss)
Balances, December 31, 1999	149,817	22,000	63,690	24,503	-	39,624
Restatement effect of share capital (Note 2.2)	-	-	193,528	(193,528)	-	-
Restatement effect of fixed assets (Note 2.2)	(1,586)	-	-	(1,586)	-	-
Balances, December 31, 1999 as restated	148,231	22,000	257,218	(170,611)	-	39,624
Transfers to legal and general reserves	-	-	-	39,624	-	(39,624)
Share capital increase	45,649	33,125	39,752	(27,228)	-	-
Cash	5,680	2,500	3,180	-		
Retained earnings	-	13,034	14,194	(27,228)	-	-
Emission premium	39,969	17,591	22,378	-	-	-
Effect of change in the consolidation structure	(837)	-	-	(837)	-	-
Foreign currency translation adjustment	(311)	-	-	-	(311)	-
Provision for general banking risks	(840)	-	-	(840)	-	-
Current year net income	19,641	-	-	-	-	19,641
Balances, December 31, 2000	211,533	55,125	296,970	(159,892)	(311)	19,641
Transfers to legal and general reserves	-	-	-	19,641	-	(19,641)
Effect of change in the consolidation structure	117	-	-	117	-	-
Foreign currency translation adjustment (Note 3.2 (d))	4,256	-	-	-	4,256	-
Current year net income	(39,025)	-	-	-	-	(39,025)
Provision for general banking risks	841	-	-	(297)	1,138	-
Balances, December 31, 2001	177,722	55,125	296,970	(140,431)	5,083	(39,025)

(*) Share capital represents statutory historical paid-in capital.

The accompanying notes are an integral part of these statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000 (Notes 1, 2 and 3)

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

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before provision for income tax, minority interest and monetary loss	57,477	91,258
Adjustments for:		
Monetary gain/loss, net	(85,033)	(5,460)
Depreciation and amortization	10,406	9,459
Provision for loan impairment	7,042	5,559
Provision for retirement pay, net	1,121	1,084
Provision for decline in value of marketable securities	52	-
Operating profit before changes in operating assets and liabilities	(8,935)	101,900
Net increase/(decrease) in funds borrowed from banks	(486,742)	322,124
Net increase/(decrease) in discounted promisory notes	(6,477)	11,884
Net (increase)/decrease in loans	(55,283)	(330,390)
Net increase/(decrease) in deposits	368,958	234,451
Net (increase)/decrease in interbank funds sold	(170,697)	(301,176)
Net (increase)/decrease in call and time deposits with banks	258,521	41,606
Net (increase)/decrease in reserve deposits at Central Bank	(21,419)	(3,478)
Net (increase)/decrease in lease receivables	27,692	(25,304)
Net (increase) in factoring receivables	44,013	(34,252)
Net (increase)/decrease in marketable securities	36,675	262,964
Net (increase)/decrease in funds lent under reverse repurchase agreements	(55,126)	(24,651)
Net increase/(decrease) in funds borrowed under securities repurchase agreements	126,648	(193,340)
Net (increase)/decrease in derivative financial assets	32,619	-
Net increase/(decrease) in derivative financial liabilities	(44,453)	-
Net increase/(decrease) in other assets and liabilities	26,037	4,934
Income taxes paid	(24,940)	(53,319)
Net cash provided by/(used in) operating activities	56,026	(87,947)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment securities	-	254,437
Purchase of investment securities	-	(293,822)
Purchases of premises and equipment	(9,228)	(19,905)
Disposals of premises and equipment	611	2,880
Decrease in equity participations due to the change of consolidation structure	1,675	1,416
Net cash (used in) investing activities	(6,942)	(54,994)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Share capital cash increase	-	45,579
Effects of consolidation	117	(837)
Net increase/(decrease) in minority interest payable	(5,213)	(807)
Net cash provided by/(used in) financing activities	(5,096)	43,935
NET INCREASE/(DECREASE) IN CASH AND DUE FROM BANKS	35,053	2,894
CASH AND DUE FROM BANKS AT BEGINNING OF THE YEAR	114,067	111,173
CASH AND DUE FROM BANKS AT END OF THE YEAR	149,120	114,067

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

a) The cash paid by the Bank for interest and income taxes and the cash received as interest during the years ended December 31, 2001 and 2000 were as follows:

	2001	2000
Interest paid	455,243	113,336
Interest received	609,550	429,934

b) For purposes of the statements of cash flows, the Bank considers cash on hand and current accounts with banks as cash and cash equivalents.

	2001	2000
Cash and cash equivalents as previously reported in historical terms	60,481	83,778
Effect of restatement	53,586	27,395
Cash and cash equivalents as restated	114,067	111,173

The accompanying notes are an integral part of these statements.

(Currency - Billions of Turkish lira in equivalent purchasing power at December 31, 2001 unless otherwise indicated)

NOTE 1 - GENERAL

Türk Ekonomi Bankası A.Ş. (the Bank) is incorporated in Turkey and its head offices are 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 Bank remains under the control of the Çolakoğlu Group and is a bank with 54 branches (2000 - 54 branches) and 1,263 employees (2000 - 1,339 employees) (excluding the subsidiaries) as of December 31, 2001.

The subsidiaries of the Bank and the direct and effective shareholding percentages of the Bank in them at December 31, 2001 and 2000 were as follows:

	2001		2000	
Investee	Direct Share-holding (%)	Effective Share-holding (%)	Direct Share-holding (%)	Effective Share-holding (%)
The Economy Bank N.V. (Economy Bank)	100.0	100.0	100.0	100.0
TEB Yatırım Menkul Değerler A.Ş. (TEB Menkul)	74.8	91.8	74.8	91.8
TEB Finansal Kiralama A.Ş. (TEB Leasing)	68.8	72.5	68.5	72.3
TEB Factoring A.Ş. (TEB Factoring)	65.8	70.8	65.8	70.8
TEB Sigorta A.Ş. (TEB Sigorta) (*)	50.0	50.0	50.0	50.0
Petek International Holdings B.V. (Petek International)	100.0	100.0	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	55.9	88.6	55.9	88.6

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

As of December 31, 2001 and 2000, the financial statements of all subsidiaries have been consolidated.

The principal activities of the consolidated subsidiaries are as follows:

TEB Leasing - Leasing of industrial machinery, office equipment, various equipment and transport vehicles (incorporated in Turkey).

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

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

TEB Sigorta - Rendering all types of property and casualty insurance services (incorporated in Turkey).

Economy Bank - Commercial bank, which deals mainly with trade and commodity finance (incorporated in the Netherlands).

Petek International - Private holding company (incorporated in the Netherlands).

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 (incorporated in Turkey).

The operations of the Bank and the subsidiaries located in Turkey are mainly with local customers.

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

The composition of the Bank's operations by consolidated companies at December 31, 2001 and 2000, are as follows:

	Bank	TEB Menkul	TEB Leasing	TEB Factoring	TEB Portföy	Economy Bank	Petek International	TEB Sigorta	Eliminations	Consolidated Total
December 31, 2001										
Total assets	1,663,651	15,691	67,636	53,656	3,330	783,495	1,343	20,390	(95,407)	2,513,785
Net interest income/ net revenues	83,648	5,946	30,922	16,193	624	10,288	151	1,992	(179)	149,591
Net income/(loss)	(12,421)	(2,514)	(11,179)	(5,253)	716	7,583	375	(931)	(15,401)	(39,025)
December 31, 2000										
Total assets	1,783,706	60,118	92,063	144,447	-	553,586	2,554	31,000	(83,847)	2,583,627
Net interest income/ net revenues	183,406	11,421	29,043	34,113	-	11,173	-	5,460	(4,501)	270,115
Net income/(loss)	4,130	5,662	5,466	4,747	-	8,859	1,728	764	(11,715)	19,641

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Bank and its consolidated subsidiaries (except for Economy Bank and Petek International, which maintain their books of account and prepare their financial statements in accordance with the statutory requirements in their respective countries of incorporation) maintain their books of account and prepare their statutory financial statements in Turkish lira in accordance with the Turkish Commercial Code, Banking Law, Capital Markets Board and tax regulations. The accompanying consolidated financial statements (the IFRS (International Financial Reporting Standards financial statements) are based on the statutory records, which are maintained under the historical cost convention, with adjustments and certain reclassifications and restatement for the changes in the general purchasing power of Turkish lira for the purpose of fair presentation in accordance with IFRS as published by the International Accounting Standards Board. The Bank and its consolidated subsidiaries adopted all standards, which were mandatory as of December 31, 2001. No standards are adopted before their effective date.

The Bank's IFRS financial statements are authorized for issue by the top management of the Bank on June 12, 2002.

The adjustments, which have been made to conform the statutory financial statements to IFRS relate mainly to deferred taxation, employee termination benefits, accounting for financial instruments and restatement to equivalent purchasing power of Turkish lira. 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.

The restatement for the changes in the general purchasing power of the Turkish lira as of December 31, 2001, is based on IAS 29, which requires that financial statements prepared in the currency of a highly inflationary economy should be stated in terms of the measuring unit current at the balance sheet date and corresponding figures for previous periods should 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%.

Inflation and devaluation rates for the years ended December 2001, 2000 and 1999, are stated below:

Dates	Inflation Rates (%) (*)	Devaluation Rates (%) (**)
December 31, 1999	62.92	72.71
December 31, 2000	32.66	24.38
December 31, 2001	88.56	114.30

(*) Based on the wholesale price indices announced by the State Institute of Statistics.
(**) Based on the rate of exchange of U.S. dollar announced by the Central Bank of Turkey.

The restatement was calculated by means of conversion factors derived from the countrywide wholesale price index published by the State Institute of Statistics. Such indices during the current and prior years are as follows:

Dates	Index
December 31, 1999	1,979.5
December 31, 2000	2,626.0
December 31, 2001	4,951.7

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 December 31, 2000, are restated in their entirety to the measuring unit current at December 31, 2001.

- Monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2001, 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 amount has been derived by indexing each capital increase in cash, transfers from statutory retained earnings to share capital and dividends reinvested from the date they were contributed (see Note 15).

- Non-monetary assets and liabilities, which are not carried at amounts current at the balance sheet date and other components of shareholders' equity (except for the revaluation surplus which is eliminated), are restated by applying the relevant conversion factors; being the change in the general price index from the date of acquisition to the closing date. The restated amount is reduced when it exceeds the amount recoverable from the item's future use.

- All items in the statements of income are restated by applying the appropriate relevant conversion factors with exception of depreciation, amortization, gain or loss on disposal of fixed assets (which have been restated based on the restated gross book values and accumulated depreciation/amortization) and provision for retirement pay liability, which is already expressed in terms of the monetary unit current at December 31, 2001. Interest income and expense and foreign exchange gains and losses at December 31, 2000, are also restated by applying appropriate average conversion factors for comparative presentation purposes.

- The effect of inflation on the Bank's net monetary position is included in the statements of income and separately disclosed as a net monetary gain or loss.

2.2 Changes in Accounting Policies

IAS 39:

In 2001, the Bank adopted IAS 39 - Financial Instruments, Recognition and Measurement, effective January 1, 2001. The financial effect of the adoption on January 1, 2001, opening balances was not reflected as an adjustment to the opening shareholders' equity due to immateriality of the impact.

Prior to adoption of IAS 39, all debt and equity securities, except for trading securities, originated loans and receivables and financial liabilities were measured at cost plus accrued interest calculated on a straight line basis or cost, respectively, providing only for permanent value impairments. IAS 39 has been applied prospectively in accordance with the requirements of this standard and therefore prior year comparative figures have not been restated.

Certain reclassifications have been made to the December 31, 2000, financial statements to present them on a comparative basis with the current year financial statements. Such reclassifications relate mainly to presentation of held-to-maturity investments, originated loans and receivables and financial liabilities at amortized cost in accordance with IAS 39.

Restatement in accordance with IAS 29:

Prior to 2001, the Bank was only indexing share capital increases paid-in cash. As of December 31, 2001, the inflation adjusted share capital amount has been derived by indexing each capital increase, including transfers from retained earnings and dividends reinvested from the date they were contributed. Prior year comparative figures have been restated accordingly.

Also prior to 2001, the restatement was calculated by means of conversion factors derived from the countrywide wholesale price indices published by the State Institute of Statistics (SIS). Along with new regulations, which require adoption of IAS 29 in the statutory financial statements of the banks operating in Turkey effective December 31, 2001, Banking Regulation and Supervision Agency (BRSA) has announced inflation indices to be used by the banks which are different from the ones used in IFRS financials (prior to 2001) for the years prior to 1994. The difference in the indices result from the fact that the SIS revised the base as 1994=100 in 1994 and the composition of the wholesale price indices were also revised. In addition, BRSA requires restatement of all non-monetary items prior to 1970 as additions in 1970. All non-monetary items were restated by applying the relevant conversion factors announced by BRSA and similarly prior year comparative figures have been restated accordingly.

Also in prior years foreign exchange gains/(losses) and interest income and expenses and tax charge were not restated in the year they were incurred. In 2001, such amounts were restated by applying the relevant conversion factors announced by BRSA and similarly prior year figures were also restated.

2.3 Measurement Currency

Based on the economic substance of the underlying events and circumstances relevant to the Bank, the measurement currency of the Bank and its consolidated subsidiaries, all operating in Turkey (except for Economy Bank and Petek International which operate in the Netherlands), has been determined to be Turkish lira.

NOTE 3 - PRINCIPLES OF CONSOLIDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

3.1 Principles of Consolidation:

The consolidated financial statements of the Bank include the Bank and the companies that it controls. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a bank'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 sheets and statements of income, respectively.

Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where significant influence is exercised by the Bank are accounted for using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. All other investments are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

(a) The balance sheets and statements of income of consolidated subsidiaries are consolidated on a line-by-line basis, and the carrying value of investments held by the Bank is eliminated against the related shareholders' equity accounts,

(b) All significant intercompany transactions, balances and unrealized surpluses and deficits on transactions between consolidated companies have been eliminated,

(c) The minority shareholders' share in the net assets and results for the years ended December 31, 2001 and 2000, have been presented as minority interest payable and minority interest in the accompanying consolidated balance sheets and statements of income, respectively,

(d) For the purpose of consolidation, the EURO financial statements of Economy Bank and Petek International operating in the Netherlands have been translated to Turkish lira as explained in section 3.2 (d) below,

(e) Consolidated financial statements are prepared using uniform accounting policies for transactions and other events in similar circumstances, where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

3.2 Summary of Significant Accounting Policies:

(a) Cash and Cash Equivalents:

For the purposes of cash flow statements, cash and cash equivalents comprise cash on hand and current accounts with banks.

(b) Originated Loans and Provisions for Loan Impairment:

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as loans originated by the Bank 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 recognised when cash is advanced to borrowers.

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectible amounts in the Bank's loan and receivable portfolio and losses under guarantees and commitments. As required by IAS 39, if it is probable that the Bank will not be able to collect all amounts due (principal and interest) according to 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 loans 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 carring value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable. The reserve for possible loan and receivable losses is based on estimates and ultimate losses may vary from the current estimates. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance for impairment account. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of income in the periods in which they become known.

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

The Bank ceases to accrued 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 Communiquès with respect to classification of loans and minimum reserve requirements.

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. Statutory and other regulatory loan loss reserve requirements that exceed these amounts, if any are dealt within the general banking reserve as an appropriation of retained earnings.

Provision for general banking risks provided by the Bank's subsidiary Economy Bank is included under legal and general reserves in the accompanying consolidated financial statements.

(c) Premises and Equipment and Related Depreciation and Amortization:

Premises and equipment are carried at restated cost less accumulated depreciation in equivalent purchasing power at December 31, 2001. When assets are sold or retired, their restated cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

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 and amortization are provided on the restated amounts of premises and equipment using the straight-line method. The annual rates used, which approximate rates based on the estimated economic lives of the related assets, are as follows:

Buildings	2%
Motor vehicles	20%
Furniture, fixtures and office equipment	20%
Leasehold improvements	not less than 5 years

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 property and equipment.

Assets acquired in exchange for uncollected loan and other receivables and held for sale are reflected at restated cost amount less accumulated impairment loss. Independent property revaluations are performed once every year with the last valuations performed by independent appraisal companies during the year 2001. Such properties are planned to be disposed of within three years.

(d) Foreign Currency Transactions and Translation of the Financial Statements of Foreign Entities:

Gains or losses arising from foreign currency transactions are reflected in the statement of income as they are realized during the accounting year. Foreign currency assets and liabilities at each year-end are translated into Turkish lira at the year-end foreign currency exchange rates. The resulting foreign exchange gains or losses are recorded in the statement of income for the year-end. Such gains and losses are reflected as foreign exchange loss, net in the accompanying financial statements. The foreign exchange loss in the accompanying financial statements mainly represents cost of funding and trading loss.

The assets and liabilities of the foreign entities as of the related year-ends were translated into Turkish lira by applying the exchange rates prevailing at respective dates. The income statement items were translated to Turkish lira by using the year-end rate of exchange. The impact of the difference between inflation and the rate of devaluation of the Turkish lira versus foreign currencies on the retained earnings of foreign entities is reflected as foreign currency translation reserve in the accompanying consolidated statement of shareholders' equity.

(e) Accounting for Leases:

Finance Lease - As Lessor:

TEB Leasing 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. TEB Leasing's financial leases consist of full-payout leases of industrial machinery, office equipment, various equipment and transport vehicles. The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased asset constitutes the unearned lease income to be recognized as income over the term of the lease and is recorded so as to produce a constant periodic rate of return on the net cash investment remaining in each lease. In calculating the present value (amortized cost) of leases the discount factor used is the interest rate implicit in the lease, when it is practical to determine.

On a group basis, TEB Leasing's management estimates that a lump sum allowance over net investments in direct financing leases to third parties (excluding related parties) is adequate to cover future, potential or unforeseen uncollectable amounts in rentals receivable and in the net investment in direct financing leases. These estimates are reviewed periodically and as adjustments become necessary, they are reported in the statement of income for the periods, as they become known. Furthermore, specific provision for impairment is provided to cover uncollectable amounts in rental receivables and in the net investment in direct financing leases of customers facing financial difficulties. The amount of the provision is the difference between the lease receivable's carrying amount (amortized cost) and the expected future cash flows (recoverable amount). The carrying amount of lease receivable is deducted to its estimated recoverable amount.

TEB Leasing has obtained investment incentive certificates from the Undersecretariat of the Treasury for its various investments in direct financing leases. Such incentives include exemptions from custom duties on machinery and equipment to be imported and investment allowances at 100% on the approved capital expenditures.

Investment allowances take the form of a deduction from statutory taxable profits for purposes of corporation tax calculations.

In the accompanying financial statements tax benefits relating to such allowances are recognized to the extent of the taxable temporary differences, that give rise to deferred tax liabilities.

Operating Lease - As Lessee:

Leases of assets, mainly premises, under which all the risks and rewards of ownership are effectively retained by the lessors are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease terms. Initial direct costs incurred specifically to earn revenues from an operating lease are recognized as an expense in the income statements in the periods in which they are incurred.

(f) Investments in Associates and Marketable Securities:

The Bank adopted IAS 39, Financial Instruments, Recognition and Measurement on 1 January 2001. Accordingly, investments are classified into the following categories: held-to-maturity, held-for-trading and available-for-sale.

All purchases and sales of marketable securities are recognized at trade date. All equity participations and marketable securities are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

i) Investments in Associates:

The investments in associates are accounted for under the equity method.

ii) Securities "Available-for-Sale":

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 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 whilst holding available-for-sale securities is reported as interest income. Dividends received are included in dividend income. All related realized and unrealized gains and losses are included in net marketable securities trading income.

iii) Securities "Held-for-Trading":

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. Trading securities are initially recognized at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realized and unrealized gains and losses are included in net marketable securities trading income. All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

iv) Securities "Held-to-Maturity":

Designation as "held-to-maturity" security rather than as 'available-for-sale' security is based on intent and the ability to hold the security until the maturity. Management determines the appropriate classification of the Bank's marketable securities at the time of the purchase.

Held-to-maturity securities include debt securities primarily government bonds and treasury bills initially recognized at cost, which is the fair value of consideration given for them, including transaction costs. Turkish lira denominated government bonds and treasury bills are carried at amortized cost by using the effective interest rate method.

Reserve for impairment in value is provided for held to maturity portfolio using discounted present value at expected future cash flows using original effective interest rate. Interest earned whilst holding held to maturity securities is reported as interest income.

v) Sales and Repurchase Agreements:

Securities sold subject to a linked repurchase agreements ('repos') are retained in the financial statements as trading, available-for-sale or held-to-maturity securities and the counterparty liability is stated as funds borrowed under securities repurchase agreements as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as cash and cash equivalents. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method. Such transactions are short-term and mainly involve government debt securities. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

(g) Deferred Taxation:

Deferred tax liabilities and assets are recognized for the tax effects attributable to differences between the tax and financial reporting bases of assets and liabilities (i.e. future deductible or taxable temporary differences) and carry forwards, using the currently enacted tax rates and the balance sheet liability method. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. In accordance with revised IAS 12, deferred taxation is provided on the temporary differences, which arise on the restatement of non-monetary assets through the application of IAS 29. Deferred tax assets and liabilities are not discounted. The deferred tax of the Bank has been computed using 33% as effective tax rate.

Deferred tax liabilities have not been provided on undistributed earnings of subsidiaries to the extent the earnings are intended to remain indefinitely invested in those entities.

(h) Trust Assets:

Assets held by the Bank and its consolidated subsidiaries in fiduciary, agency or custodian capacities for its customers are not included in the accompanying balance sheets, since such items are not assets of the Bank and its consolidated subsidiaries.

(i) Retirement Pay:

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

In the accompanying financial statements as of December 31, 2001 and 2000, the Bank and its consolidated subsidiaries have reflected a liability calculated using the Projected Unit Credit Method and discounted by using the current market yield at the balance sheet date on government bonds, in accordance with IAS 19 - Revised (Employee Benefits), which became operative for financial years starting on or after January 1, 1999.

The principal actuarial assumptions used at December 31, 2001 and 2000, are as follows:

	%
Discount rate	70
Expected rate of salary/limit increases	60

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

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

The computation of the liability is predicated upon the retirement pay ceiling announced by the Government. As of December 31, 2001 and 2000, the ceiling amounts are TL978 million and TL578 million, respectively. The liability is not funded, as there is no funding requirement.

Effective January 1, 2002, the retirement pay ceiling has been increased to TL1,076 million (January 1, 2001 - TL647 million).

(j) Provisions:

A provision is recognised when, and only when, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

(k) Funds Borrowed:

Borrowing costs are expensed as incurred. Funds borrowed are initially recognized of the proceeds received, net of transaction costs. They are subsequently carried at amortized costs using the effective interest rate method, the difference between net proceeds and redemption value being recognized in the net profit or loss for the period over the life of the borrowings.

(l) Financial Instruments:

Financial assets and financial liabilities carried on the balance sheet include cash, current, call and time deposit accounts with banks, marketable securities, loans other factoring and lease contracts receivable and other assets, deposits and funds borrowed and other payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Derivative Financial Instruments:

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss. As of December 31, 2001 and 2000, there are no derivative instruments that are designated noted as hedging instruments.

Derivative financial instruments include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, which are initially recognized in the balance sheet at cost (including transaction costs) and subsequently remeasured at their fair value.

Such contracts are entered into mainly to mitigate exposure to foreign currency risk. Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(m) Fair Value of Financial Instruments:

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The Bank using available market information, management's judgement and appropriate valuation methodologies has determined the estimated fair values of financial instruments.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. To the extent relevant and reliable information is available from the financial markets in Turkey, the fair value of the financial instruments of the Bank is based on such market data. The fair values of the remaining financial instruments of the Bank can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange.

The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments.

Financial Assets

Monetary assets for which fair value approximates carrying value:

For cash and deposits with banks and the Central Bank and interbank funds sold carried at cost or amortized cost, fair value is estimated to approximate carrying value due to their short-term nature.

Balances denominated in foreign currencies are translated at year-end exchange rates.

The fair values of marketable securities are determined by reference to the market values. The fair value of held-to-maturity securities and securities sold under repurchase agreements are estimated based on market prices available at the balance sheet date (see Note 6).

No financial assets have been reclassified as one required to be reported at amortized cost rather than at fair value during the period.

The fair value of equity participations, which are not listed at the stock exchange, is estimated to approximate the carrying value net of any reserve for impairment.

The carrying values of loans, lease and factoring receivables, net of provisions are determined by using current interest rates for similar instruments at the balance sheet date to approximate their fair values.

Financial Liabilities

Monetary liabilities for which fair value approximates carrying value:

The fair values of customer deposits, funds borrowed and other monetary liabilities stated at amortized cost are considered to approximate their respective carrying values due to their short-term nature.

The fair values of medium and long-term funds borrowed, which include mainly floating rate borrowings, are considered to state their respective carrying values since the interest rates applied to the funds borrowed are dated periodically to reflect active market prices (Note 11).

(n) Contingencies:

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(o) Subsequent Events:

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the note when material.

(p) Earnings per Share:

Earnings per share ("EPS") disclosed in the accompanying consolidated statements of income are determined by dividing net income by the weighted average number of shares that have been outstanding during the related 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 the EPS computations is derived by giving retroactive effect to the issue of the following shares without consideration through December 31, 2001.

	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	-	-	-	-
	2,183	3,917	58,304	64,404

(q) 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 interest method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Commission income and fees for various banking services (such as granting letters of guarantee, letters of credit and money transfers, commissions of factoring transactions) are recorded as income at the date the related service is performed or prepayments made.

(r) Segment Reporting:

Business segments: For management purposes the Group is organised into 4 major operating businesses. The Group does not have geographical segments. Financial information on business segments is presented in Note 21.

(s) Risk Management Policies and Practices:

The Risk Management Group, established in 2001 in line with the regulatory directives, is comprised of three departments. Market Risk Department is responsible for measurement of the risk losses in, on and off balance sheet positions arising from movements in market prices. A dedicated member of the Board is assigned as Risk Supervisor. Credit Risk Department is yet to be established, however, 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. Money Market placement lines and risks of the Group companies are monitored centrally by an in-house Line Limit System. For the management of the Operational Risk, besides the Internal Audit and Operational Risk Department, Internal Control Centre (ICM) was established. For the organizational purposes, operational (back office) and trading functions are separated. The Asset Liability Committee (ALCO) meets weekly. The Treasury Department using gap, duration and scenario analysis monitors the positions. TL and Foreign Currency liquidity risk is monitored by the Treasury Department's Risk Management Unit on a real time basis and weekly updates are provided to the ALCO. Counter-party limits are set by the Credit Committee and credit exposures are monitored by the Credit Control Department. The credit analysis and credit approval process within the Bank is highly centralized.

Market Risk: The Bank's interest and exchange rate risk exposure stemming from the fluctuations in the financial markets from holding on and off-balance sheet positions are assessed and Value-at-risk-method is computed by applying standard method when calculating the share capital commitment. Additionally, scenario analysis and stress test methods are applied to determine the liquidity risk.

i) Interest Rate Risk: Interest rate risk indicates sensitivity of the Bank's financial position to the interest rate movements in the market. The first stage in measuring the interest rate risk is to place to instruments that are subject to interest rate risk into most relevant of the 13 maturity segments while taking the remaining maturity or time to re-pricing into account. In the second stage, instruments in various maturity segments are weighted with their risk weighted averages to reflect the volatility of the interest rate that corresponds to the instrument's maturity structure.

ii) Exchange Rate Risk: Exchange rate risk indicates the possibilities of the potential losses that the Bank is subject to due to the exchange rate movements in the market. While calculating the share capital commitment, all the 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 commitment, is computed by taking the higher absolute value of the position by adding to absolute net gold position. Share capital commitment is computed from out of this amount.

Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The management of operational risk is executed by a continuous testing of bank activities, a good management information system and back-up procedures, a strong internal control culture and by a contingency planning.

Credit Risk: Conservative credit allocating policy is maintained under the Credit Allocation and Risk Control Group. Credit Risk exposure is closely watched by making use of the rating of the companies, geographical distribution, sectors, credit limits and collateralization period.

NOTE 4 - CASH AND CURRENT ACCOUNTS AND CALL AND TIME DEPOSITS WITH BANKS, INTERBANK FUNDS SOLD AND FUNDS LENT UNDER SECURITIES RESALE AGREEMENTS:

The details of cash and current accounts and call and time deposits with banks are as follows:

	2001	2000
Foreign currency cash, current, call and time deposit accounts with banks (excluding Central Bank):		
- Overnight placements	172,449	66,406
- Time deposits (*)	218,205	480,513
- Others	139,819	105,708
Call accounts (2 day) at the Central Bank - foreign currency	1,377	4,027
Total foreign currency	531,850	656,654
Turkish lira cash, current, call and time deposit accounts with banks (excluding Central Bank):		
- Overnight placements	14,594	2,716
- Time deposits	418	111,902
- Others	7,375	6,273
Cash at the Central Bank - Turkish lira	1,926	2,086
Total Turkish lira	24,313	122,977
Total	556,163	779,631

	2001	2000
Foreign currency placements:		
Maturity range	January 2, 2002- March 28, 2002	January 2, 2001- January 5, 2001
Interest rate range	1.00% - 9.00%	4.35% - 35%
Turkish lira placements:		
Maturity range	January 2, 2002	January 2, 2001 June 20, 2001
Interest rate range	55% - 60%	30% - 100%

(*) Such amounts are mainly placed in European and United States banks.

Interbank funds sold represent placements at the interbank money market governed by the Central Bank and are as follows:

	2001	2000
Amount (TL)	105,679	77,571
Maturity range	January 2, 2002- January 4, 2002	January 2, 2001
Interest rate range	59% - 62%	100% - 200%
Amount (Foreign currency)	409,794	267,205
Maturity range	January 2, 2002- February 4, 2002	January 3, 2001- January 23, 2001
Interest rate range	2.75% - 4.00%	19% - 50%

Funds lent under securities resale agreements represent funds lent under contractual agreements to sell back at a predetermined sale price at the maturity date. As of December 31, 2001 and 2000, value at maturity of securities purchased under agreements to resell was TL100,488 and TL46,067, respectively.

NOTE 5 - RESERVE DEPOSITS AT CENTRAL BANK:

Reserve deposits	2001	2000
- TL	6,867	4,123
- Foreign currency	93,763	75,713
	100,630	79,836
Value Adjustments:		
- Interest Income Accruals	625	-
Total Reserve Deposits	101,255	79,836

According to the regulations of 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, 2001 and 2000, reserve deposit rates applicable for foreign currency and Turkish lira deposits are 11% and 4% (2000-11% and 6%), respectively.

Effective from August 2001, the Central Bank has started to give interest for the Turkish lira reserves deposited. The interest rate for this reserve is 40% as of December 31, 2001.

NOTE 6 - INVESTMENTS:

Investments comprise investments in associates and marketable securities.

Investments in Associates

The details of the investments in associates at December 31, 2001 and 2000 are as follows:

	2001		2000	
Investee	Amount	% (*)	Amount	% (*)
TEB Portföy Yönetimi A.Ş.	-	-	1,965	56.0
Varlık Yatırım Ortaklığı A.Ş.	383	24.4	314	24.4
TEB Kıymetli Madenler A.Ş.	257	66.1	260	40.0
Factors International Holding S.A.	358	99.9	313	99.9
Others	12	-	23	-
Total	1,010		2,875	

(*) Represent direct shareholding of the Bank.

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. As of the date of this report, Factors International Holding S.A. was liquidated.

Marketable Securities

The details of the marketable securities at December 31, 2001 and 2000, are as follows:

	2001	2000
"Held-for-trading"		
Government bonds and treasury bills issued by the Turkish Government	6,888	1,622
	6,888	1,622
"Available-for-sale"		
Government bonds and treasury bills issued by the Turkish Government	3,085	8,198
Gold	150	175
Share certificates	6	8
Investment funds participation certificates	-	55
Eurobonds	6,142	5,288
Marketable securities sold under repurchase agreements (Turkish lira)	107,953	41,324
	117,336	55,048
"Held-to-maturity"		
- Turkish lira		
Treasury bills issued by the Turkish Government	-	4,044
Government bonds issued by the Turkish Government	37,766	137,774
- Foreign currency (*)		
Foreign currency bonds issued by the Turkish Government	-	177
	37,766	141,995
Total	161,990	198,665

(*) Turkish lira equivalent converted at prevailing year-end rate of exchange.

The following table summarizes marketable securities that were deposited as collaterals with respect to various banking transactions:

	2001		2000	
	Nominal	Carrying Value	Nominal	Carrying Value
Deposited against activities in the ISE				
- Government bonds	500	542	300	500
Deposited at Central Bank (government bonds and treasury bills)				
- Interbank transactions	5,000	5,590	37,500	70,395
- Repurchase transactions	3,000	3,338	-	-
- Foreign currency money market transactions	26,000	28,296	-	-
- Reserve requirements	-	-	600	1,043

The carrying values of the marketable securities held as "available-for-sale" and "held-for-trading" equal their market values at respective year-ends.

The carrying values of the marketable securities, which are "held-to-maturity" differ from market values. The fair value of held-to-maturity securities is determined using market valuations.

"Held-to-maturity" marketable securities, carried at amortized cost are those that the Bank intends to hold until maturity. Accordingly, no provision has been made in the accompanying consolidated financial statements for carrying values exceeding current market values.

The following table summarizes such differences.

	2001			2000		
	Carrying Value (*)	Central Bank Reserve Values	Fair Value (Approximate)	Carrying Value (*)	Central Bank Reserve Values	Fair Value (Approximate)
Treasury bills and government bonds issued by the Turkish Government	37,766	37,571	37,505	149,752	137,423	136,724
Eurobonds issued by the Turkish Government	-	-	-	-	-	-
Foreign currency bonds	-	-	-	-	-	-
Foreign currency bonds issued by the Turkish Government	-	-	-	177	177	177

(*) Including cost plus accreted discounts or accrued coupon interest - Amortized cost.

NOTE 7 - LOANS:

Loans comprise the following:

	2001	2000
Short-term loans	818,184	673,565
Medium-term loans	84,341	196,721
Loans in arrears	17,304	3,778
	919,829	874,064
Less: Reserve for impairment	(9,034)	(7,318)
Loans, net	910,795	866,746
Value Adjustments:		
Interest Income Accrual	24,970	13,289
Total Loans, net	935,765	880,035

As of December 31, 2001 and 2000, foreign currency loans amount to TL719,680 and TL680,317, respectively.

Loans by industry groups excluding loans in arrears are as follows at December 31, 2001 and 2000:

	2001	2000
Credit institutions and discounted bills	143,304	105,150
Electricity and optic devices	87,938	97,493
Chemicals and chemical products	83,142	55,190
Ready-to-wear textiles	73,361	68,349
Food, beverage, tobacco	65,950	47,759
Wood products	65,349	45,492
Metals	65,255	124,516
Other textiles	59,961	86,400
Wholesale, retailing	49,770	36,381
Transportation	46,460	6,490
Consumer loans	24,773	71,611
Fuel products	24,759	856
Construction	17,163	18,781
Machinery	14,959	15,599
Fiber, plastic	11,691	8,864
Tourism, transportation, warehousing	11,577	17,051
Mining, other than metals	5,491	13,194
Leather and leather products	1,923	9,988
Others	49,699	41,122
	902,525	870,286

Average annual interest rate on Turkish lira and foreign currency loans are 82% (2000 - 42.5%) and 13.48% (2000 - 11.5%), respectively. Changes in the reserve for impairment or loans were as follows:

	2001	2000
Balance, at beginning of the year	7,318	2,872
Provision for impairment	8,577	5,986
Recoveries related to items for which reserve was provided in prior years	(1,535)	(405)
Amounts written off	(330)	-
Monetary gain	(4,996)	(1,135)
Balance, at end of the year	9,034	7,318

As of December 31, 2001, the total fair values of loans are TL912,951. The interest rates used to determine the fair values of loans, applied on the balance sheet date to reflect active market price quotations are as follows:

Currency	Interest Rates Applied
Turkish lira	67.00%
US$	7.31%
EURO	6.63%

NOTE 8 - LEASE CONTRACTS RECEIVABLE:

Lease contracts receivables consist of rental receivable over the terms of the leases. The rental receivables are as follows:

Years	2001	2000
2001	-	60,303
2002	34,916	20,686
2003	14,691	10,926
2004	5,094	2,474
2005	1,630	221
2006	35	-
	56,336	94,610
Reserve for possible lease receivable losses	(794)	(1,149)
Gross lease receivables	55,542	93,461
Less: Unearned interest income	(8,308)	(18,505)
	47,264	74,956

As of December 31, 2001 and 2000, foreign currency denominated gross lease contracts receivables amount to TL50,218 and TL56,286.

As of December 31, 2001 and 2000, the fair values of lease contract receivables are TL45,407 and TL78,149 ,respectively. The interest rates used to determine the fair values of lease contract receivables, applied on the balance sheet date to reflect active market price quotations are as follows:

	Interest Rates Applied	
Currency	December 31, 2001	December 31, 2000
Turkish lira	70.00%	50.00%
US$	15.00%	15.00%
EURO	17.00%	16.00%

NOTE 9 - PREMISES AND EQUIPMENT:

Premises and equipment comprise:

	2001	2000
Cost, as restated:		
Buildings	8,387	8,387
Motor vehicles, furniture, fixtures and office equipment and leasehold improvements	62,659	60,531
	71,046	68,918
Less-Accumulated depreciation and amortization, as restated	(37,258)	(33,171)
Net book value, as restated	33,788	35,747

Additions to premises and equipment during the year amounted to TL9,228.

NOTE 10 - DEPOSITS:

An analysis of deposits is as follows:

	2001	2000
DEMAND		
Local currency deposits -		
Commercial and savings deposits	49,390	30,827
Bank deposits	435	1,911
Foreign currency deposits -		
Commercial and savings deposits	257,218	97,567
Bank deposits	2,641	513
Gold deposits	5,272	223
	314,956	131,041
TIME		
Local currency deposits -		
Commercial and savings deposits	155,912	33,603
Bank deposits	6,624	81,287
Foreign currency deposits -		
Commercial and savings deposits	1,142,706	991,196
Bank deposits	8,336	1,941
Gold deposits	5,632	10,037
	1,319,210	1,118,064
Value Adjustments:		
Interest Expense Accruals	5,718	21,821
Total Time Deposits	1,324,928	1,139,885

The Bank mainly collects deposits from local companies and local individuals.

As of December 31, 2001, the total fair values of time deposits are TL1,324,985. The interest rates used to determine the fair values of time deposits, applied on the balance sheet date to reflect active market price quotations are as follows:

Currency	Interest Rates Applied
Turkish lira	58.00%
US$	2.75%
EURO	4.00%

NOTE 11 - FUNDS BORROWED:

Funds Borrowed from Banks:

The details of funds borrowed from banks are as follows:

	2001	2000
State owned banks	27,845	26,532
Other local banks	595	20,657
Funds borrowed from local banks	28,440	47,189
Value Adjustments:		
Interest Expense Accruals	642	585
Total Funds Borrowed From Local Banks	29,082	47,774
Borrowings from foreign banks (foreign currency in thousands)		
Short-term – TL (in billions)	31,326	13,956
Short term – US$	141,533	355,258
Short term – DM	287	41,560
Short term – GBP	2,230	8,777
Short term – EURO	12,630	179,315
Short-term – BEF	-	62,475
Short-term – ITL	-	134,481
Medium and long-term – US$	47,137	45,697
Medium and long-term – DM	6,056	8,453
Medium and long-term – EURO	580	1,792
Medium and long-term – CHF	1,386	-
Turkish lira equivalent (in billions)	330,851	779,127
Value Adjustments:		
Interest Expense Accruals	3,875	22,139
Total Funds Borrowed From Foreign Banks	334,726	801,266

The Bank has obtained a syndicated loan from foreign banks on November 27, 2001, amounting to US$100,000,000 and bearing a quarterly floating interest rate.

As of December 31, 2001 and 2000, funds borrowed from local banks include funds obtained from state owned banks to finance certain export loans given to customers, under prevailing regulations, of which TL12,282 and TL16,571 were denominated in foreign currency, respectively. Also, as of December 31, 2001 and 2000, funds borrowed from local banks including the borrowings of the subsidiaries from other local banks in Turkish lira at annual interest rates of 81% and ranging annual interest rates 17% to 32%, respectively.

The borrowings from foreign banks mainly represent funds obtained from European and United States banks.

Further details of borrowings from foreign banks are as follows:

	2001	2000
DM denominated short-term borrowings:		
Borrowings of the Bank		
Interest rates range	-	5.80% - 8.31%
Maturity range	-	February 2001- October 2001
Borrowings of consolidated subsidiaries		
Interest rates range	6.00% - 7.00%	5.87% - 11.23%
Maturity range	January 2, 2002	January 2001- December 2001
US$ denominated short-term borrowings:		
Borrowings of the Bank		
Interest rates range	3.06% - 6.22%	6.95% - 9.75%
Maturity range	January 21, 2002- November 26, 2002	January 2001- November 2001
Borrowings of consolidated subsidiaries		
Interest rates range	1.75% - 13.00%	4.35% - 12.23%
Maturity range	January 2, 2002- October 15, 2002	January 2001- November 2001

	2001	2000
EURO denominated short-term borrowings:		
Borrowings of the Bank		
Interest rates range	5.78% - 6.75%	5.49% - 7.33%
Maturity range	January 2, 2002-September 30, 2002	February 2001-September 2001
Borrowings of consolidated subsidiaries		
Interest rates range	4.00% - 7.20%	4.35% - 18.5%
Maturity range	January 2, 2002-December 2, 2002	January 2001-October 2001
GBP denominated short-term borrowings:		
Borrowings of the Bank		
Interest rates range	7.43% - 7.46%	7.25% - 8.50%
Maturity range	July 19, 2002	April 2001-September 2001
Borrowings of consolidated subsidiaries		
Interest rates range	4.00% - 8.00%	7.25%
Maturity range	January 2, 2002-March 31, 2002	January 2001
ITL denominated short-term borrowings:		
Borrowings of the Bank		
Interest rates range	-	6.44% - 6.48%
Maturity range	-	July 2001
Borrowings of consolidated subsidiaries		
Interest rates range	-	7.00%
Maturity range	-	April 2001
BEF denominated short-term borrowings:		
Borrowings of the Bank		
Interest rates range	-	6.53%
Maturity range	-	June 2001
TL denominated short-term borrowings:		
Borrowing of the Bank	8.45% - 62.00%	-
Interest rates range	January 2, 2002-	-
Maturity range	June 25, 2002	
Borrowings of consolidated subsidiaries		
Interest rates range	53.00% - 65.00%	100.00%
Maturity range	January 2, 2002-March 31, 2002	January 2001
EURO denominated medium and long-term borrowings:		
Borrowings of consolidated subsidiaries		
Interest rates range	4.00%	9.84%
Maturity range	December 2004	February 2002
US$ denominated medium and long-term borrowings:		
Borrowings of the Bank		
Interest rates range	2.73% - 5.37%	Libor + 3%
Maturity range	April 2003-September 2004	April 2003
Borrowings of consolidated subsidiaries		
Interest rates range	2.20% - 13.00%	Libor + 3%-Libor + 3.5%
Maturity range	January 2003-November 2006	March 2002-April 2005
CHF denominated medium and long-term borrowings:		
Borrowings of consolidated subsidiaries		
Interest rates range	3.75% - 4.13%	-
Maturity range	January 2006-September 2006	-
DM denominated medium and long-term borrowings:		
Borrowings of consolidated subsidiaries	4.88% - 7.99%	Fibor + 0.75%
Maturity range	September 2003-May 2004	September 2003-May 2004

As of December 31, 2001 and 2000, the fair values of medium and long-term borrowings amount to TL75,309 and TL66,223, respectively. For 2001, the interest rates used to determine the fair values of medium and long-term borrowings, applied on the balance sheet date to reflect active market price quotations are as follows:

Currency	Interest Rates Applied
Turkish lira	59.00%
US$	4.75%
EURO	5.80%

Interbank Funds Borrowed:

Interbank funds borrowed represent borrowings from interbank money market governed by the Central Bank and are as follows:

	2001	2000
Amount (TL)	-	1,509
Maturity range	-	January 2, 2001
Interest rate range	-	110%

Funds Borrowed Under Securities Repurchase Agreements:

As of December 31, 2001, funds borrowed under securities repurchase agreements amounting to TL203,054 (2000 - TL76,406) represent securitized borrowings against marketable securities of TL107,953 and funds lent under securities resale agreements of TL100,419 (2000 - TL45,293).

NOTE 12 - PROMISSORY NOTES:

As of December 31, 2001, promissory notes represent notes payable with a nominal value of US$3,889,583. These promissory notes are repayable between March 2002 and June 2004 and they bear interest rates ranging between 2.44% and 13.02%.

As of December 31, 2000, promissory notes represent notes payable with a nominal value of US$10,000,000, net of discount of US$665,113 and repayable at September - November 2001. Interest rate on such notes is 8%.

NOTE 13 - OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprise the following:

	2001	2000
Prepaid taxes	2,507	2,254
Transitory accounts and prepaid expenses	2,138	5,718
Insurance premium receivables of TEB Sigorta	10,762	8,366
Other assets	3,840	7,435
	19,247	23,770

Other liabilities comprise the following:

	2001	2000
Retirement pay liability	2,908	3,040
Transitory accounts	16,636	8,489
Payment orders	7,843	1,995
Insurance technical reserves	12,156	12,580
Other liabilities	55,396	47,323
	94,939	73,427

As of December 31, 2000, the payables to TEB Mali Yatırımlar amounting to TL3,902 TL3,076 and TL87 for the purchase of shares of TEB Leasing, TEB Factoring and TEB Kıymetli Madenler A.Ş., respectively have been classified in other liabilities.

NOTE 14 - TAXATION:

According to law number 4369 that is published on July 29, 1998, with effect from January 1, 1999, effective corporate tax rate (including fund levies) to be paid on the corporate income is set at 33%. Furthermore, in case of the distribution of dividends from corporate earnings, dividends are subjected to income tax withholding at a rate of 5% (5.5% including fund levies) for publicly owned companies and 15% (16.5% including fund levies) for others.

Accordingly, the deferred tax liability of the Bank as of December 31, 2001 and 2000, has been computed using 33% as the effective tax rate. In addition, except for dividend income, items exempt from corporation tax (excluding investment allowance) are subject to income tax withholding at the effective rate of 16.5% whether distributed or not. Transfer of distributable net income to share capital is not considered as dividend distribution. Investment allowance is subject to income tax withholding at the effective rate of 19.8% (2000 - 19.8%).

The total provisions for income tax applicable to income for the years ended December 31, 2001 and 2000, are different from the amounts computed by applying the effective corporate tax rate to income before provision for income tax as shown in the following reconciliation:

	2001	2000
Income before provision for taxes, minority interest and monetary loss, being basis for tax reconciliation	57,477	91,258
Provision for corporate taxes at the combined tax rate of 33%	18,967	30,115
Net benefit of investment allowance utilized	-	(1,360)
Tax effect in historical amounts of permanent non-tax deductible and tax deductible expenses and others, net	(16,910)	(8,843)
Other effects, primarily relating to restatement due to the effects of accounting for inflation	11,836	7,399
Provision for taxes per consolidated statements of income	13,893	27,311

Provision for taxes per consolidated statements of income as expressed in terms of purchasing power of TL at December 31, 2001:		
- Current	23,766	17,370
- Deferred	(9,873)	9,941
	13,893	27,311

As of December 31, 2001 and 2000, the summary of deferred tax liability was as follows:

	2001	2000
Deferred tax liability on:		
Income accrual and foreign exchange gain on marketable securities, which will be taxable when collected	-	9,137
Reserves and accruals	(575)	(503)
Restatement of fixed assets	4,780	1,570
Others, net	(1,214)	(654)
Total amount in historical Turkish lira	2,991	9,950
Total amount as restated to purchasing power at December 31, 2001	2,991	18,012

As of December 31, 2001, prepaid taxes amounting to TL10,597 (2000 - TL10,011) was netted off with taxes payable on income.

In Turkey, tax returns are filed within the fourth month following the year-end. According to existing tax regulations, the tax authorities may examine such returns and the underlying accounting records within five years.

NOTE 15 - SHARE CAPITAL:

The Bank's registered share capital in historical Turkish lira is TL100,000 comprising of twohundred billion (2000 - twohundred billion) shares of par value TL fivehundred each.

As of December 31, 2001 and 2000, the Bank's historical authorized and paid-in share capital comprises 110,250 million shares of five hundred Turkish lira par value each.

The authorised and paid-in share capital of the Bank in historical Turkish lira is as follows:

	2001		2000	
	Paid-in Capital	%	Paid-in Capital	%
TEB Mali Yatırımlar A.Ş.	38,631	70.08	38,631	70.08
Public shares	11,025	20.00	11,025	20.00
Çolakoğlu Metalurji A.Ş.	4,740	8.60	4,740	8.60
Others	729	1.32	729	1.32
	55,125	100.00	55,125	100.00

On February 24, 2000, the historical share capital of the Bank was increased to TL24,500. Five billion of new shares issued with TL500 (full TL) nominal par value each and 4.8 billion of existing principal shareholder shares were offered to the public by the initial public offering.

Furthermore, in July 2000, historical share capital was further increased by TL30,625, through transfer of TL17,591 from share premiums of initial public offering and TL13,034 from historical statutory general reserves.

The adjustment to share capital amounting to TL296,970 at December 31, 2001 and 2000, respectively, represents the restatement effect of cash contributions, dividends reinvested and increases from statutory general reserves except from revaluation surplus to share capital with the purchasing power at December 31, 2001.

As of December 31, 2001 and 2000, the Bank has 645 and 639 shareholders (excluding public shareholders), respectively.

According to the regulations governing the Turkish banking system, the Bank is obliged to comply with the minimum requirements of the Capital Adequacy Ratio (CAR) as defined by the Banking Regulation and Supervision Agency (BRSA or Agency). In relation to Banking Sector Recapitalization Scheme dated January 1, 2002, CAR has been revised with official gazette numbered 24657, published on January 31, 2002, to be in effect as of December 31, 2001. The banks in Turkey are required to calculate the new CAR on a bank only and consolidated basis based on statutory financial statements prepared in accordance with the Uniform Chart of Accounts and Accounting Standards for banks in Turkey as adjusted for the effects of IAS 29 and certain other changes including loan loss reserve calculations. Furthermore, BRSA has announced certain extensive audit procedures to be performed by the Bank's independent external auditors and a second check was performed by independent external auditors to be assigned by BRSA on the banks' financial statements and certain supplementary information requested by BRSA as well as on CAR calculations.

Based on the results of such audits and reviews, as of December 31, 2001, the Bank's CAR, calculated based on the revised regulations as explained in the preceding pragraphs, is above the minimum requirement of 8% determined by BRSA.

NOTE 16 - RELATED PARTY TRANSACTIONS:

The majority of the issued shares of the Bank are owned by the Çolakoğlu Group of companies, which is privately owned. The group includes companies engaged in manufacturing, financial and trading activities. For reporting purposes, companies controlled by the Çolakoğlu Group are considered as related parties.

In the course of their businesses, the Bank and its consolidated subsidiaries grant cash and non-cash loans to related parties, receive deposits and enter into lease contracts.

The details of outstanding transactions with related parties as of December 31, 2001 and 2000, are as follows:

	2001	2000
Cash loans granted (*)	98,885	201,219
Non-cash loans granted	5,302	10,605
Gross lease receivable	173	2,193
Call and time deposits with banks	14,748	128,201
Deposits taken	253,183	294,984
Marketable securities sold under repurchase agreements	-	87
Funds lent under securities resale agreements	100,241	-
Funds borrowed	26,850	13,956
Forward transactions (buy-notional amount)	14,838	652,092
Forward transactions (sell-notional amount)	14,851	675,529
Fair value of derivative instruments-assets/(liabilities)	(18)	(2,539)

(*) Includes TL94,695 of cash collateralized loans.

Interest and commission rates applicable to the above indicated balances approximate market rates.

NOTE 17 - LEGAL AND GENERAL 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 20% of share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the 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, 2001 and 2000, the aggregate of the combined statutory general reserve and current year net income of TL77,281 and TL43,022 (in historical terms), respectively, were available for distribution, subject to the legal reserve requirements referred to above.

The legal reserves of the Bank as at the indicated dates were as follows (in historical terms):

	2001	2000
Legal reserves	5,146	3,980

NOTE 18 - INVESTMENT FUNDS:

The Bank manages five investment funds and TEB Menkul manages four investment funds, which are established under the regulations of the Capital Markets Board. In accordance with the funds' charters, the Bank and TEB Menkul market their participation certificates and provide other services for a management fee.

As of December 31, 2001 and 2000, the total value of the investment funds managed by the Bank and TEB Menkul amounted to TL148,606 and TL208,954, respectively.

NOTE 19 - MATURITY DISTRIBUTION:

The following table shows a distribution of Turkish lira and foreign currency denominated interest earning assets and interest bearing liabilities in approximate maturity groupings according to remaining maturities at December 31, 2001 and 2000:

	2001						2000					
	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Interest Earning Assets:												
Turkish lira:												
-Call and time deposits with banks	15,012	-	-	-	-	15,012	19,641	21,093	57,234	16,650	-	114,618
-Interbank funds sold	105,679	-	-	-	-	105,679	77,571	-	-	-	-	77,571
-Reserve deposits at Central Bank	7,492	-	-	-	-	7,492	4,123	-	-	-	-	4,123
-Marketable securities	108,206	4	4,363	43,119	-	155,692	49,306	40,527	69,035	-	34,331	193,199
-Funds lent under reverse repurchase agreements	-	-	-	-	-	-	45,293	-	-	-	-	45,293
-Loans (**)	146,247	33,146	8,356	8,677	13,123	209,549	79,883	12,251	19,203	26,032	65,887	203,256
-Net lease receivables	1,092	1,835	1,604	1,519	380	6,430	4,333	5,458	6,795	7,704	7,944	32,234
-Factoring receivables	11,894	10,747	252			22,893	49,757	15,395	13,446	760	-	79,358
Total Turkish lira	395,622	45,732	14,575	53,315	13,503	522,747	329,907	94,724	165,713	51,146	108,162	749,652
Foreign currency (*)												
-Call and time deposits with banks	385,702	6,329	-	-	-	392,031	549,829	1,117	-	-	-	550,946
-Interbank funds sold	405,454	4,340	-	-	-	409,794	267,205	-	-	-	-	267,205
-Reserve deposits at Central Bank	93,763	-	-	-	-	93,763	75,713	-	-	-	-	75,713
-Marketable securities	156	-	-	-	6,142	6,298	-	-	-	-	5,466	5,466
-Funds lent under reverse repurchase agreements	95,276	5,143	-	-	-	100,419	-	-	-	-	-	-
-Loans (**)	107,057	152,651	182,673	215,418	68,417	726,216	75,317	105,111	160,302	225,701	113,886	680,317
-Net lease receivables	1,824	4,726	6,424	8,643	19,217	40,834	2,043	4,381	6,254	10,000	20,044	42,722
-Factoring receivables	18,009					18,009	3,501	2,056				5,557
Total foreign currency	1,107,241	173,189	189,097	224,061	93,776	1,787,364	973,608	112,665	166,556	235,701	139,396	1,627,926
Total	1,502,863	218,921	203,672	277,376	107,279	2,310,111	1,303,515	207,389	332,269	286,847	247,558	2,377,578
Interest Bearing Liabilities:												
Turkish lira:												
-Deposits	191,234	18,099	2,918	110	-	212,361	81,771	27,803	15,678	27,979	-	153,231
-Funds borrowed from banks	31,743	12,357	4,907	53	54	49,114	14,054	-	9,786	560	-	24,400
-Funds borrowed under securities repurchase agreements	102,649	-	-	-	-	102,649	76,406	-	-	-	-	76,406
-Interbank funds borrowed	-	-	-	-	-	-	1,509	-	-	-	-	1,509
Total Turkish lira	325,626	30,456	7,825	163	54	364,124	173,740	27,803	25,464	28,539	-	255,546
Foreign currency (*)												
-Deposits	990,938	169,045	89,421	117,524	60,595	1,427,523	474,842	217,837	160,448	152,055	112,513	1,117,695
-Funds borrowed from banks	48,510	19,886	58,110	123,243	64,945	314,694	81,062	109,316	268,421	297,922	67,919	824,640
-Funds borrowed under securities repurchase agreements	95,263	5,142	-	-	-	100,405	-	-	-	-	-	-
-Promissory notes, net	-	274	4,335	200	598	5,407	-	-	11,884	-	-	11,884
Total foreign currency	1,134,711	194,347	151,866	240,967	126,138	1,848,029	555,904	327,153	440,753	449,977	180,432	1,954,219
Total	1,460,337	224,803	159,691	241,130	126,192	2,212,153	729,644	354,956	466,217	478,516	180,432	2,209,765

(*) Turkish lira equivalent converted at prevailing year-end rate of exchange.
(**) Performing portfolio only.

NOTE 20 - CONTINGENCIES AND COMMITMENTS:

In the normal course of business activities, the Bank and its consolidated subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The following is a summary of significant contingencies and commitments at December 31, 2001 and 2000.

Trust Assets:

The nominal values of the assets held by the Bank and the consolidated subsidiaries in fiduciary, agency or custodian capacities amounted to TL906,202 and TL1,542,803 at December 31, 2001 and 2000, respectively.

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

As of December 31, 2001 and 2000, 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 2000, according to the general requirements of the ISE, letters of guarantee amounting to TL1,902 and US$17 million and TL7,278 and US$25 million, respectively, had been obtained from various local banks and were provided to the ISE for bond market transactions. Also, as of December 31, 2001 and 2000, according to the general requirements, letters of guarantee amounting to TL252 and TL346 (in historical terms) were given to the Capital Markets Board.

Derivative Financial Instruments:

The Bank uses derivative financial instruments to manage market risks. As of December 31, 2001 and 2000, the Bank does not have any derivative financial instruments designated hedges. All derivative instruments are considered as trading and thus reflected at fair values.

Forward Agreements:

The notional amounts of forward commitments comprised (foreign currency in thousands):

	2001	2000
BUY		
TL	5,715	67,562
US$	19,040	567,282
DM	-	7,650
GBP	760	13,024
CHF	-	1,499
EUR	15,645	442,826
US$ Equivalent	34,001	983,105

	2001	2000
SELL		
TL	4,109	279,481
US$	17,073	564,920
DM	-	57,255
CHF	-	1,226
JPY	76,465	-
DKK	4,230	1,060
SEK	-	1,619
EUR	16,767	347,478
US$ Equivalent	33,010	928,625

As of December 31, 2001 and 2000, the fair value of the outstanding forward foreign exchange contracts is determined using forward exchange market 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.

As of December 31, 2001 and 2000, the fair value of the outstanding forward agreements computed as indicated in Note 3.2(I) approximated the following:

	2001	2000
Assets due to forward agreements	509	33,128
Liabilities due to forward agreements	415	44,868

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. Such transactions which are due for settlement in 2002 and 2001, 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 TL29,481 (2000 - TL218,535).

The above indicated forward agreements outstanding as of December 31, 2001 and 2000, mature between January 2, 2002 and September 6, 2002, and January 2, 2001 and November 30, 2001, respectively.

Other Commitments:

	2001	2000
Letters of guarantee issued by the Bank	441,486	518,135
Letters of guarantee obtained by consolidated subsidiaries from other banks	18,458	60,569
Payment commitments to foreign banks arising from:		
Acceptance credits	21,570	35,576
Letters of credit	167,668	205,749

As of December 31, 2001 and 2000, the letters of guarantee and payment commitments, excluding letters of guarantee secured by counter guarantees amounting to TL39,329 and TL42,954, respectively and excluding confirmed and 100% collateralized letters of credit amounting to TL45,073 and TL19,302, respectively can be classified by industry group as follows:

	2001	2000
Food, beverage, tobacco	69,795	72,268
Other textiles	67,516	57,461
Financial sector	67,207	156,666
Metals	52,081	37,460
Chemicals and chemical products	41,635	35,402
Wholesale, retailing	41,035	40,613
Machinery	32,542	53,781
Transportation	28,601	47,944
Tourism transportation and warehousing	23,803	19,846
Wood products	18,976	2,788
Textiles and ready-to-wear textiles	17,864	17,981
Fiber plastic	15,071	24,275
Construction	11,079	13,462
Electricity and optic devices	10,309	13,956
Consumer loans	9,139	7,916
Mining other than metals	5,288	14,569
Leather and leather products	945	6,463
Fuel products	922	3,402
Others	32,514	70,951
	546,322	697,204

NOTE 21- SEGMENT INFORMATION:

Business segments

For management purposes, the consolidated business of the Bank is comprised primarily of banking, financial leasing (leasing) and factoring operations and intermediary activities (intermediary).

	December 31, 2001					December 31, 2000				
	Banking	Leasing	Factoring	Brokerage, Corporate Finance and Other	Aggregated	Banking	Leasing	Factoring	Brokerage, Corporate Finance and Other	Aggregated
Interest income	432,663	39,498	34,122	11,995	518,278	371,050	34,412	47,101	21,676	474,239
Other income	47,638	1,231	2,584	24,556	76,009	32,505	558	1,992	37,502	72,557
Total segment revenue	480,301	40,729	36,706	36,551	594,287	403,555	34,970	49,093	59,178	546,796
Less: Interest expenses, net foreign exchange losses and other	(332,107)	(36,699)	(32,420)	(4,206)	(405,432)	(223,665)	(19,577)	(29,601)	(13,936)	(286,778)
Less: Other operating expenses	(105,077)	(4,190)	(5,214)	(16,897)	(131,378)	(138,457)	(4,079)	(8,059)	(17,802)	(168,397)
Segment result before provision for income tax and monetary loss	43,117	(160)	(928)	15,448	57,477	41,433	11,314	11,433	27,440	91,620
Provision for taxation	(11,226)	(914)	1,292	(3,045)	(13,893)	(15,667)	(2,554)	(3,476)	(5,614)	(27,311)
Monetary loss	(61,166)	(10,149)	(5,755)	(10,735)	(87,805)	(24,120)	(6,073)	(3,133)	(4,877)	(38,203)
Minority interest	-	-	-	-	5,196	-	-	-	-	(6,103)
Other expense associated with acquisition	-	-	-	-	-	-	-	-	-	(362)
Net income	(29,275)	(11,223)	(5,391)	1,668	(39,025)	1,646	2,687	4,824	16,949	19,641
Segment and total assets	2,370,544	58,947	49,541	34,753	2,513,785	2,265,536	84,466	142,080	91,545	2,583,627
Segment liabilities	2,202,959	53,882	41,421	17,153	2,315,415	2,098,840	48,400	127,763	66,178	2,341,181
Taxes payable (current and deferred)	16,856	1,071	818	1,903	20,648	23,086	245	3,212	4,370	30,913
Total liabilities	2,219,815	54,953	42,239	19,056	2,336,063	2,121,926	48,645	130,975	70,548	2,372,094

Geographical segment information is not provided since the operations of the Bank and the subsidiaries located in Turkey, which constitute the major part of the consolidated business, are mainly with local customers.

NOTE 22 - OTHER INTEREST AND OTHER OPERATING INCOME:

As of December 31, 2001 and 2000, the breakdown of other interest income is as follows:

	2001	2000
Interest income on financial leases	36,922	23,426
Factoring interest income	28,963	29,459
Other interest income	4,797	8,170
	70,682	61,055

As of December 31, 2001, other operating income mainly consists of insurance technical income amounting to TL5,450, fund management fees amounting to TL4,232, fees and commissions amounting to TL13,049 and dividend income from unconsolidated entities amounting to TL8,248.

NOTE 23 - SUBSEQUENT EVENT:

The Bank has decided to purchase 21 branches of a local bank, which is controlled by Savings Deposits Insurance Fund and in the process of liquidation in the Board of Directors Meeting held at December 28, 2001. The acquisition process took place in 2002.

NOTE 24 - FINANCIAL STATEMENTS OF THE BANK:

The Bank's own unconsolidated balance sheets and income statements prepared in accordance with IAS as of and for the years ended December 31, 2001 and 2000, 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.

Appendix 1

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
BALANCE SHEETS AS OF DECEMBER 31, 2001 AND 2000

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

ASSETS	December 31, 2001	December 31, 2000
CASH AND CURRENT ACCOUNTS WITH BANKS	132,245	104,140
CALL AND TIME DEPOSITS WITH BANKS	192,527	462,917
INTERBANK FUNDS SOLD	515,473	344,776
FUNDS LENT UNDER SECURITIES RESALE AGREEMENTS	-	41,492
RESERVE DEPOSITS AT CENTRAL BANK	101,255	79,836
MARKETABLE SECURITIES	157,280	184,911
LOANS, net	460,993	447,984
DERIVATIVE FINANCIAL INSTRUMENT ASSETS	509	33,128
OTHER ASSETS	3,123	7,510
EQUITY PARTICIPATIONS, net	72,388	57,642
PREMISES AND EQUIPMENT, net	27,858	29,987
Total assets	1,663,651	1,794,323

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 2001	December 31, 2000
DEPOSITS		
Demand	294,387	121,783
Time	774,942	722,847
Total deposits	1,069,329	844,630
FUNDS BORROWED		
Local banks	24,273	27,192
Foreign banks	209,298	532,984
Under securities repurchase agreements	102,649	77,398
INTERBANK FUNDS BORROWED	-	1,509
DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES	558	44,868
OTHER LIABILITIES	65,873	57,328
TAXES PAYABLE:		
Taxes on income	6,881	-
Other taxes	5,029	5,564
Deferred income tax	1,729	12,397
Total liabilities	1,485,619	1,603,870
SHAREHOLDERS' EQUITY:		
Share capital	352,095	352,095
Accumulated deficit	(161,642)	(176,394)
Current year net income/(loss)	(12,421)	14,752
Total shareholders' equity	178,032	190,453
Total liabilities and shareholders' equity	1,663,651	1,794,323
CONTINGENCIES AND COMMITMENTS		
Guarantees given	590,464	706,018
	590,464	706,018

Appendix 2

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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

	2001	2000
INTEREST INCOME:		
Interest on loans	149,012	118,229
Fees and commissions on loans	6,177	1,983
Interest on marketable securities, net	54,365	70,886
Interest on deposits with banks	152,557	132,159
Other interest income	1,030	1,154
	363,141	324,411
INTEREST EXPENSE:		
Interest on funds borrowed	(76,394)	(42,662)
Interest on local currency deposits	(133,435)	(38,907)
Interest on foreign currency deposits	(67,882)	(57,634)
Other interest expense	(1,782)	(1,803)
	(279,493)	(141,006)
Net interest income	83,648	183,405
PROVISION FOR POSSIBLE LOAN LOSSES	(7,042)	(5,559)
Net interest income after provision for possible loan losses	76,606	177,846
FOREIGN EXCHANGE GAIN/(LOSS), NET	26,919	(37,901)
OTHER OPERATING INCOME:		
Income from banking services	19,693	13,033
Marketable securities trading income, net	15,501	8,563
Other income	27,225	28,956
	62,419	50,552
OTHER OPERATING EXPENSES:		
Salaries and employee benefits	(35,755)	(53,573)
Administration and other expenses	(44,784)	(52,088)
Taxation other than on income	(12,140)	(24,859)
Depreciation and amortization	(8,169)	(8,032)
	(100,848)	(138,552)
Income before provision for income tax and monetary loss	65,096	51,945
PROVISION FOR INCOME TAX	(7,240)	(10,900)
Income before monetary loss	57,856	41,045
MONETARY LOSS	(70,277)	(26,293)
Net income/(loss)	(12,421)	14,752

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

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

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

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

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) 519 08 25
Fax : (0224) 519 03 11

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

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

Güney Anadolu Corporate
Tel : (0322) 457 14 12
Fax : (0322) 457 14 62

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) 488 26 50
Fax : (0216) 488 26 58

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

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

Kazım Karabekir
Tel : (0312) 384 24 14
Fax : (0312) 384 24 13

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) 410 65 25
Fax : (0216) 410 65 15

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

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
Fax : (0212) 679 20 80

* As of August 2002

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

All enquiries, including shareholder enquiries, and notifications concerning dividends, share certificates, Global Depository Receipts or transfers and address changes should be sent to "TEB Investor Relations Department" at the following address:

Postal address: TEB Investor Relations Department
Meclis-i Mebusan Caddesi No: 35 Fındıklı 80040 Istanbul Turkey
Tel: (90 212) 251 21 21 Fax: (90 212) 249 65 68

E-mail address: investor.relations@teb.com.tr

Further information on TEB may be obtained on the Internet web site at "www.teb.com.tr".

TÜRK EKONOMİ BANKASI
Meclis-i Mebusan Cad. 35 Fındıklı, 80040 ISTANBUL / TURKEY
Tel: (90 212) 251 21 21 Fax: (90 212) 249 65 68
www.teb.com.tr

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