Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet

At 30 June 2002

(As adjusted for the effects of inflation in TL units at 30 June 2002 pursuant to IAS 29)

	Note	30 June 2002 TL billions	31 December 2001 TL billions
Assets			
Cash and cash equivalents	3	1,617,404	2,394,752
Financial assets held for trading	4	1,563,614	1,786,671
Investments	5	5,509,436	5,030,334
Loans and advances to banks	6	1,682,614	1,590,495
Loans and advances to customers	7	6,430,067	6,355,508
Other assets	9	929,464	974,612
Investments in associated companies	10	76,053	70,870
Tangible assets, net	11	1,400,010	1,463,417
Intangible assets, net	12	120,200	151,808
Deferred tax assets, net	18	400,555	305,387
Total assets		**19,729,417**	**20,123,854**
Liabilities			
Deposits from banks	13	826,803	1,421,228
Deposits from customers	14	12,752,074	12,035,963
Obligations under repurchase agreements	15	601,894	268,817
Loans and advances from banks	16	2,929,569	3,799,530
Bonds payable	17	66,912	80,562
Current tax liability	18	36,389	32,419
Other liabilities	19	916,266	939,576
Total liabilities		**18,129,907**	**18,578,095**
Minority interest		**107,646**	**55,452**
Shareholders' equity	20		
Share capital; authorized, issued and fully paid		1,713,004	1,713,004
Accumulated losses		(221,140)	(222,697)
Total shareholders' equity		**1,491,864**	**1,490,307**
Total liabilities, minority interest and shareholders' equity		**19,729,417**	**20,123,854**
Commitments and contingencies	23		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Operations

For The Six-Month Period Ended 30 June 2002

(As adjusted for the effects of inflation in TL units at 30 June 2002 pursuant to IAS 29)

	Note	Six-month period ended 30 June 2002 TL billions	Three-month period ended 30 June 2002 TL billions	Six-month period ended 30 June 2001 TL billions	Three-month period ended 30 June 2001 TL billions
Interest income:-					
Interest on securities		503,173	106,007	1,020,318	599,715
Interest on loans		397,004	202,647	1,201,961	406,182
Interest on deposits at banks		140,041	84,789	703,583	195,354
Interest on lease business		11,006	6,014	18,890	13,426
Others		20,066	(73)	49,142	19,870
Total interest income		1,071,290	399,384	2,993,894	1,234,547
Interest expenses:-					
Interest on saving, commercial and public deposits		(711,769)	(355,166)	(1,066,521)	(501,463)
Interest on bank deposits		(236,898)	(150,829)	(1,144,751)	(478,889)
Interest on borrowings		(124,277)	(58,450)	(365,603)	(139,484)
Others		(5,652)	(2,508)	(27,814)	(4,171)
Total interest expenses		(1,078,596)	(566,953)	(2,604,689)	(1,124,007)
Net interest income		**(7,306)**	**(167,569)**	**389,205**	**110,540**
Fee and commission income		226,698	118,987	244,965	126,003
Fee and commission expense		(96,366)	(50,922)	(160,158)	(87,948)
Net fee and commission income		130,332	68,065	84,807	38,055
Income before other operating items		**123,026**	**(99,504)**	**474,012**	**148,595**
Other operating income:-					
Trading account income, net		116,798	73,900	38,130	146,962
Foreign exchange gain, net		69,555	20,568	-	-
Gross profit from retail business		47,246	26,137	43,914	10,810
Premium income from insurance business		21,150	8,249	33,145	15,713
Other operating income		27,808	7,925	93,636	42,688
Total other operating income		282,557	136,779	208,825	216,173
Other operating expenses:-					
Salaries and wages		(114,034)	(57,852)	(181,523)	(82,953)
Depreciation and amortization		(80,442)	(39,145)	(105,470)	(52,205)
Impairment losses	7,8,10,11 and 12	(75,916)	(11,405)	(111,765)	(59,970)
General provision	19	(40,000)	73,759	-	-
Rent expenses		(29,668)	(14,676)	(34,026)	(17,530)
Employee benefits		(24,764)	(13,312)	(47,310)	(21,879)
EDP expenses		(23,932)	(9,853)	(23,400)	(11,322)
Advertising expenses		(21,222)	(12,420)	(27,452)	(14,647)
Saving deposits insurance fund		(16,261)	(8,494)	(33,792)	(23,452)
Taxes and duties other than on income		(11,378)	(6,440)	(46,316)	(18,848)
Provision for severance payments		(2,721)	372	(3,892)	(2,791)
Foreign exchange loss, net		-	-	(590,135)	(445,555)
Other operating expenses		(130,576)	(71,593)	(142,170)	(72,340)
Total other operating expenses		(570,914)	(171,059)	(1,347,251)	(823,492)
Loss before net of gain/(loss) on net monetary position		**(165,331)**	**(133,784)**	**(664,414)**	**(458,724)**
Gain/(loss) on net monetary position, net		14,396	(30,782)	(78,548)	(5,754)
Income/(loss) before taxes		**(150,935)**	**(164,566)**	**(742,962)**	**(464,478)**
Taxation credit	18	133,916	109,666	135,071	93,053
Net income/(loss) before minority interest		**(17,019)**	**(54,900)**	**(607,891)**	**(371,425)**
Minority interest		18,576	12,959	28,889	(9,778)
Net income/(loss) before extraordinary items		**1,557**	**(41,941)**	**(579,002)**	**(381,203)**
Extraordinary item	21	-	-	(32,384)	(8,591)
Net income/(loss) for the period		**1,557**	**(41,941)**	**(611,386)**	**(389,794)**
Weighted average number of shares with TL 500 value each; including those with TL 100 face value as expressed in terms of TL 500 face value	20	**1.500.000.000.000**	**1.500.000.000.000**	**1.500.000.000.000**	**1.500.000.000.000**
Earning/(loss) per share (Full TL amount)		**1.04**	**(27.96)**	**(407.59)**	**(259.86)**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity

For The Six-Month Period Ended 30 June 2002

(As adjusted for the effects of inflation in TL units at 30 June 2002 pursuant to IAS 29)

		Accumulated profits / (losses)			Total
	Share capital TL billions	Reserves TL billions	Unappropriated earnings/(losses) TL billions	Total TL billions	shareholders' equity TL billions
Balances at 1 January 2001	**1,713,004**	**64,287**	**436,191**	**500,478**	**2,213,482**
Appropriation of retained earnings:					
Transfer to statutory and general banking reserves		35,977	(35,977)		
Release of reserves due to sale of a consolidated affiliate		(12,111)	12,111		
Reversal of restatement on reserves for the effects of inflation		(33,151)	33,150		
Net loss for the year			(723,175)	(723,175)	(723,175)
Balances at 31 December 2001	**1,713,004**	**55,002**	**(277,700)**	**(222,697)**	**1,490,307**
Transfer from general banking reserves		(2,872)	2,872		
Reversal of restatement on reserves for the effects of inflation		(6,123)	6,123		
Net income for the six-month period			1,557	1,557	1,557
Balances at 30 June 2002	**1,713,004**	**46,007**	**(267,148)**	**(221,140)**	**1,491,864**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows

For The Six-Month Period Ended 30 June 2002

(As adjusted for the effects of inflation in TL units at 30 June 2002 pursuant to IAS 29)

	30 June 2002 TL billions	30 June 2001 TL billions
Cash flows from operating activities:-		
Net income/(loss) for the period	1,557	(611,386)
Components of net income not generating or using liquidity:-		
Taxation credit	(133,916)	(135,071)
Minority interest	(18,576)	(28,889)
General provision	40,000	-
Impairment losses	75,916	111,765
Provision for severance payment	2,721	3,892
Depreciation and amortization	80,442	105,470
Change in accrued interest and other income	(576,120)	(373,109)
Change in accrued interest and other expense	(2,135)	(57,339)
Monetary gain/(loss) effect of above corrections	26,732	(3,953)
Operating loss before changes in operating assets and liabilities	**(503,379)**	**(988,620)**
Decrease in deposits from banks	(579,733)	(1,732,472)
Increase in deposits from customers	654,779	1,913,022
Increase/(decrease) in obligations under repurchase agreements	333,077	(498,061)
(Increase)/decrease in loans and advances to customers	(41,507)	1,248,926
(Increase)/decrease in loans and advances to banks	(95,652)	74,309
Decrease in financial assets held for trading	324,233	607,213
Decrease in other assets	48,789	63,757
Decrease in other liabilities	(35,954)	(115,081)
Income taxes paid	(2,080)	-
Net cash provided by operating activities	**102,573**	**572,993**
Cash flows from investing activities:-		
Decrease/(increase) in investments	84,831	(130,478)
Decrease/(increase) in investments in associated companies-net	(7,438)	5,400
Decrease in tangible assets	44,826	201,641
Increase in tangible assets	(33,279)	(162,316)
Net cash (used in)/provided by investing activities	**(88,940)**	**85,753**
Cash flows from financing activities:-		
Decrease in loans and advances from banks	(853,359)	(392,323)
Decrease in bonds payable	(10,996)	(3,614)
Proceeds from issuance of share capital to minorities	73,374	5,433
Net cash used in financing activities	**(790,981)**	**(390,504)**
Net (decrease)/increase in cash and cash equivalents	**(777,348)**	**268,242**
Cash and cash equivalents at beginning of period	2,394,752	1,148,184
Cash and cash equivalents at end of period (Note 3)	**1,617,404**	**1,416,426**

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the six-month period ended 30 June 2002 comprise the Bank and its affiliates (the Affiliates) and their interest in associates.

(a) Brief History

Foundation of the Bank was approved by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 and "Articles of Association" was published at official gazette dated 25 April 1946. The Bank provides corporate, commercial and retail banking services through a network of 297 domestic branches, three foreign branches, five representetive offices abroad, five change offices, five in-store branches and 16 domestic liaison offices. In addition to its branches, the Bank has 100% ownership in two banks located in Moscow and Amsterdam. The Bank's head office is located in İstanbul.

(b) Ownership

The principal shareholders of the Bank is the holding company of Doğuş Group, Doğuş Holding AŞ, which currently holds 49.01% of the issued capital.

Doğuş Holding AŞ, Doğuş İnşaat ve Ticaret AŞ, Doğuş Otomotiv Sanayi ve Ticaret AŞ and Somtaş Tarım ve Ticaret AŞ have sold (i) an aggregate of 36.400.000.000 common shares in registered form each with nominal value of TL500 ("Shares") representing 7.0% of the share capital of Türkiye Garanti Bankası AŞ on 24 March 2000 and (ii) additional 5.460.000.000 shares in registered form each with nominal value of TL500 representing 1.05% of the share capital of the Bank by 31 March 2000 to foreign investors abroad at the price TL7,900 (TL19,592 as restated for the effects of inflation current at 30 June 2002) for each unit of two shares. Accordingly, the total ownership interest in the Bank of those shareholders other than the Doğuş Group Companies and the individuals controlling this Group increased to 31.51%.

Significant accounting policies

(a) Statement of compliance

The consolidated entities in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira in accordance with the Turkish Uniform Chart of Accounts, the Turkish Commercial Code (the "TCC") and tax legislation (collectively, "Turkish Practices"); while the other consolidated entities maintain their books of account and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements (the IAS Financial Statements) are based on the statutory records with adjustments and reclassifications including restatement for the changes in the general purchasing power of the Turkish Lira, for the purpose of fair presentation in accordance with Statements of International Accounting Standards ("IAS") issued by the International Accounting Standards Board.

Significant accounting policies continued

(b) Basis of preparation

The accompanying consolidated financial statements are presented in Turkish Lira (TL), rounded to the nearest billion as adjusted for the effects of inflation in TL units current at 30 June 2002 pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies").

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets, except those for which a reliable measure of fair value is not available. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

The accounting policies have been consistently applied by the Bank and its affiliates and consistent with those used in prior years.

(c) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements.

Affiliates

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

- having more than 50% of the ordinary shares held by the Bank and/or its other affiliates and/or;
- exercising the voting power relating to the shares held by the members of Şahenk family since the members of Şahenk family allow the Bank to exercise a voting power with respect to their shares held in these companies and/or;
- exercising actual dominant influence over the financial and operating policies although not having 50% voting power.

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

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

Significant accounting policies continued

Associates

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant SIC 20.6, "Equity Accounting Method – Recognition of Losses ", influence commences until the date that significant influence ceases. When the Bank and its affiliates' share of fair values is lower than the carrying amount of the associate, the carrying amount is reduced to reflect impairment in value.

(d) Accounting in hyperinflationary economies

Financial statements of the Turkish entities were restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%.

Three years inflation rate in Turkey has been 272.34% as at 30 June 2002, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 30 June 2002 based on IAS 29. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such indices and conversion factors used to restate the accompanying consolidated financial statements at 30 June 2002 and 2001, and 31 December 2001, are given below:

Date	Index	Conversion factor
30 June 2002	5,572.0	1.000
31 December 2001	4,951.7	1.125
30 June 2001	3,795.6	1.468

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

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.

- Monetary assets and liabilities which are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant conversion factors.

- All items in the statement of operations are restated by applying the monthly conversion factors except for those deriving from non-monetary items, which are calculated based on the restated values of the related items.

- The effect of inflation on the net monetary position of the Bank and its affiliates, is included in the statement of operations as "gain/(loss) on net monetary position, net".

Significant accounting policies continued

(e) Foreign currency

Foreign currency transactions

Transactions are recorded in Turkish Lira, which represents its functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into Turkish Lira at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the statement of operations as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of operations as realized during the course of the period.

Financial statements of foreign operations

The foreign operations of the Bank and its affiliates are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Turkish Lira at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Turkish Lira at foreign exchange rates ruling at the balance sheet date pursuant to IAS 29.

(f) Tangible assets and related depreciation

Owned assets

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

Leased assets

Financial leases are recognised in the balance sheet by recording an asset and liability equal to the present value of minimum lease payments at the inception of the lease. Capitalised leased assets are depreciated in accordance with depreciation policy explained below, except where there is no reasonable certainty of obtaining ownership by the end of the lease term, in which case the asset is fully depreciated over the shorter of the lease term or its useful life. Lease liabilities are reduced by repayments of principal, while the finance charge component of the lease payment is charged directly to income.

Subsequent expenditure

Expenditure incurred to replace a component of an item of tangible assets that is accounted for separately, including major inspection and overhaul costs, is capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are recognized in the statement of operations as expense as incurred.

Significant accounting policies continued

Depreciation

Tangible assets are depreciated over the estimated useful lives of the related assets from the date of purchase or the date of installation, on a straight-line basis. Leasehold improvements are amortised over the periods of the respective leases, also on a straight-line basis. Expenditures for major renewals and betterment of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets, whereas the costs of ordinary maintenance and repairs are expensed as incurred.

(g) Goodwill/Negative Goodwill

Positive and negative goodwill consist of the excess/shortage of the total acquisition costs over/under the attributable share of the Bank and its affiliates in the fair value of net assets of the acquired companies at the dates of acquisitions. Goodwill is reflected in 'intangible assets' in the consolidated balance sheets and is amortised on a straight-line basis over 20 years, the time during which benefits are expected to be consumed.

Negative goodwill is included under 'other liabilities' in the accompanying consolidated balance sheets and is credited to income over 20 years, the time during which benefits are expected to be consumed. Amortization expense/income of goodwill and negative goodwill is reflected in the accompanying statement of operations.

(h) Financial instruments

Classification

Trading instruments are those that are principally hold for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Originated loans and receivables are loans and receivables created by the Bank and its affiliates providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments.

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

Recognition

Financial assets held for trading and available-for-sale assets are recognized on the date at which the purchase of the assets is committed. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Significant accounting policies continued

Held-to-maturity instruments and originated loans and receivables are recognized on the day they are transferred to the Bank and its affiliates.

Measurement

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

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

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

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated by the Bank using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in current market exchange.

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

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of trading instruments and available-for-sale assets are recognized in the statement of operations.

Specific instruments

Cash and cash equivalents : Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, demand deposits at domestic and foreign banks and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the central bank. Money market placements are classified as held-to-maturity assets.

Investments : Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

Significant accounting policies continued

Loans and advances to banks and customers : Loans and advances originated by the Bank and its affiliates are classified as originated loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Finance lease receivables : Leases where all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

Bonds payable : Bonds issued by the Bank and its affiliates are classified as non-trading liabilities.

(i) Derecognition

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

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

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

(j) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

(k) Repurchase and resale agreements over investments

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as “obligations under repurchase agreements”, a liability account.

Significant accounting policies continued

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest.

(l) Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated balance sheets, since such items are not under the ownership of the Bank.

(m) Reserve for severance payments

Reserve for severance payments represent the present value of the estimated future probable obligation of the Bank and its affiliates arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government.

International Accounting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, 10% discount rate and 91% turnover rate to estimate the probability of retirement assumptions were used in the calculation of the total liability in the accompanying consolidated financial statements.

(n) Taxes on income

Taxes on income for the year comprises current tax and the change in the deferred taxes. Current taxes on income comprises tax payable calculated on the basis of expected taxable income for the year using the tax rates enacted by the balance sheet date and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences relating to goodwill not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit. Deferred tax liabilities and assets are recognised when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Bank and its affiliates. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

Deferred tax assets and liabilities relating to a consolidated affiliate reporting to a specific tax office are offset against each other in the accompanying consolidated financial statements.

(o) Offsetting

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

(p) Capital increase

Capital increase pro-rata to existing shareholders are accounted for at par value as approved at the annual meeting of shareholders.

Significant accounting policies continued

(q) Earnings per share

Earnings per share disclosed in the accompanying consolidated statements of operations are determined by dividing net income/(loss) by the weighted average number of shares that have been outstanding during the period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares.

Additionally, considering the fact that the number of issued shares through bonus share issuances is increased without an increase in resources contributed by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(r) Impairment

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

Originated loans and advances and held-to-maturity instruments

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

Loans and advances are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the statement of operations. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

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

Financial assets remeasured to fair value

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in the statement of operations.

Significant accounting policies continued

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

(s) Income and expense recognition

Interest income and expense

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

Fee and commission income

Fee and commission income arising on financial services provided including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services is recognized when the corresponding service is provided. Certain commissions, such as those deriving from letters of guarantee and other similar banking services, are usually recognized as income only when received.

Net trading income

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

Dividend income

Dividend income is recognized in the statement of operations when received.

Income from equity investments and other non-fixed income investments is recognized as dividend income when it accrues.

Insurance business

Earned premiums : In respect of non-life branches, under the annual basis of accounting, written premiums comprise the premiums due on contracts, net of taxes and cancellations, entered into during a financial year. These premiums are adjusted by the reserve for unearned premiums. In respect of life branches, earned premiums represent premiums accrued on policies issued and adjusted by the reserve for unearned policies during the period.

Unearned premium reserve : Provision for unearned premiums is provided for in respect of in-force policies for which the premium period does not end simultaneously with the accounting period. Unearned premiums are determined from premiums written during the year, less reinsurance on the basis that premiums are written on the middle day of each month (the twenty fourth basis).

Significant accounting policies continued

Life assurance provision : In aggregate, life assurance provision must be sufficient to provide for future guaranteed benefits as they become due according to Turkish insurance regulations. The life assurance provision is based on the level of premiums, as adjusted by commissions, and administrative expenses and risk premiums that are computed on the basis of worldwide actuarial mortality assumptions as approved by the Insurance Supervisory Office which are applicable for Turkish insurance companies. Life assurance provision also includes the net rate of return on investments.

Claims and provision for claims : Claims incurred include all claims (including claim estimates) and claims settlement payments made in respect of the financial period and the movement in provision for outstanding claims and settlement expenses. Provisions for outstanding claims and settlement expenses include claims incurred but not reported (IBNR), net of salvage and subrogation recoveries. Along with the provisions for IBNR claims; the Bank's affiliates in insurance business also provide provisions for general business risks at different rates determined separately for each insurance branch by the related legislation applicable to insurance business in Turkey (equalisation provision).

Retail business

Revenues are recognized at the time the shipment or delivery of related goods are made to customers. Revenues, net of costs of goods sold are reflected as "gross profit from retail business" in the accompanying consolidated statement of operations.

(t) Segment reporting

A segment is a distinguishable component of the Bank and its affiliates that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Index for the notes to the consolidated financial statements:

1 Segment reporting

Segment information is presented in respect of the Bank and its affiliates' geographical and business segments. The primary format, business segments, is based on the Bank and its affiliates' activities.

Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted at arm's length basis.

Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in Holland, Moscow, Ireland, Turkish republic of Northern Cyprus, Malta, Switzerland and Luxembourg. As the operation results outside of Turkey, is quite negligible in the consolidated results, geographical segment information is not presented.

1 Segment reporting continued

Business segments

The main business segments are banking, leasing, insurance, factoring, retail and other financial and non-financial sectors:

30 June 2002	Banking	Leasing	Insurance	Factoring	Other Financial Sectors	Retail	Other Non-Financial Sectors	Total
	TL billions	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*
Interest income	1,049,846	14,932	2,570	23	3,640	174	105	1,071,290
Interest expenses	(1,061,710)	(6,826)	-	(1,544)	(757)	(7,584)	(175)	(1,078,596)
Net interest income	(11,864)	8,106	2,570	(1,521)	2,883	(7,410)	(70)	(7,306)
Fee and commission income, net	119,726	-	(56)	5,372	6,081	(791)	-	130,332
Trading account income, net	116,689	-	109	-	-	-	-	116,798
Foreign exchange gain, net	88,585	-	(153)	(605)	(1,366)	(13,458)	(3,448)	69,555
Gross profit from retail business	-	-	-	-	-	47,246	-	47,246
Premium income from insurance business	-	-	21,150	-	-	-	-	21,150
Other operating income	22,362	729	-	40	979	529	3,169	27,808
Salaries and wages	(75,344)	(2,063)	(4,559)	(504)	(2,974)	(17,502)	(11,088)	(114,034)
Impairment losses	(74,412)	-	-	-	(1,504)	-	-	(75,916)
General provision	(40,000)	-	-	-	-	-	-	(40,000)
Other operating expenses	(227,408)	(2,110)	(21,822)	(848)	(13,142)	(66,620)	(9,014)	(340,964)
Gain/(loss) on net monetary position	(16,371)	(5,849)	1,379	(1,145)	(5,247)	20,698	20,931	14,396
Taxation (charge)/credit	114,054	6,465	(1,070)	(33)	(10)	14,763	(253)	133,916
Minority interest	-	(2)	-	(420)	1,928	17,070	-	18,576
Net income/(loss) for the period	16,017	5,276	(2,452)	336	(12,372)	(5,475)	227	1,557
Segment assets	18,410,224	155,437	72,194	50,605	177,629	353,313	433,962	19,653,364
Investments in associated companies	35,614	219	8	-	5,289	781	34,142	76,053
Total assets	18,445,838	155,656	72,202	50,605	182,918	354,094	468,104	19,729,417
Segment liabilities	17,616,561	116,809	58,220	48,482	97,780	178,594	13,461	18,129,907
Minority interest	-	3	-	2,029	18,929	86,685	-	107,646
Total liabilities	17,616,561	116,812	58,220	50,511	116,709	265,279	13,461	18,237,553

1 Segment reporting continued

30 June 2001	Banking	Leasing	Insurance	Other Financial Sectors	Retail	Other Non-Financial Sectors	Total
	TL billions	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*
Interest income	2,904,720	58,123	8,633	15,265	6,605	548	2,993,894
Interest expenses	(2,539,250)	(17,371)	-	(22,859)	(15,626)	(9,583)	(2,604,689)
Net interest income	365,470	40,752	8,633	(7,594)	(9,021)	(9,035)	389,205
Fees and commissions income, net	76,500	-	181	6,649	(420)	1,897	84,807
Gross profit from retail business	-	-	-	-	43,914	-	43,914
Trading account gain, net	30,730	-	288	7,112	-	-	38,130
Premium income from insurance business	-	-	33,145	-	-	-	33,145
Other operating income	34,366	7,601	110	4,174	-	47,385	93,636
Foreign exchange losses, net	(347,066)	(42,942)	-	(8,128)	(102,397)	(89,602)	(590,135)
Salaries and wages	(116,923)	(2,334)	(4,356)	(6,825)	(35,044)	(16,041)	(181,523)
Impairment losses	(111,765)	-	-	-	-	-	(111,765)
Other operating expenses	(339,647)	(11,864)	(26,496)	(12,060)	(55,550)	(18,211)	(463,828)
Gain/(loss) on net monetary position	(205,828)	(12,038)	(10,371)	(14,787)	104,925	59,551	(78,548)
Taxation (charge)/credit	127,653	(151)	(4,864)	(6,524)	31,365	(12,408)	135,071
Minority interest	-	3,702	-	3,450	22,148	(411)	28,889
Extraordinary items	(32,384)	-	-	-	-	-	(32,384)
Net income/(loss) for the period	(518,894)	(17,274)	(3,730)	(34,533)	(80)	(36,875)	(611,386)

31 December 2001	Banking	Leasing	Insurance	Factoring	Other Financial Sectors	Retail	Other Non-Financial Sectors	Total
	TL billions	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*	*TL billions*
Segment assets	18,584,486	194,541	45,566	80,774	267,433	426,260	453,924	20,052,984
Investments in associated companies	32,138	219	5	6	5,289	758	32,455	70,870
Total assets	18,616,624	194,760	45,571	80,780	272,722	427,018	486,379	20,123,854
Segment liabilities	17,751,925	161,372	40,959	65,995	145,881	290,718	121,245	18,578,095
Minority interest	-	(9)	1,766	-	23,882	29,813	-	55,452
Total liabilities	17,751,925	161,363	42,725	65,995	169,763	320,531	121,245	18,633,547

2 Related party disclosures

For the purpose of this report, the Bank's ultimate parent company, Doğuş Holding AŞ and all its subsidiries, and the ultimate owners, directors and executive officiers of Doğuş Group are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank has the following balances outstanding from and transactions with related parties:

Outstanding balances	30 June 2002 TL billions	31 December 2001 TL billions
Balance sheet		
Obligations under repurchase agreements	428	826
Loans and advances to customers and its accrued interest income	745,248	651,650
Loans granted in TL	2,236	24,332
Loans granted in foreign currency:	USD 397,172,388	USD 276,025,103
	EUR 27,645,033	EUR 73,072,128
	CHF 87,091,310	CHF 86,702,810
Miscellaneous receivables (Note 9)	333,340	346,288
Deposits received	160,873	168,029
Commitments and contingencies		
Non-cash loans	238,233	220,223
Derivative transactions	-	15,023

Transactions	Six-month period ended 30 June 2002 TL billions	Three-month period ended 30 June 2002 TL billions	Six-month period ended 30 June 2001 TL billions	Three-month period ended 30 June 2001 TL billions
Interest income	42,461	27,217	36,929	20,309
Interest expense	21,563	17,019	12,776	3,964

Miscellaneous receivables mainly included a receivable from major shareholders amounting to TL329,123 billions, net of TL10,307 billions discount in total, arising from the transactions explained in the following two paragraphs:

- At the board of directors meeting held on 16 October 2001, it was approved to take over all the rights, receivables, payables and obligations of one of the Bank's subsidiaries, Osmanlı Bankası AŞ and to cease its legal corporate existence in accordance with the first paragraph of the Article 18 of the Banking Law no.4389 as revised by the Law no.4672. Legal procedures relating to the merger were completed in December 2001 in compliance with the directives of the Banking Regulation and Supervising Agency (BRSA). In December 2001, just before the merger, the Bank sold the investment in COIBV to Doğuş Holding AŞ at its book value of US$310 millions in statutory bank-only financials. Of this amount, TL266,150 billions is due to be paid through December 2003.

- In December 2001, the Bank had entered into forward contracts with its major shareholders to mitigate the effects of the losses from its short position. These transactions enabled the Bank to book a net income of TL240,361 billions. Of this amount, TL169,597 billions was collected by the settlements of the transactions and the remaining TL73,280 billions is due to be paid in December 2002.

Related party disclosures continued

During 2002, interest rates applied to foreign currency receivables from and payables to related parties vary at ranges of 2.75-12.50% and 2.00-12.79% (31 December 2001: 4-12.5% and 3-10.15%) respectively. The interest rates applied to Turkish Lira receivables from related parties is 15% and payables to related parties vary at ranges of 40-48% (31 December 2001: 15% and 57-60%, respectively). Various commission rates are applied to transactions involving guarantees and commitments.

3 Cash and cash equivalents

	30 June 2002 TL billions	31 December 2001 TL billions
Cash at branches	89,844	395,978
Balances with Central Bank of Turkey	1,523,907	1,970,524
Bonds issued by foreign institutions	-	21,396
Others	3,653	6,854
	1,617,404	2,394,752

At 30 June 2002, cash and cash equivalents included balances with the Central Bank of Turkey of TL859,828 billions (31 December 2001: TL882,804 billions) as minimum reserve requirements, these funds are not available for the Bank and its affiliates' daily business. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

4 Financial assets held for trading

	30 June 2002				31 December 2001
	Face value TL billions	Carrying value TL billions	Interest rate range %	Latest maturity	Carrying value TL billions
Debt and other fixed- or floating-income instruments:					
Government bonds in foreign currency	820,553	807,848	1.47-10.80	2004	842,843
Treasury bills in Turkish lira	316,022	244,554	44.00-87.00	2003	52,849
Eurobonds	245,816	236,654	7.25-15.00	2030	642,733
Government bonds indexed to foreign currency	94,983	108,345	**(a)**	2002	111,719
Government bonds in Turkish lira	40,728	40,438	63.74-81.88	2004	4,320
Government bonds at floating rates		-			98,074
Bonds issued by foreign governments		-			16,758
Others		9,978			5,661
		1,447,817			1,774,957
Equity and other non-fixed income instruments:					
Listed shares		14,621			11,714
Derivative financial instruments accrual		101,176			-
		115,797			11,714
Total financial assets held for trading		1,563,614			1,786,671

(a) The interest rate applied on these securities are 2.75% as fixed semi-annually by the Turkish Treasury.

Income from debt and other fixed- or floating-income instruments is recognized in interest on securities. Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are recognized in net trading income. Net income on trading of financial assets amounting to TL116,798 billions for the six month period ended 30 June 2002 and to TL73,900 billions for the three-month period ended 30 June 2002 (30 June 2001: net income of TL38,130 billions and the three-month period ended 30 June 2001: TL146,962 billions) in total is included in trading account income.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL21,065 billions (31 December 2001: TL99,190 billions).

The table on the next page summarizes the contractual amounts of the forward exchange, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date. Monetary items denominated in a foreign currency are economically hedged using foreign currency derivative contracts. The Bank and its affiliates do not use hedge accounting for its foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of operations. At 30 June 2002, 95% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (31 December 2001: 8%).

Financial assets held for trading continued

	TL billions					
	Notional amount with remaining life of					
	Upto 1 month	1 to 3 months	3 to 6 months	6 to 12 months	over 1 year	Total
At 30 June 2002						
Interest Rate Derivatives						
-Interest rate swaps	45	-	-	-	-	45
Purchases	*34*	-	-	-	-	*34*
Sales	*11*	-	-	-	-	*11*
Interest Rate Options	-	-	7,720	-	-	7,720
Purchases	-	-	-	-	-	-
Sales	-	-	*7,720*	-	-	*7,720*
Currency Derivatives						
-Spot exchange contracts	63,318	-	-	-	-	63,318
Purchases	*20,913*	-	-	-	-	*20,913*
Sales	*42,405*	-	-	-	-	*42,405*
-Forward exchange contracts	129,249	22,517	12,404	3,088	-	167,258
Purchases	*75,463*	*13,938*	*2,493*	-	-	*91,894*
Sales	*53,786*	*8,579*	*9,911*	*3,088*	-	*75,364*
-Currency/cross currency swaps	867,373	505,844	77,752	106,925	79,861	1,637,755
Purchases	*770,853*	*505,387*	*77,752*	*106,718*	*35,065*	*1,495,775*
Sales	*96,520*	*457*	-	*207*	*44,796*	*141,980*
-Other foreign exchange contracts	97,206	77,038	-	215,912	21,196	411,352
Purchases	*38,525*	-	-	*146,538*	-	*185,063*
Sale	*58,681*	*77,038*	-	*69,374*	*21,196*	*226,289*
Subtotal Purchases	905,788	519,325	80,245	253,256	35,065	1,793,679
Subtotal Sales	251,403	86,074	17,631	72,669	65,992	493,769
Subtotal	1,157,191	605,399	97,876	325,925	101,057	2,287,448
Net	654,385	433,251	62,614	180,587	(30,927)	1,299,910
At 31 December 2001						
Interest Rate Derivatives						
-Interest rate swaps	-	1,364	-	-	-	1,364
Purchases	-	*54*	-	-	-	*54*
Sales	-	*1,310*	-	-	-	*1,310*
Currency Derivatives						
-Spot exchange contracts	214,821	-	-	-	-	214,821
Purchases	*158,738*	-	-	-	-	*158,738*
Sales	*56,083*	-	-	-	-	*56,083*
-Forward exchange contracts	1,654,097	832	27,912	-	-	1,682,841
Purchases	*1,366,289*	-	*14,906*	-	-	*1,381,195*
Sales	*287,808*	*832*	*13,006*	-	-	*301,646*
-Currency/cross currency swaps	485,376	354,946	-	-	65,050	905,372
Purchases	*403,172*	*350,704*	-	-	*32,525*	*786,401*
Sales	*82,204*	*4,242*	-	-	*32,525*	*118,971*
-Other foreign exchange contracts	18,066	-	-	-	-	18,066
Purchases	-	-	-	-	-	-
Sale	*18,066*	-	-	-	-	*18,066*
Subtotal Purchases	1,928,199	350,758	14,906	-	32,525	2,326,388
Subtotal Sales	444,161	6,384	13,006	-	32,525	496,076
Subtotal	2,372,360	357,142	27,912	-	65,050	2,822,464
Net	1,484,038	344,374	1,900	-	-	1,830,312

5 Investments

	30 June 2002				31 December 2001
	Face value TL billions	Carrying value TL billions	Interest rate range %	Latest maturity	Carrying value TL billions
Debt and other fixed- or floating-income instruments available-for-sale:					
Treasury bills in Turkish Lira	5,834	4,364	66.22-111.9	2004	2,501
Bosphorus growth fund	1,506	1,536	-	-	1,386
Government bonds indexed to foreign currency		-			3,305,889
Others		976			479
Total available-for-sale portfolio		6,876			3,310,255
Debt and other fixed- or floating-income instruments held-to-maturity:					
Government bonds indexed to foreign currency	2,456,644	3,220,022	**(a)**	2006	-
Eurobonds	920,521	953,332	8.13-12.75	2030	505,118
Government bonds at floating rates	915,345	904,759	**(b)**	2004	1,052,264
Government bonds in Turkish lira	125,520	84,135	54.97	2003	21,117
Government bonds- CPI	68,000	68,000	**(c)**	2003	76,518
Treasury bills	85,036	61,460	37.60-82.00	2003	2,640
Bonds issued by financial institutions	22,857	23,975	15.73-19.93	2004	12,637
Government bonds in foreign currency	15,440	14,273	-	2003	13,177
Bonds issued by foreign governments	6,629	6,929	5.75-8.25	2007	6,428
Others		578			662
Accrued interest on held-to-maturity portfolio		165,097			29,518
Total held-to-maturity portfolio		5,502,560			1,720,079
Total		5,509,436			5,030,334

(a) The interest rate applied on these securities are Libor+2.85% as fixed semiannually by the Turkish Treasury.

(b) The interest rate applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

(c) The interest rate applied on these securities is the function of changes in consumer price index and a security coefficient described in the documents relating to the issuance of these bonds.

Income from debt and other fixed- or floating-income instruments is recognized in interest on securities.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL700,535 billions (31 December 2001: TL172,885 billions).

During the second quarter of 2002, the Bank management has decided to transfer the available-for-sale securities (government bonds indexed to foreign currency) with a face value of TL2,456,644 billions to its held to maturity portfolio.

Investments continued

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

	30 June 2002 TL billions		31 December 2001 TL billions	
	Face Value	Carrying value	Face Value	Carrying value
Deposited at CBT for interbank transactions	630,000	831,419	241,472	325,727
USD eurobonds collateralized to foreign banks	512,545	550,547	234,300	172,616
Reserve requirements at CBT	371,186	478,004	657,981	826,835
Deposited at Central Bank of Turkey (CBT) for foreign currency money market transactions	320,000	422,816	1,184,587	1,578,345
Deposited at Clearing Bank (Takasbank)	209,565	211,895	180,204	212,364
Deposited at CBT for repurchase transactions	120,877	136,459	89,022	99,270
Deposited at İstanbul Stock Exchange	64,235	65,493	-	-
Others		-		6,428
		2,696,633		3,221,585

6 Loans and advances to banks

	30 June 2002 TL billions			31 December 2001 TL billions		
	Turkish Lira	Foreign Currency	Total	Turkish Lira	Foreign Currency	Total
Loans and advances-demand						
Domestic banks	1,467	368	1,835	8,151	833	8,984
Foreign banks	-	160,396	160,396	26	202,414	202,440
	1,467	160,764	162,231	8,177	203,247	211,424
Loans and advances-time						
Domestic banks	132,200	107,659	239,859	12,653	345,628	358,281
Foreign banks	15,370	1,260,353	1,275,723	-	1,012,453	1,012,453
	147,570	1,368,012	1,515,582	12,653	1,358,081	1,370,734
Accrued interest on loans and advances	1,297	3,504	4,801	5,542	2,795	8,337
Total loans and advances to banks	150,334	1,532,280	1,682,614	26,372	1,564,123	1,590,495
Less : allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	150,334	1,532,280	1,682,614	26,372	1,564,123	1,590,495

As at 30 June 2002, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1.5-28.00 % per annum for foreign currency time deposits and 40-64% per annum for Turkish lira time deposits (31 December 2001: 1.5-13% and 51-80%, respectively).

As at 30 June 2002, TL6 billions (31 December 2001: TL163,901 billions) of term deposits at domestic banks are the funds lent against government securities received as collateral under contractual agreements to sell back (reverse repo) such securities at a predetermined sale price at the maturity dates.

As at 30 June 2002, demand deposits at foreign banks include blocked accounts of TL35,809 billions (31 December 2001: TL39,262 billions) against the securitisation transactions on cheques and credit card receivables.

7 Loans and advances to customers

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

	30 June 2002 TL billions	31 December 2001 TL billions
Industrial	2,091,146	2,234,650
Consumer loans	824,615	638,815
Financial institutions	708,190	520,159
Foreign trade	559,894	609,527
Service sector	430,426	491,690
Construction	389,637	468,687
Tourism	246,418	230,785
Agriculture	92,365	164,105
Transportation	82,272	96,802
Media	30,056	41,839
Domestic commerce	14,046	9,098
Others	374,583	278,984
Total performing loans	5,843,648	5,785,141
Non-performing loans	491,024	580,186
Total gross loans	6,334,672	6,365,327
Accrued interest income on loans	261,975	190,993
Financial lease receivables, gross (Note 8)	141,103	118,897
Allowance for possible losses from loans and lease receivables	(307,683)	(319,709)
Loans and advances to customers	6,430,067	6,355,508

As at 30 June 2002, loans given to customers have interest rates between 2.34-28% (31 December 2001: 2.25-29.85%) per annum for foreign currency loans and 28.80-90.00% (31 December 2001: 31.9-88.56%) per annum for Turkish lira loans.

The specific allowance for possible losses is comprised of amounts for specifically identified problem and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

In addition to the allowance for specific loan losses explained in the above paragraph, the Bank also provides general provisions for inherent credit risk on loans and guarantees and commitments. The level of general provision is based on management's evaluation of the loan portfolio, including such factors as the volume and character of loans outstanding, past loan loss experience and general economic conditions.

Loans and advances to customers continued

Movements in the allowance for possible losses from loans and lease receivables, are as follows:

	30 June 2002 TL billions	31 December 2001 TL billions
Balance at the beginning of period/year	319,709	255,441
Restatement effect of the beginning balance and current period provision for the effects of inflation	(33,294)	(131,271)
Allowance account balance per the balance sheet of Körfezbank merged with Osmanlı Bankası AŞ	-	4,788
Write-offs	-	(1,995)
Recoveries	(16,662)	(28,810)
Provision for the period	37,930	221,556
Balance at the end of period/year	307,683	319,709

8 Financial lease receivables

The Bank has two financial affiliates which act as the lessor under finance leases, mainly of plant and equipment. The leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates. The receivables are secured by the underlying assets. Loans and advances to customers include the following finance lease receivables:

	30 June 2002 TL billions	31 December 2001 TL billions
Financial lease receivables, gross (Note 7)	141,103	118,897
Less: allowance for possible losses from lease receivables	(5,923)	(6,623)
	135,180	112,274
Analysis of net financial lease receivables		
Not later than 1 year	117,772	110,065
Later than 1 year and not later than 5 years	46,730	29,680
Later than 5 years	-	-
	164,502	139,745
Unearned income	(29,322)	(27,471)
Financial lease receivables, net	135,180	112,274
Analysis of net financial lease receivables, net		
Not later than 1 year	96,786	89,871
Later than 1 year and not later than 5 years	38,394	22,403
Later than 5 years	-	-
Financial lease receivables, net	135,180	112,274

9 Other assets

	30 June 2002 TL billions	31 December 2001 TL billions
Miscellaneous receivables (Note 2)	374,480	399,859
Assets held for resale	274,393	289,205
Prepaid expenses, insurance claims and similar items	53,482	66,844
Taxes and funds to be refunded	39,133	42,159
Factoring receivables	38,758	35,108
Purchased cheques	35,146	12,770
Retail business stocks	32,867	35,506
Insurance premium receivables	31,006	33,415
Others	50,199	59,746
	929,464	974,612

Assets held for resale comprise of real-estate acquired by the Bank against its overdue receivables. Such assets are required to be disposed within three years following their acquisitions per the Turkish Banking Law. This legal period can be extended upon receiving legal permission.

10 Investments in associated companies

	30 June 2002		31 December 2001	
	Carrying value TL billions	Ownership %	Carrying value TL billions	Ownership %
İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ	76,585	47.17	76,585	47.17
Petrotrans Nakliyat ve Ticaret AŞ	42,719	99.60	42,719	99.60
Garanti Turizm ve Yatırım İşl. AŞ	41,580	44.89	41,580	44.89
Sınai Yatırım Bankası A.O.	-	-	16,715	8.00
Others	42,858		33,581	
	203,742		211,180	
Impairment in value of investments	(127,689)		(140,310)	
	76,053		70,870	

The Bank had previously made available loans to Petrotrans Nakliyat Ticaret AŞ (Petrotrans) in an amount equal to USD29.5 millions. However due to fact that the financial condition of the company deteriorated, the Bank decided to takeover the shares of the company on 30 November 1997 at the same amount of TL equivalent of its outstanding loan receivable at that date. Petrotrans is presently a dormant company, however the Bank's intention is to hold this investment for only its property of which the fair value is equal to this investment's carrying value, net-off impairment reduction.

Sınai Yatırım Bankası A.O. (SYB) and Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB) merged by the BRSA decision no. 615 dated 7 February 2002. The Bank's shares of 0.78% in TSKB and of 8.00% in SYB, were replaced by 3.09% shares in TSKB.

11 Tangible assets

Movement in tangible assets for the period of 1 January – 30 June 2002 is as follows:

	1January TL billions	Additions TL billions		Currency Adjustment TL billions	Disposals TL billions	30 June TL billions
Costs						
Land and buildings	908,496	-		4,225	(32,498)	880,223
Furniture, fixture and equipments	851,339	20,154		836	(5,708)	866,621
Leasehold improvements	358,608	13,362		301	(1,309)	370,962
	2,118,443	33,516		5,362	(39,515)	2,117,806
Less: Accumulated depreciation						
Land and buildings	101,621	4,606		142	-	106,369
Furniture, fixture and equipments	534,994	45,823		475	(359)	580,933
Leasehold improvements	164,771	22,502		178	(1,309)	186,142
	801,386	72,931		795	(1,668)	873,444
Construction in progress	170,996	11,310	**(a)**	-	-	182,306
	1,488,053	(28,105)		4,567	(37,847)	1,426,668
Impairment in value of tangible assets	(24,636)					(26,658)
	1,463,417					1,400,010

Movement in tangible assets for the period of 1 January – 31 December 2001 is as follows:

	1January TL billions	Additions TL billions	Currency Adjustment TL billions	Disposal TL billions		Tangible assets acquired through business combinations TL billions	31 December TL billions
Costs							
Land and buildings	823,539	126,517	2,384	(179,518)		135,574	908,496
Furniture, fixture and equipments	919,967	126,807	1,121	(228,358)		31,802	851,339
Leasehold improvements	319,619	63,911	415	(39,366)		14,029	358,608
	2,063,125	317,235	3,920	(447,242)		181,405	2,118,443
Less: Accumulated depreciation							
Land and buildings	90,825	12,317	98	(1,752)		133	101,621
Furniture, fixture and equipments	482,404	128,711	677	(92,332)		15,534	534,994
Leasehold improvements	130,431	40,018	215	(15,748)		9,855	164,771
	703,660	181,046	990	(109,832)		25,522	801,386
Construction in progress	154,112	-	-	(29,307)	**(a)**	46,191	170,996
	1,513,577	136,189	2,930	(366,717)		202,074	1,488,053
Impairment in value of tangible assets	-						(24,636)
	1,513,577						1,463,417

(a) Additions to and disposals from "construction in progress" are given as net.

Depreciation expense for the six-month period ended 30 June 2002 and for the three-month period ended 30 June 2001, amounts to TL72,931 billions and TL33,698 billions, respectively (the six-month period ended 30 June 2001: TL82,523 billions and the three-month period ended 30 June 2001: TL40,434 billions). The premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range from 8% to 25%.

12 Intangible asset

Intangible asset represents goodwill arising from the direct acquisitions of 25.92% ownership in and majority voting rights in the Board of Directors of Tansaş Perakende Mağazacılık Ticaret AŞ, 89.99% ownership in Doc Finance S.A., 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Doğuş Hava Taşımacılığı AŞ, 99.99% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Hayat Sigorta AŞ, 100% ownership in Garanti Finansal Kiralama AŞ, 81.81% ownership in Garanti Finans Faktoring Hizmetleri AŞ, 56.06% ownership in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, 100% ownership in Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ, 99.82% ownership in Sititur Tur.Tem.Taşımacılık Org.Bilgisayar Dan.Yapı.San. ve Tic. AŞ, and 99.99% ownership in A.T.İ. Dış Ticaret Tur.Yat.ve Paz. AŞ (Makro) consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

As at 30 June 2002, goodwill is amortised on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL120,200 billions (31 December 2001: TL151,808 billions), net of accumulated amortisation, in the accompanying consolidated balance sheets.

Movement in intangible assets for the period of 1 January – 30 June 2002 is as follows:

	1January TL billions	Additions TL billions	Disposals TL billions	30 June TL billions
Costs				
Tansaş Perakende Mağazacılık Ticaret AŞ	51,855	-	-	51,855
Makro	42,941	-	-	42,941
Doğuş Hava Taşımacılığı AŞ	32,397	-	-	32,397
Garanti Yatırım Menkul Kıymetler AŞ	17,024	-	-	17,024
Docfinance SA	7,053	-	-	7,053
Garanti Finans Factoring Hizmetleri AŞ	4,996	-	-	4,996
Garanti Finansal Kiralama AŞ	3,904	-	-	3,904
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	2,417	-	-	2,417
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,108	-	-	1,108
Garanti Sigorta AŞ	925	-	-	925
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	381	-	-	381
Garanti Hayat Sigorta AŞ	32	-	-	32
	165,033	-	-	165,033
Less: Accumulated depreciation				
Tansaş Perakende Mağazacılık Ticaret AŞ	7,779	1,296	-	9,075
Makro	-	4,458	-	4,458
Doğuş Hava Taşımacılığı AŞ	3,244	810	-	4,054
Garanti Yatırım Menkul Kıymetler AŞ	1,158	426	-	1,584
Docfinance SA	951	176	-	1,127
Garanti Finans Factoring Hizmetleri AŞ	-	125	-	125
Garanti Finansal Kiralama AŞ	-	98	-	98
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	-	60	-	60
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	28	-	28
Garanti Sigorta AŞ	91	23	-	114
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	10	-	10
Garanti Hayat Sigorta AŞ	2	1	-	3
	13,225	7,511	-	20,736
	151,808			144,291
Impairment in value of intangible assets	-			(24,097)
	151,808			120,200

Intangible asset continued

Movement in intangible assets for the period of 1 January – 31 December 2001 is as follows:

	1January TL billions	Additions TL billions	Disposals TL billions	31 December TL billions
Costs				
Tansaş Perakende Mağazacılık Ticaret AŞ	51,855	-	-	51,855
Makro	-	42,941	-	42,941
Doğuş Hava Taşımacılığı AŞ	22,896	9,501	-	32,397
Garanti Yatırım Menkul Kıymetler AŞ	7,508	9,516	-	17,024
Docfinance SA	6,261	792	-	7,053
Garanti Finans Factoring Hizmetleri AŞ	-	4,996	-	4,996
Garanti Finansal Kiralama AŞ	-	3,904	-	3,904
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	-	2,417	-	2,417
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	1,108	-	1,108
Garanti Sigorta AŞ	925	-	-	925
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	381	-	381
Garanti Hayat Sigorta AŞ	32	-	-	32
Osmanlı Bankası AŞ	148,937	-	(148,937)	-
	238,414	75,556	(148,937)	165,033
Less: Accumulated depreciation				
Tansaş Perakende Mağazacılık Ticaret AŞ	5,186	2,593	-	7,779
Makro				
Doğuş Hava Taşımacılığı AŞ	2,100	1,144	-	3,244
Garanti Yatırım Menkul Kıymetler AŞ	781	377	-	1,158
Docfinance SA	556	395	-	951
Garanti Finans Factoring Hizmetleri AŞ	-	-	-	-
Garanti Finansal Kiralama AŞ	-	-	-	-
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	-	-	-	-
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	-	-	-
Garanti Sigorta AŞ	45	46	-	91
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	-	-	-
Garanti Hayat Sigorta AŞ	1	1	-	2
Osmanlı Bankası AŞ	16,744	1,166	(17,910)	-
	25,413	5,722	(17,910)	13,225
	213,001			151,808

13 Deposits from banks

Deposits from banks comprise of the following:

	30 June 2002 TL billions	31 December 2001 TL billions
Payable on demand	28,543	23,208
Term deposits	789,640	1,374,708
	818,183	1,397,916
Accrued interest on deposits from banks	8,620	23,312
	826,803	1,421,228

Deposits from banks include both TL accounts of TL259,272 billions (31 December 2001: TL436,252 billions) and foreign currency accounts of TL558,911 billions (31 December 2001: TL961,664 billions).

14 Deposits from customers

Deposits from customers comprise of the following:

	30 June 2002			31 December 2001
	Demand TL billions	Time TL billions	Total TL billions	Total TL billions
Foreign currency	2,695,738	6,154,911	8,850,649	8,874,994
Saving	235,069	1,652,808	1,887,877	1,552,581
Commercial	357,742	1,399,877	1,757,619	1,393,584
Public and other	25,375	92,024	117,399	137,605
	3,313,924	9,299,620	12,613,544	11,958,764
Accrued interest expenses on deposits from customers	-	138,530	138,530	77,199
	3,313,924	9,438,150	12,752,074	12,035,963

As at 30 June 2002, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 40.50-89.50% and 1.50-24.00 % (31 December 2001: 52.0-62.63% and 1.7-17%), respectively.

15 Obligations under repurchase agreements

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 30 June 2002 and 31 December 2001, assets sold under repurchase agreements were as follows:

	Carrying value	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase dates	Repurchase price
2002					
Trading instruments	21,065	20,943	17,409	July-Sep 2002	17,948
Investments	700,535	622,003	584,485	July-Sep 2002	588,007
	721,600	642,946	601,894		605,955
2001					
Trading instruments	99,190	98,297	95,932	Jan-Feb 2002	99,556
Investments	172,885	172,885	172,885	Jan-Feb 2002	173,832
	272,075	271,182	268,817		273,388

As such fundings are raisen against assets collateralized, due to the margins set between the parties, generally carrying values of such assets are over than the corresponding liabilities.

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 30 June 2002, the maturities and interest rates of the obligations are within one month and between 2.34-74.22 % (2001: 11.75 and 78.57%).

16 Loans and advances from banks

Loans and advances from banks comprise of the following:

	30 June 2002 TL billions	31 December 2001 TL billions
Short-term borrowings		
Domestic banks	257,407	408,626
Foreign banks	1,606,421	2,036,548
	1,863,828	2,445,174
Long-term debts		
Short-term portion	594,829	633,797
Medium and long-term portion	423,639	656,684
	1,018,468	1,290,481
Accrued interest on loans and advances from banks	47,273	63,875
	2,929,569	3,799,530

As at 30 June 2002, short-term borrowings from foreign banks included a one-year pre-export loan facility in the amount of USD350 millions signed in August 2001 for one year and provided by fifthy-two international banks; and a syndicated pre-export credit facility available to Turkish exporters in the amount of EUR350 millions provided by fourtyfive banks in May 2002.

Long-term debts comprise of the following:

	30 June 2002						31 December 2001
	Interest rate%	Maturity	Amount in original currency in millions		Short term portion TL billions	Medium and long-term portion TL billions	Long-term debts TL billions
Anatolia Finance Company	6.55	2004	USD	106	36,902	126,056	151,000
TPR Securitisation-I	Libor+4.4-10.81	2004	USD	105	76,977	85,491	129,351
Cobank	2.14-5.04	2005	USD	62	37,632	56,667	21,795
ABN Amro Bank	6.3	2004	EUR	22	10,654	22,484	30,737
Deutsche Bank	2.29-2.52	2005	USD	21	10,593	21,186	-
DEG	7.70	2005	EUR	15	7,623	15,245	17,677
World Bank	2.29-2,52	2004	USD	10	3,088	12,352	15,979
Pera Financial Services Company	9.375	2002	USD	210	324,986	-	-
First Fidelity Bank	7.83	2002	USD	20	30,157	-	-
International Finance Corporation	-	-		-	-	-	163,566
Others					56,217	84,158	126,579
					594,829	423,639	656,684

The Bank borrowed USD350 millions from Pera Financial Services Company, being the proceeds of an issue of 9 3/8 per cent notes by Pera Financial Services Company. In line with repayment schedule, the outstanding balance of this loan as of 30 June 2002 is USD210 million. Such notes are secured, by among other things, an assignment of the loan agreement between the Bank and Pera Financial Services Company in favour of a trustee for the benefit of the holders of such notes.

In February 1998, the Bank sold certain future credit card receivables due or to become due to the Bank from Visa International Service Association (Visa), MasterCard International Incorporated (MasterCard) and Europay International S.A. (Europay), to Anatolia Finance Company, a special purpose company (SPC) organized under the laws of the Cayman Islands for the amount of USD175 millions. The SPC sold to the Bank of New York, as trustee of the

Loans and advances from banks continued

Credit Cards Receivables Trust 1998 - I (the Trust), which issued the trust certificates amounting to USD175 millions in total pursuant to the Trust Agreement dated 3 February 1998 between the SPC and the Bank of New York as trustee. The trust certificates will be repaid in the period from March 1998 to December 2004 on a quarterly basis. In line with repayment schedule, the outstanding balance of this loan as of 30 June 2002 is USD106 million. The property of the Trust includes, among other things, (i) the right to receive a specified amount of current and future US Dollar amounts owed or to be owed by Visa, MasterCard and Europay to or for the account of Türkiye Garanti Bankası AŞ, in respect of credit and debit card merchant voucher receivables generated by the usage in Turkey of Visa, MasterCard ad Europay credit cards issued by non-Turkish financial institutions and acquisition of such voucher receivables by the Bank for processing and payment by Visa, MasterCard and Europay in accordance with their respective collection and settlement systems, subject to the pari-passu rights of the holders of the Prior Certificates, (ii) or funds collected or to be collected in respect of such receivables, (iii) or other payments by any other person in respect thereof and (iv) certain money on the deposit in certain accounts of the Trust.

First Fidelity Bank (FFB) loans correspond to the obligation arising from the sale to FFB of the Bank's future receivables in connection with its credit card securitisation program in which FFB is the Trustee bank. The proceeds received from these transactions are classified as obligation under long-term debts. In line with repayment schedule, the outstanding balances of these loans as of 30 June 2002 are USD15 million and USD5 million.

In June 1999, the Bank obtained a fund in the amount of USD200 millions through its Trade Payment Rights Securitisation transaction (the "TPR Securitisation-I"). The TPR Securitisation-I consists of a floating and fixed tranche for an amount of USD29 millions and USD171 millions, respectively. In line with repayment schedule, the outstanding balance of this loan as of 30 June 2002 is USD105 million. The TPR Securitisation-I securitises the Bank's collection and reimbursement rights related to export transactions, specifically letters of credits and cash against documents transactions, and has a maturity of 5 years with an average life of 3.14 years. The TPR Securitisation-I was arranged by Bank of America Securities LLC, Bank of America International Limited and Credit Suisse First Boston Corporation (CSFB) was appointed as co-manager.

In September 1999, the Bank signed a subsidiary loan agreement with the Export Credit Bank of Turkey (Türk Eximbank), in conjuction with the World Bank loan extended to Türk Eximbank in the amount of US$250 million for the financing of the invetment projects of Turkish exporters. The Bank's initial take of the World Bank funded loan with a maturity of 5 years is US$20 million, which is the first part that will be used by the Bank, and the second part is expected during year 2000. The loan will be utilized by eligible Turkish companies on a first-come first-serve basis under the guidelines of the World Bank, for projects approved by Turk Eximbank as well as the World bank.

As at 31 December 2001, the outstanding loans from International Finance Company (IFC) amounted to USD102 millions. In view of the latest developments in the Turkish macroeconomic conditions and the excess liquidity, the Bank prepaid all the outstanding loans and other amounts due under the investment agreement in April 2002.

17 Bonds payable

Bonds payable comprise of the following:-

	30 June 2002				31 December 2001
	Amount in original currency in millions	Maturity	Interest rates %	TL billions	TL billions
Bearer notes	EUR 43	2003	8	65,424	62,179
Indenture notes	-	-	-	-	14,241
				65,424	76,420
Accrued interest on bonds payable				1,488	4,142
				66,912	80,562

Bearer notes represent Euro notes bearing 8% interest per annum and payable annually in arrear on 21 March in each year commencing on 21 March 2001 and maturing in 2003 issued by Garanti Bank International N.V. (GBI), a consolidated affiliate, on 21 March 2000 through the arrangement of Goldman Sachs International. The notes comprising 4.575 units will be in the denomination of EUR10,000 each. Unless previously redeemed or canceled, the notes will be redeemed at their principal amount on 21 March 2003 and are subject to redemption in whole at their principal amount at the option of GBI at any time in the event of certain changes affecting taxation in the Netherlands.

As at 31 December 2001, indenture notes represented Garanti Grantor Trust 1997- “A” Floating Rate Certificates matured by 30 June 2002. These notes were secured by substantially all of the assets of Instruments Finance Company, a special purpose company (SPC) wholly owned by the Bank and organized under the laws of Cayman Islands, which consists primarily of the SPC’s rights and interests in the obligation of the Bank to sell to the SPC all of its right, title and interest in and to certain instruments, primarily comprised of the traveller’s checks, eurocheques and cashier’s checks or other checks.

18 Taxation on income

The corporation tax rate is 30%; contribution to a state fund is 10% of this tax which results in effective corporation tax rate of 33%. In addition, there will be an income tax charge; Council of Ministers is authorised to determine this income tax rate up to the level of 25%, contribution to state fund is 10% of this tax as well. Presently, this income tax charge is at the rate of 5% (for companies of which shares are not publicly traded; 15%) to be computed only on the amounts of dividend distribution and accrued only at the time of such payments.

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for permanent differences not deductible for tax purposes and initial recognition of assets and liabilities which effect neither accounting nor taxable profit.

Taxation on income continued

The total provisions for taxes on income is different than the amount computed by applying the statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	30 June 2002 TL billions	%	30 June 2001 TL billions	%
Taxes on income/(loss) per statutory tax rate	**(49,809)**	**33.00**	**(255,862)**	**33.00**
Permanent differences relating to the restatement of non-monetary items per IAS29	(53,927)	35.73	233,293	(30.09)
Effect of permanent differences on consolidation adjustments	(6,930)	4.59	73,772	(9.51)
Income items exempt from tax or subject to different tax rates	(23,313)	15.45	(190,655)	24.59
Disallowable expenses	2,963	(1.96)	15,279	(1.97)
Effect of different tax rates applicable to the consolidated affiliates	(2,900)	1.92	(10,898)	1.40
Taxation credit	**(133,916)**	**88.72**	**(135,071)**	**17.42**

The taxation credit comprise the following items:

	30 June 2002 TL billions	30 June 2001 TL billions
Current taxes	9,274	40,667
Deferred taxes	(143,190)	(175,738)
Taxation credit	**(133,916)**	**(135,071)**

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability computed over current year operations. Accordingly, the taxation charge on income computed is not equal to the final tax liability appearing on the balance sheet.

The movements of current taxes payable on income in the six-month period ended 30 June 2002 and the year ended 31 December 2001, are shown below:

	30 June 2002 TL billions	31 December 2001 TL billions
Provision for current taxes payable on income before deductions	**(133,916)**	**(309,214)**
Add: Taxes carried forward	25,631	2,647
Add/(less): Deferred tax assets/liabilities	143,190	374,198
Less: Restatement of opening retained earnings due to the effect of IAS39	-	(30,521)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 30 June 2002	1,484	(4,691)
Taxes payable on income	**36,389**	**32,419**

Taxation on income continued

Deferred tax assets and liabilities as at 30 June 2002 and 31 December 2001 are attributable to the items detailed in the table below:

	30 June 2002 TL billions	31 December 2001 TL billions
Deferred tax assets		
Tax losses carried forward	380,275	475,423
Specific and general allowance for loan losses	69,222	71,488
Valuation difference on marketable securities	21,454	-
Investment incentives	19,850	21,154
Impairment in value of investments in associated companies and tangible assets	16,425	40,165
Capitalised expenses and leasing obligations	13,941	30,167
Discount on receivables	3,401	14,798
Reserve for retirement pay	3,193	5,948
Others	24,398	3,101
Total deferred tax assets	552,159	662,244
Deferred tax liabilities		
Restatement of non-monetary items per IAS 29	130,574	279,400
Effect of applying IAS39	9,170	67,990
Others	11,860	9,467
Total deferred tax liabilities	151,604	356,857
Net deferred tax assets	**(400,555)**	**(305,387)**

Deferred tax assets and liabilities relating to a consolidated affiliate reporting to a specific tax office are offset against each other in the accompanying consolidated financial statements.

In Turkey, there are no procedures for the final agreement of tax assessments. Tax returns are filed within four months at the end of year to which they relate. The tax authorities may, however, examine the accounting records and/or revise assessments within five years.

19 Other liabilities

The principal components of other liabilities are as follows:

	30 June 2002 TL billions	31 December 2001 TL billions
Transfer orders	554,202	524,617
Miscellaneous payables	92,831	135,706
Insurance technical provisions	41,016	37,089
General provision **(a)**	40,000	-
Withholding taxes	34,911	65,473
Factoring payables	25,700	20,251
Expense accruals	15,125	37,143
Blocked accounts	14,692	17,698
Payables to insurance and reinsurance companies relating to insurance operations	13,909	9,866
Reserve for severance payment	12,358	11,119
Payables to suppliers relating to financial leasing activities	11,816	16,629
General provision for non-cash loans	5,830	4,906
Accrued exchange loss on derivatives	-	7,501
Others	53,876	51,578
	916,266	939,576

(a) Considering the uncertainties in the political environment which may have adverse effects in the Turkish economy subsequent to the first quarter ended 31 March 2002, the Bank made a provision of TL110,000 billions against possible future losses that may arise due to unforeseeable risks, and recorded as “general provision” in the accompanying consolidated financial statements. As at 30 June 2002, the Bank has reassessed the risk in the economic environment and decided to decrease the level of general provision to TL40,000 billions.

20 Shareholders’ equity

The authorised and paid-in nominal share capital of the Bank is TL750,000 billions comprising 1,499,999,999,655 registered shares of five hundred Turkish liras each and 1,725 registered shares of on hundred Turkish liras each. The portion of share capital arising from the amounts paid in by the shareholders was restated for the effects of inflation; however, the transfers from revaluation surplus on fixed assets for statutory purposes are not restated. Accordingly, the share capital is reflected at restated amounts in the accompanying consolidated financial statements.

The reserves include legal reserves established by annual appropriations amounting to 5% of income disclosed in the Bank’s statutory accounts until it reaches 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital are to be appropriated to increase legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends. In the accompanying consolidated financial statements, legal reserves are included at their historical amounts. The reserves also include some reserves appropriated by management for the general banking reserve as well as amounts appropriated for purposes of adding to the Bank’s statutory reserves.

21 Extraordinary item

Late 1999, Turkish Government has imposed one time only extraordinary tax measures to finance the public expenditures caused by the massive earthquakes on 17 August and 12 November 1999 in Marmara Region. One of such tax measures is "additional income and corporate tax". In principal, all individuals, excluding wage earners, and corporate taxpayers are required to pay an additional income or corporate tax at 5% on their taxable bases filed for the year of 1998. The tax base for the 5% additional tax is just the same as the tax base on which the income or corporate tax was charged for the year 1998. Another additional tax imposed by the Turkish Government is the withholding tax on interest income on government securities that will be held at maturity. The tax rate on such interest income changes from 4% to 19% according to maturities of the securities. As at 30 June 2002 and 31 December 2001, there is no unpaid portion of such taxes classified under "accrued interest and other liabilities" in the accompanying consolidated balance sheets.

22 Fair value information

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.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. Turkey has shown sings of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for investments. These balance sheet instruments include loans and advances to banks and customers, deposits from banks and customers, obligations under repurchase agreements, loans and advances from banks, bonds payable and other short-term assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Fair value of investments is TL5,408,853 billions (31 December 2001: TL4,981,664 billions), whereas the carrying amount is TL5,509,436 billions (31 December 2001: TL5,030,334 billions) in the accompanying consolidated balance sheet as at 30 June 2002.

The fair values of share capital, leasehold improvements and other assets and liabilities that are not of contractual natures, are not calculated as they are not considered financial instruments.

23 Commitments and contingencies

In the normal course of banking activities, the Bank and its affiliates undertake various commitments and incure certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit.

Commitments and contingencies continued

Commitments and contingent liabilities arising in the ordinary course of business comprise of the following items:

	30 June 2002 TL billions	31 December 2001 TL billions
Letters of guarantee	3,218,701	3,682,965
Letters of credit	903,495	1,150,331
Acceptance credits	377,976	411,843
Other guarantees and endorsements	44,208	56,469
	4,544,380	5,301,608

As at 30 June 2002, commitment for uncalled capital of affiliated companies amounts approximately to TL18,698 billions (31 December 2001: TL33,600 billions).

As at 30 June 2002, commitment for purchase and sale of foreign currencies under spot, forward, swap, future rate agreements or options and for gold trading amounts to TL2,287,448 billions (31 December 2001: TL2,822,464 billions), almost all due within one year.

The breakdown of such commitments outstanding, by type, are presented as follows:-

	30 June 2002		31 December 2001	
	Purchases TL billions	Sales TL billions	Purchases TL billions	Sales TL billions
Forward agreements for customer dealing activities	63,640	16,734	19,963	3,494
Currency swap agreements for customer dealing activities	32,152	30,281	46,166	63,227
Forward agreements for hedging purposes	28,254	58,630	1,361,232	298,152
Forward agreements for gold trading	-	41,225	-	18,066
Currency swap agreements for hedging purposes	1,463,623	111,699	740,235	55,744
Interest rate swap agreements for hedging purposes	34	11	54	1,310
Spot foreign currency transactions	17,865	39,357	158,738	56,083
Spot foreign currency transactions for customer dealing activities	3,048	3,048	-	-
Interest rate options	-	7,720	-	-
Future rate agreements	185,063	185,064	-	-
	1,793,679	493,769	2,326,388	496,076

24 Risk management disclosures

This section provides details of the Bank and its affilates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affilates are exposed, are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios, section B contains risk management information related to the trading portfolio and section C deals with the non-trading portfolio.

Risk management disclosures continued

A. Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the balance sheet dates are set out in note 23. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below

(i) Swaps

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in market rates relative to the contractual rates of the contract.

(ii) Futures and forwards

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually-traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are futures exchanges. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

(iii) Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

B. Trading activities

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are

Risk management disclosures continued

managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

(i) Counterparty credit risk

The Bank and its affiliates' counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

(ii) Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

C. Non-trading activities

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

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

The Bank and its affiliates have access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy. In addition, a portfolio of liquid assets is held as a part of the Bank's liquidity risk management strategy.

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

	30 June 2002						31 December 2001					
	Up to 1 month TL billions	1 to 3 months TL billions	3 to 6 months TL billions	6 to 12 months TL billions	Over 1 year TL billions	Total TL billions	Up to 1 month TL billions	1 to 3 months TL billions	3 to 6 months TL billions	6 to 12 months TL billions	Over 1 year TL billions	Total TL billions
MONETARY ASSETS												
Turkish Lira												
Cash and cash equivalents	613,390	-	-	-	-	613,390	643,839	3,971	-	-	-	647,810
Financial assets held for trading	6,521	250	1,236	2,089	291,548	301,644	13,786	2,804	109,946	44,090	-	170,626
Investments	1,629	3,106	-	4,835	1,185,618	1,195,188	1,556	5,676	499,456	6,893	656,346	1,169,927
Loans and advances to banks	141,917	-	6,894	1,531	-	150,342	16,306	1,618	-	8,453	-	26,377
Loans and advances to customers	594,551	85,526	233,012	95,100	153,153	1,161,342	520,337	77,740	89,218	59,975	241,850	989,120
Other assets	14,704	19,369	28,379	3,593	253,618	319,663	89,591	7,510	58,463	9,854	212,924	378,342
Deferred tax assets	-	-	-	-	396,949	396,949	-	-	-	-	302,488	302,488
Total Turkish Lira monetary assets	1,372,712	108,251	269,521	107,148	2,280,886	4,138,518	1,285,415	99,319	757,083	129,265	1,413,608	3,684,690
Foreign currency												
Cash and cash equivalents	1,004,014	-	-	-	-	1,004,014	1,744,640	2,302	-	-	-	1,746,942
Financial assets held for trading	154,450	222,184	65,380	52,077	767,879	1,261,970	-	2,576	22,658	488,349	1,102,462	1,616,045
Investments	10,812	-	6,015	160,895	4,136,526	4,314,248	918	466	279	866	3,857,878	3,860,407
Loans and advances to banks	1,348,631	130,494	35,767	2,460	14,920	1,532,272	1,313,846	153,986	7,276	45,425	43,585	1,564,118
Loans and advances to customers	551,019	599,554	865,351	848,595	2,220,864	5,085,383	1,026,304	560,770	596,207	1,105,858	1,816,772	5,105,911
Other assets	9,333	30,545	2,358	146	155,951	198,333	78,902	12,274	6,480	27,115	36,014	160,785
Deferred tax assets	-	-	-	-	3,606	3,606	-	-	-	-	2,899	2,899
Total foreign currency monetary assets	3,078,259	982,777	974,871	1,064,173	7,299,746	13,399,826	4,164,610	732,374	632,900	1,667,613	6,859,610	14,057,107
Total Monetary Assets	4,450,971	1,091,028	1,244,392	1,171,321	9,580,632	17,538,344	5,450,025	831,693	1,389,983	1,796,878	8,273,218	17,741,797
MONETARY LIABILITIES												
Turkish Lira												
Deposits	3,544,235	407,197	71,210	54,574	-	4,077,216	3,162,248	266,609	52,854	10,066	47,197	3,538,974
Obligations under repurchase agreements	171,055	-	-	-	-	171,055	266	95,936	-	-	-	96,202
Loans and advances from banks	22,585	15,394	22,801	14	6	60,800	16,568	28,728	23,272	18	16	68,602
Bonds payable	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	69,565	20,853	13,494	43,927	131,030	278,869	152,506	26,223	22,342	36,719	312,830	550,620
Total Turkish Lira monetary liabilities	3,807,440	443,444	107,505	98,515	131,036	4,587,940	3,331,588	417,496	98,468	46,803	360,043	4,254,398
Foreign currency												
Deposits	7,896,594	989,757	333,360	187,236	94,714	9,501,661	8,239,367	973,087	225,875	329,397	150,489	9,918,215
Obligations under repurchase agreements	155,833	275,006	-	-	-	430,839	86,359	86,256	-	-	-	172,615
Loans and advances from banks	169,974	695,095	553,040	1,043,181	407,479	2,868,769	48,226	759,548	930,099	1,326,094	666,961	3,730,928
Bonds payable	-	-	-	66,912	-	66,912	10,667	-	3,710	-	66,185	80,562
Other liabilities	34,757	20,622	1,503	93	615,170	672,145	92,485	15,660	33,759	6,157	271,645	419,706
Total foreign currency monetary liabilities	8,257,158	1,980,480	887,903	1,297,422	1,117,363	13,540,326	8,477,104	1,834,551	1,193,443	1,661,648	1,155,280	14,322,026
Total Monetary Liabilities	12,064,598	2,423,924	995,408	1,395,937	1,248,399	18,128,266	11,808,692	2,252,047	1,291,911	1,708,451	1,515,323	18,576,424

Risk management disclosures continued

(ii) Market risk

Interest rate risk

The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and six months libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have indefinite maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded by liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the first half of 2002 and the year 2001:

	2002			
	US$	EURO %	OTHER %	TRL %
Assets				
Loans and advances to banks	1.5-12.47	1.50-4.75	18.00-28.00	46.00-64.00
Debt and other fixed or floating income instruments	9.39-10.44	6.93-8.16	-	71.92
Loans and advances to customers	4.24-16.00	5.00-10.00	11.87-28.00	54.13-100.04
Liabilities				
Deposits:				
- Foreign currency deposits	3.04	3.95-5.21	5.48	-
- Bank deposits	1.50-7.65	4.85-6.38	17.00-24.00	40.00-58.34
- Saving deposits	-	-	-	45.67-60.08
- Commercial deposits	-	-	-	46.89-61.30
- Public and other deposits	-	-	-	61.22
Obligations under repurchase agreements	3.02	-	-	57.38
Loans and advances from banks	2.13-13.96	4.95-11.81	3.05-13.00	15.00-51.11
Bonds payable	-	8.00	-	-

Risk management disclosures continued

	2001			
	US$	EURO	OTHER	TRL
		%	%	%
Assets				
Loans and advances to banks	0.40-10.66	3.25-5.50	34.00	39.50-85.21
Debt and other fixed or floating income instruments	6.60-12.06	7.80-9.24	8.00-34.50	42.98-83.80
Loans and advances to customers	3.13-15.43	6.28-20.00	-	37.97-88.08
Liabilities				
Deposits:				
- Foreign currency deposits	3.85-14.30	3.50-5.87	4.83	-
- Bank deposits	3.00-13.00	3.92-13.00	-	57.82-77.88
- Saving deposits	-	-	-	57.27-77.95
- Commercial deposits	-	-	-	58.23-79.83
- Public and other deposits	-	-	-	77.95
Obligations under repurchase agreements	2.84	-	-	77.30
Loans and advances from banks	2.00-25.60	4.00-14.00	2.50-18.00	15.00-59.00
Bonds payable	3.98	8	-	-

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The primary exposure to equity prices arises from trading activities and the Bank limits the risk by maintaining a small portfolio. Exposure to market risk is formally managed in accordance with risk limits.

Currency risk

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

The Bank and its affiliates' main foreign operations are in Holland and Moscow. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is the Turkish Lira (TL), the consolidated financial statements are affected by movements in the exchange rates between these currencies and TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of operations. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved, excluding borrowings treated as hedges of net investments in foreign operations.

Risk management disclosures continued

These exposures were as follows:

	30 June 2002 TL billions				
	US$	**EURO**	**TRL**	**Other Currencies**	**Total**
Assets					
Cash and cash equivalents	929,891	69,593	613,390	4,530	1,617,404
Financial assets held for trading	1,066,671	195,299	301,644	-	1,563,614
Investments	4,059,879	228,466	1,195,188	25,903	5,509,436
Loans and advances to banks	256,541	1,239,300	150,342	36,431	1,682,614
Loans and advances to customers	3,865,266	1,034,165	1,363,374	167,262	6,430,067
Other assets	152,188	44,663	711,817	20,796	929,464
Investments in associated companies	-	292	75,761	-	76,053
Tangible assets	3,673	60,642	1,330,215	5,480	1,400,010
Intangible assets	-	-	114,334	5,866	120,200
Deferred tax asset	3,461	83	396,949	62	400,555
Total Assets	**10,337,570**	**2,872,503**	**6,253,014**	**266,330**	**19,729,417**
Liabilities					
Deposits	6,099,826	3,193,241	4,077,216	208,594	13,578,877
Obligations under repurchase agreements	430,839	-	171,055	-	601,894
Loans and advances from banks	2,159,217	690,468	60,800	19,084	2,929,569
Bonds payable	-	66,912	-	-	66,912
Taxation on income	1,573	32,603	2,184	29	36,389
Other liabilities	539,886	86,717	278,326	11,337	916,266
Total Liabilities	**9,231,341**	**4,069,941**	**4,589,581**	**239,044**	**18,129,907**
Minority interest	**-**	**-**	**107,503**	**143**	**107,646**
Shareholders' Equity	**-**	**-**	**1,491,864**	**-**	**1,491,864**
Net On Balance Sheet Position	**1,106,229**	**(1,197,438)**	**64,066**	**27,143**	**-**
Off Balance Sheet Net Notional Position	**(1,119,361)**	**1,158,007**	**(45,512)**	**6,866**	**-**
Credit Commitments	**2,315,177**	**1,299,489**	**755,701**	**174,013**	**4,544,380**

	31 December 2001 TL billions				
	US$	**EURO**	**TRL**	**Other Currencies**	**Total**
Total Assets	**11,043,561**	**2,481,990**	**6,000,019**	**598,284**	**20,123,854**
Total Liabilities	**9,649,640**	**4,266,420**	**4,256,069**	**405,966**	**18,578,095**
Minority interest	**-**	**-**	**55,207**	**245**	**55,452**
Shareholders' Equity	**-**	**-**	**1,490,307**	**-**	**1,490,307**
Net On Balance Sheet Position	**1,393,921**	**(1,784,430)**	**198,436**	**192,073**	**-**
Off Balance Sheet Net Notional Position	**(1,654,539)**	**1,604,520**	**(16,354)**	**66,373**	**-**
Credit Commitments	**2,973,646**	**1,267,986**	**868,270**	**191,708**	**5,301,608**

Risk management disclosures continued

Of the amounts shown in the table above, at 30 June 2002, 95% (31 December 2001: 8%) are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

For the purposes of the evaluation of the table above, attention should be given to the assets and liabilities denominated in Russian Roubles which are considered as foreign currency items. Russia is a highly inflationary environment as evidenced by a very high cumulative inflation rate of %173.14 the three years ended 30 June 2002. The Russian Roubles denominated net assets/(liabilities) as included in the above table at their TL equivalents at 31 December 2001 amounted to TL(551) billions (31 December 2001: 58,563 billions).

For the six-month period ended 30 June 2002, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to USD23,381 millions (31 December 2001: USD46,335 millions).

(iii) Credit risk

The Bank and its affiliates are subject to credit risk through its trading, lending, hedging and investing activities and in cases where they act as intermediaries on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank’s market risk management process.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The Bank and its affiliates’ primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (note 23).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Bank and its affiliates’ investments, loans and advances and guarantees issued. There is not any significant exposures to any individual customer or counterparty.

Risk management disclosures continued

Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	30 June 2002 TL billions				
	Loans	Total Assets	Total Liabilities	Non-Cash Loans	Capital Expenditure
Turkey	5,121,290	16,212,927	11,986,536	4,318,053	41,245
Holland	1,002,432	1,963,499	1,961,359	51,085	3,282
Germany	-	271,258	720,067	-	-
USA	-	73,589	464,235	29,619	-
Luxembourg	-	29,046	515,149	56	-
Malta	-	79,657	332,126	-	-
England	145,409	183,583	753,454	24,623	-
Switzerland	97,930	112,055	313,414	32,545	-
Japan	-	5,445	7,230	-	-
Others	63,006	798,358	1,076,337	88,399	299
TOTAL	**6,430,067**	**19,729,417**	**18,129,907**	**4,544,380**	**44,826**

	31 December 2001 TL billions				
	Loans	Total Assets	Total Liabilities	Non-Cash Loans	Capital Expenditure
Turkey	4,958,989	16,773,591	11,483,127	4,803,399	289,681
Holland	1,157,670	2,179,102	2,043,138	183,499	26,221
Germany	6,200	332,934	934,111	-	-
ABD	-	239,308	902,392	96,554	-
Japan	-	6,271	507,355	-	-
Luxembourg	-	23,519	481,239	32,999	-
England	3,839	308,174	458,027	123,592	-
Malta	-	3,118	333,172	-	-
Switzerland	823	12,928	234,225	-	-
Others	227,987	244,909	1,201,309	61,565	1,333
TOTAL	**6,355,508**	**20,123,854**	**18,578,095**	**5,301,608**	**317,235**

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility. The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Approximately average 60% of the balance of outstanding loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for guarantees and letters of credit is around 90%.

Risk management disclosures continued

The Bank generally seeks collateral security comprising real estate and other mortgages of varying ranking, charges on commodity inventories, letters of guarantee, promissory notes and similar items. The breakdown of cash and non-cash loans and advances to customers by type collateral is as follows as at 30 June 2002 and 31 December 2001:

	30 June 2002 TL billions	31 December 2001 TL billions
Cash loans		
Secured loans:	3,518,004	3,536,922
Secured by cash collateral	245,306	263,131
Secured by mortgages	656,403	744,123
Secured by government institutions or government securities	374,995	343,650
Guarantees issued by financial institutions	159,335	173,423
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,081,965	2,012,595
Unsecured loans	2,466,747	2,367,116
Total performing loans and financial lease receivables	5,984,751	5,904,038
Non-cash loans		
Secured loans:	4,070,408	4,913,659
Secured by cash collateral	367,993	418,031
Secured by mortgages	-	269,773
Secured by government institutions or government securities	10,724	6,610
Guarantees issued by financial institutions	82,563	20,824
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	3,609,128	4,198,421
Unsecured loans	473,972	387,949
Total non-cash loans	4,544,380	5,301,608

D. Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. However, in the accompanying consolidated financial statements, hedge accounting was not used as hedge accounting relationship was not evidenced.

25 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 30 June 2002 and 31 December 2001:

Affiliates	Controlling interest (%)
Garanti Bank International N.V.	100.00
Ana Konut Danışmanlık AŞ	100.00
Garanti Bank Moscow	100.00
Marmo SA	100.00
Garanti Hayat Sigorta AŞ	100.00
Garanti Fund Mananagement Co. Ltd.	100.00
Garanti Bilişim Teknolojisi	100.00
Şahintur Şahinler Otelcilik Turizm Yatırım İşl. AŞ	100.00
Instrument Finance Company	100.00
Doğuş Hava Taşımacılığı AŞ	100.00
Garanti Portföy Yönetimi AŞ	100.00
Garanti Finansal Kiralama AŞ	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00
Imperial Ottoman Bank Off-Shore Ltd.	100.00
Ottoman Finance Company	100.00
Ottoman Investment Company	100.00
Ottoman Real Estate Company	100.00
Basic Banking Off-Shore Ltd.	100.00
United Turkish Gulf Bank International Ltd.	100.00
Körfez Financial Services PLC.	100.00
Konaklı Tur.Tem.Yapı.San. ve Tic. AŞ	100.00
Galata Araştırma Yay.Tanıtım ve Bil.Tek.Hiz. AŞ	100.00
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	100.00
Garanti Sigorta AŞ	99.99
Lasaş Lastikleri San ve Tic. AŞ	99.99
Garanti Financial Services plc.	99.99
Clover Investments Co.	99.99
Bosphorus Financial Services Ltd.	99.99
Clover Bank Off-Shore Ltd.	99.90
Sititur Tur.Tem.Taşımacılık Org.Bilgisayar Danışmanlık Yapı San.ve Tic.AŞ	99.82
Docfinance SA.	89.99
Garanti Finans Faktoring Hizmetleri AŞ	81.81
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.06
Tansaş Perakende Mağazacılık Ticaret AŞ	25.92 *

* Although its ownership percentage in Tansaş Perakende Mağazacılık Ticaret AŞ has been less than 50%, the Bank has the controlling power on the operations and the financial policies of the company. Accordingly, it has been consolidated since 1999.

The table below sets out the Associates at 30 June 2002 and 31 December 2001:

Associates	Controlling interest (%)
İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ	47.17
Garanti Turizm ve Yatırım İşl. AŞ	44.89
Volkswagen Doğuş Tüketici Finansmanı AŞ	38.00

26 Subsequent event

By the decision of the Board of Directors no. 2019 dated 23 July 2002, the Bank's nominal share capital has increased from TL750,000 billions to TL791,748 billions through appropriation of a real-estate sale income of TL41,610 billions and an investment sale income of TL138 billions.

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