Türkiye Garanti Bankası Anonim Şirketi

And Its Affiliates

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Independent Auditors' Review Report

To the Board of Directors of
Türkiye Garanti Bankası Anonim Şirketi,

We have reviewed the accompanying consolidated balance sheet of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 30 September 2002 and; the consolidated statements of operations, changes in shareholders' equity and cash flows for the nine-month period then ended. These financial statements are the responsibility of the directors. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with International Standards on Auditing applicable to review engagements promulgated by the International Federation of Accountants. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquires of the personnel of the Bank and its affiliates and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

As discussed in related party disclosures note 2, the Bank made some transactions in 2001 to be subsidised from its major shareholder in order to mitigate the effects of its one-time losses resulting from economic crises in Turkey. As a result of these transactions, the Bank has recognized an income of TL 665,427 billion in 2001, which resulted during the third quarter of 2002 a loss of TL 11,266 billion from the net of reversal of discount expense and loss on monetary position. Since such transactions, in substance represent capital contributions by the shareholders they should be reflected as "Additional paid-in capital" rather than in the statement of operations. It should be noted that such financing could not have been entered into on an arm's length basis with a third party. As of 30 September 2002 as a result of these transactions, the Bank has a receivable of TL 351,275 billion, net of TL 20,622 billion discount reflected in the "Other assets". Consequently, in the accompanying consolidated financial statements "Additional paid-in capital" and "Accumulated losses" were understated by TL 654,161 billion and TL 665,427 billion, respectively as of 30 September 2002; and net income for the nine- month period then ended was understated by TL 11,266 billion.

Based on our review, except for the effects of the matter discussed in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true and fair view in accordance with statements of International Financial Reporting Standards adopted by the International Accounting Standards Board.

İstanbul,

29 November 2002

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet

At 30 September 2002

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

	Note	30 September 2002 TL billions	31 December 2001 TL billions
Assets			
Cash and cash equivalents	3	1,749,962	2,589,271
Financial assets held for trading	4	1,762,430	1,931,798
Investments	5	5,799,369	5,438,936
Loans and advances to banks	6	1,472,185	1,719,686
Loans and advances to customers	7	7,103,902	6,871,751
Other assets	9	934,816	1,053,778
Investments in associated companies	10	83,316	76,626
Tangible assets, net	11	1,508,126	1,582,288
Intangible assets, net	12	120,233	164,139
Deferred tax assets, net	18	414,873	330,193
Total assets		**20,949,212**	**21,758,466**
Liabilities			
Deposits from banks	13	677,360	1,536,670
Deposits from customers	14	14,244,930	13,013,615
Obligations under repurchase agreements	15	967,894	290,652
Loans and advances from banks	16	2,220,545	4,108,156
Bonds payable	17	71,983	87,106
Current tax liability	18	38,096	35,052
Other liabilities	19	939,457	1,015,897
Total liabilities		**19,160,265**	**20,087,148**
Minority interest		**164,019**	**59,956**
Shareholders' equity	20		
Share capital; authorized, issued and fully paid		1,852,147	1,852,147
Accumulated losses		(227,219)	(240,785)
Total shareholders' equity		**1,624,928**	**1,611,362**
Total liabilities, minority interest and shareholders' equity		**20,949,212**	**21,758,466**
Commitments and contingencies	23		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Operations

For The Nine-Month Period Ended 30 September 2002

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

	Note	Nine-month period ended 30 September 2002 TL billions	Three-month period ended 30 September 2002 TL billions	Nine-month period ended 30 September 2001 TL billions	Three-month period ended 30 September 2001 TL billions
Interest income:-					
Interest on securities		857,894	313,849	1,332,236	229,040
Interest on loans		665,303	236,051	1,563,562	263,968
Interest on deposits at banks		202,259	50,843	886,259	125,525
Interest on lease business		19,480	7,580	24,542	4,118
Others		32,850	11,154	74,998	21,864
Total interest income		1,777,786	619,477	3,881,597	644,515
Interest expenses:-					
Interest on saving, commercial and public deposits		(1,173,863)	(404,279)	(1,647,323)	(494,172)
Interest on bank deposits		(384,156)	(128,015)	(1,507,068)	(269,331)
Interest on borrowings		(192,350)	(57,978)	(617,134)	(221,834)
Others		(8,640)	(2,529)	(42,244)	(12,170)
Total interest expenses		(1,759,009)	(592,801)	(3,813,769)	(997,507)
Net interest income		**18,777**	**26,676**	**67,828**	**(352,992)**
Fee and commission income		390,441	145,329	376,160	111,297
Fee and commission expense		(148,841)	(44,647)	(229,197)	(56,031)
Net fee and commission income		241,600	100,682	146,963	55,266
Income before other operating items		**260,377**	**127,358**	**214,791**	**(297,726)**
Other operating income:-					
Trading account income, net		183,199	56,914	89,868	48,641
Foreign exchange gain, net		122,844	47,639	-	113,601
Gross profit from retail business		50,768	(316)	73,584	26,102
Premium income from insurance business		36,980	14,112	54,183	18,346
Other operating income		49,309	19,242	124,848	23,607
Total other operating income		443,100	137,591	342,483	230,297
Other operating expenses:-					
Salaries and wages		(192,086)	(68,789)	(302,568)	(106,301)
Depreciation and amortization		(141,295)	(54,319)	(168,239)	(54,203)
Impairment losses	7,8,10,11 and 12	(67,445)	14,637	(254,344)	(133,500)
Rent expenses		(50,343)	(18,265)	(58,733)	(21,943)
EDP expenses		(47,775)	(21,899)	(44,766)	(19,465)
Employee benefits		(46,992)	(20,216)	(74,070)	(18,709)
Advertising expenses		(39,506)	(16,560)	(47,531)	(17,850)
Saving deposits insurance fund		(29,315)	(11,733)	(45,779)	(9,241)
General provision	19	(22,000)	21,249	-	-
Taxes and duties other than on income		(19,648)	(7,346)	(72,085)	(22,007)
Provision for severance payments		(5,275)	(2,333)	(16,407)	(16,407)
Foreign exchange loss, net		-	-	(524,470)	-
Other operating expenses		(208,874)	(67,692)	(298,452)	(144,737)
Total other operating expenses		(870,554)	(253,266)	(1,907,444)	(564,363)
Income/(loss) before net of gain/(loss) on net monetary position		**(167,077)**	**11,683**	**(1,350,170)**	**(631,792)**
Gain/(loss) on net monetary position, net		12,737	(2,828)	(60,895)	24,034
Income/(loss) before taxes		**(154,340)**	**8,855**	**(1,411,065)**	**(607,758)**
Taxation credit	18	145,632	838	473,338	327,297
Net income/(loss) before minority interest		**(8,708)**	**9,693**	**(937,727)**	**(280,461)**
Minority interest		22,274	2,189	94,458	63,223
Net income/(loss) before extraordinary items		**13,566**	**11,882**	**(843,269)**	**(217,238)**
Extraordinary item	21	-	-	(35,016)	-
Net income/(loss) for the period		**13,566**	**11,882**	**(878,285)**	**(217,238)**
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)		**9.04**	**7.92**	**(585.52)**	**(144.83)**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity

For The Nine-Month Period Ended 30 September 2002

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

		Accumulated profits / (losses)			
	Share capital TL billions	Reserves TL billions	Unappropriated earnings/(losses) TL billions	Total TL billions	Total shareholders' equity TL billions
Balances at 1 January 2001	**1,852,147**	**69,509**	**471,622**	**541,131**	**2,393,278**
Appropriation of retained earnings:					
Transfer to statutory and general banking reserves		38,899	(38,899)		
Release of reserves due to sale of a consolidated affiliate		(13,095)	13,095		
Reversal of restatement on reserves for the effects of inflation		(35,843)	35,843		
Net loss for the year			(781,916)	(781,916)	(781,916)
Balances at 31 December 2001	**1,852,147**	**59,470**	**(300,255)**	**(240,785)**	**1,611,362**
Transfer from general banking reserves		(2,069)	2,069		
Reversal of restatement on reserves for the effects of inflation		(10,591)	10,591		
Net income for the nine-month period			13,566	13,566	13,566
Balances at 30 September 2002	**1,852,147**	**46,810**	**(274,029)**	**(227,219)**	**1,624,928**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows

For The Nine-Month Period Ended 30 September 2002

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

	30 September 2002 TL billions	30 September 2001 TL billions
Cash flows from operating activities:-		
Net income/(loss) for the period	13,566	(878,285)
Components of net income not generating or using liquidity:-		
Taxation credit	(145,632)	(473,338)
Minority interest	(22,274)	(94,458)
General provision	22,000	-
Impairment losses	67,445	254,344
Provision for severance payment	5,275	16,407
Depreciation and amortization	141,295	168,239
Loss/(gain) on sale of premises and equipment	20,664	(11,720)
Change in accrued interest and other income	(334,749)	(295,712)
Change in accrued interest and other expense	(12,214)	(58,934)
Monetary loss effect of above corrections	(32,439)	(82,711)
Operating loss before changes in operating assets and liabilities	**(277,063)**	**(1,456,168)**
Decrease in deposits from banks	(844,484)	(1,554,721)
Increase in deposits from customers	1,180,011	4,304,914
Increase/(decrease) in obligations under repurchase agreements	677,242	(456,679)
Decrease in financial assets held for trading	256,877	2,184,104
Decrease in loans and advances to banks	240,964	138,794
(Increase)/decrease in loans and advances to customers	(126,035)	737,263
Decrease in other assets	75,667	70,368
(Decrease)/increase in other liabilities	(71,219)	115,782
Income taxes paid	(5,947)	-
Net cash provided by operating activities	**1,106,013**	**4,083,657**
Cash flows from investing activities:-		
Increase in investments	(186,999)	(3,048,273)
Increase in investments in associated companies-net	(7,049)	(9,530)
Proceeds from sales of tangible assets	42,480	54,149
Additions to tangible assets	(41,318)	(36,256)
Net cash used in investing activities	**(192,886)**	**(3,039,910)**
Cash flows from financing activities:-		
Decrease in loans and advances from banks	(1,868,587)	(153,790)
Decrease in bonds payable	(13,605)	(12,092)
Proceeds from issuance of share capital to minorities	129,756	68,214
Net cash used in financing activities	**(1,752,436)**	**(97,668)**
Net (decrease)/increase in cash and cash equivalents	**(839,309)**	**946,079**
Cash and cash equivalents at beginning of period	2,589,271	1,241,449
Cash and cash equivalents at end of period (Note 3)	**1,749,962**	**2,187,528**

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 nine-month period ended 30 September 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, four in-store branches and 14 domestic liaison offices. In addition to its branches, the Bank has 100% ownership in two banks located in Amsterdam and Moscow. 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 (TL21,183 as restated for the effects of inflation current at 30 September 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 Financial Reporting Standards ("IFRS") 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 September 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 254.22% as at 30 September 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 September 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 September 2002 and 2001, and 31 December 2001, are given below:

Date	Index	Conversion factor
30 September 2002	6,024.6	1.000
31 December 2001	4,951.7	1.217
30 September 2001	4,276.7	1.409

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 Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly, 10% discount rate and 92% 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 September 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	1,743,951	25,137	3,950	46	4,270	236	196	1,777,786
Interest expenses	(1,726,545)	(10,670)	-	(2,687)	(1,028)	(17,864)	(215)	(1,759,009)
Net interest income	17,406	14,467	3,950	(2,641)	3,242	(17,628)	(19)	18,777
Fee and commission income, net	224,242	-	(2)	8,522	9,750	(929)	17	241,600
Trading account income, net	182,962	-	128	-	1	-	108	183,199
Foreign exchange gain, net	137,902	66	2,096	(956)	1,342	(18,361)	755	122,844
Gross profit from retail business	-	-	-	-	-	50,768	-	50,768
Premium income from insurance business	-	-	36,980	-	-	-	-	36,980
Other operating income	38,636	900	-	90	1,490	3,693	4,500	49,309
Salaries and wages	(127,681)	(3,506)	(7,557)	(911)	(5,159)	(27,659)	(19,613)	(192,086)
Impairment losses	(67,445)	-	-	-	-	-	-	(67,445)
General provision	(22,000)	-	-	-	-	-	-	(22,000)
Other operating expenses	(396,157)	(4,114)	(37,664)	(1,478)	(18,631)	(115,575)	(15,404)	(589,023)
Gain/(loss) on net monetary position	(55,585)	(7,810)	1,094	(852)	(8,379)	55,739	28,530	12,737
Taxation (charge)/credit	114,363	15,480	(2,098)	(1,604)	460	27,263	(8,232)	145,632
Minority interest	-	(2)	-	(70)	1,892	20,454	-	22,274
Net income/(loss) for the period	46,643	15,481	(3,073)	100	(13,992)	(22,235)	(9,358)	13,566
Segment assets	19,660,987	161,471	81,795	49,296	78,215	359,087	475,045	20,865,896
Investments in associated companies	40,295	237	9	-	5,725	113	36,937	83,316
Total assets	19,701,282	161,708	81,804	49,296	83,940	359,200	511,982	20,949,212
Segment liabilities	18,775,065	103,176	68,212	50,447	8,077	141,779	13,509	19,160,265
Minority interest	-	47	-	1,813	20,427	141,732	-	164,019

1 Segment reporting continued

30 September 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	3,753,838	75,222	12,085	39,000	673	779	3,881,597
Interest expenses	(3,716,112)	(25,785)	-	(47,515)	(16,731)	(7,626)	(3,813,769)
Net interest income	37,726	49,437	12,085	(8,515)	(16,058)	(6,847)	67,828
Fee and commission income, net	132,338	-	548	12,847	(414)	1,644	146,963
Trading account income, net	81,664	-	107	8,097	-	-	89,868
Gross profit from retail business	-	-	-	-	73,584	-	73,584
Premium income from insurance business	-	-	54,183	-	-	-	54,183
Other operating income	57,064	12,143	133	5,346	7,462	42,700	124,848
Foreign exchange losses, net	(178,818)	(52,770)	-	(5,900)	(182,282)	(104,700)	(524,470)
Salaries and wages	(199,870)	(3,751)	(6,804)	(9,790)	(58,075)	(24,278)	(302,568)
Impairment losses	(254,344)	-	-	-	-	-	(254,344)
Other operating expenses	(618,424)	(13,821)	(43,661)	(20,223)	(106,744)	(23,189)	(826,062)
Gain/(loss) on net monetary position	(228,349)	(16,363)	(18,115)	(23,850)	160,205	65,577	(60,895)
Taxation (charge)/credit	459,869	(190)	(7,733)	(8,513)	40,779	(10,874)	473,338
Minority interest	-	4,721	-	4,776	85,331	(370)	94,458
Extraordinary item	(35,016)	-	-	-	-	-	(35,016)
Net income/(loss) for the period	(746,160)	(20,594)	(9,257)	(45,725)	3,788	(60,337)	(878,285)

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	20,094,059	210,344	87,335	49,267	289,156	460,884	490,795	21,681,840
Investments in associated companies	34,747	237	7	5	5,719	820	35,091	76,626
Total assets	20,128,807	210,581	87,342	49,272	294,875	461,704	525,886	21,758,466
Segment liabilities	19,193,872	174,480	71,355	44,286	157,730	314,332	131,093	20,087,148
Minority interest	-	(10)	-	1,909	25,821	32,236	-	59,956

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 September 2002 TL billions	31 December 2001 TL billions
Balance sheet		
Obligations under repurchase agreements	2,215	893
Loans and advances to customers including accrued interest income	716,957	704,581
Loans granted in TL	1,071	26,308
Loans granted in foreign currency:	USD 413,327,283	USD 276,025,103
	EUR 25,599,403	EUR 73,072,128
		CHF 86,702,810
Miscellaneous receivables (Note 9)	358,615	374,417
Deposits received	194,030	181,677
Commitments and contingencies		
Non-cash loans	255,950	238,111
Derivative transactions	-	16,244

Transactions	Nine-month period ended 30 September 2002 TL billions	Three-month period ended 30 September 2002 TL billions	Nine-month period ended 30 September 2001 TL billions	Three-month period ended 30 September 2001 TL billions
Interest income	46,953	22,526	78,584	38,655
Interest expense	31,178	9,217	22,372	8,558

Miscellaneous receivables mainly included a receivable from major shareholders amounting to TL351,275 billions, net of TL5,695 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, TL272,296 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 TL259,885 billions. Of this amount, TL183,373 billions was collected by the settlements of the transactions and the remaining TL73,284 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 4-13% and 1.7-8.4% (31 December 2001: 4-12.5% and 3-10%) respectively. The interest rates applied to Turkish Lira receivables from related parties is 15% and payables to related parties vary at ranges of 30-48% (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 September 2002 TL billions	31 December 2001 TL billions
Cash at branches	127,541	428,142
Balances with Central Bank of Turkey	1,616,217	2,130,584
Bonds issued by foreign institutions	-	23,134
Others	6,204	7,411
	1,749,962	2,589,271

At 30 September 2002, cash and cash equivalents included balances with the Central Bank of Turkey of TL1,314,136 billions (31 December 2001: TL954,512 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 September 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	750,850	726,423	1.5	2004	911,305
Treasury bills in Turkish lira	850,768	648,809	49-72	2003	57,142
Eurobonds	289,281	294,457	5-15	2030	694,941
Government bonds in Turkish lira	41,632	40,634	53-75	2004	4,671
Government bonds at floating rates	5,070	5,257	70	2004	106,040
Government bonds indexed to foreign currency	4,624	4,772	**(a)**	2003	120,794
Bonds issued by foreign governments		-			18,119
Others		5,383			6,120
		1,725,735			1,919,132
Equity and other non-fixed income instruments:					
Listed shares		12,550			12,666
Derivative financial instruments accrual		24,145			-
		36,695			12,666
Total financial assets held for trading		1,762,430			1,931,798

(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 TL183,199 billions for the nine month period ended 30 September 2002 and to TL56,914 billions for the three-month period ended 30 September 2002 (30 September 2001: net income of TL89,868 billions and the three-month period ended 30 September 2001: TL48,641billions) 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 TL121,750 billions (31 December 2001: TL107,247 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 September 2002, -% 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 September 2002						
Interest Rate Derivatives						
-Forward rate agreements	-	-	33,349	33,349	-	66,698
Purchases	-	-	*33,349*	-	-	*33,349*
Sales	-	-	-	*33,349*	-	*33,349*
-Interest rate swaps	-	23	-	-	-	23
Purchases	-	*18*	-	-	-	*18*
Sales	-	*5*	-	-	-	*5*
Interest Rate Options	8,159	-	-	-	-	8,159
Purchases	-	-	-	-	-	-
Sales	*8,159*	-	-	-	-	*8,159*
Currency Derivatives						
-Spot exchange contracts	102,425	-	-	-	-	102,425
Purchases	*32,246*	-	-	-	-	*32,246*
Sales	*70,179*	-	-	-	-	*70,179*
-Forward exchange contracts	1,677,347	18,499	23,389	1,104	-	1,720,339
Purchases	*1,531,819*	*7,213*	*5,563*	-	-	*1,544,595*
Sales	*145,528*	*11,286*	*17,826*	*1,104*	-	*175,744*
-Currency/cross currency swaps	205,144	92,850	527,720	74,178	-	899,892
Purchases	*191,798*	*92,850*	*527,501*	*37,089*	-	*849,238*
Sales	*13,346*	-	*219*	*37,089*	-	*50,654*
-Other foreign exchange contracts	24,915	21,100	-	-	-	46,015
Purchases	-	-	-	-	-	-
Sale	*24,915*	*21,100*	-	-	-	*46,015*
Subtotal Purchases	1,755,863	100,081	566,413	37,089	-	2,459,446
Subtotal Sales	262,127	32,391	18,045	71,542	-	384,105
Subtotal	2,017,990	132,472	584,458	108,631	-	2,843,551
Net	1,493,736	(67,690)	548,368	(34,453)	-	2,075,341
At 31 December 2001						
Interest Rate Derivatives						
-Interest rate swaps	-	1,474	-	-	-	1,474
Purchases	-	*58*	-	-	-	*58*
Sales	-	*1,416*	-	-	-	*1,416*
Currency Derivatives						
-Spot exchange contracts	232,271	-	-	-	-	232,271
Purchases	*171,632*	-	-	-	-	*171,632*
Sales	*60,639*	-	-	-	-	*60,639*
-Forward exchange contracts	1,788,456	899	30,179	-	-	1,819,534
Purchases	*1,477,270*	-	*16,117*	-	-	*1,493,387*
Sales	*311,186*	*899*	*14,062*	-	-	*326,147*
-Currency/cross currency swaps	524,803	383,778	-	-	70,334	978,915
Purchases	*435,921*	*379,191*	-	-	*35,167*	*850,279*
Sales	*88,882*	*4,587*	-	-	*35,167*	*128,636*
-Other foreign exchange contracts	19,534	-	-	-	-	19,534
Purchases	-	-	-	-	-	-
Sale	*19,534*	-	-	-	-	*19,534*
Subtotal Purchases	2,084,823	379,249	16,117	-	35,167	2,515,356
Subtotal Sales	480,241	6,902	14,062	-	35,167	536,372
Subtotal	2,565,064	386,151	30,179	-	70,334	3,051,728
Net	1,604,582	372,347	2,055	-	-	1,978,984

5 Investments

	30 September 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	4,937	66.22-111.9	2004	2,705
Bosphorus growth fund	1,485	1,485	-	-	1,499
Government bonds indexed to foreign currency		-			3,574,419
Others		1,104			518
Total available-for-sale portfolio		7,526			3,579,141
Debt and other fixed- or floating-income instruments held-to-maturity:					
Government bonds indexed to foreign currency	2,456,644	3,404,649	**(a)**	2006	-
Eurobonds	990,618	1,030,324	5.31-12.75	2030	546,148
Government bonds at floating rates	909,353	907,167	**(b)**	2004	1,137,737
Government bonds in Turkish lira-discounted	121,230	81,506	-	2004	22,832
Government bonds-CPI	68,000	68,000	**(c)**	2003	82,734
Treasury bills	66,512	47,115	56.46-76.81	2003	2,854
Bonds issued by financial institutions	24,089	25,319	15.73-19.93	2004	13,663
Government bonds in foreign currency	16,318	15,084	-	2003	14,247
Bonds issued by foreign governments	7,329	7,329	5.75-8.25	2007	6,950
Others		-			714
Accrued interest on held-to-maturity portfolio		205,350			31,916
Total held-to-maturity portfolio		5,791,843			1,859,795
Total		5,799,369			5,438,936

(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 TL1,083,942 billions (31 December 2001: TL186,928 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 September 2002 TL billions		31 December 2001 TL billions	
	Face Value	Carrying value	Face Value	Carrying value
Deposited at CBT for interbank transactions	629,364	874,730	293,792	352,185
USD eurobonds collateralized to foreign banks	649,801	693,181	285,066	186,638
Deposited at İstanbul Stock Exchange	400,687	414,073	-	-
Deposited at Central Bank of Turkey (CBT) for foreign currency money market transactions	320,000	444,630	1,441,255	1,706,551
Reserve requirements at CBT	300,000	416,841	800,548	893,997
Deposited at Clearing Bank (Takasbank)	210,967	218,941	219,249	229,614
Deposited at CBT for repurchase transactions	89,518	99,074	108,311	107,334
Others		7,329		6,950
		3,168,799		3,483,269

6 Loans and advances to banks

	30 September 2002 TL billions			31 December 2001 TL billions		
	Turkish Lira	Foreign Currency	Total	Turkish Lira	Foreign Currency	Total
Loans and advances-demand						
Domestic banks	2,070	128	2,198	8,814	900	9,714
Foreign banks	-	177,066	177,066	28	218,855	218,883
	2,070	177,194	179,264	8,842	219,755	228,597
Loans and advances-time						
Domestic banks	52,995	111,440	164,435	13,680	373,702	387,382
Foreign banks	22,197	1,103,812	1,126,009	-	1,094,692	1,094,692
	75,192	1,215,252	1,290,444	13,680	1,468,394	1,482,074
Accrued interest on loans and advances	434	2,043	2,477	5,993	3,022	9,015
Total loans and advances to banks	77,696	1,394,489	1,472,185	28,515	1,691,171	1,719,686
Less : allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	77,696	1,394,489	1,472,185	28,515	1,691,171	1,719,686

As at 30 September 2002, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1.25-30.00% per annum for foreign currency time deposits and 30-48% per annum for Turkish lira time deposits (31 December 2001: 1.5-13% and 51-80%, respectively).

As at 31 December 2001, TL177,214 billions (30 September 2002: nil) 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 September 2002, demand deposits at foreign banks include blocked accounts of TL47,357 billions (31 December 2001: TL42,451 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 September 2002 TL billions	31 December 2001 TL billions
Industrial	2,270,104	2,416,165
Consumer loans	959,097	690,704
Financial institutions	806,602	562,411
Service sector	594,953	531,629
Foreign trade	544,307	659,038
Construction	397,579	506,758
Tourism	224,461	249,531
Agriculture	207,180	177,435
Turkish Treasury	94,793	-
Transportation	80,973	104,666
Media	17,875	45,237
Others	302,977	311,482
Total performing loans	6,500,902	6,255,056
Non-performing loans	478,342	627,313
Total gross loans	6,979,244	6,882,369
Accrued interest income on loans	277,409	206,506
Financial lease receivables, gross (Note 8)	157,716	128,555
Allowance for possible losses from loans and lease receivables	(310,467)	(345,679)
Loans and advances to customers	7,103,902	6,871,751

As at 30 September 2002, loans given to customers have interest rates between 2-25% (31 December 2001: 2-30%) per annum for foreign currency loans and 30-82% (31 December 2001: 32-89%) 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 September 2002 TL billions	31 December 2001 TL billions
Balance at the beginning of period/year	345,679	276,190
Restatement effect of the beginning balance and current period provision for the effects of inflation	(62,913)	(141,933)
Allowance account balance per the balance sheet of Körfezbank merged with Osmanlı Bankası AŞ	-	5,177
Write-offs	-	(2,157)
Recoveries	(16,717)	(31,150)
Provision for the period/year	44,418	239,552
Balance at the end of period/year	310,467	345,679

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 September 2002 TL billions	31 December 2001 TL billions
Financial lease receivables, gross (Note 7)	157,716	128,555
Less: allowance for possible losses from lease receivables	(5,923)	(7,161)
	151,793	121,394
Analysis of net financial lease receivables		
Not later than 1 year	130,787	119,005
Later than 1 year and not later than 5 years	51,794	32,091
Later than 5 years	-	-
	182,581	151,096
Unearned income	(30,788)	(29,702)
Financial lease receivables, net	151,793	121,394
Analysis of net financial lease receivables, net		
Not later than 1 year	108,926	97,171
Later than 1 year and not later than 5 years	42,867	24,223
Later than 5 years	-	-
Financial lease receivables, net	151,793	121,394

9 Other assets

	30 September 2002 TL billions	31 December 2001 TL billions
Miscellaneous receivables (Note 2)	397,919	432,339
Assets held for resale	285,538	312,696
Prepaid expenses, insurance claims and similar items	45,534	72,274
Factoring receivables	44,930	37,960
Retail business stocks	38,758	38,390
Insurance premium receivables	37,477	36,129
Purchased cheques	28,271	13,807
Taxes and funds to be refunded	12,689	45,584
Others	43,700	64,599
	934,816	1,053,778

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 September 2002		31 December 2001	
	Carrying value TL billions	Ownership %	Carrying value TL billions	Ownership %
İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ	82,806	47.17	82,806	47.17
Petrotrans Nakliyat ve Ticaret AŞ	46,189	99.60	46,189	99.60
Garanti Turizm ve Yatırım İşl. AŞ	44,957	44.89	44,957	44.89
Others	65,257		54,381	
	239,209		228,333	
Impairment in value of investments	(155,893)		(151,707)	
	83,316		76,626	

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 September 2002 is as follows:

	1January TL billions	Additions TL billions		Currency Adjustment TL billions	Disposals TL billions	30 September TL billions
Costs						
Land and buildings	982,291	98,275		3,182	(36,628)	1,047,120
Furniture, fixture and equipments	920,491	33,020		509	(14,086)	939,934
Leasehold improvements	387,736	17,423		197	(3,564)	401,792
	2,290,518	148,718		3,888	(54,278)	2,388,846
Less: Accumulated depreciation						
Land and buildings	109,877	11,583		95	(2,176)	119,379
Furniture, fixture and equipments	578,450	79,522		353	(14,086)	644,239
Leasehold improvements	178,156	38,271		123	(3,564)	212,986
	866,483	129,376		571	(19,826)	976,604
Construction in progress	184,890	(72,948)	**(a)**	-	-	111,942
	1,608,925			3,317	(34,452)	1,524,184
Impairment in value of tangible assets	(26,637)					(16,058)
	1,582,288					1,508,126

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

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	890,433	136,794		2,578	(194,100)	146,586	982,291
Furniture, fixture and equipments	994,693	137,107		1,212	(246,907)	34,386	920,491
Leasehold improvements	345,581	69,102		449	(42,564)	15,168	387,736
	2,230,707	343,003		4,239	(483,571)	196,140	2,290,518
Less: Accumulated depreciation							
Land and buildings	98,203	13,318		106	(1,894)	144	109,877
Furniture, fixture and equipments	521,589	139,165		732	(99,832)	16,796	578,450
Leasehold improvements	141,026	43,269		232	(17,027)	10,656	178,156
	760,818	195,752		1,070	(118,753)	27,596	866,483
Construction in progress	166,631	(31,687)	**(a)**	-	-	49,946	184,890
	1,636,520			3,169	(364,818)	218,490	1,608,925
Impairment in value of tangible assets	-						(26,637)
	1,636,520						1,582,288

Depreciation expense for the nine-month period ended 30 September 2002 and for the three-month period ended 30 September 2002, amounts to TL129,376 billions and TL50,521 billions, respectively (the nine-month period ended 30 September 2001: TL140,053 billions and the three-month period ended 30 September 2001: TL50,827 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 September 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 TL120,233 billions (31 December 2001: TL164,139 billions), net of accumulated amortisation, in the accompanying consolidated balance sheets.

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

	1January TL billions	Additions TL billions	Disposals TL billions	30 September TL billions
Costs				
Tansaş Perakende Mağazacılık Ticaret AŞ	56,067	-	-	56,067
Makro	46,429	-	-	46,429
Doğuş Hava Taşımacılığı AŞ	35,028	-	-	35,028
Garanti Yatırım Menkul Kıymetler AŞ	18,407	-	-	18,407
Docfinance SA	7,627	-	-	7,627
Garanti Finans Factoring Hizmetleri AŞ	5,402	-	-	5,402
Garanti Finansal Kiralama AŞ	4,221	-	-	4,221
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	2,613	-	-	2,613
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,198	-	-	1,198
Garanti Sigorta AŞ	1,000	-	-	1,000
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	412	-	-	412
Garanti Hayat Sigorta AŞ	34	-	-	34
	178,438	-	-	178,438
Less: Accumulated depreciation				
Tansaş Perakende Mağazacılık Ticaret AŞ	8,411	2,103	-	10,514
Makro	-	6,965	-	6,965
Doğuş Hava Taşımacılığı AŞ	3,507	1,315	-	4,822
Garanti Yatırım Menkul Kıymetler AŞ	1,252	691	-	1,943
Docfinance SA	1,028	287	-	1,315
Garanti Finans Factoring Hizmetleri AŞ	-	203	-	203
Garanti Finansal Kiralama AŞ	-	158	-	158
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	-	98	-	98
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	45	-	45
Garanti Sigorta AŞ	99	37	-	136
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	15	-	15
Garanti Hayat Sigorta AŞ	2	1	-	3
	14,299	11,918	-	26,217
	164,139			152,221
Impairment in value of intangible assets	-			(31,988)
	164,139			120,233

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	56,067	-	-	56,067
Makro	-	46,429	-	46,429
Doğuş Hava Taşımacılığı AŞ	24,756	10,272	-	35,028
Garanti Yatırım Menkul Kıymetler AŞ	8,118	10,289	-	18,407
Docfinance SA	6,770	857	-	7,627
Garanti Finans Factoring Hizmetleri AŞ	-	5,402	-	5,402
Garanti Finansal Kiralama AŞ	-	4,221	-	4,221
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	-	2,613	-	2,613
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	1,198	-	1,198
Garanti Sigorta AŞ	1,000	-	-	1,000
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	412	-	412
Garanti Hayat Sigorta AŞ	34	-	-	34
Osmanlı Bankası AŞ	161,035	-	(161,035)	-
	257,780	81,693	(161,035)	178,438
Less: Accumulated depreciation				
Tansaş Perakende Mağazacılık Ticaret AŞ	5,608	2,803	-	8,411
Makro	-	-	-	-
Doğuş Hava Taşımacılığı AŞ	2,270	1,237	-	3,507
Garanti Yatırım Menkul Kıymetler AŞ	844	408	-	1,252
Docfinance SA	601	427	-	1,028
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	49	50	-	99
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	-	-	-
Garanti Hayat Sigorta AŞ	1	1	-	2
Osmanlı Bankası AŞ	18,105	1,260	(19,365)	-
	27,478	6,186	(19,365)	14,299
	230,302			164,139

13 Deposits from banks

Deposits from banks comprise of the following:

	30 September 2002 TL billions	31 December 2001 TL billions
Payable on demand	23,115	25,093
Term deposits	643,866	1,486,372
	666,981	1,511,465
Accrued interest on deposits from banks	10,379	25,205
	677,360	1,536,670

Deposits from banks include both TL accounts of TL226,329 billions (31 December 2001: TL471,688 billions) and foreign currency accounts of TL440,652 billions (31 December 2001: TL1,039,777 billions).

14 Deposits from customers

Deposits from customers comprise of the following:

	30 September 2002			31 December 2001
	Demand TL billions	Time TL billions	Total TL billions	Total TL billions
Foreign currency	3,019,545	7,032,899	10,052,444	9,595,888
Saving	201,356	1,803,826	2,005,182	1,678,694
Commercial	482,619	1,303,687	1,786,306	1,506,781
Public and other	116,673	149,551	266,224	148,782
	3,820,193	10,289,963	14,110,156	12,930,145
Accrued interest expenses on deposits from customers	-	134,774	134,774	83,470
	3,820,193	10,424,737	14,244,930	13,013,615

As at 30 September 2002, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 36-66% and 2-20% (31 December 2001: 52-63% and 2-17%), 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 September 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	121,750	121,698	96,952	Oct-2002	97,559
Investments	1,083,942	1,020,135	870,942	Oct-2002	873,338
	1,205,692	1,141,833	967,894		970,897
2001					
Trading instruments	107,247	106,281	103,724	Jan-Feb 2002	107,643
Investments	186,928	186,928	186,928	Jan-Feb 2002	187,952
	294,175	293,209	290,652		295,594

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 September 2002, the maturities and interest rates of the obligations are within one month and between 2-37% (2001: 12-79%).

16 Loans and advances from banks

Loans and advances from banks comprise of the following:

	30 September 2002 TL billions	31 December 2001 TL billions
Short-term borrowings		
Domestic banks	85,743	441,818
Foreign banks	1,020,022	2,201,971
	1,105,765	2,643,789
Long-term debts		
Short-term portion	621,127	685,279
Medium and long-term portion	443,613	710,025
	1,064,740	1,395,304
Accrued interest on loans and advances from banks	50,040	69,063
	2,220,545	4,108,156

As at 30 September 2002, short-term borrowings from foreign banks included 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 September 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	99	48,955	113,297	163,265
TPR Securitisation-I	Libor+4.4-10.81	2004	USD	93	83,516	68,645	139,858
Cobank	1.94-2.44	2005	USD	47	26,035	50,467	23,565
ABN Amro Bank	6.3	2004	EUR	20	7,721	23,782	33,233
Deutsche Bank	1.92-3.56	2005	USD	40	24,414	40,669	-
DEG	7.70	2005	EUR	15	8,063	16,125	19,113
World Bank	3.24	2004	USD	8	3,264	9,790	17,277
Pera Financial Services Company	9.375	2002	USD	209	340,612	-	-
First Fidelity Bank	7.83	2002	USD	8	13,381	-	-
International Finance Corporation	-	-		-	-	-	176,852
Others					65,166	120,838	136,862
					621,127	443,613	710,025

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 September 2002 is USD209 millions. 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 September 2002 is USD99 millions. 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 September 2002 are USD8 millions in total.

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 September 2002 is USD93 millions. 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 USD250 millions 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 USD20 millions, 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 September 2002				31 December 2001
	Amount in original currency in millions	Maturity	Interest rates %	TL billions	TL billions
Bearer notes	EUR 43	2003	8	69,023	67,230
Indenture notes				-	15,398
				69,023	82,628
Accrued interest on bonds payable				2,960	4,478
				71,983	87,106

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 September 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 September 2002 TL billions	%	30 September 2001 TL billions	%
Taxes on income/(loss) per statutory tax rate	**(50,939)**	**33.00**	**(477,208)**	**33.00**
Permanent differences relating to the restatement of non-monetary items per IAS 29	(137,568)	89.13	291,848	(20.18)
Tax effect of merger with Körfezbank	-	-	(162,301)	11.22
Effect of permanent differences on consolidation adjustments	50,778	(32.90)	148,735	(10.29)
Income items exempt from tax or subject to different tax rates	(13,330)	8.64	(293,076)	20.27
Disallowable expenses	4,201	(2.72)	16,907	(1.17)
Effect of different tax rates applicable to the consolidated affiliates	1,226	(0.79)	1,757	(0.12)
Taxation credit	**(145,632)**	**94.36**	**(473,338)**	**32.73**

The taxation credit comprise the following items:

	30 September 2002 TL billions	30 September 2001 TL billions
Current taxes	16,713	48,585
Deferred taxes	(162,345)	(521,923)
Taxation credit	**(145,632)**	**(473,338)**

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 nine-month period ended 30 September 2002 and the year ended 31 December 2001, are shown below:

	30 September 2002 TL billions	31 December 2001 TL billions
Provision for current taxes payable on income before deductions	**(145,632)**	**(334,331)**
Add: Taxes carried forward	28,845	2,862
Add/(less): Deferred tax assets/liabilities	162,345	404,594
Less: Restatement of opening retained earnings due to the effect of IAS 39	-	(33,000)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 30 September 2002	(7,462)	(5,073)
Taxes payable on income	**38,096**	**35,052**

Taxation on income continued

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

	30 September 2002 TL billions	31 December 2001 TL billions
Deferred tax assets		
Tax losses carried forward	391,482	514,041
Specific and general allowance for loan losses	64,729	77,295
Investment incentives	27,737	22,872
Valuation difference on marketable securities	26,823	-
Impairment in value of investments in associated companies and tangible assets	14,873	43,428
Capitalised expenses and leasing obligations	13,201	32,618
Reserve for retirement pay	1,894	6,431
Discount on receivables	1,880	16,000
Others	18,115	3,352
Total deferred tax assets	560,734	716,037
Deferred tax liabilities		
Restatement of non-monetary items per IAS 29	138,190	302,095
Effect of applying IAS 39	4,893	73,513
Others	2,778	10,236
Total deferred tax liabilities	145,861	385,844
Net deferred tax assets	**(414,873)**	**(330,193)**

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 September 2002 TL billions	31 December 2001 TL billions
Transfer orders	572,843	567,230
Miscellaneous payables	105,370	146,730
Insurance technical provisions	48,384	40,102
Withholding taxes	38,003	70,791
Factoring payables	33,751	21,896
General provision **(a)**	22,000	-
Expense accruals	20,120	40,160
Blocked accounts	18,326	19,136
Payables to insurance and reinsurance companies relating to insurance operations	15,153	10,668
Reserve for severance payment	14,019	12,022
Payables to suppliers relating to financial leasing activities	10,591	17,980
General provision for non-cash loans	4,237	5,305
Accrued exchange loss on derivatives	-	8,110
Others	36,660	55,767
	939,457	1,015,897

(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 September 2002, the Bank has reassessed the risk in the economic environment and decided to decrease the level of general provision to TL22,000 billions.

20 Shareholders' equity

The authorised and paid-in nominal share capital of the Bank is TL791,748 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 September 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 TL5,703,535 billions (31 December 2001: TL5,386,312 billions), whereas the carrying amount is TL5,799,369 billions (31 December 2001: TL5,438,936 billions) in the accompanying consolidated balance sheet as at 30 September 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 September 2002 TL billions	31 December 2001 TL billions
Letters of guarantee	3,325,120	3,982,123
Letters of credit	1,188,722	1,243,770
Acceptance credits	391,297	445,296
Other guarantees and endorsements	45,063	61,056
	4,950,202	5,732,245

As at 30 September 2002, commitment for uncalled capital of affiliated companies amounts approximately to TL1,193 billions (31 December 2001: TL36,329 billions).

As at 30 September 2002, commitment for purchase and sale of foreign currencies under spot, forward, swap, future rate agreements or options and for gold trading amounts to TL2,843,551 billions (31 December 2001: TL3,051,728 billions), almost all due within one year.

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

	30 September 2002		31 December 2001	
	Purchases TL billions	Sales TL billions	Purchases TL billions	Sales TL billions
Forward agreements for customer dealing activities	41,357	19,722	21,585	3,778
Currency swap agreements for customer dealing activities	13,132	8,001	49,916	68,362
Forward agreements for hedging purposes	1,503,238	156,022	1,471,802	322,370
Forward agreements for gold trading	-	46,015	-	19,534
Currency swap agreements for hedging purposes	836,106	42,653	800,362	60,273
Interest rate swap agreements for hedging purposes	18	5	58	1,416
Spot foreign currency transactions	30,091	63,438	171,633	60,639
Spot foreign currency transactions for customer dealing activities	2,155	6,741	-	-
Interest rate options	-	8,159	-	-
Future rate agreements	33,349	33,349	-	-
	2,459,446	384,105	2,515,356	536,372

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 September 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	605,241	-	-	-	-	605,241	696,137	4,292	-	-	-	700,429
Financial assets held for trading	4,344	7,079	280,851	355,626	59,561	707,461	14,905	3,032	118,876	47,672	-	184,485
Investments	1,142	3,510	53,956	606,117	538,224	1,202,949	1,682	6,137	540,024	7,453	709,660	1,264,956
Loans and advances to banks	72,313	2,693	1,485	1,203	-	77,694	17,627	1,750	-	9,140	-	28,517
Loans and advances to customers	786,271	233,862	84,155	98,902	146,565	1,349,755	562,603	84,055	96,465	64,846	261,495	1,069,464
Other assets	17,727	127,991	77,301	65,800	67,678	356,497	96,868	8,120	63,212	10,655	230,219	409,074
Deferred tax assets	-	-	-	-	411,962	411,962	-	-	-	-	327,059	327,059
Total Turkish Lira monetary assets	1,487,038	375,135	497,748	1,127,648	1,223,990	4,711,559	1,389,822	107,386	818,577	139,766	1,528,433	3,983,984
Foreign currency												
Cash and cash equivalents	1,144,721	-	-	-	-	1,144,721	1,886,353	2,489	-	-	-	1,888,842
Financial assets held for trading	66,530	3,708	17,604	315,514	651,613	1,054,969	-	2,785	24,499	528,017	1,192,012	1,747,313
Investments	540	19,366	79,838	137,115	4,359,561	4,596,420	993	504	302	937	4,171,244	4,173,980
Loans and advances to banks	1,330,792	39,969	3,570	4,763	15,397	1,394,491	1,420,567	166,494	7,867	49,116	47,125	1,691,169
Loans and advances to customers	544,579	891,808	796,586	1,043,132	2,310,167	5,586,272	1,109,668	606,321	644,636	1,195,684	1,964,344	5,520,653
Other assets	42,265	32,968	18,030	35,409	52,868	181,540	85,311	13,271	7,007	29,317	38,940	173,846
Deferred tax assets	-	-	-	-	2,911	2,911	-	-	-	-	3,134	3,134
Total foreign currency monetary assets	3,129,427	987,819	915,628	1,535,933	7,392,517	13,961,324	4,502,892	791,864	684,311	1,803,071	7,416,799	15,198,937
Total Monetary Assets	4,616,465	1,362,954	1,413,376	2,663,581	8,616,507	18,672,883	5,892,714	899,250	1,502,888	1,942,837	8,945,232	19,182,921
MONETARY LIABILITIES												
Turkish Lira												
Deposits	3,657,703	423,369	224,123	28,157	241	4,333,593	3,419,110	288,265	57,147	10,883	51,031	3,826,436
Obligations under repurchase agreements	484,138	3	-	-	-	484,141	286	103,729	-	-	-	104,015
Loans and advances from banks	14,959	15,248	25,989	158	6	56,360	17,914	31,062	25,162	19	17	74,174
Bonds payable	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	72,813	33,907	18,380	84,523	71,281	280,904	164,893	28,353	24,157	39,701	338,240	595,344
Total Turkish Lira monetary liabilities	4,229,613	472,527	268,492	112,838	71,528	5,154,998	3,602,203	451,409	106,466	50,603	389,288	4,599,969
Foreign currency												
Deposits	8,809,382	1,219,041	254,527	217,237	88,510	10,588,697	8,908,631	1,052,129	244,223	356,153	162,713	10,723,849
Obligations under repurchase agreements	483,753	-	-	-	-	483,753	93,374	93,263	-	-	-	186,637
Loans and advances from banks	372,044	109,358	158,866	1,091,127	432,790	2,164,185	52,143	821,245	1,005,648	1,433,809	721,137	4,033,982
Bonds payable	-	-	71,983	-	-	71,983	11,534	-	4,011	-	71,561	87,106
Other liabilities	37,960	12,671	1,287	534,903	108,081	694,902	99,997	16,932	36,501	6,658	293,710	453,798
Total foreign currency monetary liabilities	9,703,139	1,341,070	486,663	1,843,267	629,381	14,003,520	9,165,679	1,983,569	1,290,383	1,796,620	1,249,121	15,485,372
Total Monetary Liabilities	13,932,752	1,813,597	755,155	1,956,105	700,909	19,158,518	12,767,882	2,434,978	1,396,849	1,847,223	1,638,409	20,085,341

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 nine-month of 2002 and the year 2001:

	2002			
	US$	EURO	OTHER	TRL
		%	%	%
Assets				
Loans and advances to banks	1.25-8.00	1.50-4.17	20.00-30.00	39.00-64.00
Debt and other fixed or floating income instruments	9.56-10.82	7.04-8.60	8.37	70.24
Loans and advances to customers	3.12-16.00	4.50-10.75	10.58-25.00	48.84-97.23
Liabilities				
Deposits:				
- Foreign currency deposits	3.09-3.94	3.96-4.93	5.42	-
- Bank deposits	2.25-5.05	3.99-7.53	16.50-20	30.00-58.63
- Saving deposits	-	-	-	58.57-60.15
- Commercial deposits	-	-	-	43.48-57.87
- Public and other deposits	-	-	-	58.52
Obligations under repurchase agreements	2.63	-	-	57.31
Loans and advances from banks	1.73-13.96	2.00-10.77	2.75-5.40	15.00-49.35
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	8.00	-	-

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 September 2002 TL billions				
	US$	**EURO**	**TRL**	**Other Currencies**	**Total**
Assets					
Cash and cash equivalents	1,035,853	100,061	605,241	8,807	1,749,962
Financial assets held for trading	902,776	151,430	707,461	763	1,762,430
Investments	4,307,419	261,598	1,202,949	27,403	5,799,369
Loans and advances to banks	258,262	1,076,084	77,694	60,145	1,472,185
Loans and advances to customers	4,461,718	949,052	1,541,634	151,498	7,103,902
Other assets	143,766	39,196	733,507	18,347	934,816
Investments in associated companies	-	510	81,320	1,486	83,316
Tangible assets	3,620	63,936	1,434,908	5,662	1,508,126
Intangible assets	-	-	120,233	-	120,233
Deferred tax asset	2,806	105	411,962	-	414,873
Total Assets	**11,116,220**	**2,641,972**	**6,916,909**	**274,111**	**20,949,212**
Liabilities					
Deposits	6,605,799	3,741,157	4,333,593	241,741	14,922,290
Obligations under repurchase agreements	463,977	19,776	484,141	-	967,894
Loans and advances from banks	1,436,130	717,850	56,360	10,205	2,220,545
Bonds payable	-	71,983	-	-	71,983
Taxation on income	1,653	33,325	2,556	562	38,096
Other liabilities	554,137	91,232	280,095	13,993	939,457
Total Liabilities	**9,061,696**	**4,675,323**	**5,156,745**	**266,501**	**19,160,265**
Minority interest	**-**	**-**	**164,019**	**-**	**164,019**
Shareholders' Equity	**-**	**-**	**1,624,928**	**-**	**1,624,928**
Net On Balance Sheet Position	**2,054,524**	**(2,033,351)**	**(28,783)**	**7,610**	**-**
Off Balance Sheet Net Notional Position	**(1,957,267)**	**1,956,362**	**(48,818)**	**49,723**	**-**
Credit Commitments	**2,658,087**	**1,279,303**	**832,693**	**180,119**	**4,950,202**

	31 December 2001 TL billions				
	US$	**EURO**	**TRL**	**Other Currencies**	**Total**
Total Assets	**11,940,602**	**2,683,596**	**6,487,387**	**646,881**	**21,758,466**
Total Liabilities	**10,433,459**	**4,612,971**	**4,601,776**	**438,942**	**20,087,148**
Minority interest	**-**	**-**	**59,691**	**265**	**59,956**
Shareholders' Equity	**-**	**-**	**1,611,362**	**-**	**1,611,362**
Net On Balance Sheet Position	**1,507,143**	**(1,929,375)**	**214,558**	**207,674**	**-**
Off Balance Sheet Net Notional Position	**(1,788,933)**	**1,734,852**	**(17,682)**	**71,763**	**-**
Credit Commitments	**3,215,188**	**1,370,981**	**938,796**	**207,280**	**5,732,245**

Risk management disclosures continued

Of the amounts shown in the table above, at 30 September 2002, -% (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 %165.94 the three years ended 30 September 2002. The Russian Roubles denominated net assets/(liabilities) as included in the above table at their TL equivalents at 30 September 2001 amounted to TL31,273 billions (31 December 2001: 63,320 billions).

For the nine-month period ended 30 September 2002, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to USD36,500 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 September2002 TL billions				
	Loans	Total Assets	Total Liabilities	Non-Cash Loans	Capital Expenditure
Turkey	5,650,452	17,528,468	13,087,781	4,593,421	71,726
Holland	1,062,258	1,993,229	2,096,692	155,728	4,044
Germany	17,681	236,545	289,006	1,928	-
USA	61,506	130,224	526,700	87	-
Luxembourg	-	27,401	523,634	22,049	
Malta	-	78,107	357,992	1,223	-
England	160,741	507,077	721,321	1,345	-
Switzerland	103,749	108,012	276,759	37,830	-
Japan	-	5,184	721,321	-	-
Others	47,515	334,965	559,059	136,591	-
TOTAL	**7,103,902**	**20,949,212**	**19,160,265**	**4,950,202**	**75,770**

	31 December 2001 TL billions				
	Loans	Total Assets	Total Liabilities	Non-Cash Loans	Capital Expenditure
Turkey	5,361,795	18,136,069	12,415,874	5,193,567	281,524
Holland	1,251,705	2,356,106	2,209,097	198,404	28,351
Germany	6,704	359,977	1,009,987	-	-
ABD	-	258,746	975,691	104,397	-
Japan	-	6,781	548,566	-	-
Luxembourg	-	25,430	520,328	35,679	-
England	4,151	333,207	495,231	133,631	-
Malta	-	3,371	360,235	-	-
Switzerland	889	13,978	253,250	-	-
Others	246,507	264,801	1,298,889	66,567	1,441
TOTAL	**6,871,751**	**21,758,466**	**20,087,148**	**5,732,245**	**311,316**

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 September 2002 and 31 December 2001:

	30 September 2002 TL billions	31 December 2001 TL billions
Cash loans		
Secured loans:	4,183,755	3,824,216
Secured by cash collateral	262,872	284,504
Secured by mortgages	688,783	804,566
Secured by government institutions or government securities	689,483	371,563
Guarantees issued by financial institutions	110,035	187,510
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,432,582	2,176,073
Unsecured loans	2,474,863	2,559,395
Total performing loans and financial lease receivables	6,658,618	6,383,611
Non-cash loans		
Secured loans:	4,602,177	5,312,785
Secured by cash collateral	480,714	451,987
Secured by mortgages	46,686	291,686
Secured by government institutions or government securities	8,676	7,147
Guarantees issued by financial institutions	171,516	22,516
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	3,894,585	4,539,449
Unsecured loans	348,025	419,460
Total non-cash loans	4,950,202	5,732,245

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 September 2002:

Affiliates	Controlling interest (%)
Garanti Bank International N.V.	100.00
Ana Konut Danışmanlık AŞ	100.00
Garanti Bank Moscow	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 Real Estate Company	100.00
United Turkish Gulf Bank International Ltd.	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
Sititur Tur.Tem.Taşımacılık Org.Bilgisayar Danışmanlık Yapı San.ve Tic.AŞ	99.82
Doc Finance 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.

During 2002, operations of some non-operating small investee companies existed as at 31 December 2001, were ceased; Clover Bank Off-Shore Ltd, Basic Bank Off-Shore Ltd, Ottoman Finance Company, Ottoman Investment Company and Körfez Financial Services plc. By reporting date, except for Körfez Financial Services plc, the liquidation processes of these companies have been completed.

The table below sets out the Associates at 30 September 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

One year syndicated term-loan facility in the amount of USD325 millions was signed on 11 October 2002 with the mandated arrangers; ABN AMRO Bank N.V., American Express Bank GmbH., The Bank of New York, The Bank of Tokyo-Mitsubishi, Ltd., Bayern LB, The Commercial Bank of Kuwait SAK, Deutsche Bank AG, Dresdner Kleinwort Wasserstein, Gulf Bank K.S.C., HVB Group, J.P.Morgan plc., Natexis Banques Populaires, Standard Chartered Bank, Sumitomo Mitsui Banking Corporation, UFJ Bank Limited and Wachovia Bank National Association. The proceeds of the facility will be used by the Bank to pre-finance export contracts for its corporate customers.

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