

Türkiye Garanti Bankası AS And Its Affiliates

Consolidated Balance Sheet

At 31 December 2002

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2002 pursuant to IAS 29)

	<u>Notes</u>	<u>31 Dec 2002</u>	<u>31 Dec 2001</u>
Assets			
Cash and cash equivalents	3	2,085,864	2,784,479
Financial assets held for trading	4	1,477,616	2,077,438
Investments	5	6,695,685	5,848,982
Loans and advances to banks	6	1,120,603	1,849,335
Loans and advances to customers	7	7,599,712	7,389,819
Other assets	9	960,648	1,133,223
Investments in associated companies	10	187,274	82,403
Tangible assets, net	11	1,561,173	1,701,578
Intangible assets, net	12	125,534	176,514
Deferred tax assets, net	18	380,187	355,087
Total assets		<u>22,194,296</u>	<u>23,398,858</u>
Liabilities			
Deposits from banks	13	704,311	1,652,521
Deposits from customers	14	14,733,377	13,994,724
Obligations under repurchase agreements	15	1,081,616	312,565
Loans and advances from banks	16	2,823,256	4,417,874
Bonds payable	17	76,224	93,674
Current tax liability	18	39,822	37,695
Other liabilities and accrued expenses	19	843,351	1,092,484
Total liabilities		<u>20,301,957</u>	<u>21,601,537</u>
Minority interest		194,604	64,477
Shareholders' equity			
Share capital; authorized, issued and fully paid	20	1,536,747	1,991,783
Accumulated losses		160,988	(258,939)
Total shareholders' equity		<u>1,697,735</u>	<u>1,732,844</u>
Total liabilities, minority interest and shareholders' equity		<u>22,194,296</u>	<u>23,398,858</u>
Commitments and contingencies	23		

Türkiye Garanti Bankası AS And Its Affiliates

Consolidated Statement of Operations For The Year Ended 31 December 2002

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2002 pursuant to IAS 29)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Interest income:-			
<i>Interest on securities</i>		1,110,029	1,174,047
<i>Interest on loans</i>		997,803	1,982,751
<i>Interest on deposits at banks</i>		276,679	915,100
<i>Interest on lease business</i>		31,860	30,692
<i>Others</i>		56,450	89,280
		<u>2,472,821</u>	<u>4,191,870</u>
Interest expenses:-			
<i>Interest on saving, commercial and public deposits</i>		(1,937,696)	(2,240,040)
<i>Interest on bank deposits</i>		(288,076)	(1,263,147)
<i>Interest on borrowings</i>		(263,211)	(828,913)
<i>Others</i>		(11,391)	(41,444)
		<u>(2,500,374)</u>	<u>(4,373,544)</u>
Net interest loss		(27,553)	(181,674)
Fee and commission income		561,762	527,765
Fee and commission expense		(222,185)	(334,592)
Net fee and commission income		339,577	193,173
<i>Trading account income, net</i>		354,661	397,938
<i>Foreign exchange gain, net</i>		290,096	73,129
<i>Gross profit from retail business</i>		61,568	96,810
<i>Premium income from insurance business</i>		58,174	69,244
<i>Other operating income</i>		72,421	161,651
Operating income		1,148,944	810,271
<i>Salaries and wages</i>		(275,719)	(407,920)
<i>Depreciation and amortization</i>	11 and 12	(178,046)	(218,219)
<i>Impairment losses</i>	7,8,10,11 and 12	(137,905)	(464,436)
<i>Rent expenses</i>		(73,683)	(82,419)
<i>EDP expenses</i>		(68,703)	(72,303)
<i>Employee benefits</i>		(70,039)	(101,757)
<i>Advertising expenses</i>		(61,726)	(68,348)
<i>Saving deposits insurance fund</i>		(41,528)	(74,813)
<i>Taxes and duties other than on income</i>		(28,555)	(88,091)
<i>Provision for severance payments</i>		(6,142)	(25,896)
<i>Other operating expenses</i>		(325,344)	(528,946)
Operating expenses		(1,267,390)	(2,133,148)
Loss from operations		(118,446)	(1,322,877)
Gain on net monetary position, net		48,831	73,104
Loss before tax		(69,615)	(1,249,773)
Taxation credit	18	66,725	359,536
Net loss after tax		(2,890)	(890,237)
Minority interest		30,905	87,028
Net income/(loss) before extraordinary items		28,015	(803,209)
Extraordinary item	21	-	(37,656)
Net income/(loss) for the year		28,015	(840,865)
Weighted average number of shares with a face value of TL 500 each (including those with TL 100 face value as expressed in terms of TL 500 face value)	20	<u>1,527.8 billion</u>	<u>1,500 billion</u>
Earning/(loss) per share (Full TL amount)		<u>18.34</u>	<u>(560.58)</u>

Türkiye Garanti Bankasi AS And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity For The Year Ended 31 December 2002

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2002 pursuant to IAS 29)

	<u>Notes</u>	<u>Share capital</u>	<u>Accumulated profits / (losses)</u>			<u>Total shareholders' equity</u>
			<u>Reserves</u>	<u>Unappropriated earnings/(losses)</u>	<u>Total</u>	
Balances at 1 January 2001		1,991,783	74,749	507,177	581,926	2,573,709
Transfer to statutory and general banking reserves		-	41,832	(41,832)	-	-
Release of reserves due to sale of a consolidated affiliate		-	(14,082)	14,082	-	-
Reversal of restatement on reserves for the effects of inflation		-	(38,545)	38,545	-	-
Net loss for the year		-	-	(840,865)	(840,865)	(840,865)
Balances at 31 December 2001		1,991,783	63,954	(322,893)	(258,939)	1,732,844
Balances at 1 January 2002		1,991,783	63,954	(322,893)	(258,939)	1,732,844
Effect of prior year adjustments on the opening balance sheet	5, 7, 11	-	-	(63,124)	(63,124)	(63,124)
Restated balances at 1 January 2002		1,991,783	63,954	(386,017)	(322,063)	1,669,720
Compensation of prior period losses	20	(455,036)	-	455,036	455,036	-
Transfer from general reserves		-	20,000	(20,000)	-	-
Transfer from general banking reserves		-	(2,225)	2,225	-	-
Reversal of restatement on reserves for the effects of inflation		-	(15,429)	15,429	-	-
Net income for the year		-	-	28,015	28,015	28,015
Balances at 31 December 2002		1,536,747	66,300	94,688	160,988	1,697,735

Türkiye Garanti Bankası AS And Its Affiliates

Consolidated Statement of Cash Flows For The Year Ended 31 December 2002

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2002 pursuant to IAS 29)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:-			
Net income/(loss) for the year		28,015	(840,865)
Adjustments for non-cash items:-			
Taxation credit	18	(66,725)	(359,536)
Minority interest		(30,905)	(87,028)
Impairment losses	7,8,10,11,12	137,905	464,436
Insurance technical provision		18,481	14,246
Provision for severance payments		6,142	25,896
Depreciation and amortization	11,12	178,046	218,219
Loss on sale of premises and equipment		83,453	23,144
Change in accrued interest and other income		(211,509)	240,392
Change in accrued interest and other expense		(45,805)	(188,589)
Correction on beginning tangible assets	12	43,963	-
Monetary loss effect of above corrections		(56,408)	8,889
Changes in operating assets and liabilities:-			
Deposits from banks		(923,292)	(2,036,284)
Deposits from customers		681,546	4,583,176
Obligations under repurchase agreements		769,051	(1,061,926)
Financial assets held for trading		627,767	1,505,827
Loans and advances to banks		724,926	1,131,587
Loans and advances to customers		(180,918)	2,142,341
Other assets		439,024	(284,008)
Other liabilities		(226,698)	170,334
Income taxes paid		(6,346)	(36,515)
Net cash provided by operating activities		1,989,713	5,633,736
Cash flows from investing activities:-			
Increase in investments		(750,964)	(1,375,224)
Increase in investments in associated companies-net		(115,124)	(49,040)
Proceeds from sales of tangible assets and tangible assets held for resale		61,321	139,553
Additions to tangible assets and tangible assets held for resale		(481,933)	(478,667)
Net cash used in investing activities		(1,286,700)	(1,763,378)
Cash flows from financing activities:-			
Decrease in loans and advances from banks		(1,549,025)	(2,446,179)
Decrease in bonds payable		(17,181)	(51,428)
Proceeds from issuance of share capital to minorities		164,578	76,684
Net cash used in financing activities		(1,401,628)	(2,420,923)
Net (decrease)/increase in cash and cash equivalents		(698,615)	1,449,435
Cash and cash equivalents at beginning of the year		2,784,479	1,335,044
Cash and cash equivalents at end of the year	3	2,085,864	2,784,479

Türkiye Garanti Bankası AS and Its Affiliates

Notes to Consolidated Financial Statements As of and for the Year Ended 31 December 2002

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

Overview of the Bank

Türkiye Garanti Bankası AS (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the year ended 31 December 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 301 domestic branches, three foreign branches, five representative offices abroad, five change offices, four in-store branches and 15 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 Istanbul.

(b) Ownership

The principal shareholders of the Bank is the holding company of Dogus Group, Dogus Holding AS, which currently holds 55.08% of the issued capital.

Dogus Holding AS, Dogus Insaat ve Ticaret AS, Dogus Otomotiv Sanayi ve Ticaret AS and Sontas Tarim ve Ticaret AS 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 AS 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 (TL22,781 as restated for the effects of inflation current at 31 December 2002) for each unit of two shares. Accordingly, the total ownership interest in the Bank of those shareholders other than the Dogus 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 Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); 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 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 International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board.

Türkiye Garanti Bankası AS and Its Affiliates

Notes to Consolidated Financial Statements

As of and for the Year Ended 31 December 2002

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

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 31 December 2002 pursuant to International Accounting Standards (IAS) 29, "Financial Reporting in Hyperinflationary Economies".

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, financial assets and liabilities held for trading, available-for-sale assets and tangible assets held for resale. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The accounting policies have been consistently applied by the Bank and its affiliates and are consistent with those used in previous 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 Sahenk family since the members of Sahenk 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.

Türkiye Garanti Bankası AS and Its Affiliates

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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 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 227.29% as at 31 December 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 31 December 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 31 December 2002, 2001 and 2000, are given below:

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
31 December 2002	6,478.8	1.000
31 December 2001	4,951.7	1.308
31 December 2000	2,626.0	2.467

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".

Türkiye Garanti Bankası AS and Its Affiliates

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(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

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 (refer accounting policy (r)).

Leased assets

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer accounting policy (r)). Lease liabilities are reduced by repayments of principal, while the finance charge component of the lease payment is charged directly to statement of operations.

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 an expense as incurred.

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Notes to Consolidated Financial Statements

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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. The estimated useful lives are as follows:

Buildings	50 years
Furniture, fixture and equipments	4–12.5 years

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.

(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.

At each balance sheet date, assessment is done using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments, carrying value of net assets, whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the 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.

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Significant accounting policies continued

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.

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.

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Significant accounting policies continued

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.

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 the entire 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.

Türkiye Garanti Bankası AS and Its Affiliates

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(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

Significant accounting policies continued

(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.

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 comprise 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.

Türkiye Garanti Bankası AS and Its Affiliates

Notes to Consolidated Financial Statements

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Significant accounting policies continued

Deferred tax assets and liabilities relating to an individual consolidated affiliate that reports 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.

(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

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Significant accounting policies continued

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.

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 is 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.

Türkiye Garanti Bankası AS and Its Affiliates

Notes to Consolidated Financial Statements

As of and for the Year Ended 31 December 2002

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

Significant accounting policies continued

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).

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.

Türkiye Garanti Bankası AS and Its Affiliates

Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

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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.

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1 Segment reporting continued

Business segments

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

31 December 2002

	<u>Banking</u>	<u>Leasing</u>	<u>Insurance</u>	<u>Factoring</u>	<u>Other Financial Sectors</u>	<u>Retail</u>	<u>Other Non - Financial Sectors</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Total</u>
Interest income	2,428,382	47,092	7,975	335	12,700	8,952	1,770	2,507,206	(34,385)	2,472,821
Interest expenses	<u>(2,482,786)</u>	<u>(17,649)</u>	<u>(8)</u>	<u>(3,902)</u>	<u>(2,170)</u>	<u>(25,965)</u>	<u>(2,577)</u>	<u>(2,535,057)</u>	<u>34,683</u>	<u>(2,500,374)</u>
Net interest income	(54,404)	29,443	7,967	(3,567)	10,530	(17,013)	(807)	(27,851)	298	(27,553)
Fee and commission income, net	322,181	-	(208)	12,152	17,911	(12,417)	-	339,619	(42)	339,577
Trading account income, net	355,922	-	141	-	(1,452)	-	50	354,661	-	354,661
Foreign exchange gain, net	305,536	903	118	(1,823)	(2,632)	(9,038)	(4,610)	288,454	1,642	290,096
Gross profit from retail business	-	-	-	-	-	61,568	-	61,568	-	61,568
Premium income from insurance business	-	-	58,174	-	-	-	-	58,174	-	58,174
Other operating income	113,015	1,482	141	108	10,017	13,477	40,735	178,975	(106,554)	72,421
Salaries and wages	(184,960)	(5,017)	(10,207)	(1,243)	(7,551)	(38,286)	(28,455)	(275,719)	-	(275,719)
Impairment losses	(91,330)	(2,563)	-	-	(1,102)	-	(25,890)	(120,885)	(17,020)	(137,905)
Other operating expenses	(593,136)	(10,069)	(54,329)	(4,153)	(25,909)	(180,844)	(15,971)	(884,411)	30,645	(853,766)
Gain/(loss) on net monetary position	(55,510)	(19,408)	336	4,976	(6,693)	111,058	51,018	85,777	(36,946)	48,831
Taxation (charge)/credit	24,957	24,233	(2,298)	(37)	7,112	26,501	(10,884)	69,584	(2,859)	66,725
Minority interest	-	-	-	-	-	-	-	-	30,905	30,905
Net income/(loss) for the year	<u>142,271</u>	<u>19,004</u>	<u>(165)</u>	<u>6,413</u>	<u>231</u>	<u>(44,994)</u>	<u>5,186</u>	<u>127,946</u>	<u>(99,931)</u>	<u>28,015</u>
Segment assets	20,719,763	267,669	101,295	86,493	98,503	397,864	524,452	22,196,039	(189,017)	22,007,022
Investments in associated companies	<u>1,312,284</u>	<u>675</u>	<u>10</u>	<u>7,105</u>	<u>7,410</u>	<u>102</u>	<u>28,233</u>	<u>1,355,819</u>	<u>(1,168,545)</u>	<u>187,274</u>
Total assets	<u>22,032,047</u>	<u>268,344</u>	<u>101,305</u>	<u>93,598</u>	<u>105,913</u>	<u>397,966</u>	<u>552,685</u>	<u>23,551,858</u>	<u>(1,357,562)</u>	<u>22,194,296</u>
Segment liabilities	<u>19,904,609</u>	<u>191,096</u>	<u>78,175</u>	<u>76,540</u>	<u>21,751</u>	<u>175,146</u>	<u>123,184</u>	<u>20,570,501</u>	<u>(268,544)</u>	<u>20,301,957</u>

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(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

1 Segment reporting continued

31 December 2001	<i>Banking</i>	<i>Leasing</i>	<i>Insurance</i>	<i>Other Financial Sectors</i>	<i>Retail</i>	<i>Other Non-Financial Sectors</i>	<i>Combined</i>	<i>Eliminations</i>	<i>Total</i>
Interest income	4,147,292	88,955	18,193	62,714	12,194	3,438	4,332,786	(140,916)	4,191,870
Interest expenses	<u>(4,373,053)</u>	<u>(43,004)</u>	-	<u>(64,199)</u>	<u>(62,647)</u>	<u>(36,175)</u>	<u>(4,579,078)</u>	<u>205,534</u>	<u>(4,373,544)</u>
Net interest income	(225,761)	45,951	18,193	(1,485)	(50,453)	(32,737)	(246,292)	64,618	(181,674)
Fee and commission income, net	167,982	-	1,346	22,582	(410)	1,673	193,173	-	193,173
Trading account income, net	391,696	(461)	263	6,436	-	4	397,938	-	397,938
Gross profit from retail business	-	-	-	-	96,810	-	96,810	-	96,810
Foreign exchange gain, net	415,226	(59,231)	6,525	(7,793)	(159,947)	(121,651)	73,129	-	73,129
Premium income from insurance business	-	-	69,244	-	-	-	69,244	-	69,244
Other operating income	(112,585)	17,143	340	8,734	3,936	48,764	(33,668)	195,319	161,651
Salaries and wages	(273,543)	(5,215)	(9,855)	(12,236)	(72,237)	(34,834)	(407,920)	-	(407,920)
Impairment losses	(461,377)	(4,942)	-	(7,169)	-	-	(473,488)	9,052	(464,436)
Other operating expenses	(1,039,891)	(11,721)	(61,020)	(18,993)	(165,919)	4,528	(1,293,016)	32,224	(1,260,792)
Gain/(loss) on net monetary position	(38,934)	(20,055)	(18,055)	(26,996)	171,496	93,866	161,322	(88,218)	73,104
Taxation (charge)/credit	365,778	19,088	(8,624)	(9,612)	61,323	(68,417)	359,536	-	359,536
Minority inter est	-	-	-	-	-	-	-	87,028	87,028
Extraordinary item	<u>(37,656)</u>	-	-	-	-	-	<u>(37,656)</u>	-	<u>(37,656)</u>
Net income/(loss) for the year	<u>(849,065)</u>	<u>(19,443)</u>	<u>(1,643)</u>	<u>(46,532)</u>	<u>(115,401)</u>	<u>(108,804)</u>	<u>(1,140,888)</u>	<u>300,023</u>	<u>(840,865)</u>

	<i>Banking</i>	<i>Leasing</i>	<i>Insurance</i>	<i>Factoring</i>	<i>Other Financial Sectors</i>	<i>Retail</i>	<i>Other Non-Financial Sectors</i>	<i>Combined</i>	<i>Eliminations</i>	<i>Total</i>
Segment assets	21,839,625	318,529	104,120	52,981	276,707	435,339	547,752	23,575,053	(258,598)	23,316,455
Investments in associated companies	<u>1,061,111</u>	<u>3,247</u>	<u>26</u>	<u>5</u>	<u>13,863</u>	<u>882</u>	<u>37,878</u>	<u>1,117,012</u>	<u>(1,034,609)</u>	<u>82,403</u>
Total assets	<u>22,900,736</u>	<u>321,776</u>	<u>104,146</u>	<u>52,986</u>	<u>290,570</u>	<u>436,221</u>	<u>585,630</u>	<u>24,692,065</u>	<u>(1,293,207)</u>	<u>23,398,858</u>
Segment liabilities	<u>20,834,597</u>	<u>266,089</u>	<u>76,735</u>	<u>47,624</u>	<u>178,619</u>	<u>389,821</u>	<u>270,527</u>	<u>22,064,012</u>	<u>(462,475)</u>	<u>21,601,537</u>

Türkiye Garanti Bankasi AS and Its Affiliates

Notes to Consolidated Financial Statements

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(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

2 Related party disclosures

For the purpose of this report, the Bank's ultimate parent company, Dogus Holding AS and all its subsidiaries, and the ultimate owners, directors and executive officers of Dogus 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:

	<u>2002</u>	<u>2001</u>
<u>Outstanding balances</u>		
Balance sheet		
Obligations under repurchase agreements	332	960
<u>Loans and advances to customers</u>		
<u>including accrued interest income</u>	<u>700,424</u>	<u>757,700</u>
Loans granted in TL	2,523	28,292
Loans granted in foreign currency:		
US\$ 410,539,146	US\$ 410,539,146	US\$ 276,025,103
EUR 24,875,014	EUR 24,875,014	EUR 73,072,128
-	-	CHF 86,702,810
Miscellaneous receivables (Note 9)	2,187	402,644
Deposits received	129,330	195,374
Commitments and contingencies		
Non-cash loans	235,993	256,063
Derivative transactions	-	17,468
<u>Transactions</u>		
Interest income	60,625	96,211
Interest expense	39,620	42,017

As at 31 December 2001, miscellaneous receivables mainly included a receivable from major shareholders amounting to TL442,043 billions in total, arising from the sale of COIBV to Dogus Holding AS and the forward contracts that the Bank had entered into with its major shareholders to cope with abnormal market conditions in the foreign currency market which eventually led to market failure in 2001. In 2002, all such receivables were collected.

During 2002, interest rates applied to foreign currency receivables from and payables to related parties vary at ranges of 4-10% and 1-10% (2001: 4-12.5% and 3-10%) respectively. The interest rates applied to Turkish Lira payables to related parties vary at ranges of 28-43% (2001: 57-60%). Various commission rates are applied to transactions involving guarantees and commitments.

Türkiye Garanti Bankası AS and Its Affiliates

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3 Cash and cash equivalents

	<u>2002</u>	<u>2001</u>
Cash at branches	180,182	460,420
Balances with Central Bank of Turkey	1,901,775	2,291,211
Bonds issued by foreign institutions	-	24,878
Others	<u>3,907</u>	<u>7,970</u>
	<u>2,085,864</u>	<u>2,784,479</u>

At 31 December 2002, cash and cash equivalents included balances with the Central Bank of Turkey of TL981,484 billions (2001: TL1,026,473 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

	<u>2002</u>				<u>2001</u>
	Face value	Carrying value	Interest rate range %	Latest maturity	Carrying value
<u>Debt and other instruments held for trading:</u>					
Government bonds in foreign currency	703,609	686,340	1.47-6.02	2004	980,009
Eurobonds	254,567	266,131	4.92-15.00	2030	747,333
Discounted government bonds in Turkish lira	355,636	236,902	50.61-55.72	2003	-
Bonds issued by foreign governments	159,876	159,428	1.2	2003	19,485
Treasury bills in Turkish lira	87,173	69,389	41.80-55.91	2003	61,450
Government bonds at floating rates	32,088	32,794	50.03-59.27	2004	114,035
Government bonds indexed to foreign currency	6,343	6,186	(a)	2004	129,900
Government bonds in Turkish lira	2,575	2,407	43.06-59.89	2004	5,023
Others		<u>8,078</u>			<u>6,583</u>
		<u>1,467,655</u>			<u>2,063,818</u>
<u>Equity and other non-fixed income instruments:</u>					
Listed shares		<u>9,961</u>			<u>13,620</u>
Total financial assets held for trading		<u>1,477,616</u>			<u>2,077,438</u>

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

Türkiye Garanti Bankası AS and Its Affiliates

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(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to IAS 29)

Financial assets held for trading continued

Income from debt and other instruments held for trading 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. For the year ended 31 December 2002, net income on trading of financial assets amounting to TL354,661 billions (2001: TL397,938 billions) in total is included in trading account income.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL260,779 billions (2001: TL115,333 billions).

The following table 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 31 December 2002, 16% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (2001: 8%).

	Notional amount with remaining life of					Total
	Upto 1 month	1 to 3 months	3 to 6 months	6 to 12 months	over 1 year	
At 31 December 2002						
Interest Rate Derivatives						
-Forward rate agreements	-	980	66,762	-	-	67,742
<i>Purchases</i>	-	-	33,871	-	-	33,871
<i>Sales</i>	-	980	32,891	-	-	33,871
-Interest rate swaps	-	-	-	-	-	-
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	-	-	-	-	-	-
Interest Rate Options	-	-	-	-	-	-
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	-	-	-	-	-	-
Currency Derivatives						
-Spot exchange contracts	57,279	-	-	-	-	57,279
<i>Purchases</i>	21,477	-	-	-	-	21,477
<i>Sales</i>	35,802	-	-	-	-	35,802
-Forward exchange contracts	1,392,072	10,200	10,777	1,599	-	1,414,648
<i>Purchases</i>	1,334,792	4,110	9,048	-	-	1,347,950
<i>Sales</i>	57,280	6,090	1,729	1,599	-	66,698
-Currency/cross currency swaps	226,089	481,773	363,374	154,058	-	1,225,294
<i>Purchases</i>	190,956	469,208	363,374	77,029	-	1,100,567
<i>Sales</i>	35,133	12,565	-	77,029	-	124,727
-Other foreign exchange contracts	49,744	-	-	-	-	49,744
<i>Purchases</i>	-	-	-	-	-	-
<i>Sale</i>	49,744	-	-	-	-	49,744
Subtotal Purchases	1,547,225	473,318	406,293	77,029	-	2,503,865
Subtotal Sales	177,959	19,635	34,620	78,628	-	310,842
Subtotal	1,725,184	492,953	440,913	155,657	-	2,814,707
Net	1,369,266	453,683	371,673	(1,599)	-	2,193,023

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Financial assets held for trading continued

	Notional amount with remaining life of					Total
	Upto 1 month	1 to 3 months	3 to 6 months	6 to 12 months	over 1 year	
At 31 December 2001						
Interest Rate Derivatives						
-Interest rate swaps	-	1,586	-	-	-	1,586
Purchases	-	63	-	-	-	63
Sales	-	1,523	-	-	-	1,523
Currency Derivatives						
-Spot exchange contracts	249,783	-	-	-	-	249,783
Purchases	184,572	-	-	-	-	184,572
Sales	65,211	-	-	-	-	65,211
-Forward exchange contracts	1,923,290	967	32,454	-	-	1,956,711
Purchases	1,588,643	-	17,332	-	-	1,605,975
Sales	334,647	967	15,122	-	-	350,736
-Currency/cross currency swaps	564,367	412,711	-	-	75,636	1,052,714
Purchases	468,785	407,778	-	-	37,818	914,381
Sales	95,582	4,933	-	-	37,818	138,333
-Other foreign exchange contracts	21,006	-	-	-	-	21,006
Purchases	-	-	-	-	-	-
Sale	21,006	-	-	-	-	21,006
Subtotal Purchases	2,242,000	407,841	17,332	-	37,818	2,704,991
Subtotal Sales	516,446	7,423	15,122	-	37,818	576,809
Subtotal	2,758,446	415,264	32,454	-	75,636	3,281,800
Net	1,725,554	400,418	2,210	-	-	2,128,182

5 Investments

	Face value	Carrying value	2002		2001	
			Interest rate range %	Latest maturity	Carrying value	Carrying value
<u>Debt and other instruments available-for-sale:</u>						
Eurobonds	908,532	952,315	4.92-12.75	2030	-	-
Government bonds indexed to foreign currency	116,014	110,657	(a)	2004	3,843,897	-
Government bonds at floating rates	48,051	50,929	59.27-74.71	2004	-	-
Bonds issued by foreign governments	17,443	20,478	10.63-11.50	2008	-	-
Shares	-	7,692	-	-	-	-
Treasury bills in Turkish Lira	3,219	2,318	9.76-50.38	2004	2,909	-
Others	-	568	-	-	2,169	-
Total available-for-sale portfolio		1,144,957			3,848,975	
<u>Debt and other instruments held-to-maturity:</u>						
Government bonds indexed to foreign currency	2,456,644	3,387,481	(a)	2006	-	-
Government bonds at floating rates	1,035,789	1,028,361	(b)	2004	1,223,512	-
Eurobonds	732,351	746,841	4.92-12.75	2030	587,322	-
Discounted government bonds in Turkish lira	120,956	81,462	50.61	2003	24,553	-
Bonds issued by financial institutions	77,989	73,308	5.75-20.82	2005	14,693	-
Government bonds -CPI	68,000	68,000	(c)	2003	88,971	-
Treasury bills in Turkish lira	93,921	67,116	44.35-56.98	2003	3,070	-
Government bonds in foreign currency	15,988	14,779	3.5	2003	15,321	-
Bonds issued by foreign governments	7,610	7,611	5.75-8.25	2007	7,474	-
Others	-	329	-	-	769	-
		5,475,288			1,965,685	
Accrued interest on held-to-maturity portfolio		75,440			34,322	
Total held-to-maturity portfolio		5,550,728			2,000,007	
Total investments		6,695,685			5,848,982	

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Investments continued

- (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 TL1,022,605 billions (2001: TL201,021 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.

In 2002, the Bank discovered a fundamental error that a part of Eurobond securities with a maturity of January 2030, which were not intended to hold until maturity by the Bank management were included in "investments held-to-maturity" by oversight during the presentation of financial statements as at 31 December 2001. The total carrying value of these securities with a face value of US\$135 millions was TL282,541 billions. The accompanying 2002 financial statements reflect the correct definition and presentation of these securities as "investments available-for-sale". The effects of the correction on 2001 financial statements would be a decrease in the total carrying value of these securities by TL25,651 billions and an increase in 2001 net losses by TL17,185 billions net of deferred income taxes of TL8,466 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL17,185 billion, which is the net amount of adjustment relating to prior year. However, the comparative information for prior year was not restated in the accompanying consolidated financial statements due to the fact that it is impracticable to determine the effect of significant part of total fundamental errors as disclosed in Note 11 on the consolidated balance sheet as of 31 December 2000 and the consolidated statement of operations for the year ended 31 December 2001.

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

	2002		2001	
	Face Value	Carrying value	Face Value	Carrying value
US\$ eurobonds collateralized to foreign banks	942,320	989,983	306,558	200,708
Deposited at CBT for interbank transactions	630,000	842,234	315,942	378,737
Deposited at Central Bank of Turkey (CBT) for foreign currency money market transactions	320,000	427,802	1,549,913	1,835,209
Reserve requirements at CBT	300,000	401,064	860,902	961,396
Deposited at Clearing Bank (Takasbank)	214,944	224,785	235,779	246,925
Deposited at Istanbul Stock Exchange	157,410	160,053	-	-
Deposited at CBT for repurchase transactions	124,219	135,922	116,476	115,426
Others		<u>24,964</u>		<u>7,474</u>
		<u>3,206,807</u>		<u>3,745,875</u>

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6 Loans and advances to banks

	2002			2001		
	Turkish Lira	Foreign Currency	Total	Turkish Lira	Foreign Currency	Total
Loans and advances -demand						
Domestic banks	1,661	57	1,718	9,478	968	10,446
Foreign banks	-	153,308	153,308	30	235,355	235,385
	1,661	153,365	155,026	9,508	236,323	245,831
Loans and advances -time						
Domestic banks	72,687	196,258	268,945	14,712	401,876	416,588
Foreign banks	51,440	639,299	690,739	-	1,177,222	1,177,222
	124,127	835,557	959,684	14,712	1,579,098	1,593,810
Accrued interest on loans and advances	2,334	3,559	5,893	6,444	3,250	9,694
Total loans and advances to banks	128,122	992,481	1,120,603	30,664	1,818,671	1,849,335
Less : allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	128,122	992,481	1,120,603	30,664	1,818,671	1,849,335

As at 31 December 2002, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1-10% per annum for foreign currency time deposits and 41-59% per annum for Turkish lira time deposits (2001: 1.5-13% and 51-80%, respectively).

As at 31 December 2001, TL190,575 billions (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 31 December 2002, demand deposits at foreign banks include blocked accounts of TL34,891 billions (2001: TL45,651 billions) against the securitisation transactions on cheques and credit card receivables.

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7 Loans and advances to customers

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

	<u>2002</u>	<u>2001</u>
Industrial	1,787,829	2,598,322
Financial institutions	1,174,357	604,811
Consumer loans	1,154,738	742,777
Foreign trade	1,009,516	708,723
Service sector	591,597	571,709
Turkish Treasury	376,668	-
Construction	278,994	544,963
Agriculture	110,929	190,812
Transportation	73,782	112,556
Tourism	64,226	268,344
Domestic commerce	21,093	10,578
Media	17,953	48,648
Others	<u>295,126</u>	<u>324,386</u>
Total performing loans	6,956,808	6,726,629
Non-performing loans	<u>390,361</u>	<u>674,607</u>
Total gross loans	7,347,169	7,401,236
Accrued interest income on loans	237,291	222,076
Financial lease receivables, gross (Note 8)	193,324	138,247
Allowance for possible losses from loans and lease receivables	(178,072)	(371,740)
Loans and advances to customers	<u>7,599,712</u>	<u>7,389,819</u>

As at 31 December 2002, loans given to customers have interest rates between 2-14% (2001: 2-30%) per annum for foreign currency loans and 31-80% (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.

In 2002, the Bank discovered a fundamental error on the computation of amortized costs of outstanding loans and advances to customers as of 31 December 2001. This computation is made for the first time as of this date in compliance with IAS39, "Financial Instruments: Recognition and Measurement". The effects of the correction of this fundamental error incurred due to an error in data transfer from the system, on 31 December 2001 financial statements would be a decrease in the total interest income on loans by TL24,603 billions and an increase

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Loans and advances to customers continued

in 2001 net loss by TL16,484 billions, net of deferred income taxes of TL8,119 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL16,484 billions, which is the net amount of adjustments relating to prior period. However, the comparative information for prior year was not restated in the accompanying consolidated financial statements due to the fact that it is impracticable to determine the effect of significant part of total fundamental error as disclosed in Note 11 on the consolidated balance sheet as of 31 December 2000 and the consolidated statement of operations for the year ended 31 December 2001.

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

	<u>2002</u>	<u>2001</u>
Balance at the beginning of year	371,740	297,012
Restatement effect of the beginning balance and current period provision for the effects of inflation	(82,316)	(152,633)
Allowance account balance per the balance sheet of Körfezbank merged with Osmanli Bankasi AS	-	5,567
Write-offs	(174,246)	(2,320)
Recoveries	(5,662)	(33,499)
Provision for the year	<u>68,556</u>	<u>257,613</u>
Balance at the end of year	<u>178,072</u>	<u>371,740</u>

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:

	<u>2002</u>	<u>2001</u>
Financial lease receivables, gross (Note 7)	193,324	138,247
Less: allowance for possible losses from lease receivables	<u>(6,854)</u>	<u>(7,701)</u>
	<u>186,470</u>	<u>130,546</u>
<u>Analysis of net financial lease receivables</u>		
Not later than 1 year	156,708	127,977
Later than 1 year and not later than 5 years	70,727	34,510
Later than 5 years	-	-
	<u>227,435</u>	<u>162,487</u>
Unearned income	<u>(40,965)</u>	<u>(31,941)</u>
Financial lease receivables, net	<u>186,470</u>	<u>130,546</u>
<u>Analysis of net financial lease receivables, net</u>		
Not later than 1 year	129,911	104,497
Later than 1 year and not later than 5 years	56,559	26,049
Later than 5 years	-	-
Financial lease receivables, net	<u>186,470</u>	<u>130,546</u>

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9 Other assets

	<u>2002</u>	<u>2001</u>
Tangible assets held for resale	532,222	336,270
Factoring receivables	81,887	40,822
Accrued exchange gain on derivatives	70,088	-
Prepaid expenses, insurance claims and similar items	65,213	77,723
Miscellaneous receivables (Note 2)	56,408	464,933
Retail business stocks	44,644	41,284
Insurance premium receivables	41,774	38,853
Taxes and funds to be refunded	16,122	49,020
Purchased cheques	15,286	14,848
Others	<u>37,004</u>	<u>69,470</u>
	<u>960,648</u>	<u>1,133,223</u>

Tangible assets held for resale mainly comprise of real estate acquired by the Bank against its impaired 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

	<u>2002</u>		<u>2001</u>	
	Carrying value	Ownership %	Carrying value	Ownership %
Dogus Otomotiv Holding A.S.	112,481	19.82	-	-
Iksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AS	89,048	47.17	89,048	47.17
Petrotrans Nakliyat ve Ticaret AS	49,671	99.60	49,671	99.60
Garanti Turizm ve Yatirim Isl. AS	48,347	44.89	48,347	44.89
Others	<u>61,459</u>		<u>58,481</u>	
	361,006		245,547	
Impairment in value of investments	<u>(173,732)</u>		<u>(163,144)</u>	
	<u>187,274</u>		<u>82,403</u>	

The Bank had previously made available loans to Petrotrans Nakliyat Ticaret AS (Petrotrans) in an amount equal to US\$29.5 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.

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11 Tangible assets

Movement in tangible assets for the period of 1 January – 31 December 2002 is as follows:

	1 January	Correction	Additions	Currency Adjustment	Disposals	31 December
Costs						
Land and buildings	1,056,347	-	251,499	599	(52,267)	1,256,178
Furniture, fixture and equipments	989,887	21,766	68,769	4	(208,071)	872,355
Leasehold improvements	<u>416,969</u>	<u>(63,109)</u>	<u>23,890</u>	-	<u>(24,892)</u>	<u>352,858</u>
	2,463,203	(41,343)	344,158	603	(285,230)	2,481,391
Less: Accumulated depreciation						
Land and buildings	118,159	-	17,078	(217)	(4,556)	130,464
Furniture, fixture and equipments	622,061	41,621	100,983	(28)	(207,718)	556,919
Leasehold improvements	<u>191,587</u>	<u>(44,241)</u>	<u>42,901</u>	-	<u>(3,565)</u>	<u>186,682</u>
	931,807	(2,620)	160,962	(245)	(215,839)	874,065
Construction in progress	<u>198,827</u>	-	(189,141) (a)	-	-	<u>9,686</u>
	<u>1,730,223</u>	<u>(43,963)</u>		<u>358</u>	<u>(69,391)</u>	<u>1,617,012</u>
Impairment in value of tangible assets	(28,645)					(55,839)
	<u>1,701,578</u>					<u>1,561,173</u>

(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:

	1 January	Additions	Currency Adjustment	Disposal	Tangible assets acquired through business combinations	31 December
Costs						
Land and buildings	957,564	147,107	2,772	(208,733)	157,637	1,056,347
Furniture, fixture and equipments	1,069,684	147,443	1,303	(265,521)	36,978	989,887
Leasehold improvements	<u>371,635</u>	<u>74,312</u>	<u>483</u>	<u>(45,773)</u>	<u>16,312</u>	<u>416,969</u>
	2,398,883	368,862	4,558	(520,027)	210,927	2,463,203
Less: Accumulated depreciation						
Land and buildings	105,606	14,322	114	(2,037)	154	118,159
Furniture, fixture and equipments	560,912	149,657	788	(107,358)	18,062	622,061
Leasehold improvements	<u>151,658</u>	<u>46,531</u>	<u>250</u>	<u>(18,311)</u>	<u>11,459</u>	<u>191,587</u>
	818,176	210,510	1,152	(127,706)	29,675	931,807
Construction in progress	<u>179,193</u>	<u>(34,074)</u> (a)	-	-	<u>53,708</u>	<u>198,827</u>
	1,759,900		3,406	(392,321)	234,960	1,730,223
Impairment in value of tangible assets	-					(28,645)
	<u>1,759,900</u>					<u>1,701,578</u>

Depreciation expense for the year ended 31 December 2002 amounts to TL160,962 billions (2001: TL210,510 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%.

In previous years, the Bank was restating its tangible assets for the effects of inflation (refer accounting policy (d)) on the basis of monthly additions and disposals, since it was impracticable to adjust them item by item at the proper time. After a significant work for years, the Bank has completed a detailed list of its tangible assets as adjusted for the effects of inflation as at 31 December 2002. The effects of these adjustments on 31 December 2001 financial statements would be a decrease in net tangible assets by TL43,963 billions and an increase in 2001 accumulated losses by TL29,455 billions, net of deferred income tax of TL14,508 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL29,455 billions, which is the net amount of adjustment relating to periods prior to 31 December 2001. However, the comparative information for prior years was not restated in the accompanying consolidated financial statements due to the fact that it is impracticable to determine the effect of this fundamental error on the consolidated balance sheet as of 31 December 2000 and the consolidated statement of operations for the year ended 31 December 2001.

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Tangible assets continued

During this detailed work, the depreciation rates applied to some of the items were also revised according to the expected useful lives of these assets starting from the current year. The effect of this change in accounting estimate relating to the current year depreciation charge was recognized in the determination of net profit of the current year.

12 Intangible assets

Intangible assets represent goodwill arising from the direct acquisitions of 25.92% ownership in and majority voting rights in the Board of Directors of Tansas Perakende Magazacilik Ticaret AS, 29.23% ownership in Doc Finance S.A., 100% ownership in Garanti Yatirim Menkul Kiymetler AS, 100% ownership in Dogus Hava Tasimaciligi AS, 99.99% ownership in Garanti Sigorta AS, 100% ownership in Garanti Hayat Sigorta AS, 98.89% ownership in Garanti Finansal Kiralama AS, 81.81% ownership in Garanti Finans Faktoring Hizmetleri AS, 56.06% ownership in Garanti Gayrimenkul Yatirim Ortakligi AS, 100% ownership in Dogus Turizm Saglik Yatirimlari ve Isl. AS, and 99.95% ownership in Sititur Tur.Tem.Tasimacilik Org.Bilgisayar Dan.Yapi.San. ve Tic. AS consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

As at 31 December 2002, goodwill is amortized on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL125,534 billions (2001: TL176,514 billions), net of accumulated amortization, in the accompanying consolidated balance sheets. Movement in goodwill for the period of 1 January – 31 December 2002 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December</u>
<u>Goodwill</u>				
Tansas Perakende Magazacilik Ticaret AS	110,221	-	-	110,221
Dogus Hava Tasimaciligi AS	37,669	-	-	37,669
Garanti Yatirim Menkul Kiymetler AS	19,795	-	-	19,795
Docfinance SA	8,201	-	-	8,201
Garanti Finans Faktoring Hizmetleri AS	5,809	-	-	5,809
Garanti Finansal Kiralama AS	4,539	-	-	4,539
Sititur Tur.Tem.Tas.Org.Bilg.Danismanlik Yapi San. Ve Tic.	2,810	-	-	2,810
Dogus Turizm Saglik Yatirimlari ve Isl. AS	1,289	-	-	1,289
Garanti Sigorta AS	1,076	-	-	1,076
Garanti Gayrimenkul Yatirim Ortakligi AS	444	-	-	444
Garanti Hayat Sigorta AS	37	-	-	37
	<u>191,890</u>	-	-	<u>191,890</u>
<u>Less: Accumulated amortization</u>				
Tansas Perakende Magazacilik Ticaret AS	9,045	13,001	-	22,046
Dogus Hava Tasimaciligi AS	3,772	1,883	-	5,655
Garanti Yatirim Menkul Kiymetler AS	1,346	990	-	2,336
Docfinance SA	1,105	410	-	1,515
Garanti Finans Faktoring Hizmetleri AS	-	290	-	290
Garanti Finansal Kiralama AS	-	227	-	227
Sititur Tur.Tem.Tas.Org.Bilg.Danismanlik Yapi San. Ve Tic.	-	141	-	141
Dogus Turizm Saglik Yatirimlari ve Isl. AS	-	64	-	64
Garanti Sigorta AS	106	54	-	160
Garanti Gayrimenkul Yatirim Ortakligi AS	-	22	-	22
Garanti Hayat Sigorta AS	2	2	-	4
	<u>15,376</u>	<u>17,084</u>	-	<u>32,460</u>
<u>Goodwill, net of accumulated amortization</u>	<u>176,514</u>			<u>159,430</u>
Impairment in value of goodwill	-			(33,896)
	<u>176,514</u>			<u>125,534</u>

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Intangible assets continued

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

	<u>1 January</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December</u>
<u>Goodwill</u>				
Tansas Perakende Magazacılık Ticaret AS	60,294	-	-	60,294
Makro	-	49,927	-	49,927
Dogus Hava Tasimaciligi AS	26,622	11,047	-	37,669
Garanti Yatirim Menkul Kıymetler AS	8,730	11,065	-	19,795
Docfinance SA	7,280	921	-	8,201
Garanti Finans Factoring Hizmetleri AS	-	5,809	-	5,809
Garanti Finansal Kiralama AS	-	4,539	-	4,539
Sititur Tur.Tem.Tas.Org.Bilg.Danismanlik Yapi San. Ve Tic.	-	2,810	-	2,810
Dogus Turizm Saglik Yatirimlari ve Isl. AS	-	1,289	-	1,289
Garanti Sigorta AS	1,076	-	-	1,076
Garanti Gayrimenkul Yatirim Ortakligi AS	-	444	-	444
Garanti Hayat Sigorta AS	37	-	-	37
Osmanli Bankasi AS	<u>173,176</u>	<u>-</u>	<u>(173,176)</u>	<u>-</u>
	<u>277,215</u>	<u>87,851</u>	<u>(173,176)</u>	<u>191,890</u>
<u>Less: Accumulated amortization</u>				
Tansas Perakende Magazacılık Ticaret AS	6,030	3,015	-	9,045
Makro	-	-	-	-
Dogus Hava Tasimaciligi AS	2,441	1,331	-	3,772
Garanti Yatirim Menkul Kıymetler AS	908	438	-	1,346
Docfinance SA	646	459	-	1,105
Garanti Finans Factoring Hizmetleri AS	-	-	-	-
Garanti Finansal Kiralama AS	-	-	-	-
Sititur Tur.Tem.Tas.Org.Bilg.Danismanlik Yapi San. Ve Tic.	-	-	-	-
Dogus Turizm Saglik Yatirimlari ve Isl. AS	-	-	-	-
Garanti Sigorta AS	52	54	-	106
Garanti Gayrimenkul Yatirim Ortakligi AS	-	-	-	-
Garanti Hayat Sigorta AS	1	1	-	2
Osmanli Bankasi AS	<u>19,469</u>	<u>1,356</u>	<u>(20,825)</u>	<u>-</u>
	<u>29,547</u>	<u>6,654</u>	<u>(20,825)</u>	<u>15,376</u>
<u>Goodwill, net of accumulated amortization</u>	<u>247,668</u>			<u>176,514</u>

13 Deposits from banks

Deposits from banks comprise of the following:

	<u>2002</u>	<u>2001</u>
Payable on demand	21,973	26,984
Term deposits	<u>680,150</u>	<u>1,598,431</u>
	702,123	1,625,415
Accrued interest on deposits from banks	<u>2,188</u>	<u>27,106</u>
	<u>704,311</u>	<u>1,652,521</u>

Deposits from banks include both TL accounts of TL85,516 billions (2001: TL507,248 billions) and foreign currency accounts of TL616,607 billions (2001: TL1,118,167 billions).

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14 Deposits from customers

Deposits from customers comprise of the following:

	2002			2001
	<u>Demand</u>	<u>Time</u>	<u>Total</u>	<u>Total</u>
Foreign currency	3,295,972	6,934,191	10,230,163	10,319,331
Commercial	580,113	1,607,616	2,187,729	1,620,379
Saving	188,868	1,796,874	1,985,742	1,805,252
Public and other	<u>93,480</u>	<u>89,390</u>	<u>182,870</u>	<u>159,999</u>
	4,158,433	10,428,071	14,586,504	13,904,961
Accrued interest expenses on deposits from customers	<u>-</u>	<u>146,873</u>	<u>146,873</u>	<u>89,763</u>
	<u>4,158,433</u>	<u>10,574,944</u>	<u>14,733,377</u>	<u>13,994,724</u>

As at 31 December 2002, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 36-59% and 1-13% (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 31 December 2002 and 2001, assets sold under repurchase agreements were as follows:

	<u>Carrying value</u>	<u>Fair value of underlying assets</u>	<u>Carrying amount of corresponding liabilities</u>	<u>Range of repurchase dates</u>	<u>Repurchase price</u>
<u>2002</u>					
Trading instruments	260,779	261,133	243,248	Jan-March 2003	244,354
Investments	<u>1,022,605</u>	<u>1,042,617</u>	<u>838,368</u>	Jan-March 2003	<u>840,620</u>
	<u>1,238,384</u>	<u>1,303,750</u>	<u>1,081,616</u>		<u>1,084,974</u>
<u>2001</u>					
Trading instruments	115,333	114,294	111,544	Jan-Feb 2002	115,758
Investments	<u>201,021</u>	<u>201,021</u>	<u>201,021</u>	Jan-Feb 2002	<u>202,121</u>
	<u>316,354</u>	<u>315,315</u>	<u>312,565</u>		<u>317,879</u>

As such fundings are raised 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 31 December 2002, the maturities and interest rates of the obligations are within one to three months and between 1.5-34% (2001: 12-79%).

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16 Loans and advances from banks

Loans and advances from banks comprise of the following:

	<u>2002</u>	<u>2001</u>
Short-term borrowings		
Domestic banks	271,379	475,127
Foreign banks	1,854,104	2,367,980
	<u>2,125,483</u>	<u>2,843,107</u>
Long-term debts		
Short-term portion	281,205	736,943
Medium and long-term portion	<u>387,885</u>	<u>763,554</u>
	669,090	1,500,497
Accrued interest on loans and advances from banks	<u>28,683</u>	<u>74,270</u>
	<u>2,823,256</u>	<u>4,417,874</u>

As at 31 December 2002, short-term borrowings from foreign banks included a syndicated pre-export credit facility available to Turkish exporters in the amount of EUR350 millions (equivalent of TL586,088 billions) provided by fortyfive banks in May 2002, and a syndicated term-loan facility in the amount of US\$325 millions (equivalent of TL519,595 billions) signed on 11 October 2002 available to corporate customers to pre-finance export contracts. In December 2002, the Bank also obtained a short term fund in the amount of US\$200 millions (equivalent of TL319,751 billions) through its Diversified Payment Rights Securitisation transaction (the "DPR Securitisation"). The DPR Securitisation securitises the Bank's all right, title and interest to US dollar, Euro or Sterling-denominated MT100-series messages under the Society for Worldwide Interbank Financial Telecommunication (SWIFT) message system received by the Bank and has a maturity of 5 years. The DPRs include but not limited to receivables arising from Cash Against Goods ("CAG") trade transactions, tourism payments, construction payments, freight and transportation payments, commercial payments and worker remittances.

Long-term debts comprise of the following:

	<u>2002</u>					<u>2001</u>
	Interest rate%	Maturity	Amount in original currency	Short term portion	Medium and long term portion	Long term debts
Anatolia Finance Company	6.55	2004	US\$ 94	55,957	95,125	175,574
TPR Securitisation -I	Libor+4.4-10.81	2004	US\$ 81	83,999	45,422	150,402
Cobank	1.94-2.44	2005	US\$ 50	27,636	53,079	25,342
Deutsche Bank	1.92-3.56	2005	US\$ 37	19,909	39,818	-
ABN Amro Bank	6.3	2004	EUR 18	16,184	13,602	35,739
DEG	7.70	2005	EUR 13	8,372	12,560	20,554
World Bank	3.24	2004	US\$ 7	3,198	7,993	18,580
International Finance Corporation				-	-	190,185
Others				<u>65,950</u>	<u>120,286</u>	<u>147,178</u>
				<u>281,205</u>	<u>387,885</u>	<u>763,554</u>

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Loans and advances from banks continued

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 US\$175 millions. The SPC sold to the Bank of New York, as trustee of the Credit Cards Receivables Trust 1998 - I (the Trust), which issued the trust certificates amounting to US\$175 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 31 December 2002 is US\$94 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 Bankasi AS, in respect of credit and debit card merchant voucher receivables generated by the usage in Turkey of Visa, MasterCard and 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.

In June 1999, the Bank obtained a fund in the amount of US\$200 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 US\$29 millions and US\$171 millions, respectively. In line with repayment schedule, the outstanding balance of this loan as of 31 December 2002 is US\$81 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.

As at 31 December 2001, the outstanding loans from International Finance Company (IFC) amounted to US\$102 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 comprised of the following:-

	2002			2001
	Amount in original currency in millions	Maturity	Interest rates %	Carrying value
Bearer notes	EUR 43	2003	8	71,677
Indenture notes				-
				71,677
Accrued interest on bonds payable				4,547
				<u>76,224</u>
				<u>93,674</u>

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Bonds payable continued

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 NV (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.

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.

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.

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.

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:

	<u>2002</u>	<u>%</u>	<u>2001</u>	<u>%</u>
Taxes on income/(loss) per statutory tax rate	(22,973)	(33.00)	(424,854)	(33.00)
Permanent differences relating to the restatement of non-monetary items per IAS 29	(45,173)	(64.88)	310,055	24.08
Tax effect of merger with Körfezbank	-	-	(145,194)	(11.27)
Effect of permanent differences on consolidation adjustments	35,465	50.94	6,552	0.51
Income items exempt from tax or subject to different tax rates	(32,239)	(46.30)	(125,482)	(9.75)
Investment incentives	(3,850)	(5.53)	(24,597)	(1.91)
Disallowable expenses	1,500	2.15	22,851	1.77
Effect of different tax rates applicable to the consolidated affiliates	<u>545</u>	<u>0.79</u>	<u>21,133</u>	<u>1.64</u>
Taxation credit	<u>(66,725)</u>	<u>(95.83)</u>	<u>(359,536)</u>	<u>(27.93)</u>

The taxation credit comprise the following items:

	<u>2002</u>	<u>2001</u>
Current taxes	15,386	75,560
Deferred taxes	<u>(82,111)</u>	<u>(435,096)</u>
Taxation credit	<u>(66,725)</u>	<u>(359,536)</u>

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Taxation on income continued

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 current taxes payable on income as of 31 December 2002 and 2001, comprised the following:

	<u>2002</u>	<u>2001</u>
Provision for current taxes payable on income before deductions	(66,725)	(359,536)
Add: Taxes payable carried forward	31,972	3,077
Add/(less): Deferred tax assets/liabilities	82,111	435,096
Less: Restatement of opening retained earnings due to the effect of IAS 39	-	(35,488)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 31 December 2002	<u>(7,536)</u>	<u>(5,454)</u>
Taxes payable on income	<u>39,822</u>	<u>37,695</u>

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

	<u>2002</u>	<u>2001</u>
Deferred tax assets		
Tax losses carried forward	360,369	552,795
Impairment in value of investments in associated companies and tangible assets	44,378	46,702
Investment incentives	28,447	24,597
Valuation difference on financial assets and liabilities	26,991	-
Specific and general allowance for loan losses	8,780	83,123
Capitalised expenses and leasing obligations	8,501	35,077
Reserve for retirement pay	1,981	6,916
Discount on receivables	-	17,207
Others	<u>13,179</u>	<u>3,603</u>
Total deferred tax assets	<u>492,626</u>	<u>770,020</u>
Deferred tax liabilities		
Restatement of non-monetary items per IAS 29	112,439	324,870
Valuation difference on financial assets and liabilities	-	79,055
Others	<u>-</u>	<u>11,008</u>
Total deferred tax liabilities	<u>112,439</u>	<u>414,933</u>
Net deferred tax assets	<u>(380,187)</u>	<u>(355,087)</u>

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19 Other liabilities and accrued expenses

The principal components of other liabilities and accrued expenses are as follows:

	<u>2002</u>	<u>2001</u>
Transfer orders	427,467	609,994
Miscellaneous payables	132,616	157,792
Insurance technical provisions	52,701	43,125
Factoring payables	50,355	23,547
Withholding taxes	38,409	76,128
Expense accruals	19,778	43,188
Payables to insurance and reinsurance companies		
relating to insurance operations	18,188	11,472
Reserve for severance payment	14,421	12,928
Blocked accounts	13,790	20,579
Payables to suppliers relating		
to financial leasing activities	6,593	19,336
General provision for non-cash loans	4,333	5,705
Accrued exchange loss on derivatives	-	8,722
Others	<u>64,700</u>	<u>59,968</u>
	<u>843,351</u>	<u>1,092,484</u>

20 Shareholders' equity

In 2002, the authorised nominal share capital of the Bank increased to TL791,748 billions comprising 1,583,495,630,307 registered shares of five hundred Turkish liras each and 1,825 registered shares of on hundred Turkish liras each, by the amount of TL41,748 billions from TL750,000 billions as at 31 December 2001. The portion of share capital arising from the amounts paid in by the shareholders was restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements; however, the transfers from revaluation surplus on fixed assets for statutory purposes were eliminated. From the restated share capital, the prior periods losses were deducted in line with the compensation of such losses from the capital reserves from inflation adjustments to paid-in capital and other reserves in the statutory accounts of the Bank, which occurred on 28 November 2002 by the decision of the Board of Directors. Accordingly, the share capital was reflected as TL1,536,747 billions in the accompanying consolidated financial statements.

The reserves include legal reserves amounting to TL46,300 billions in total which were established by annual appropriations amounting to 5% of income disclosed in the Bank's and its affiliates' 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.

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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 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 certain securities. As at 31 December 2001, extraordinary item of TL37,656 billions comprised such withholding tax on the matured securities. As of 31 December 2002 and 2001, the Bank and its affiliates hold no such securities subject to withholding tax.

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, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. Turkey has shown signs 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 TL6,724,670 billions (2001: TL5,792,392 billions), whereas the carrying amount is TL6,695,685 billions (2001: TL5,848,982 billions) in the accompanying consolidated balance sheet as at 31 December 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 incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit.

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Commitments and contingencies continued

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

	<u>2002</u>	<u>2001</u>
Letters of guarantee	3,380,614	4,282,339
Letters of credit	1,136,482	1,337,538
Acceptance credits	400,996	478,868
Other guarantees and endorsements	<u>33,215</u>	<u>65,659</u>
	<u>4,951,307</u>	<u>6,164,404</u>

As at 31 December 2002, commitment for uncalled capital of affiliated companies amounts approximately to TL270 billions (2001: TL39,069 billions).

As at 31 December 2002, commitment for purchase and sale of foreign currencies under spot, forward, swap, future rate agreements or options and for gold trading amounts to TL2,814,707 billions (2001: TL3,281,800 billions), all due within a year.

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

	<u>2002</u>		<u>2001</u>	
	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>
Forward agreements for customer dealing activities	42,170	32,182	23,212	4,063
Currency swap agreements for customer dealing activities	19,803	18,071	53,680	73,516
Forward agreements for hedging purposes	1,305,780	34,516	1,582,763	346,673
Forward agreements for gold trading	-	49,744	-	21,006
Currency swap agreements for hedging purposes	1,080,764	106,656	860,701	64,817
Interest rate swap agreements for hedging purposes	-	-	63	1,523
Spot foreign currency transactions	18,965	34,127	184,572	65,211
Spot foreign currency transactions for customer dealing activities	2,512	1,675	-	-
Future rate agreements	<u>33,871</u>	<u>33,871</u>	<u>-</u>	<u>-</u>
	<u>2,503,865</u>	<u>310,842</u>	<u>2,704,991</u>	<u>576,809</u>

24 Risk management disclosures

This section provides details of the Bank and its affiliates' 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 affiliates 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.

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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

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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.

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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.

	31 December 2002					Total	31 December 2001					Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year		Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
MONETARY ASSETS												
Turkish Lira												
Cash and cash equivalents	847,077	-	-	-	-	847,077	748,619	4,616	-	-	-	753,235
Financial assets held for trading	8,511	10,895	16,458	272,327	43,552	351,743	16,029	3,261	127,838	51,266	-	198,394
Investments	8,686	55,829	617,152	93,701	623,894	1,399,262	1,810	6,600	580,737	8,015	763,162	1,360,324
Loans and advances to banks	121,324	5,784	1,009	-	-	128,117	18,957	1,881	-	9,829	-	30,667
Loans and advances to customers	1,073,067	88,642	90,107	85,952	364,572	1,702,340	605,017	90,392	103,738	69,735	281,209	1,150,091
Other assets	49,811	34,095	38,769	4,770	-	127,445	104,171	8,732	67,978	11,458	247,575	439,914
Deferred tax assets	-	-	-	-	377,545	377,545	-	-	-	-	351,717	351,717
Total Turkish Lira monetary assets	2,108,476	195,245	763,495	456,750	1,409,563	4,933,529	1,494,603	115,482	880,291	150,303	1,643,663	4,284,342
Foreign currency												
Cash and cash equivalents	1,238,787	-	-	-	-	1,238,787	2,028,567	2,677	-	-	-	2,031,244
Financial assets held for trading	7,792	167,321	31,034	290,006	629,721	1,125,874	-	2,995	26,346	567,824	1,281,879	1,879,044
Investments	53	92,484	146,775	168,910	4,888,201	5,296,423	1,067	542	324	1,007	4,485,718	4,488,658
Loans and advances to banks	813,682	46,356	27,920	55,812	48,716	992,486	1,527,665	179,047	8,460	52,818	50,678	1,818,668
Loans and advances to customers	404,657	839,944	959,554	1,314,852	2,166,075	5,685,082	1,193,327	652,032	693,236	1,285,828	2,112,438	5,936,861
Other assets	98,970	43,709	31,199	185	-	174,063	91,742	14,272	7,535	31,527	41,875	186,951
Deferred tax assets	-	-	-	-	2,642	2,642	-	-	-	-	3,370	3,370
Total foreign currency monetary assets	2,563,941	1,189,814	1,196,482	1,829,765	7,735,355	14,515,357	4,842,368	851,565	735,901	1,939,004	7,975,958	16,344,796
Total Monetary Assets	4,672,417	1,385,059	1,959,977	2,286,515	9,144,918	19,448,886	6,336,971	967,047	1,616,192	2,089,307	9,619,621	20,629,138
MONETARY LIABILITIES												
Turkish Lira												
Deposits	3,938,384	503,425	68,216	12,699	753	4,523,477	3,676,880	309,998	61,456	11,704	54,878	4,114,916
Obligations under repurchase agreements	271,527	-	-	-	-	271,527	309	111,549	-	-	-	111,858
Loans and advances from banks	151,395	37,694	50,215	7	6	239,317	19,265	33,403	27,059	21	18	79,766
Bonds payable	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities and accrued expenses	163,511	40,953	30,379	54,413	20,554	309,810	177,325	30,491	25,978	42,694	363,740	640,228
Total Turkish Lira monetary liabilities	4,524,817	582,072	148,810	67,119	21,313	5,344,131	3,873,779	485,441	114,493	54,419	418,636	4,946,768
Foreign currency												
Deposits	9,116,207	1,144,203	306,226	262,176	85,399	10,914,211	9,580,260	1,131,450	262,635	383,004	174,980	11,532,329
Obligations under repurchase agreements	488,219	321,870	-	-	-	810,089	100,413	100,294	-	-	-	200,707
Loans and advances from banks	20,307	40,530	985,209	1,143,575	394,318	2,583,939	56,075	883,159	1,081,465	1,541,905	775,504	4,338,108
Bonds payable	-	76,224	-	-	-	76,224	12,404	-	4,314	-	76,956	93,674
Other liabilities and accrued expenses	195,179	210,309	56,414	109,618	-	571,520	107,536	18,209	39,253	7,160	315,853	488,011
Total foreign currency monetary liabilities	9,819,912	1,793,136	1,347,849	1,515,369	479,717	14,955,983	9,856,688	2,133,112	1,387,667	1,932,069	1,343,293	16,652,829
Total Monetary Liabilities	14,344,729	2,375,208	1,496,659	1,582,488	501,030	20,300,114	13,730,467	2,618,553	1,502,160	1,986,488	1,761,929	21,599,597

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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 years 2002 and 2001:

	2002			
	US\$ %	EURO %	TL %	Other Currencies %
Assets				
Loans and advances to banks	0.75-6.25	1.50-5.17	41.00-64.00	-
Debt and other fixed or floating income instruments	6.81-10.43	7.68-9.86	58.12	8.44
Loans and advances to customers	2.57-14.00	5.99-10.75	42.09-94.92	11.64
Liabilities				
Deposits:				
- Foreign currency deposits	2.00-4.75	3.87-4.64	-	6.15
- Bank deposits	1.50-3.00	3.10-6.42	42.34-53.20	13.00
- Saving deposits	-	-	41.63-55.02	-
- Commercial deposits	-	-	42.34-55.35	-
- Public and other deposits	-	-	53.52	-
Obligations under repurchase agreements	2.33	-	51.09	-
Loans and advances from banks	1.73-13.96	2.00-10.00	44.50-47.52	2.75-5.40
Bonds payable	-	8.00	-	-

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Risk management disclosures continued

	2001			
	US\$ %	EURO %	TL %	Other Currencies %
Assets				
Loans and advances to banks	0.40-10.66	3.25-5.50	39.50-85.21	34.00
Debt and other fixed or floating income instruments	6.60-12.06	7.80-9.24	42.98-83.80	8.00-34.50
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	15.00-59.00	2.50-18.00
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 currency exchange rate fluctuations against 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.

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Risk management disclosures continued

These exposures were as follows:

	2002			
	US\$	EURO	Other Currencies	Total
Assets				
Cash and cash equivalents	1,047,543	180,523	10,721	1,238,787
Financial assets held for trading	989,249	128,842	7,783	1,125,874
Investments	4,504,488	754,917	37,018	5,296,423
Loans and advances to banks	508,374	300,156	183,956	992,486
Loans and advances to customers	4,484,236	1,053,413	143,185	5,680,834
Other assets	46,003	126,177	8,201	180,381
Investments in associated companies	-	530	5,015	5,545
Tangible assets	526	65,511	8,820	74,857
Deferred tax asset	2,642	-	-	2,642
Total Assets	11,583,061	2,610,069	404,699	14,597,829
Liabilities				
Deposits	6,776,367	3,854,795	283,049	10,914,211
Obligations under repurchase agreements	788,985	21,104	-	810,089
Loans and advances from banks	1,823,367	750,141	10,431	2,583,939
Bonds payable	-	76,224	-	76,224
Current tax liability	-	36,081	-	36,081
Other liabilities and accrued expenses	403,024	122,209	10,200	535,433
Total Liabilities	9,791,743	4,860,554	303,680	14,955,977
Net On Balance Sheet Position	<u>1,791,318</u>	<u>(2,250,485)</u>	<u>101,019</u>	<u>(358,148)</u>
Off Balance Sheet Net Notional Position	<u>(2,108,244)</u>	<u>2,227,797</u>	<u>(61,613)</u>	<u>57,940</u>
	2001			
	US\$	EURO	Other Currencies	Total
Total Assets	12,840,815	2,885,915	695,650	16,422,380
Total Liabilities	11,220,047	4,960,747	472,034	16,652,828
Minority interest	-	-	285	285
Net On Balance Sheet Position	<u>1,620,768</u>	<u>(2,074,832)</u>	<u>223,331</u>	<u>(230,733)</u>
Off Balance Sheet Net Notional Position	<u>(1,923,802)</u>	<u>1,865,644</u>	<u>77,173</u>	<u>19,015</u>

Of the amounts shown in the table above, at 31 December 2002, 16% (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.

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Risk management disclosures continued

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 %166.44 the three years ended 31 December 2002. The Russian Roubles denominated net assets/(liabilities) as included in the above table at their TL equivalents at 31 December 2002 amounted to TL60,566 billions (2001: TL68,093 billions).

For the year ended 31 December 2002, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US\$52,896 millions (2001: US\$46,335 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 no exposure to any individual customer or counterparty.

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Risk management disclosures continued

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

	2002				
	<u>Loans</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Non-Cash Loans</u>	<u>Capital Expenditure</u>
Turkey	6,329,487	18,993,798	13,927,685	4,639,780	150,011
Holland	1,091,986	2,345,060	2,373,084	199,147	4,583
Germany	-	54,388	828,096	1,884	-
USA	-	45,574	769,157	-	-
Luxembourg	-	40,841	365,095	21,248	-
Malta	-	2,889	1,297	1,198	-
England	4,270	273,857	1,059,885	7,512	-
Sw itzerland	101,896	113,771	264,914	37,064	-
Japan	-	120,559	-	-	-
Others	<u>72,073</u>	<u>203,559</u>	<u>712,746</u>	<u>43,474</u>	<u>423</u>
TOTAL	<u>7,599,712</u>	<u>22,194,296</u>	<u>20,301,957</u>	<u>4,951,307</u>	<u>155,017</u>

	2001				
	<u>Loans</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Non-Cash Loans</u>	<u>Capital Expenditure</u>
Turkey	5,766,026	19,503,364	13,351,917	5,585,115	302,750
Holland	1,346,072	2,533,735	2,375,643	213,362	30,488
Germany	7,209	387,116	1,086,131	-	-
ABD	-	278,253	1,049,250	112,267	-
Japan	-	7,292	589,923	-	-
Luxembourg	-	27,347	559,557	38,369	-
England	4,464	358,327	532,567	143,705	-
Malta	-	3,626	387,393	-	-
Sw itzerland	956	15,032	272,343	-	-
Others	<u>265,092</u>	<u>284,766</u>	<u>1,396,813</u>	<u>71,586</u>	<u>1,550</u>
TOTAL	<u>7,389,819</u>	<u>23,398,858</u>	<u>21,601,537</u>	<u>6,164,404</u>	<u>334,788</u>

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 65% 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 95%.

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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:

	2002	2001
Cash loans		
<u>Secured loans:</u>	<u>4,838,705</u>	<u>4,112,529</u>
Secured by cash collateral	269,004	305,953
Secured by mortgages	541,791	865,223
Secured by government institutions or government securities	1,099,082	399,576
Guarantees issued by financial institutions	146,915	201,647
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,781,913	2,340,130
<u>Unsecured loans</u>	<u>2,311,427</u>	<u>2,752,347</u>
Total performing loans and financial lease receivables	<u>7,150,132</u>	<u>6,864,876</u>
Non-cash loans		
<u>Secured loans:</u>	<u>4,697,812</u>	<u>5,713,320</u>
Secured by cash collateral	394,044	486,062
Secured by mortgages	216,921	313,677
Secured by government institutions or government securities	12,046	7,686
Guarantees issued by financial institutions	169,943	24,213
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	3,904,858	4,881,682
<u>Unsecured loans</u>	<u>253,495</u>	<u>451,084</u>
Total non-cash loans	<u>4,951,307</u>	<u>6,164,404</u>

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.

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25 Affiliates and associates

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

<u>Affiliates</u>	<u>Shareholding interest (%)</u>
Garanti Bank International N.V.	100.00
Ana Konut Danismanlik AS	100.00
Garanti Bank Moscow	100.00
Garanti Hayat Sigorta AS	100.00
Garanti Fund Mananagement Co. Ltd.	100.00
Garanti Bilisim Teknolojisi	100.00
Sahintur Sahinler Otelcilik Turizm Yatirim Isl. AS	100.00
Instrument Finance Company	100.00
Dogus Hava Tasimaciligi AS	100.00
Garanti Portföy Yönetimi AS	100.00
Garanti Yatirim Menkul Kıymetler AS	100.00
Imperial Ottoman Bank Off-Shore Ltd.	100.00
Ottoman Real Estate Company	100.00
United Turkish Gulf Bank International Ltd.	100.00
Konakli Tur.Tem.Yapi.San. ve Tic. AS	100.00
Galata Arastirma Yay.Tanitim ve Bil.Tek.Hiz. AS	100.00
Dogus Turizm Saglik Yatirimlari ve Isl. AS	100.00
Garanti Sigorta AS	99.99
Lasas Lastikleri San ve Tic. AS	99.99
Garanti Financial Services plc.	99.99
Clover Investments Co.	99.99
Bosphorus Financial Services Ltd.	99.99
Sititur Tur.Tem.Tasimacilik Org.Bilgisayar Danismanlik Yapi San.ve Tic.AS	99.95
Garanti Finansal Kiralama AS	98.89
Garanti Finans Faktoring Hizmetleri AS	81.81
Garanti Gayrimenkul Yatirim Ortakligi AS	56.06
Tansas Perakende Magazacilik Ticaret AS	25.92 *

* Although its ownership percentage in Tansas Perakende Magazacilik Ticaret AS 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.

During 2002, the Bank's controlling interest in Doc Finance SA decreased from 89.99% to 29.23%, as the Bank did not participate in the company's capital increases.

The table below sets out the Associates and shows their shareholding structure as at 31 December 2002 :

<u>Associates</u>	<u>Shareholding interest (%)</u>
Iksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AS	47.17
Garanti Turizm ve Yatirim Isl. AS	44.89
Volkswagen Dogus Tüketici Finansmani AS	38.00