Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet
At 31 March 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 March 2003 pursuant to IAS 29)

	Notes	31 March 2003	31 December 2002
Assets			
Cash and cash equivalents	*3*	1.621.786	2.344.392
Financial assets held for trading	*4*	962.940	1.660.756
Investments	*5*	8.023.868	7.525.566
Loans and advances to banks	*6*	1.050.176	1.259.494
Loans and advances to customers	*7*	8.226.704	8.541.641
Other assets	*9*	1.041.849	1.079.713
Investments in associated companies	*10*	196.272	210.485
Tangible assets, net	*11*	1.723.287	1.754.669
Intangible assets, net	*12*	136.855	141.093
Deferred tax assets, net	*18*	314.057	427.308
Total assets		**23.297.794**	**24.945.117**
Liabilities			
Deposits from banks	*13*	786.853	791.605
Deposits from customers	*14*	15.344.593	16.559.472
Obligations under repurchase agreements	*15*	1.356.281	1.215.674
Loans and advances from banks	*16*	2.993.008	3.173.178
Bonds payable	*17*	-	85.671
Current tax liability	*18*	46.647	44.758
Other liabilities and accrued expenses	*19*	825.361	947.878
Total liabilities		**21.352.743**	**22.818.236**
Minority interest		**191.837**	**218.724**
Shareholders' equity	*20*		
Share capital; authorized, issued and fully paid		1.727.216	1.727.216
Accumulated profits	*25*	25.998	180.941
Total shareholders' equity		**1.753.214**	**1.908.157**
Total liabilities, minority interest and shareholders' equity		**23.297.794**	**24.945.117**
Commitments and contingencies	*22*		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Operations
For The Three-Month Period Ended 31 March 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 March 2003 pursuant to IAS 29)

	Notes	31 March 2003	31 March 2002
Interest income:-			
Interest on loans		296.103	253.996
Interest on securities		136.078	519.039
Interest on deposits at banks		42.143	72.206
Interest on lease business		10.849	6.524
Others		15.828	26.319
		501.001	878.084
Interest expenses:-			
Interest on saving, commercial and public deposits		(458.697)	(466.029)
Interest on borrowings		(100.287)	(86.026)
Interest on bank deposits		(22.860)	(112.479)
Others		(5.442)	(4.109)
		(587.286)	(668.643)
Net interest income/(loss)		**(86.285)**	**209.441**
Fee and commission income		143.170	140.762
Fee and commission expense		(54.144)	(59.389)
Net fee and commission income		**89.026**	**81.373**
Trading account income, net		99.600	56.062
Gross profit from retail business		24.230	27.587
Premium income from insurance business		19.829	16.860
Foreign exchange gain, net		11.471	64.018
Other operating income		31.998	25.984
Operating income		**189.869**	**481.325**
Salaries and wages		(80.609)	(73.422)
Depreciation and amortization	*11,12*	(49.069)	(53.970)
Impairment losses	*7,8,10,11,12*	(33.854)	(84.307)
Employee benefits		(18.287)	(14.967)
Rent expenses		(16.585)	(19.593)
EDP expenses		(14.806)	(18.399)
Saving deposits insurance fund		(11.118)	(10.150)
Advertising expenses		(10.445)	(11.503)
Taxes and duties other than on income		(7.377)	(6.453)
Provision for severance payments		(1.576)	(4.042)
General provision		-	(148.666)
Other operating expenses		(79.820)	(77.082)
Operating expenses		(323.546)	(522.554)
Loss from operations		**(133.677)**	**(41.229)**
Gain on net monetary position, net		32.166	59.041
Income/(loss) before tax		**(101.511)**	**17.812**
Taxation (charge)/credit	*18*	(80.319)	31.692
Income/(loss) after tax		**(181.830)**	**49.504**
Minority interest		26.887	7.340
Net income/(loss) for the period		**(154.943)**	**56.844**
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*	**1,583.5 billion**	**1,500 billion**
Earning/(loss) per share (Full TL amount)		**(97,85)**	**37,90**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity
For The Three-Month Period Ended 31 March 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 March 2003 pursuant to IAS 29)

			Accumulated profits			Total
	Notes	**Share capital**	**Reserves**	**Unappropriated earnings/(losses)**	**Total**	**shareholders' equity**
Balances at 1 January 2002		**2.238.650**	**71.881**	**(362.913)**	**(291.032)**	**1.947.618**
Effect of prior year adjustments on the opening balance sheet	*5, 7,11*	-	-	(70.948)	(70.948)	(70.948)
Restated balances at 1 January 2002		**2.238.650**	**71.881**	**(433.861)**	**(361.980)**	**1.876.670**
Compensation of prior periods losses	*20*	(511.434)	-	511.434	511.434	-
Reserve for general banking risks		-	22.479	(22.479)	-	-
Transfer from general banking reserves		-	(3.288)	3.288	-	-
Reversal of restatement on reserves for the effects of inflation		-	(5.820)	5.820	-	-
Net income for the three-month period		-	-	56.844	56.844	56.844
Balances at 31 March 2002		**1.727.216**	**85.252**	**121.046**	**206.298**	**1.933.514**
Transfer from general banking reserves		-	787	(787)	-	-
Reversal of restatement on reserves for the effects of inflation		-	(11.521)	11.521	-	-
Net loss for the nine-month period		-	-	(25.357)	(25.357)	(25.357)
Balances at 31 December 2002		**1.727.216**	**74.518**	**106.423**	**180.941**	**1.908.157**
Transfer from general banking reserves		-	953	(953)	-	-
Reversal of restatement on reserves for the effects of inflation		-	(8.218)	8.218	-	-
Net loss for the three-month period		-	-	(154.943)	(154.943)	(154.943)
Balances at 31 March 2003		**1.727.216**	**67.253**	**(41.255)**	**25.998**	**1.753.214**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Three-Month Period Ended 31 March 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 March 2003 pursuant to IAS 29)

	Notes	31 March 2003	31 March 2002
Cash flows from operating activities:-			
Net income/(loss) for the period		(154.943)	56.844
Adjustments for non-cash items:-			
Taxation (credit)/charge	*18*	80.319	(31.692)
Minority interest		(26.887)	(7.340)
Impairment losses	*7,8,10,11,12*	33.854	84.307
General provision		-	148.666
Insurance technical provision		11.519	2.299
Provision for severance payments		1.576	4.042
Depreciation and amortization	*11,12*	49.069	53.970
Loss on sale of premises and equipment		4.856	1.784
Change in accrued interest and other income		19.761	(86.101)
Change in accrued interest and other expense		(30.367)	(82.020)
Monetary loss effect of above corrections		14.013	11.603
Changes in operating assets and liabilities:-			
Deposits from banks		(4.674)	(901.033)
Deposits from customers		(1.185.584)	(2.049.392)
Obligations under repurchase agreements		136.306	951.133
Financial assets held for trading		679.570	104.260
Loans and advances to banks		206.984	1.166.476
Loans and advances to customers		316.507	1.198.177
Other assets		(3.325)	116.784
Other liabilities		(112.514)	(108.970)
Income taxes paid		(13.181)	(2.718)
Net cash provided by operating activities		**22.859**	**631.079**
Cash flows from investing activities:-			
Increase in investments		(451.745)	(143.644)
Increase in investments in associated companies-net		(657)	(166)
Proceeds from sales of tangible assets and tangible assets held for resale		13.681	(4.457)
Additions to tangible assets and tangible assets held for resale		(40.849)	(9.604)
Net cash used in investing activities		**(479.570)**	**(157.871)**
Cash flows from financing activities:-			
Decrease in loans and advances from banks		(185.334)	(1.856.143)
Decrease in bonds payable		(80.561)	(28.187)
Proceeds from issuance of share capital to minorities		-	95.890
Net cash used in financing activities		**(265.895)**	**(1.788.440)**
Net decrease in cash and cash equivalents		**(722.606)**	**(1.315.232)**
Cash and cash equivalents at beginning of the period		2.344.392	3.129.594
Cash and cash equivalents at end of the period	*3*	**1.621.786**	**1.814.362**

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the three month period ended 31 March 2003 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 18 domestic liaison offices. In addition to its branches, the Bank has 100% ownership in two banks located in Amsterdam and Moscow. The Bank's head office is located in İstanbul.

(b) Ownership

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

The ownership interest in the Bank of those shareholders other than the Doğuş Group Companies and the individuals controlling this Group is 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.

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 March 2003 pursuant to International Accounting Standard (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 Şahenk family since the members of Şahenk family allow the Bank to exercise a voting power with respect to their shares held in these companies and/or;
- exercising actual dominant influence over the financial and operating policies although not having 50% voting power.

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

- The balance sheets and statements of operations of the Affiliates are consolidated on a line-by-line basis.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

Significant accounting policies continued

- 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.

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 224.10% as at 31 March 2003, 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 March 2003 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 March 2003 and 2002, and 31 December 2002, are given below:

Date	Index	Conversion factor
31 March 2003	7,281.8	1.000
31 December 2002	6,478.8	1.124
31 March 2002	5,387.9	1.352

Significant accounting policies continued

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".

(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.

Significant accounting policies continued

(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.

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.

Significant accounting policies continued

(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.

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.

Significant accounting policies continued

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.

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.

Significant accounting policies continued

(j) Securities borrowing and lending business

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

(k) Repurchase and resale agreements over investments

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

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.

Significant accounting policies continued

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.

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.

Significant accounting policies continued

(q) *Earnings per share*

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

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

(r) *Impairment*

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

Originated loans and advances and held-to-maturity instruments

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

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

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

Significant accounting policies continued

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 of financial assets and liabilities held for trading.

Dividend income

Dividend income is recognized in the statement of operations when received. Income from equity investments and other non-fixed income investments is recognized as dividend income when it accrues.

Significant accounting policies continued

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.

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

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

Retail business

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

(t) Segment reporting

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

Index for the notes to the consolidated financial statements:

Note description

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.

1.1 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.

Türkiye Garanti Bankası AŞ and Its Affiliates
Notes to Consolidated Financial Statements
As of and for the Three-Month Period Ended 31 March 2003
(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

1 Segment reporting continued

1.2 Business segments

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

31 March 2003	*Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial Sectors*	*Retail*	*Other Non-Financial Sectors*	*Combined*	*Eliminations*	*Total*
Interest income	486,441	14,024	2,154	52	2,376	963	463	506,473	(5,472)	501,001
Interest expenses	(584,026)	(4,489)	-	(1,640)	(326)	(2,297)	24	(592,754)	5,468	(587,286)
Net interest income	(97,585)	9,535	2,154	(1,588)	2,050	(1,334)	487	(86,281)	(4)	(86,285)
Fee and commission income, net	87,667	-	679	3,252	4,255	(3,501)	(2)	92,350	(3,324)	89,026
Trading account income, net	100,210	-	10	-	(370)	-	(250)	99,600	-	99,600
Gross profit from retail business	-	-	-	-	-	24,230	-	24,230	-	24,230
Premium income from insurance business	-	-	19,829	-	-	-	-	19,829	-	19,829
Foreign exchange gain, net	15,736	279	176	37	(363)	(3,262)	(1,240)	11,363	108	11,471
Other operating income	22,874	544	841	1,053	390	2,023	11,196	38,921	(6,923)	31,998
Salaries and wages	(54,615)	(1,266)	(5,433)	(286)	(1,849)	(11,022)	(6,138)	(80,609)	-	(80,609)
Impairment losses	(27,588)	(578)	-	-	(1,664)	-	(5,593)	(35,423)	1,569	(33,854)
Other operating expenses	(142,018)	(2,118)	(17,072)	(1,005)	(3,258)	(43,162)	(5,685)	(214,318)	5,235	(209,083)
Gain/(loss) on net monetary position	30,697	(8,822)	(1,112)	(1,345)	(2,794)	8,614	5,193	30,431	1,735	32,166
Taxation (charge)/credit	(63,809)	11,119	(1,840)	(69)	(14)	(8,305)	(17,401)	(80,319)	-	(80,319)
Minority interest	-	-	-	-	-	-	-	-	26,887	26,887
Net income/(loss) for the period	(128,431)	8,693	(1,768)	49	(3,617)	(35,719)	(19,433)	(180,226)	25,283	(154,943)
Segment assets	21,719,579	312,566	119,166	123,627	106,439	390,586	579,600	23,351,563	(250,041)	23,101,522
Investments in associated companies	1,489,691	790	11	7,986	6,526	115	26,137	1,531,256	(1,334,984)	196,272
Total assets	23,209,270	313,356	119,177	131,613	112,965	390,701	605,737	24,882,819	(1,585,025)	23,297,794
Segment liabilities	20,877,527	217,970	85,767	112,389	24,078	175,980	132,420	21,626,131	(273,388)	21,352,743

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

1 Segment reporting continued

31 March 2002	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	868,035	11,970	2,999	30	5,754	3,994	794	893,576	(15,492)	878,084
Interest expenses	(661,697)	(9,653)	-	(254)	(885)	(9,708)	(1,375)	(683,572)	14,929	(668,643)
Net interest income	206,338	2,317	2,999	(224)	4,869	(5,714)	(581)	210,004	(563)	209,441
Fee and commission income, net	74,734	-	233	2,945	4,947	(541)	1,931	84,249	(2,876)	81,373
Foreign exchange gain, net	44,334	964	(452)	568	(863)	15,869	(415)	60,005	4,013	64,018
Trading account income, net	56,605	-	132	-	(675)	-	-	56,062	-	56,062
Gross profit from retail business	-	-	-	-	-	27,587	-	27,587	-	27,587
Premium income from insurance business	-	-	16,860	-	-	-	-	16,860	-	16,860
Other operating income	15,384	1,034	(520)	54	7,882	730	10,469	35,033	(9,049)	25,984
Salaries and wages	(47,356)	(1,335)	(3,515)	(307)	(1,943)	(11,627)	(7,339)	(73,422)	-	(73,422)
General provision	(148,666)	-	-	-	-	-	-	(148,666)	-	(148,666)
Impairment losses	(80,462)	-		-	(4,107)	-	(2,963)	(87,532)	3,225	(84,307)
Other operating expenses	(149,850)	(1,863)	(13,671)	(476)	(13,672)	(36,258)	(6,698)	(222,488)	6,329	(216,159)
Gain/(loss) on net monetary position	12,962	(5,171)	311	858	(2,301)	18,216	43,599	68,474	(9,433)	59,041
Taxation (charge)/credit	49,306	1,218	(1,008)	(219)	(9,589)	(10,124)	2,963	32,547	(855)	31,692
Minority interest	-	-	-	-	-	-	-	-	7,340	7,340
Net income/(loss) for the period	33,329	(2,836)	1,369	3,199	(15,452)	(1,862)	40,966	58,713	(1,869)	56,844

31 December 2002	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Segment assets	23,287,826	300,845	113,850	97,213	110,712	447,176	589,454	24,947,076	(212,444)	24,734,632
Investments in associated companies	1,474,932	759	11	7,986	8,328	115	31,732	1,523,863	(1,313,378)	210,485
Total assets	24,762,758	301,604	113,861	105,199	119,040	447,291	621,186	26,470,939	(1,525,822)	24,945,117
Segment liabilities	22,371,640	214,781	87,864	86,027	24,447	196,854	138,452	23,120,065	(301,829)	22,818,236

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

2 Related party disclosures

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

2.1 Outstanding balances

	31 March 2003	***31 December 2002***
Balance sheet		
Obligations under repurchase agreements	547	373
Loans and advances to customers including accrued interest income	727,660	787,236
Loans granted in TL	*804*	*2,836*
Loans granted in foreign currency:	*US$ 408,439,271*	*US$ 410,539,146*
	EUR 24,726,879	*EUR 24,875,014*
	GBP 7,200	-
Miscellaneous receivables (Note 9)	4,477	2,458
Deposits received	85,882	145,360
Commitments and contingencies		
Non-cash loans	243,951	265,243

2.2 Transactions

	31 March 2003	***31 March 2002***
Interest income	12,298	19,921
Interest expense	3,582	5,939

In 2003, interest rates applied to foreign currency receivables from and payables to related parties vary at ranges of 3.43-10.00% and 1.00-4.25% (31 December 2002: 4-10% and 1-10%) respectively. The interest rates applied to Turkish Lira payables to related parties vary at ranges of 28-45% (31 December 2002: 28-43%). Various commission rates are applied to transactions involving guarantees and commitments.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

3 Cash and cash equivalents

	31 March 2003	*31 December 2002*
Cash at branches	114,897	202,514
Balances with Central Bank of Turkey	1,500,049	2,137,486
Others	6,840	4,392
	1,621,786	2,344,392

At 31 March 2003, cash and cash equivalents included balances with the Central Bank of Turkey of TL 1,146,792 billions (31 December 2002: TL 1,103,132 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

	31 March 2003				**31 December 2002**
	Face value	**Carrying value**	**Interest rate range %**	**Latest maturity**	**Carrying value**
Debt and other instruments held for trading:					
Government bonds in foreign currency	702,387	687,920	Libor+4	2004	771,407
Eurobonds	165,850	168,156	4.64-15.00	2030	299,116
Bonds issued by foreign governments	33,380	38,963	10.00	2003	179,188
Government bonds at floating rates	32,090	32,255	48.77-69.96	2004	36,859
Treasury bills in Turkish lira	8,626	7,428	44.60-63.34	2004	77,989
Discounted government bonds in Turkish lira	7,681	5,129	44.40-65.00	2003	266,264
Government bonds in Turkish lira	5,075	4,195	53.74-73.00	2004	2,705
Government bonds indexed to foreign currency	384	376	**(a)**	2004	6,953
Others		8,816			9,079
		953,238			1,649,560
Equity and other non-fixed income instruments:					
Listed shares		9,702			11,196
Total financial assets held for trading		962,940			1,660,756

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

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

4 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 three month period ended 31 March 2003, net income on trading of financial assets amounting to TL 99,600 billions (31 March 2002: TL 56,062 billions) in total is included in trading account income, net.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL 63,581 billions (31 December 2002: TL 293,101 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 March 2003, 58% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (31 December 2002: 16%).

	Notional amount with remaining life of					
At 31 March 2003	***Upto 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Currency Derivatives						
Spot exchange contracts	227,762	-	-	-	-	227,762
Purchases	*78,784*	-	-	-	-	*78,784*
Sales	*148,978*	-	-	-	-	*148,978*
Forward exchange contracts	1,958,980	100,509	11,476	20,563	12,391	2,103,919
Purchases	*1,933,016*	*56,230*	*9,240*	*15,113*	-	*2,013,599*
Sales	*25,964*	*44,279*	*2,236*	*5,450*	*12,391*	*90,320*
Currency/cross currency swaps	202,927	276,799	604,587	204,868	18,210	1,307,391
Purchases	*137,668*	*276,799*	*520,819*	*204,868*	*18,210*	*1,158,364*
Sales	*65,259*	-	*83,768*	-	-	*149,027*
Other foreign exchange contracts	47,789	3,557	-	-	-	51,346
Purchases	*5,278*	-	-	-	-	*5,278*
Sale	*42,511*	*3,557*	-	-	-	*46,068*
Subtotal Purchases	2,154,746	333,029	530,059	219,981	18,210	3,256,025
Subtotal Sales	282,712	47,836	86,004	5,450	12,391	434,393
Total of Transactions	2,437,458	380,865	616,063	225,431	30,601	3,690,418
Net Exposure	1,872,034	285,193	444,055	214,531	5,819	2,821,632

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

4 Financial assets held for trading continued

	Notional amount with remaining life of					
At 31 December 2002	***Upto 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps	-	1,101	75,037	-	-	76,138
Purchases	-	-	*38,069*	-	-	*38,069*
Sales	-	*1,101*	*36,968*	-	-	*38,069*
Currency Derivatives						
Spot exchange contracts	64,378	-	-	-	-	64,378
Purchases	*24,139*	-	-	-	-	*24,139*
Sales	*40,239*	-	-	-	-	*40,239*
Forward exchange contracts	1,564,609	11,464	12,112	1,798	-	1,589,983
Purchases	*1,500,230*	*4,619*	*10,169*	-	-	*1,515,018*
Sales	*64,379*	*6,845*	*1,943*	*1,798*	-	*74,965*
Currency/cross currency swaps	254,112	541,485	408,412	173,152	-	1,377,161
Purchases	*214,624*	*527,363*	*408,412*	*86,576*	-	*1,236,975*
Sales	*39,488*	*14,122*	-	*86,576*	-	*140,186*
Other foreign exchange contracts	55,909	-	-	-	-	55,909
Purchases	-	-	-	-	-	-
Sale	*55,909*	-	-	-	-	*55,909*
Subtotal Purchases	1,738,993	531,982	456,650	86,576	-	2,814,201
Subtotal Sales	200,015	22,068	38,911	88,374	-	349,368
Total of Transactions	1,939,008	554,050	495,561	174,950	-	3,163,569
Net Exposure	1,538,978	509,914	417,739	(1,798)	-	2,464,833

5 Investments

	31 March 2003				*31 December 2002*
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments available-for-sale:					
Discounted government bonds in Turkish Lira	1,449,580	934,805	58.22-59.87	2003	-
Eurobonds	934,588	877,177	3.25-12.75	2030	1,070,347
Bonds issued by foreign governments	45,421	45,421	8.50-16.50	2008	23,016
Government bonds in foreign currency	14,933	14,637	7.55-8.82	2003	-
Treasury bills in Turkish Lira	16,519	10,938	11.75-62.07	2004	2,605
Shares	-	6,696	-	-	8,645
Government bonds at floating rates	5,647	5,697	57.97-69.96	2004	57,241
Government bonds indexed to foreign currency		-			124,372
Others		613			638
Total available-for-sale portfolio		1,895,984			1,286,864

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

5 Investments continued

Total available-for-sale portfolio		1,895,984			1,286,864
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	2,456,644	3,554,958	***(a)***	2006	3,807,335
Eurobonds	1,150,290	1,182,987	4.54-12.75	2030	839,406
Government bonds at floating rates	1,040,774	1,032,193	***(b)***	2004	1,155,819
Bonds issued by financial institutions	117,845	107,710	7.90-20.82	2005	82,394
Government bonds-CPI	68,000	68,000	***(c)***	2003	76,428
Government bonds in foreign currency	21,135	23,079	6.40-8.73	2003	16,611
Treasury bills in Turkish lira	30,870	22,898	49.00-68.50	2003	75,435
Discounted government bonds in Turkish lira	15,001	10,632	44.40-65.00	2003	91,559
Bonds issued by foreign governments	8,276	8,277	5.75-8.25	2007	8,554
Others		2,130			370
		6,012,864			6,153,911
Accrued interest on held-to-maturity portfolio		115,020			84,791
Total held-to-maturity portfolio		6,127,884			6,238,702
Total investments		8,023,868			7,525,566

(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 TL 1,558,773 billions (31 December 2002: TL 1,149,349 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 TL 2,761,127 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 TL 317,560 billions.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

5 Investments continued

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 TL 28,830 billions and an increase in 2001 net loss by TL 19,315 billions net of deferred income taxes of TL 9,515 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 19,315 billions, which is the net amount of adjustment relating to prior year.

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

	31 March 2003		*31 December 2002*	
	Face Value	*Carrying value*	*Face Value*	*Carrying value*
US$ eurobonds collateralized to foreign banks	1,302,887	1,331,409	942,320	1,112,684
Deposited at Central Bank of Turkey (CBT) for interbank transactions	630,000	895,626	630,000	946,623
Deposited at CBT for foreign currency money market transactions	320,000	454,921	320,000	480,825
Reserve requirements at CBT	300,000	426,488	300,000	450,773
Deposited at CBT for repurchase transactions	350,450	371,433	124,219	152,769
Deposited at Clearing Bank (Takasbank)	161,900	165,382	214,944	252,645
Deposited at Istanbul Stock Exchange	-	-	157,410	179,890
Others		21,089		28,058
		3,666,348		3,604,267

6 Loans and advances to banks

	31 March 2003			*31 December 2002*		
	Turkish Lira	*Foreign Currency*	*Total*	*Turkish Lira*	*Foreign Currency*	*Total*
Loans and advances-demand						
Domestic banks	1,550	2,306	3,856	1,867	64	1,931
Foreign banks	-	276,773	276,773	-	172,309	172,309
	1,550	279,079	280,629	1,867	172,373	174,240
Loans and advances-time						
Domestic banks	42,517	178,792	221,309	81,696	220,583	302,279
Foreign banks	7,788	536,162	543,950	57,816	718,535	776,351
	50,305	714,954	765,259	139,512	939,118	1,078,630
Accrued interest on loans and advances	992	3,296	4,288	2,623	4,001	6,624
Total loans and advances to banks	52,847	997,329	1,050,176	144,002	1,115,492	1,259,494
Less : allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	52,847	997,329	1,050,176	144,002	1,115,492	1,259,494

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

6 Loans and advances to banks continued

As at 31 March 2003, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1-10.25% per annum for foreign currency time deposits and 42.00-57.00% per annum for Turkish lira time deposits (31 December 2002: 1-10% and 41-59%, respectively).

As at 31 December 2002, TL 214,195 billions (31 March 2003: 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 March 2003, demand deposits at foreign banks include blocked accounts of TL 33,772 billions (31 December 2002: TL 39,215 billions) against the securitisation transactions on cheques and credit card receivables.

7 Loans and advances to customers

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

	31 March 2003	*31 December 2002*
Industrial	2,292,008	2,009,417
Consumer loans	1,285,851	1,297,859
Financial institutions	1,198,443	1,319,910
Foreign trade	641,149	1,134,638
Service sector	512,307	664,921
Construction	401,367	313,573
Turkish Treasury	381,113	423,353
Tourism	205,902	72,186
Agriculture	169,420	124,678
Transportation	80,534	82,927
Media	19,134	20,178
Domestic commerce	10,581	23,707
Others	366,545	331,705
Total performing loans	7,564,354	7,819,052
Non-performing loans	376,633	438,743
Total gross loans	7,940,987	8,257,795
Accrued interest income on loans	261,736	266,704
Financial lease receivables, gross (Note 8)	217,506	217,285
Allowance for possible losses from loans and lease receivables	(193,525)	(200,143)
Loans and advances to customers	8,226,704	8,541,641

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

7 Loans and advances to customers continued

As at 31 March 2003, loans given to customers have interest rates between 2-24% (31 December 2002: 2-14%) per annum for foreign currency loans and 32-76% (31 December 2002: 31-80%) per annum for Turkish lira loans.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL 136,392 billions (31 December 2002: TL - billions).

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 TL 27,652 billions and an increase in 2001 net loss by TL 18,527 billions, net of deferred income taxes of TL 9,125 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 18,527 billions, which was the net amount of adjustments relating to prior period.

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

	31 March 2003	*31 December 2002*
Balance at the beginning of the period/year	200,143	417,814
Restatement effect of the beginning balance and current period provision for the effects of inflation	(20,609)	(92,517)
Write-offs	(86)	(195,843)
Recoveries	(2,085)	(6,364)
Provision for the period/year	16,162	77,053
Balance at the end of the period/year	193,525	200,143

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

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:

	31 March 2003	*31 December 2002*
Financial lease receivables, gross (Note 7)	217,506	217,285
Less: allowance for possible losses from lease receivables	(5,917)	(7,703)
	211,589	209,582
Analysis of net financial lease receivables		
Not later than 1 year	178,559	176,131
Later than 1 year and not later than 5 years	73,395	79,493
Later than 5 years	-	-
	251,954	255,624
Unearned income	(40,365)	(46,042)
Financial lease receivables, net	211,589	209,582
Analysis of net financial lease receivables, net		
Not later than 1 year	152,984	146,013
Later than 1 year and not later than 5 years	58,605	63,569
Later than 5 years	-	-
Financial lease receivables, net	211,589	209,582

9 Other assets

	31 March 2003	*31 December 2002*
Tangible assets held for resale	595,695	598,187
Factoring receivables	114,623	92,036
Miscellaneous receivables	64,633	63,399
Prepaid expenses, insurance claims and similar items	57,419	73,296
Insurance premium receivables	49,393	46,952
Retail business stocks	48,348	50,177
Accrued exchange gain on derivatives	40,189	78,775
Taxes and funds to be refunded	14,055	18,120
Purchased cheques	13,509	17,181
Others	43,985	41,590
	1,041,849	1,079,713

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 legal permission.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

10 Investments in associated companies

	31 March 2003		31 December 2002	
	Carrying Value	*Ownership %*	*Carrying Value*	*Ownership %*
Doğuş Otomotiv Holding A.Ş.	126,422	19.82	126,422	19.82
İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ	100,236	47.17	100,085	47.17
Petrotrans Nakliyat ve Ticaret AŞ	56,012	99.60	55,827	99.60
Garanti Turizm ve Yatırım İşl. AŞ	54,339	44.89	54,339	44.89
Others	68,084		69,077	
	405,093		405,750	
Impairment in value of investments	(208,821)		(195,265)	
	196,272		210,485	

The Bank had previously made available loans to Petrotrans Nakliyat Ticaret AŞ (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.

11 Tangible assets

Movement in tangible assets for the period of 1 January – 31 March 2003 is as follows:

	1January	*Additions*	*Restatement and Currency Adjustment*	*Disposals*	*31 December*
Costs					
Land and buildings	1,411,872	17,786	(6,644)	(8,790)	1,414,224
Furniture, fixture and equipments	980,476	5,140	(1,028)	(6,531)	978,057
Leasehold improvements	396,592	1,237	(413)	(450)	396,966
	2,788,940	24,163	(8,085)	(15,771)	2,789,247
Less: Accumulated depreciation					
Land and buildings	146,634	5,941	111	(2,264)	150,422
Furniture, fixture and equipments	625,946	26,991	(1,658)	(6,164)	645,115
Leasehold improvements	209,820	11,336	(239)	(285)	220,632
	982,400	44,268	(1,786)	(8,713)	1,016,169
Construction in progress	10,889	3,226 ***(a)***	-	-	14,115
	1,817,429		(6,299)	(7,058)	1,787,193
Impairment in value of tangible assets	(62,760)				(63,906)
	1,754,669				1,723,287

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

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

11 Tangible assets continued

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

	1January	*Correction*	*Additions*	*Restatement and Currency Adjustment*	*Disposal*	*31 December*
Costs						
Land and buildings	1,187,274	-	282,670	673	(58,745)	1,411,872
Furniture, fixture and equipments	1,112,576	18,574	83,182	4	(233,860)	980,476
Leasehold improvements	468,649	(70,931)	26,851	-	(27,977)	396,592
	2,768,499	(52,357)	392,703	677	(320,582)	2,788,940
Less: Accumulated depreciation						
Land and buildings	132,804	-	19,195	(244)	(5,121)	146,634
Furniture, fixture and equipments	699,161	46,780	113,499	(31)	(233,463)	625,946
Leasehold improvements	215,333	(49,724)	48,218	-	(4,007)	209,820
	1,047,298	(2,944)	180,912	(275)	(242,591)	982,400
Construction in progress	223,470	-	(212,581) ***(a)***	-	-	10,889
	1,944,671	(49,413)		952	(77,991)	1,817,429
Impairment in value of tangible assets	(32,195)					(62,760)
	1,912,476					1,754,669

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

Depreciation expense for the year ended 31 March 2003 amounts to TL 44,268 billions (31 March 2002: TL 51,279 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 years before 2002, 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 TL 49,412 billions and an increase in 2001 accumulated losses by TL 33,106 billions, net of deferred income tax of TL 16,306 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 33,106 billions, which is the net amount of adjustment relating to periods prior to 31 December 2001.

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 year 2002. The effect of this change in accounting estimate relating to the 2002 depreciation charge was recognized in the determination of net profit of 2002.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

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 Tansaş Perakende Mağazacılık Ticaret AŞ, 29.23% ownership in Doc Finance S.A., 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Doğuş Hava Taşımacılığı AŞ, 99.99% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Hayat Sigorta AŞ, 98.89% ownership in Garanti Finansal Kiralama AŞ, 81.81% ownership in Garanti Finans Faktoring Hizmetleri AŞ, 56.06% ownership in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, 100% ownership in Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ, and 99.95% ownership in Sititur Tur.Tem.Taşımacılık Org.Bilgisayar Dan.Yapı.San. ve Tic. AŞ consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

As at 31 March 2003, goodwill is amortized on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL 136,855 billions (31 December 2002: TL 141,093 billions), net of accumulated amortization, in the accompanying consolidated balance sheets. Movement in goodwill for the period of 1 January – 31 March 2003 is as follows:

	1January	***Additions***	***Disposals***	***31 March***
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	123,882	-	-	123,882
Doğuş Hava Taşımacılığı AŞ	42,338	-	-	42,338
Garanti Yatırım Menkul Kıymetler AŞ	22,248	-	-	22,248
Docfinance SA	9,217	-	-	9,217
Garanti Faktoring Hizmetleri AŞ	6,529	-	-	6,529
Garanti Finansal Kiralama AŞ	5,102	-	-	5,102
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	3,158	-	-	3,158
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,449	-	-	1,449
Garanti Sigorta AŞ	1,209	-	-	1,209
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	499	-	-	499
Garanti Hayat Sigorta AŞ	42	-	-	42
Total goodwill	215,673	-	-	215,673

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

12 Intangible assets continued

	1January	Additions	Disposals	31 March
Total goodwill	*215,673*	-	-	*215,673*
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	24,778	3,653	-	28,431
Doğuş Hava Taşımacılığı AŞ	6,356	529	-	6,885
Garanti Yatırım Menkul Kıymetler AŞ	2,626	278	-	2,904
Docfinance SA	1,703	115	-	1,818
Garanti Faktoring Hizmetleri AŞ	326	82	-	408
Garanti Finansal Kiralama AŞ	255	64	-	319
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	158	39	-	197
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	72	18	-	90
Garanti Sigorta AŞ	180	15	-	195
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	25	6	-	31
Garanti Hayat Sigorta AŞ	4	2	-	6
	36,483	4,801	-	41,284
Goodwill, net of accumulated amortization	179,190			174,389
Impairment in value of goodwill	(38,097)			(37,534)
	141,093			136,855

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

	1January	Additions	Disposals	31 December
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	123,882	-	-	123,882
Doğuş Hava Taşımacılığı AŞ	42,338	-	-	42,338
Garanti Yatırım Menkul Kıymetler AŞ	22,248	-	-	22,248
Docfinance SA	9,217	-	-	9,217
Garanti Finans Faktoring Hizmetleri AŞ	6,529	-	-	6,529
Garanti Finansal Kiralama AŞ	5,102	-	-	5,102
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	3,158	-	-	3,158
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,449	-	-	1,449
Garanti Sigorta AŞ	1,209	-	-	1,209
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	499	-	-	499
Garanti Hayat Sigorta AŞ	42	-	-	42
Total goodwill	215,673	-	-	215,673

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

12 Intangible assets continued

	1January	Additions	Disposals	31 December
Total goodwill	*215,673*	-	-	*215,673*
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	10,166	14,612	-	24,778
Doğuş Hava Taşımacılığı AŞ	4,240	2,116	-	6,356
Garanti Yatırım Menkul Kıymetler AŞ	1,513	1,113	-	2,626
Docfinance SA	1,242	461	-	1,703
Garanti Finans Faktoring Hizmetleri AŞ	-	326	-	326
Garanti Finansal Kiralama AŞ	-	255	-	255
Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic.	-	158	-	158
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	72	-	72
Garanti Sigorta AŞ	119	61	-	180
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	25	-	25
Garanti Hayat Sigorta AŞ	2	2	-	4
	17,282	19,201	-	36,483
Goodwill, net of accumulated amortization	198,391			179,190
Impairment in value of goodwill	-			(38,097)
	198,391			141,093

13 Deposits from banks

Deposits from banks comprise of the following:

	31 March 2003	31 December 2002
Payable on demand	19,079	24,696
Term deposits	765,393	764,450
	784,472	789,146
Accrued interest on deposits from banks	2,381	2,459
	786,853	791,605

Deposits from banks include both TL accounts of TL 341,649 billions (31 December 2002: TL 96,115 billions) and foreign currency accounts of TL 442,823 billions (31 December 2002: TL 693,031 billions).

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inflation in TL units current at 31 March 2003 pursuant to IAS 29)

14 Deposits from customers

Deposits from customers comprise of the following:

	31 March 2003			*31 December 2002*
	Demand	Time	Total	Total
Foreign currency	3,154,378	7,541,492	10,695,870	11,498,117
Commercial	544,106	1,262,522	1,806,628	2,458,882
Saving	232,511	2,201,358	2,433,869	2,231,860
Public and other	188,795	83,648	272,443	205,535
	4,119,790	11,089,020	15,208,810	16,394,394
Accrued interest expenses on deposits from customers	-	135,783	135,783	165,078
	4,119,790	11,224,803	15,344,593	16,559,472

As at 31 March 2003, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 40-55% and 1.5-10.5% (31 December 2002: 36-59% and 1-13%), 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 March 2003 and 31 December 2002, assets sold under repurchase agreements were as follows:

31 March 2003	*Carrying value*	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
Trading instruments	63,581	58,000	59,646	April-July 2003	63,431
Investments	1,558,773	1,600,261	1,193,069	April-July 2003	1,199,472
Originated loans	136,392	128,019	103,566	April-July 2003	104,634
	1,758,746	1,786,280	1,356,281		1,367,537
31 December 2002					
Trading instruments	293,101	293,499	273,397	Jan-March 2003	274,640
Investments	1,149,349	1,171,842	942,277	Jan-March 2003	944,809
Originated loans	-	-	-		-
	1,442,450	1,465,341	1,215,674		1,219,449

Accrued interest on obligations under repurchase agreements amounting to TL 5,449 billions (31 December 2002: TL 1,148 billions) is included in the carrying amount of corresponding liabilities.

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.

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inflation in TL units current at 31 March 2003 pursuant to IAS 29)

15 Obligations under repurchase agreements continued

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 March 2003, the maturities and interest rates of the obligations are within one to four months and between 2-58% (31 December 2002: 1.5-34%).

16 Loans and advances from banks

Loans and advances from banks comprise of the following:

	31 March 2003	*31 December 2002*
Short-term borrowings		
Domestic banks	168,294	305,014
Foreign banks	1,779,177	2,083,907
	1,947,471	2,388,921
Long-term debts		
Short-term portion	298,017	316,058
Medium and long-term portion	710,118	435,961
	1,008,135	752,019
Accrued interest on loans and advances from banks	37,402	32,238
	2,993,008	3,173,178

As at 31 March 2003, short-term borrowings from foreign banks included a syndicated pre-export credit facility available to Turkish exporters in the amount of EUR 350 millions (equivalent of TL 637,366 billions) provided by forty-five banks in May 2002, and a syndicated term-loan facility in the amount of US$ 325 millions (equivalent of TL 542,425 billions) signed on 11 October 2002 available to corporate customers to pre-finance export contracts.

Long-term debts comprise of the following:

	31 March 2003						*31 December 2002*
	Interest rate%	*Maturity*	*Amount in original currency*		*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
DPR Securitisation	3	2008	US$	200	-	333,800	-
Anatolia Finance Company	6.55	2004	US$	91	62,755	88,777	106,915
TPR Securitisation-I	Libor+4.4-10.81	2004	US$	68	90,020	24,020	51,052
Cobank	1.94-2.44	2005	US$	57	37,087	57,430	59,658
Deutsche Bank	1.92-3.56	2005	US$	43	27,475	43,534	44,753
DEG	7.70	2005	EUR	12	9,105	13,658	14,117
ABN Amro Bank	6.3	2004	EUR	8	2,974	11,817	15,288
World Bank	3.24	2004	US$	6	6,676	3,338	8,984
Others					61,925	133,744	135,194
					298,017	710,118	435,961

16 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 SA (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 March 2003 is US$ 91 millions. The property of the Trust includes, among other things; (i) the right to receive a specified amount of current and future US Dollar amounts owed or to be owed by Visa, MasterCard and Europay to or for the account of Türkiye Garanti Bankası AŞ, in respect of credit and debit card merchant voucher receivables generated by the usage in Turkey of Visa, MasterCard ad Europay credit cards issued by non-Turkish financial institutions and acquisition of such voucher receivables by the Bank for processing and payment by Visa, MasterCard and Europay in accordance with their respective collection and settlement systems, subject to the pari-passu rights of the holders of the Prior Certificates, (ii) or funds collected or to be collected in respect of such receivables, (iii) or other payments by any other person in respect thereof and (iv) certain money on the deposit in certain accounts of the Trust.

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 March 2003 is US$ 68 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 five years with an average life of 3.14 years. The TPR Securitisation-I was arranged by Bank of America Securities LLC, Bank of America International Limited and Credit Suisse First Boston Corporation (CSFB) was appointed as co-manager.

In December 2002, the Bank obtained a short term fund in the amount of US$ 200 millions (equivalent of TL 333,800 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. Subsequently in 2003, its maturity lengthened to five 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.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

17 Bonds payable

Bonds payable comprised of the following:-

	31 March 2003	*31 December 2002*
Bearer notes	-	80,561
Accrued interest on bonds payable	-	5,110
	-	85,671

At 31 December 2002, bearer notes represented Euro notes issued by Garanti Bank International NV (GBI), a consolidated affiliate, on 21 March 2000 through the arrangement of Goldman Sachs International, bearing 8% interest per annum and payable annually in arrear on 21 March in each year commencing on 21 March 2001, and matured in 2003.

18 Taxation on income

As at 31 December 2002, the corporation tax rate was 30%; contribution to a state fund was 10% of this tax which resulted in effective corporation tax rate of 33%. As described in temporary Article 1 of Act No.4842 as published in the Official Gazette dated 24 April 2003, the state fund of 10% was abolished and effective corporation tax rate was decreased from 33% to 30%. 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 accordance with the change in tax legislation, starting from the second quarter of 2003, prepaid tax will be paid on the tax base calculated on the quarterly earnings of the companies at the rate of 30% as increased from 25%. These payments can be deducted from the annual corporate tax calculated for the whole year earnings. The remaining corporate tax liability is required to be paid in one instalment within the time frame of preparation of Annual Tax Return.

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.

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.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

18 Taxation on income continued

The total provision 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:

	31 March 2003	%	31 March 2002	%
Taxes on income/(loss) per statutory tax rate	(30,453)	(30.00)	5,878	33.00
Permanent differences relating to the restatement of non-monetary items per IAS 29	33,486	32.99	21,765	122.19
Effect of permanent differences on consolidation adjustments	8,396	8.27	(43,371)	(243.50)
Income items exempt from tax or subject to different tax rates	(16,271)	(16.03)	(36,296)	(203.78)
Investment incentives	(618)	(0.61)	-	-
Disallowable expenses	1,381	1.36	12,622	70.86
Effect of change in legal tax rate	44,786	44.12	-	-
Valuation of available for sale portfolio	40,381	39.78	-	-
Effect of different tax rates applicable to the consolidated affiliates	(769)	(0.76)	7,710	43.30
Taxation charge/(credit)	80,319	79.12	(31,692)	(177.93)

The taxation credit comprise the following items:

	31 March 2003	31 March 2002
Current taxes	7,926	16,552
Deferred taxes	72,393	(48,244)
Taxation charge/(credit)	80,319	(31,692)

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.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

18 Taxation on income continued

The current taxes payable on income as of 31 March 2003 and 31 December 2002, comprised the following:

	31 March 2003	*31 December 2002*
Provision for current taxes payable on income before deductions	80,319	(74,995)
Add: Taxes payable carried forward	43,519	35,935
Add/(less): Deferred tax assets/liabilities	(72,393)	92,288
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 31 March 2003	(4,798)	(8,470)
Taxes payable on income	46,647	44,758

Deferred tax assets and liabilities as at 31 March 2003 and 31 December 2002 are attributable to the items detailed in the table below:

	31 March 2003	*31 December 2002*
Deferred tax assets		
Tax losses carried forward	350,549	405,034
Impairment in value of investments in associated companies and tangible assets	65,596	49,878
Investment incentives	29,065	31,973
Capitalised expenses and leasing obligations	15,638	9,555
Specific and general allowance for loan losses	8,811	9,868
Reserve for retirement pay	3,375	2,227
Valuation difference on financial assets and liabilities	-	30,336
Others	6,541	14,812
Total deferred tax assets	479,575	553,683
Deferred tax liabilities		
Restatement of non-monetary items per IAS 29	142,826	126,375
Valuation difference on financial assets and liabilities	20,039	-
Others	2,653	-
Total deferred tax liabilities	165,518	126,375
Net deferred tax assets	(314,057)	(427,308)

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

19 Other liabilities and accrued expenses

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

	31 March 2003	***31 December 2002***
Transfer orders	356,221	480,448
Miscellaneous payables	122,404	149,053
Factoring payables	83,829	56,596
Insurance technical provisions	55,313	59,233
Withholding taxes	38,418	43,170
Payables to insurance and reinsurance companies relating to insurance operations	23,377	20,442
Payables to suppliers relating to financial leasing activities	19,331	7,410
Expense accruals	16,870	22,229
Reserve for severance payment	15,266	16,208
Blocked accounts	15,110	15,499
General provision for non-cash loans	4,496	4,870
Others	74,726	72,720
	825,361	947,878

20 Shareholders' equity

The authorized nominal share capital of the Bank amounted to TL 791,748 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. 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 and transfers from statutory accumulated profits 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 TL 1,727,216 billions in the accompanying consolidated financial statements.

The reserves include legal reserves amounting to TL 47,253 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 TL 20,000 billions appropriated by management for the purpose of general banking risks.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

21 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 sings of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for investments. These balance sheet instruments include loans and advances to banks and customers, deposits from banks and customers, obligations under repurchase agreements, loans and advances from banks, bonds payable and other short-term assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Fair value of investments is TL 7,869,117 billions (31 December 2002: TL 7,558,144 billions), whereas the carrying amount is TL 8,023,868 billions (31 December 2002: TL 7,525,566 billions) in the accompanying consolidated balance sheet as at 31 March 2003.

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.

22 Commitments and contingencies

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

Commitments and contingent liabilities comprise of the following items:

	31 March 2003	*31 December 2002*
Letters of guarantee	3,449,246	3,799,616
Letters of credit	1,310,194	1,277,341
Acceptance credits	434,496	450,697
Other guarantees and endorsements	30,111	37,332
	5,224,047	5,564,986

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 March 2003 pursuant to IAS 29)

22 Commitments and contingencies continued

As at 31 March 2003, commitment for uncalled capital of affiliated companies amounts approximately to TL 323 billions (31 December 2002: TL 303 billions).

As at 31 March 2003, commitment for purchase and sale of foreign currencies under spot, forward, swap, future rate agreements or options and for gold trading amounts to TL 3,690,418 billions (31 December 2002: TL 3,163,569 billions), all due within a year.

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

	31 March 2003		*31 December 2002*	
	Purchases	***Sales***	***Purchases***	***Sales***
Forward agreements for customer dealing activities	47,955	66,144	47,397	36,171
Currency swap agreements for customer dealing activities	26,921	28,535	22,257	20,311
Forward agreements for hedging purposes	1,965,644	24,176	1,467,622	38,794
Forward agreements for gold trading	5,278	46,068	-	55,909
Currency swap agreements for hedging purposes	1,131,443	120,492	1,214,717	119,875
Spot foreign currency transactions	49,994	138,891	21,316	38,357
Spot foreign currency transactions for customer dealing activities	28,790	10,087	2,823	1,882
Future rate agreements	-	-	38,069	38,069
	3,256,025	434,393	2,814,201	349,368

23 Risk management disclosures

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

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 23.2 contains risk management information related to the trading portfolio and section 23.3 deals with the non-trading portfolio.

23.1 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 22. 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

23 Risk management disclosures continued

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.

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.

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.

23.2 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 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.

23 Risk management disclosures continued

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.

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.

23 Risk management disclosures continued

23.3 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.

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.

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31March 2003 pursuant to IAS 29)

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 March 2003						31 December 2002					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
MONETARY ASSETS												
Turkish Lira												
Cash and cash equivalents	308.978	-	-	-	-	308.978	952.066	-	-	-	-	952.066
Financial assets held for trading	1.890	1.598	5.033	38.368	11.813	58.702	9.566	12.245	18.498	306.080	48.950	395.339
Investments	-	459.321	24.021	1.469.329	206.762	2.159.433	9.761	62.749	693.643	105.315	701.221	1.572.689
Loans and advances to banks	45.124	3.621	4.102	-	-	52.847	136.363	6.501	1.134	-	-	143.998
Loans and advances to customers	1.193.749	106.350	104.054	96.450	392.618	1.893.221	1.206.068	99.629	101.275	96.605	409.758	1.913.335
Other assets	110.252	38.337	63.843	340	-	212.772	55.985	38.321	43.574	5.361	-	143.241
Deferred tax assets	-	-	-	-	316.483	316.483	-	-	-	-	424.339	424.339
Total Turkish Lira monetary assets	1.659.993	609.227	201.053	1.604.487	927.676	5.002.436	2.369.809	219.445	858.124	513.361	1.584.268	5.545.007
Foreign currency												
Cash and cash equivalents	1.312.808	-	-	-	-	1.312.808	1.392.326	-	-	-	-	1.392.326
Financial assets held for trading	38.968	11.280	262.645	25.497	565.848	904.238	8.758	188.059	34.880	325.950	707.770	1.265.417
Investments	31.282	155.266	93.877	237.799	5.346.211	5.864.435	60	103.947	164.967	189.845	5.494.058	5.952.877
Loans and advances to banks	836.657	30.346	23.747	29.680	76.899	997.329	914.532	52.101	31.380	62.729	54.754	1.115.496
Loans and advances to customers	471.130	923.836	1.204.244	1.076.260	2.474.905	6.150.375	454.811	944.049	1.078.484	1.477.818	2.434.544	6.389.706
Other assets	75.302	22.782	6.790	2.280	18	107.172	111.237	49.126	35.066	208	-	195.637
Deferred tax assets	-	-	-	-	-58	-58	-	-	-	-	2.969	2.969
Total foreign currency monetary assets	2.766.147	1.143.510	1.591.303	1.371.516	8.463.823	15.336.299	2.881.724	1.337.282	1.344.777	2.056.550	8.694.095	16.314.428
Total Monetary Assets	4.426.140	1.752.737	1.792.356	2.976.003	9.391.499	20.338.735	5.251.533	1.556.727	2.202.901	2.569.911	10.278.363	21.859.435
MONETARY LIABILITIES												
Turkish Lira												
Deposits	4.286.130	547.911	53.956	22.539	362	4.910.898	4.426.518	565.821	76.671	14.273	846	5.084.129
Obligations under repurchase agreements	233.265	-	-	-	-	233.265	305.181	-	-	-	-	305.181
Loans and advances from banks	43.951	44.289	35.973	9	9	124.231	170.159	42.366	56.439	8	7	268.979
Bonds payable	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities and accrued expenses	188.111	27.822	36.808	56.651	22.275	331.667	183.782	46.029	34.144	61.157	23.102	348.214
Total Turkish Lira monetary liabilities	4.751.457	620.022	126.737	79.199	22.646	5.600.061	5.085.640	654.216	167.254	75.438	23.955	6.006.503
Foreign currency												
Deposits	8.846.145	1.342.641	265.539	426.136	340.087	11.220.548	10.246.094	1.286.019	344.180	294.671	95.984	12.266.948
Obligations under repurchase agreements	521.552	142.239	459.225	-	-	1.123.016	548.730	361.763	-	-	-	910.493
Loans and advances from banks	9.218	857.650	322.344	959.422	720.143	2.868.777	22.824	45.553	1.107.318	1.285.313	443.191	2.904.199
Bonds payable	-	-	-	-	-	-	-	85.671	-	-	-	85.671
Other liabilities and accrued expenses	265.219	179.615	47.778	41.305	4.378	538.295	219.365	236.375	63.406	123.204	-	642.350
Total foreign currency monetary liabilities	9.642.134	2.522.145	1.094.886	1.426.863	1.064.608	15.750.636	11.037.013	2.015.381	1.514.904	1.703.188	539.175	16.809.661
Total Monetary Liabilities	14.393.591	3.142.167	1.221.623	1.506.062	1.087.254	21.350.697	16.122.653	2.669.597	1.682.158	1.778.626	563.130	22.816.164

23 Risk management disclosures continued

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.

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

23 Risk management disclosures continued

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the first quarter of 2003 and 2002:

	2003			
	US$ *%*	***EURO*** *%*	***TL*** *%*	***Other Currencies*** *%*
Assets				
Loans and advances to banks	1.00-7.00	1.50-4.88	41.00-64.00	5.00
Debt and other fixed or floating income instruments	6.35-11.86	8.35-9.71	52.20-57.59	7.60
Loans and advances to customers	2.57-16.00	6.06-10.75	49.00-65.19	16.95
Liabilities				
Deposits:				
- Foreign currency deposits	1.50-5.75	2.00-5.50	-	2.00-10.50
- Bank deposits	2.00-4.41	3.46-5.51	41.63-43.22	3.00-5.50
- Saving deposits	-	-	40.01-55.90	-
- Commercial deposits	-	-	43.48-54.82	-
- Public and other deposits	-	-	55.25	-
Obligations under repurchase agreements	2.49	-	56.30	-
Loans and advances from banks	1.73-13.96	2.00-10.00	44.29-52.92	2.75-5.40
Bonds payable	-	-	-	-

	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	42.09-67.53	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	-	-

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

23 Risk management disclosures continued

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 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.

These exposures were as follows:

	31 March 2003			
	US$	*EURO*	*Other Currencies*	*Total*
Assets				
Cash and cash equivalents	1,085,074	222,726	5,008	1,312,808
Financial assets held for trading	793,848	110,390	-	904,238
Investments	4,896,918	907,947	59,570	5,864,435
Loans and advances to banks	412,748	532,050	52,531	997,329
Loans and advances to customers	4,901,768	1,099,911	144,828	6,146,507
Other assets	44,425	57,938	12,781	115,144
Investments in associated companies	-	575	5,374	5,949
Tangible assets	418	70,421	9,103	79,942
Deferred tax asset	8	199	(265)	(58)
Total Assets	12,135,207	3,002,157	288,930	15,426,294

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

23 Risk management disclosures continued

	31 March 2003			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	12,135,207	3,002,157	288,930	15,426,294
Liabilities				
Deposits	6,590,467	4,306,459	323,622	11,220,548
Obligations under repurchase agreements	804,276	318,740	-	1,123,016
Loans and advances from banks	2,038,508	820,618	9,651	2,868,777
Current tax liability	-	43,814	-	43,814
Other liabilities and accrued expenses	367,510	109,833	17,138	494,481
Total Liabilities	9,800,761	5,599,464	350,411	15,750,636
Net On Balance Sheet Position	2,334,446	(2,597,307)	(61,481)	(324,342)
Off Balance Sheet Net Notional Position	(2,469,118)	2,532,228	125,533	188,643

	31 December 2002			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	13,018,697	2,933,568	454,858	16,407,123
Total Liabilities	11,005,358	5,462,984	341,319	16,809,661
Net On Balance Sheet Position	2,013,339	(2,529,416)	113,539	(402,538)
Off Balance Sheet Net Notional Position	(2,369,545)	2,503,916	(69,249)	65,122

Of the amounts shown in the table above, at 31 March 2003, 58% (31 December 2002: 16%) are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

For the purposes of the evaluation of the table above, attention should be given to the assets and liabilities denominated in Russian Roubles which are considered as foreign currency items. Russia is a highly inflationary environment as evidenced by a very high cumulative inflation rate of %165.46 the three years ended 31 March 2003. The Russian Roubles denominated net assets/(liabilities) as included in the above table at their TL equivalents at 31 March 2003 amounted to TL 51,429 billions (31 December 2002: TL 68,073 billions).

For the three-month period ended 31 March 2003, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US$ 25,588 millions (31 December 2002: US$ 52,896 millions).

23 Risk management disclosures continued

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 22).

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.

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

23 Risk management disclosures continued

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

	31 March 2003				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	6,895,817	19,892,569	14,023,873	4,845,980	27,215
Holland	1,155,354	2,617,815	2,842,107	246,247	135
England	4,375	181,772	1,063,034	55	-
USA	-	165,585	779,555	66	-
Switzerland	106,371	119,202	412,836	41,131	-
Luxembourg	-	29,004	329,819	18,641	-
Germany	-	19,032	966,432	215	-
Japan	-	12,107	-	-	-
Malta	-	3,749	2,844	-	-
Others	64,787	256,959	932,243	71,712	39
TOTAL	8,226,704	23,297,794	21,352,743	5,224,047	27,389

	31 December 2002				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	7,113,981	21,347,941	15,653,920	5,214,847	174,493
Holland	1,227,330	2,635,713	2,667,210	223,830	5,151
England	4,799	307,800	1,191,250	8,443	-
Japan	-	135,501	-	-	-
Switzerland	114,525	127,872	297,748	41,658	-
Germany	-	61,129	930,732	2,118	-
USA	-	51,223	864,488	-	-
Luxembourg	-	45,903	410,346	23,882	-
Malta	-	3,247	1,458	1,346	-
Others	81,006	228,788	801,084	48,862	478
TOTAL	8,541,641	24,945,117	22,818,236	5,564,986	180,122

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 61% 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%.

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

23 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:

	31 March 2003	*31 December 2002*
Cash loans		
Secured loans:	4,740,361	5,438,427
Secured by cash collateral	281,410	302,345
Secured by mortgages	602,128	608,942
Secured by government institutions or government securities	1,124,555	1,235,305
Guarantees issued by financial institutions	156,807	165,124
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,575,461	3,126,711
Unsecured loans	3,041,499	2,597,910
Total performing loans and financial lease receivables	7,781,860	8,036,337
Non-cash loans		
Secured loans:	4,961,719	5,280,072
Secured by cash collateral	429,834	442,883
Secured by mortgages	238,206	243,807
Secured by government institutions or government securities	14,130	13,539
Guarantees issued by financial institutions	132,407	191,006
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	4,147,142	4,388,837
Unsecured loans	262,328	284,914
Total non-cash loans	5,224,047	5,564,986

23.4 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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inflation in TL units current at 31 December 2002 pursuant to IAS 29)

24 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 31 March 2003:

Affiliates	**Shareholding interest (%)**
Garanti Bank International NV	100.00
Ana Konut Danışmanlık AŞ	100.00
Garanti Bank Moscow	100.00
Garanti Hayat Sigorta AŞ	100.00
Garanti Fund Management Co. Ltd.	100.00
Garanti Bilişim Teknolojisi	100.00
Şahintur Şahinler Otelcilik Turizm Yatırım İşl. AŞ	100.00
Instrument Finance Company	100.00
Doğuş Hava Taşımacılığı AŞ	100.00
Garanti Portföy Yönetimi AŞ	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00
Imperial Ottoman Bank Off-Shore Ltd.	100.00
Ottoman Real Estate Company	100.00
United Turkish Gulf Bank International Ltd.	100.00
Konaklı Tur.Tem.Yapı.San. ve Tic. AŞ	100.00
Galata Araştırma Yay.Tanıtım ve Bil.Tek.Hiz. AŞ	100.00
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	100.00
Garanti Sigorta AŞ	99.99
Lasaş Lastikleri San ve Tic. AŞ	99.99
Garanti Financial Services plc.	99.99
Clover Investments Co.	99.99
Bosphorus Financial Services Ltd.	99.99
Sititur Tur.Tem.Taş. Org.Bilgisayar Danışm.Yapı San.ve Tic.AŞ	99.95
Garanti Finansal Kiralama AŞ	98.89
Garanti Finans Faktoring Hizmetleri AŞ	81.81
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.06
Tansaş Perakende Mağazacılık Ticaret AŞ	25.92 ***(a)***

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

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inflation in TL units current at 31 December 2002 pursuant to IAS 29)

24 Affiliates and associates continued

By reporting date, Körfez Financial Services plc, Instruments Finance Company and United Turkish Gulf Bank International Ltd. are in liquidation process.

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 March 2003:

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

25 Subsequent events

By the decision of the Board of Directors dated 1 May 2003, the Bank's statutory share capital has increased from TL 791,748 billions to TL 822,038 billion through appropriation of real-estate sales income of TL 30,290 billions. This will have no effect on the accompanying consolidated financial statements of the Bank.

For the three-month period ended 31 March 2003, the Bank and its affiliates had a loss of TL154,943 billions in the accompanying consolidated financial statements. This loss mainly arose from sharp declines in the market prices of securities as a result of negative effects of Iraq war on Turkish financial markets. As of 31 March 2003, the Bank and its affiliates decreased the fair values of the debt and other instruments held for trading and available for sale recognizing a loss of TL 134,603 billions for the period then ended. By the end of Iraq war, subsequent to improvement in market volatilities this negative effect was fully recovered and moreover, material market value increases incurred. As a result of these favorable developments in the Turkish financial markets, if the market prices as of this report date were used, the fair values of the debt and other instruments held for trading and available for sale as of 31 March 2003 would be TL 222,331 billions higher, leading the significant period loss turn into subsequent income.

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