Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet
At 30 June 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2003 pursuant to IAS 29)

	Notes	30 June 2003	31 December 2002
Assets			
Cash and cash equivalents	*3*	1.368.138	2.325.203
Financial assets held for trading	*4*	1.036.530	1.647.163
Loans and advances to banks	*5*	1.095.598	1.249.185
Loans and advances to customers	*6*	7.518.383	8.471.729
Other assets	*8*	1.012.974	1.070.877
Security investments	*9*	7.009.615	7.463.971
Investments in equity participations	*10*	383.379	208.762
Tangible assets, net	*11*	1.669.133	1.740.307
Intangible assets, net	*12*	130.412	139.938
Deferred tax assets, net	*18*	305.761	423.811
Total assets		**21.529.923**	**24.740.946**
Liabilities			
Deposits from banks	*13*	1.015.872	785.126
Deposits from customers	*14*	14.331.585	16.423.936
Obligations under repurchase agreements	*15*	1.248.704	1.205.724
Loans and advances from banks	*16*	1.912.642	3.147.206
Bonds payable	*17*	-	84.970
Current tax liability	*18*	40.653	44.391
Other liabilities and accrued expenses	*19*	862.793	940.120
Total liabilities		**19.412.249**	**22.631.473**
Minority interest		**183.064**	**216.934**
Shareholders' equity	*20*		
Share capital; authorized, issued and fully paid		1.713.080	1.713.080
Accumulated profits		221.530	179.459
Total shareholders' equity		**1.934.610**	**1.892.539**
Total liabilities, minority interest and shareholders' equity		**21.529.923**	**24.740.946**
Commitments and contingencies	*22*		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Operations
For The Six-Month Period Ended 30 June 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2003 pursuant to IAS 29)

	Notes	Six-month period ended 30 June 2003	Three-month period ended 30 June 2003	Six-month period ended 30 June 2002	Three-month period ended 30 June 2002
Interest income:-					
Interest on securities		618.385	483.421	652.192	137.402
Interest on loans		552.734	259.055	514.580	262.663
Interest on deposits at banks		73.510	31.712	181.515	109.900
Interest on lease business		20.506	9.746	14.266	7.795
Others		23.204	7.506	26.009	(95)
		1.288.339	791.440	1.388.562	517.665
Interest expenses:-					
Interest on saving, commercial and public deposits		(887.301)	(432.358)	(922.566)	(460.351)
Interest on borrowings		(208.074)	(108.608)	(161.083)	(75.761)
Interest on bank deposits		(65.089)	(42.416)	(307.058)	(195.499)
Others		(3.140)	2.257	(7.326)	(3.251)
		(1.163.604)	(581.125)	(1.398.033)	(734.862)
Net interest income/(loss)		**124.735**	**210.315**	**(9.471)**	**(217.197)**
Fee and commission income		303.696	161.698	293.837	154.227
Fee and commission expense		(112.155)	(58.454)	(124.906)	(66.003)
Net fee and commission income		**191.541**	**103.244**	**168.931**	**88.224**
Trading account income, net		219.019	120.234	151.389	95.786
Gross profit from retail business		59.575	35.573	61.238	33.877
Foreign exchange gain, net		43.710	32.333	90.154	26.660
Premium income from insurance business		35.411	15.744	27.414	10.692
Other operating income		60.634	28.898	36.044	10.272
Operating income		**734.625**	**546.341**	**525.699**	**48.314**
Salaries and wages		(157.357)	(77.408)	(147.806)	(74.985)
Depreciation and amortization	*11,12*	(96.661)	(47.994)	(104.266)	(50.737)
Impairment losses	*6,7,10,11,12*	(45.850)	(12.273)	(98.399)	(14.782)
Employee benefits		(35.808)	(17.671)	(32.098)	(17.254)
Rent expenses		(33.478)	(17.029)	(38.454)	(19.022)
EDP expenses		(29.313)	(14.628)	(31.020)	(12.771)
Advertising expenses		(25.606)	(15.246)	(27.507)	(16.098)
Claim loss from insurance business		(18.948)	(8.044)	(21.942)	(12.434)
Saving deposits insurance fund		(18.208)	(7.181)	(21.077)	(11.010)
Utility expenses		(16.437)	(7.563)	(9.501)	(4.596)
Taxes and duties other than on income		(14.556)	(7.239)	(14.748)	(8.348)
Repair and maintenance expenses		(8.590)	(6.559)	(6.512)	(3.624)
Stationary expenses		(4.543)	(2.289)	(6.115)	(3.442)
Provision for severance payments		(3.702)	(2.139)	(3.527)	482
Research and development expense		(1.098)	(467)	(6.549)	(4.570)
General provision		-	-	(51.846)	95.603
Other operating expenses		(136.312)	(81.839)	(118.628)	(64.130)
Operating expenses		(646.467)	(325.569)	(739.995)	(221.718)
Income/(loss) from operations		**88.158**	**220.772**	**(214.296)**	**(173.404)**
Gain/(loss) on net monetary position, net		13.529	(18.374)	18.660	(39.898)
Income/(loss) before tax		**101.687**	**202.398**	**(195.636)**	**(213.302)**
Taxation (charge)/credit	*18*	(93.489)	(13.827)	173.576	142.144
Income/(loss) after tax		**8.198**	**188.571**	**(22.060)**	**(71.158)**
Minority interest		33.873	7.206	24.077	16.798
Net income/(loss) for the period		**42.071**	**195.777**	**2.017**	**(54.360)**
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**	**1,583.5 billion**	**1.500 billion**	**1.500 billion**
Earning/(loss) per share (Full TL amount)		**26,57**	**123,64**	**1,34**	**(36,24)**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity
For The Six-Month Period Ended 30 June 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2003 pursuant to IAS 29)

				Accumulated profits		Total
	Notes	Share capital	Reserves	Unappropriated earnings/(losses)	Total	shareholders' equity
Balances at 1 January 2002		**2.220.327**	**71.293**	**(359.943)**	**(288.650)**	**1.931.677**
Effect of prior year adjustments on the opening balance sheet	*6, 9,11*	-	-	(70.367)	(70.367)	(70.367)
Restated balances at 1 January 2002		**2.220.327**	**71.293**	**(430.310)**	**(359.017)**	**1.861.310**
Compensation of prior periods losses	*20*	(507.247)	-	507.247	507.247	-
Reserve for general banking risks, net		-	18.572	(18.572)	-	-
Reversal of restatement on reserves for the effects of inflation		-	(7.936)	7.936	-	-
Net income for the six-month period		-	-	2.017	2.017	2.017
Balances at 30 June 2002		**1.713.080**	**81.929**	**68.318**	**150.247**	**1.863.327**
Transfer from general banking reserves		-	1.242	(1.242)	-	-
Reversal of restatement on reserves for the effects of inflation		-	(9.263)	9.263	-	-
Net income for the six-month period		-	-	29.212	29.212	29.212
Balances at 31 December 2002		**1.713.080**	**73.908**	**105.551**	**179.459**	**1.892.539**
Release from general banking risks reserve, net		-	(15.693)	15.693	-	-
Reversal of restatement on reserves for the effects of inflation		-	(6.040)	6.040	-	-
Net income for the six-month period		-	-	42.071	42.071	42.071
Balances at 30 June 2003		**1.713.080**	**52.175**	**169.355**	**221.530**	**1.934.610**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Six-Month Period Ended 30 June 2003

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2003 pursuant to IAS 29)

	Notes	30 June 2003	30 June 2002
Cash flows from operating activities:-			
Net income for the period		42.071	2.017
Adjustments for non-cash items:-			
Taxation (credit)/charge	*18*	93.489	(173.576)
Minority interest		(33.873)	(24.077)
Impairment losses	*6,7,10,11,12*	45.850	98.399
General provision		-	51.846
Insurance technical provision		12.535	9.321
Provision for severance payments		3.702	3.527
Depreciation and amortization	*11,12*	96.661	104.266
Loss on sale of premises and equipment		4.876	15.511
Change in accrued interest and other income		27.487	(746.743)
Change in accrued interest and other expense		(21.169)	(2.767)
Monetary loss effect of above corrections		56.589	34.649
Changes in operating assets and liabilities:-			
Deposits from banks		224.737	(751.426)
Deposits from customers		(2.078.697)	848.698
Obligations under repurchase agreements		37.871	431.721
Financial assets held for trading		615.445	420.258
Loans and advances to banks		150.169	(123.980)
Loans and advances to customers		890.671	(53.800)
Other assets		21.024	34.327
Other liabilities		(78.368)	(55.923)
Income taxes paid		(16.649)	(2.696)
Net cash provided by operating activities		**94.421**	**119.552**
Cash flows from investing activities:-			
Decrease/(increase) in security investments		530.160	(109.954)
(Increase)/decrease in investments in equity participations-net		(231.264)	9.641
Proceeds from sales of tangible assets and tangible assets held for resale		28.303	29.950
Additions to tangible assets and tangible assets held for resale		(76.364)	(31.518)
Net cash provided by/(used in) investing activities		**250.835**	**(101.881)**
Cash flows from financing activities:-			
Decrease in loans and advances from banks		(1.222.419)	(1.106.089)
Decrease in bonds payable		(79.902)	(14.253)
Proceeds from issuance of share capital to minorities		-	95.104
Net cash used in financing activities		**(1.302.321)**	**(1.025.238)**
Net decrease in cash and cash equivalents		**(957.065)**	**(1.007.567)**
Cash and cash equivalents at beginning of the period		2.325.203	3.103.980
Cash and cash equivalents at end of the period	*3*	**1.368.138**	**2.096.413**

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the six month period ended 30 June 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 305 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 30 June 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 30 June 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 fair value is lower than the carrying amount of the associate, the carrying amount is reduced to reflect impairment in value (refer accounting policy (r)).

(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 207.80% as at 30 June 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 30 June 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 30 June 2003 and 2002, and 31 December 2002, are given below:

Date	***Index***	***Conversion factor***
30 June 2003	7,222.2	1.000
31 December 2002	6,478.8	1.115
30 June 2002	5,572.0	1.296

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. 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, 6% discount rate and 94% 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.

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 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:

30 June 2003	*Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial Sectors*	*Retail*	*Other Non-Financial Sectors*	*Combined*	*Eliminations*	*Total*
Interest income	1,258,391	28,084	4,749	148	5,602	1,888	392	1,299,254	(10,915)	1,288,339
Interest expenses	(1,157,742)	(9,397)	-	(3,692)	(552)	(3,137)	-	(1,174,520)	10,916	(1,163,604)
Net interest income	100,649	18,687	4,749	(3,544)	5,050	(1,249)	392	124,734	1	124,735
Fee and commission income, net	185,914	-	562	7,196	8,969	(7,465)	(4)	195,172	(3,631)	191,541
Trading account income, net	218,554	-	156	-	309	-	-	219,019	-	219,019
Foreign exchange gain, net	37,112	1,937	(605)	207	(1,424)	4,910	1,703	43,840	(130)	43,710
Gross profit from retail business	-	-	-	-	-	59,575	-	59,575	-	59,575
Premium income from insurance business	-	-	35,411	-	-	-	-	35,411	-	35,411
Other operating income	43,824	1,808	1,345	986	968	7,264	18,521	74,716	(14,082)	60,634
Salaries and wages	(110,275)	(2,583)	(8,408)	(567)	(3,678)	(21,901)	(9,945)	(157,357)	-	(157,357)
Impairment losses	(22,733)	(572)	-	-	(1,612)	-	(14,920)	(39,837)	(6,013)	(45,850)
Other operating expenses	(312,352)	(4,133)	(29,654)	(1,598)	(6,379)	(81,517)	(18,095)	(453,728)	10,468	(443,260)
Gain/(loss) on net monetary position	22,713	(8,596)	(945)	(1,218)	(2,583)	(7,736)	8,246	9,881	3,648	13,529
Taxation (charge)/credit	(84,010)	5,461	(989)	(240)	(302)	1,067	(14,476)	(93,489)	-	(93,489)
Minority interest	-	-	-	-	-	-	-	-	33,873	33,873
Net income/(loss) for the period	79,396	12,009	1,622	1,222	(682)	(47,052)	(28,578)	17,937	24,134	42,071
Segment assets	19,908,174	314,676	123,165	137,251	91,986	388,210	570,211	21,533,673	(387,129)	21,146,544
Investments in equity participations	1,684,828	785	11	7,920	5,603	114	17,155	1,716,416	(1,333,037)	383,379
Total assets	21,593,002	315,461	123,176	145,171	97,589	388,324	587,366	23,250,089	(1,720,166)	21,529,923
Segment liabilities	18,934,819	217,285	86,663	124,935	7,477	186,992	124,097	19,682,268	(270,019)	19,412,249

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

1 Segment reporting (continued)

30 June 2002	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	1,367,098	24,063	4,832	30	8,411	6,963	1,384	1,412,781	(24,219)	1,388,562
Interest expenses	(1,391,355)	(9,886)	-	(2,001)	(1,798)	(13,733)	(3,090)	(1,421,863)	23,830	(1,398,033)
Net interest income	(24,257)	14,177	4,832	(1,971)	6,613	(6,770)	(1,706)	(9,082)	(389)	(9,471)
Fee and commission income, net	153,683	-	(102)	6,963	9,469	(1,059)	-	168,954	(23)	168,931
Trading account income, net	151,961	-	142	-	(714)	-	-	151,389	-	151,389
Foreign exchange gain, net	107,325	517	1,036	(784)	(141)	(17,444)	(4,127)	86,382	3,772	90,154
Gross profit from retail business	-	-	-	-	-	61,238	-	61,238	-	61,238
Premium income from insurance business	-	-	27,414	-	-	-	-	27,414	-	27,414
Other operating income	38,904	945	52	52	5,600	686	20,949	67,188	(31,144)	36,044
Salaries and wages	(97,659)	(2,674)	(5,909)	(653)	(3,854)	(22,685)	(14,372)	(147,806)	-	(147,806)
General provision	(51,846)	-	-	-	-	-	-	(51,846)	-	(51,846)
Impairment losses	(98,500)	-	-	-	(1,949)	-	(2,939)	(103,388)	4,989	(98,399)
Other operating expenses	(306,554)	(4,102)	(28,810)	(1,099)	(17,057)	(87,706)	(11,684)	(457,012)	15,068	(441,944)
Gain/(loss) on net monetary position	7,708	(7,581)	3,223	(1,485)	(6,540)	31,952	45,656	72,933	(54,273)	18,660
Taxation (charge)/credit	147,832	7,930	(2,059)	(43)	3,652	11,921	(328)	168,905	4,671	173,576
Minority interest	-	-	-	-	-	-	-	-	24,077	24,077
Net income/(loss) for the period	28,597	9,212	(181)	980	(4,921)	(29,867)	31,449	35,269	(33,252)	2,017

31 December 2002	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Segment assets	23,097,221	298,382	112,918	96,418	109,806	443,516	584,629	24,742,890	(210,706)	24,532,184
Investments in equity participations	1,462,860	752	11	7,920	8,260	114	31,473	1,511,390	(1,302,628)	208,762
Total assets	24,560,081	299,135	112,929	104,338	118,066	443,630	616,102	26,254,280	(1,513,334)	24,740,946
Segment liabilities	22,188,533	213,023	87,145	85,322	24,247	195,243	137,319	22,930,832	(299,359)	22,631,473

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 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

	30 June 2003	***31 December 2002***
Balance sheet		
Obligations under repurchase agreements	335	370
Loans and advances to customers including accrued interest income	471,924	780,793
Loans granted in TL	*3,968*	*2,813*
Loans granted in foreign currency:	*US$ 309,292,896*	*US$ 410,539,146*
	EUR 21,806,389	*EUR 24,875,014*
	GBP 882	-
Miscellaneous receivables (Note 8)	4,361	2,438
Deposits received	78,000	144,170
Commitments and contingencies		
Non-cash loans	213,156	263,072

2.2 Transactions

	Six-month period ended 30 June 2003	***Three-month period ended 30 June 2003***	***Six-month period ended 30 June 2002***	***Three-month period ended 30 June 2002***
Interest income	17,529	5,332	55,036	35,278
Interest expense	5,312	1,760	27,949	22,059

In 2003, interest rates applied to foreign currency receivables from and payables to related parties vary at ranges of 2.00-10.00% and 0.50-4.25% (31 December 2002: 4-10% and 1-10%) respectively. The interest rates applied to Turkish Lira payables to related parties vary at ranges of 36-45% (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 30 June 2003 pursuant to IAS 29)

3 Cash and cash equivalents

	30 June 2003	*31 December 2002*
Cash at branches	125,114	200,857
Balances with Central Bank of Turkey	1,234,224	2,119,991
Others	8,800	4,355
	1,368,138	2,325,203

At 30 June 2003, cash and cash equivalents included balances with the Central Bank of Turkey of TL 966,969 billions (31 December 2002: TL 1,094,103 billions) as minimum reserve requirements, these funds are not available for the Bank and its affiliates' daily business. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

4 Financial assets held for trading

	30 June 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	489,155	483,157	5.28-6.00	2005	765,093
Discounted government bonds in Turkish lira	324,185	216,505	45.50-52.08	2004	264,085
Eurobonds	136,153	141,102	5.28-15.00	2030	296,668
Treasury bills in Turkish lira	118,707	90,545	49.00-62.60	2004	77,351
Bonds issued by foreign governments	71,324	76,936	5.00-10.00	2030	177,721
Government bonds at floating rates	9,055	9,287	36.62-50.06	2004	36,557
Government bonds in Turkish lira	10,335	7,567	45.50-65.02	2004	2,683
Government bonds indexed to foreign currency	384	320	7.00	2003	6,896
Others		870			9,005
		1,026,289			1,636,059
Equity and other non-fixed income instruments:					
Listed shares		10,241			11,104
Total financial assets held for trading		1,036,530			1,647,163

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.

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2003 pursuant to IAS 29)

4 Financial assets held for trading (continued)

For the six month period ended 30 June 2003, net income on trading of financial assets amounting to TL 219,019 billions and to TL 120,234 billions for the three-month period ended 30 June 2003 (30 June 2002: TL 151,389 billions and three-month period ended 30 June 2002: TL 95,786 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 35,611 billions (31 December 2002: TL 290,702 billions).

The following table summarizes the contractual amounts of the forward exchange, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date. Monetary items denominated in a foreign currency are economically hedged using foreign currency derivative contracts. The Bank and its affiliates do not use hedge accounting for its foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of operations. At 31 December 2002, 16% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (30 June 2003: -%).

	Notional amount with remaining life of					
At 30 June 2003	***Upto 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Forward rate agreements	-	-	-	16,064	16,064	32,128
Purchases	*-*	*-*	*-*	*-*	*16,064*	*16,064*
Sales	*-*	*-*	*-*	*16,064*	*-*	*16,064*
Currency Derivatives						
Spot exchange contracts	209,586	11,732	-	-	-	221,318
Purchases	*81,973*	*-*	*-*	*-*	*-*	*81,973*
Sales	*127,613*	*11,732*	*-*	*-*	*-*	*139,345*
Forward exchange contracts	1,083,222	20,796	27,389	11,561	20,516	1,163,484
Purchases	*999,237*	*12,880*	*22,396*	*7,947*	*10,258*	*1,052,718*
Sales	*83,985*	*7,916*	*4,993*	*3,614*	*10,258*	*110,766*
Currency/cross currency swaps	261,455	461,822	356,525	332,435	-	1,412,237
Purchases	*230,385*	*387,948*	*356,525*	*332,435*	*-*	*1,307,293*
Sales	*31,070*	*73,874*	*-*	*-*	*-*	*104,944*
Options	-	13,985	-	-	-	13,985
Purchases	*-*	*13,985*	*-*	*-*	*-*	*13,985*
Sales	*-*	*-*	*-*	*-*	*-*	*-*
Other foreign exchange contracts	48,352	27,893	-	-	-	76,245
Purchases	*-*	*1,550*	*-*	*-*	*-*	*1,550*
Sale	*48,352*	*26,343*	*-*	*-*	*-*	*74,695*
Subtotal Purchases	1,311,595	416,363	378,921	340,382	26,322	2,473,583
Subtotal Sales	291,020	119,865	4,993	19,678	10,258	445,814
Total of Transactions	1,602,615	536,228	383,914	360,060	36,580	2,919,397
Net Exposure	1,020,575	296,498	373,928	320,704	16,064	2,027,769

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 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	-	1,092	74,422	-	-	75,514
Purchases	-	-	*37,757*	-	-	*37,757*
Sales	-	*1,092*	*36,665*	-	-	*37,757*
Currency Derivatives						
Spot exchange contracts	63,851	-	-	-	-	63,851
Purchases	*23,941*	-	-	-	-	*23,941*
Sales	*39,910*	-	-	-	-	*39,910*
Forward exchange contracts	1,551,804	11,371	12,013	1,782	-	1,576,970
Purchases	*1,487,951*	*4,582*	*10,086*	-	-	*1,502,619*
Sales	*63,853*	*6,789*	*1,927*	*1,782*	-	*74,351*
Currency/cross currency swaps	252,031	537,054	405,069	171,736	-	1,365,890
Purchases	*212,867*	*523,047*	*405,069*	*85,868*	-	*1,226,851*
Sales	*39,164*	*14,007*	-	*85,868*	-	*139,039*
Other foreign exchange contracts	55,452	-	-	-	-	55,452
Purchases	-	-	-	-	-	-
Sale	*55,452*	-	-	-	-	*55,452*
Subtotal Purchases	1,724,759	527,629	452,912	85,868	-	2,791,168
Subtotal Sales	198,379	21,888	38,592	87,650	-	346,509
Total of Transactions	1,923,138	549,517	491,504	173,518	-	3,137,677
Net Exposure	1,526,380	505,741	414,320	(1,782)	-	2,444,659

5 Loans and advances to banks

	30 June 2003			***31 December 2002***		
	Turkish Lira	***Foreign Currency***	***Total***	***Turkish Lira***	***Foreign Currency***	***Total***
Loans and advances-demand						
Domestic banks	4,629	1,533	6,162	1,852	64	1,916
Foreign banks	64	161,038	161,102	-	170,899	170,899
	4,693	162,571	167,264	1,852	170,963	172,815
Loans and advances-time						
Domestic banks	6,825	259,416	266,241	81,027	218,777	299,804
Foreign banks	33,168	625,773	658,941	57,342	712,654	769,996
	39,993	885,189	925,182	138,369	931,431	1,069,800
Accrued interest on loans and advances	1,006	2,146	3,152	2,603	3,967	6,570
Total loans and advances to banks	45,692	1,049,906	1,095,598	142,824	1,106,361	1,249,185
Less : allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	45,692	1,049,906	1,095,598	142,824	1,106,361	1,249,185

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

5 Loans and advances to banks (continued)

As at 30 June 2003, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1-16% per annum for foreign currency time deposits and 37.5-52% per annum for Turkish lira time deposits (31 December 2002: 1-10% and 41-59%, respectively).

As at 31 December 2002, TL 212,442 billions (30 June 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 30 June 2003, demand deposits at foreign banks include blocked accounts of TL 39,713 billions (31 December 2002: TL 38,894 billions) against the securitisation transactions on cheques and credit card receivables.

6 Loans and advances to customers

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

	30 June 2003	***31 December 2002***
Industrial	2,130,613	1,992,971
Consumer loans	1,536,731	1,287,237
Financial institutions	933,660	1,309,107
Foreign trade	530,719	1,125,351
Service sector	454,188	659,479
Turkish Treasury	334,340	419,888
Construction	283,994	311,007
Agriculture	160,947	123,657
Tourism	152,701	71,596
Transportation	78,150	82,248
Media	16,462	20,013
Domestic commerce	9,599	23,513
Others	330,458	328,990
Total performing loans	6,952,562	7,755,057
Non-performing loans	343,099	435,152
Total gross loans	7,295,661	8,190,209
Accrued interest income on loans	200,044	264,519
Financial lease receivables, net of unearned income (Note 7)	219,384	215,507
Allowance for possible losses from loans and lease receivables	(196,706)	(198,506)
Loans and advances to customers	7,518,383	8,471,729

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2003 pursuant to IAS 29)

6 Loans and advances to customers (continued)

As at 30 June 2003, loans given to customers have interest rates between 2-20% (31 December 2002: 2-14%) per annum for foreign currency loans and 34-58% (31 December 2002: 31-80%) per annum for Turkish lira loans.

Included in loans and advances to customers were securities pledged under repurchase agreements with customers amounting to TL 71,095 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 27,426 billions and an increase in 2001 net loss by TL 18,375 billions, net of deferred income taxes of TL 9,051 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 18,375 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:

	30 June 2003	*31 December 2002*
Balance at the beginning of the period/year	198,506	414,395
Restatement effect of the beginning balance and current period provision for the effects of inflation	(24,906)	(91,761)
Write-offs	(349)	(194,240)
Recoveries	(11,548)	(6,312)
Provision for the period/year	35,003	76,424
Balance at the end of the period/year	196,706	198,506

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

7 Financial lease receivables

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

The receivables are secured by the underlying assets. Loans and advances to customers include the following finance lease receivables:

	30 June 2003	*31 December 2002*
Financial lease receivables, net of unearned income (Note 6)	219,384	215,507
Less: allowance for possible losses from lease receivables	(5,917)	(7,641)
	213,467	207,866
Analysis of net financial lease receivables		
Not later than 1 year	180,453	174,689
Later than 1 year and not later than 5 years	77,596	78,842
Later than 5 years	-	-
Financial lease receivables, gross	258,049	253,531
Unearned income	(44,582)	(45,665)
Financial lease receivables, net	213,467	207,866
Analysis of net financial lease receivables, net		
Not later than 1 year	149,493	144,817
Later than 1 year and not later than 5 years	63,974	63,049
Later than 5 years	-	-
Financial lease receivables, net	213,467	207,866

8 Other assets

	30 June 2003	*31 December 2002*
Tangible assets held for resale	595,516	593,291
Factoring receivables	126,484	91,283
Insurance premium receivables	51,836	46,567
Prepaid expenses, insurance claims and similar items	48,850	72,696
Retail business stocks	43,690	49,767
Accrued exchange gain on derivatives	38,983	78,130
Miscellaneous receivables	37,928	62,880
Purchased cheques	15,367	17,040
Taxes and funds to be refunded	12,915	17,972
Others	41,405	41,251
	1,012,974	1,070,877

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 30 June 2003 pursuant to IAS 29)

9 Security investments

	30 June 2003				*31 December 2002*
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments available-for-sale:					
Eurobonds	777,224	825,431	2.62-12.75	2030	1,061,587
Discounted government bonds in Turkish Lira	736,478	545,972	49.02-51.59	2004	-
Government bonds at floating rates	281,474	293,894	56.67-57.97	2005	56,773
Treasury bills in Turkish Lira	311,441	240,365	47.30-63.00	2004	2,584
Government bonds in foreign currency	79,775	79,471	6.00-7.70	2005	-
Bonds issued by financial institutions	29,552	34,040	7.88-12.75	2010	-
Bonds issued by foreign governments	24,090	28,297	8.50-10.63	2008	22,828
Government bonds indexed to foreign currency	8,621	8,477	4.60-9.50	2005	123,354
Government bonds in Turkish Lira	5,300	4,082	47.25-74.17	2004	-
Others		1,142			9,208
Total securities available-for-sale		2,061,171			1,276,334
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	2,456,644	2,959,200	***(a)***	2006	3,776,172
Eurobonds	1,065,508	1,112,324	7.25-12.75	2010	832,536
Government bonds at floating rates	595,756	589,833	***(b)***	2005	1,146,359
Bonds issued by financial institutions	94,138	84,849	7.90-20.82	2005	81,720
Government bonds-CPI	68,000	68,000	***(c)***	2003	75,803
Treasury bills in Turkish lira	21,330	15,699	37.27-38.17	2003	74,817
Discounted government bonds in Turkish lira	20,000	13,916	45.50-51.59	2004	90,809
Bonds issued by foreign governments	7,299	7,299	5.75-8.25	2007	8,484
Government bonds in foreign currency		-			16,475
Others		203			367
		4,851,323			6,103,542
Accrued interest on held-to-maturity portfolio		97,121			84,095
Total securities held-to-maturity		4,948,444			6,187,637
Total security investments		7,009,615			7,463,971

(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.*

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

9 Security investments (continued)

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 1,474,567 billions (31 December 2002: TL 1,139,942 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 2,738,528 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 "securities 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 314,961 billions.

The accompanying 2002 financial statements reflect the correct definition and presentation of these securities as "securities 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 28,594 billions and an increase in 2001 net loss by TL 19,157 billions net of deferred income taxes of TL 9,437 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 19,157 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:

	30 June 2003		*31 December 2002*	
	Face Value	*Carrying value*	*Face Value*	*Carrying value*
US$ eurobonds collateralized to foreign banks	1,210,789	1,265,246	942,320	1,103,577
Deposited at Central Bank of Turkey (CBT) for interbank transactions	630,000	746,340	630,000	938,875
Deposited at CBT for foreign currency money market transactions	320,000	379,093	320,000	476,889
Reserve requirements at CBT	300,000	355,400	300,000	447,083
Deposited at CBT for repurchase transactions	229,505	249,004	124,219	151,518
Deposited at Clearing Bank (Takasbank)	165,000	173,372	214,944	250,578
Deposited at Istanbul Stock Exchange	-	-	157,410	178,418
Others		21,955		27,828
		3,190,410		3,574,766

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

10 Investments in equity participations

	30 June 2003		*31 December 2002*	
	Carrying Value	***Ownership %***	***Carrying Value***	***Ownership %***
Investments in associated companies:				
Garanti Turizm ve Yatırım İşl. AŞ	26,771	44.89	24,164	44.89
Petrotrans Nakliyat ve Ticaret AŞ	9,781	99.60	10,905	99.60
Others	6,315		21,296	
	42,867		56,365	
Other equity participations available-for-sale:				
Voyager Med. Tur. End. ve Tic. AŞ	162,533	77.00***(a)***	-	-
Doğuş Otomotiv Holding A.Ş.	125,387	19.82	125,387	19.82
Akarnet Konakl. Tes. Yat. İşl. AŞ	26,127	100.00***(a)***	-	-
İMKB Takasbank AŞ	9,795	5.83	9,795	5.83
Others	6,670		17,215	
	340,512		152,397	
	383,379		208,762	

Petrotrans is presently a dormant company. As 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, it is not consolidated.

Equity participations available-for-sale are stated at cost, since they do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and unworkable.

(a) *The investments in companies over which the Bank and its affiliates do not have either any significant influence or control, or any long-term plans to hold them as affiliate, were classified as equity participations available-for-sale and not consolidated.*

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

11 Tangible assets

Movement in tangible assets for the period of 1 January – 30 June 2003 is as follows:

	1January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs					
Land and buildings	1,400,317	14,727	(14,455)	(33,589)	1,367,000
Furniture, fixture and equipments	972,451	18,700	(3,492)	(17,052)	970,607
Leasehold improvements	393,346	15,884	(1,123)	(12,007)	396,100
	2,766,114	49,311	(19,070)	(62,648)	2,733,707
Less: Accumulated depreciation					
Land and buildings	145,434	13,696	(7,774)	(26,045)	125,311
Furniture, fixture and equipments	620,822	51,078	(2,893)	(12,220)	656,787
Leasehold improvements	208,103	22,361	(616)	(4,708)	225,140
	974,359	87,135	(11,283)	(42,973)	1,007,238
Construction in progress	10,797	2,634***(a)***	-	-	13,431
	1,802,552		(7,787)	(19,675)	1,739,900
Impairment in value of tangible assets	(62,245)				(70,767)
	1,740,307				1,669,133

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

	1January	*Correction*	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs						
Land and buildings	1,177,556	-	280,357	668	(58,264)	1,400,317
Furniture, fixture and equipments	1,103,470	18,422	82,501	4	(231,946)	972,451
Leasehold improvements	464,813	(70,350)	26,631	-	(27,748)	393,346
	2,745,839	(51,928)	389,489	672	(317,958)	2,766,114
Less: Accumulated depreciation						
Land and buildings	131,717	-	19,038	(242)	(5,079)	145,434
Furniture, fixture and equipments	693,438	46,397	112,570	(31)	(231,552)	620,822
Leasehold improvements	213,570	(49,317)	47,824	-	(3,974)	208,103
	1,038,725	(2,920)	179,432	(273)	(240,605)	974,359
Construction in progress	221,641	-	(210,844)***(a)***	-	-	10,797
	1,928,755	(49,008)		945	(77,353)	1,802,552
Impairment in value of tangible assets	(31,932)					(62,245)
	1,896,823					1,740,307

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

11 Tangible assets (continued)

Depreciation expense for the six-month period ended 30 June 2003 and for the three-month period ended 30 June 2003, amounts to TL 87,135 billions and TL 43,229 billions, respectively (the six-month period ended 30 June 2002: TL 104,266 billions and the three-month period ended 30 June 2002: TL 50,737 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%.

The Bank has corrected the opening balance of its tangible assets. 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 49,007 billions and an increase in 2001 accumulated losses by TL 32,835 billions, net of deferred income tax of TL 16,172 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 32,835 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.

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 Emeklilik ve Hayat 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 30 June 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 130,412 billions (31 December 2002:TL 139,938 billions), net of accumulated amortization, in the accompanying consolidated balance sheets.

(Currency: Billions of Turkish Lira as adjusted for the effects of
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12 Intangible assets (continued)

Movement in goodwill for the period of 1 January - 30 June 2003 is as follows:

	1January	Additions	Disposals	30 June
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	122,868	-	-	122,868
Doğuş Hava Taşımacılığı AŞ	41,991	-	-	41,991
Garanti Yatırım Menkul Kıymetler AŞ	22,066	-	-	22,066
Docfinance SA	9,142	-	-	9,142
Garanti Faktoring Hizmetleri AŞ	6,476	-	-	6,476
Garanti Finansal Kiralama AŞ	5,060	-	-	5,060
Sititur Tur.T.Taş.Org.Bilg.Dan.Y.San.veTic. AŞ	3,132	-	-	3,132
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,437	-	-	1,437
Garanti Sigorta AŞ	1,199	-	-	1,199
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	495	-	-	495
Garanti Emeklilik ve Hayat AŞ	41	-	-	41
Total goodwill	213,907	-	-	213,907
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	24,576	7,248	-	31,824
Doğuş Hava Taşımacılığı AŞ	6,304	1,052	-	7,356
Garanti Yatırım Menkul Kıymetler AŞ	2,604	552	-	3,156
Docfinance SA	1,689	229	-	1,918
Garanti Faktoring Hizmetleri AŞ	323	162	-	485
Garanti Finansal Kiralama AŞ	253	126	-	379
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	157	78	-	235
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	71	36	-	107
Garanti Sigorta AŞ	178	30	-	208
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	25	12	-	37
Garanti Emeklilik ve Hayat AŞ	4	1	-	5
	36,184	9,526	-	45,710
Goodwill, net of accumulated amortization	177,723			168,197
Impairment in value of goodwill	(37,785)			(37,785)
	139,938			130,412

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

12 Intangible assets (continued)

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	122,868	-	-	122,868
Doğuş Hava Taşımacılığı AŞ	41,991	-	-	41,991
Garanti Yatırım Menkul Kıymetler AŞ	22,066	-	-	22,066
Docfinance SA	9,142	-	-	9,142
Garanti Finans Faktoring Hizmetleri AŞ	6,476	-	-	6,476
Garanti Finansal Kiralama AŞ	5,060	-	-	5,060
Sititur Tur.T..Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	3,132	-	-	3,132
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,437	-	-	1,437
Garanti Sigorta AŞ	1,199	-	-	1,199
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	495	-	-	495
Garanti Emeklilik ve Hayat AŞ	41	-	-	41
Total goodwill	213,907	-	-	213,907
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	10,083	14,493	-	24,576
Doğuş Hava Taşımacılığı AŞ	4,205	2,099	-	6,304
Garanti Yatırım Menkul Kıymetler AŞ	1,500	1,104	-	2,604
Docfinance SA	1,232	457	-	1,689
Garanti Finans Faktoring Hizmetleri AŞ	-	323	-	323
Garanti Finansal Kiralama AŞ	-	253	-	253
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	-	157	-	157
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	71	-	71
Garanti Sigorta AŞ	118	60	-	178
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	25	-	25
Garanti Emeklilik ve Hayat AŞ	2	2	-	4
	17,140	19,044	-	36,184
Goodwill, net of accumulated amortization	196,767			177,723
Impairment in value of goodwill	-			(37,785)
	196,767			139,938

13 Deposits from banks

Deposits from banks comprise the following:

	30 June 2003	*31 December 2002*
Payable on demand	3,997	24,494
Term deposits	1,003,427	758,193
	1,007,424	782,687
Accrued interest on deposits from banks	8,448	2,439
	1,015,872	785,126

Deposits from banks include both TL accounts of TL 456,366 billions (31 December 2002: TL 95,328 billions) and foreign currency accounts of TL 551,058 billions (31 December 2002: TL 687,359 billions).

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2003 pursuant to IAS 29)

14 Deposits from customers

Deposits from customers comprise the following:

	30 June 2003			*31 December 2002*
	Demand	***Time***	***Total***	***Total***
Foreign currency	3,034,322	6,704,054	9,738,376	11,404,007
Saving	218,739	2,256,816	2,475,555	2,213,593
Commercial	706,448	999,080	1,705,528	2,438,757
Public and other	208,554	53,500	262,054	203,853
	4,168,063	10,013,450	14,181,513	16,260,210
Accrued interest expenses on deposits from customers	-	150,072	150,072	163,726
	4,168,063	10,163,522	14,331,585	16,423,936

As at 30 June 2003, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 34-53% and 1-13% (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. Assets sold under repurchase agreements comprise the following:

30 June 2003	***Carrying value***	***Fair value of underlying assets***	***Carrying amount of corresponding liabilities***	***Range of repurchase dates***	***Repurchase price***
Trading instruments	35,611	30,449	35,023	July 2003	36,150
Security investments	1,474,567	1,486,747	1,167,705	July-Dec 2003	1,173,092
Originated loans	71,095	71,095	45,979	July-Dec 2003	46,308
	1,581,273	1,588,291	1,248,704		1,255,550
31 December 2002					
Trading instruments	290,702	291,096	271,159	Jan-June 2003	272,392
Security investments	1,139,942	1,162,250	934,565	Jan-June 2003	937,076
Originated loans	-	-	-		-
	1,430,644	1,453,346	1,205,724		1,209,468

Accrued interest on obligations under repurchase agreements amounting to TL 6,248 billions (31 December 2002: TL 1,139 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.

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 30 June 2003, the maturities and interest rates of the obligations are within one to six months and between 2-40% (31 December 2002: 1.5-34%).

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2003 pursuant to IAS 29)

16 Loans and advances from banks

Loans and advances from banks comprise the following:

	30 June 2003	*31 December 2002*
Short-term borrowings		
Domestic banks	206,144	302,518
Foreign banks	827,722	2,066,850
	1,033,866	2,369,368
Long-term debts		
Short-term portion	305,123	313,471
Medium and long-term portion	553,823	432,392
	858,946	745,863
Accrued interest on loans and advances from banks	19,830	31,975
	1,912,642	3,147,206

As at 30 June 2003, short-term borrowings from foreign banks included a syndicated term-loan facility in the amount of US$ 325 millions (equivalent of TL 454,513 billions) signed on 11 October 2002 available to corporate customers to pre-finance export contracts. At 31 December 2002, short-term borrowings from foreign banks also included a one-year syndicated pre-export credit facility available to Turkish exporters in the amount of EUR 350 millions provided by forty-five banks and matured in May 2003.

Long-term debts comprise the following:

	30 June 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	-	279,700	-
Anatolia Finance Company	7.24	2004	US$	82	61,674	52,424	106,040
Cobank	1.13-1.75	2006	US$	67	38,285	55,480	59,169
TPR Securitisation-I	Libor+4.4-10.81	2004	US$	55	77,435	-	50,634
Deutsche Bank	1.92-3.56	2006	US$	48	25,707	41,822	44,387
Standard Chartered	1.25-1.51	2006	US$	24	16,258	17,643	17,970
DEG	7.70	2005	EUR	10	8,030	8,030	14,001
ABN Amro Bank	6.3	2004	EUR	8	12,388	-	15,163
World Bank	3.24	2004	US$	6	5,594	2,797	8,910
Others					59,752	95,927	116,118
					305,123	553,823	432,392

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

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16 Loans and advances from banks (continued)

with repayment schedule, the outstanding balance of this loan as of 30 June 2003 is US$ 82 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 30 June 2003 is US$ 55 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 279,700 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.

17 Bonds payable

The bonds which were fully repaid at the beginning of 2003, were as follows as at 31 December 2002:

Bearer notes	79,901
Accrued interest on bonds payable	5,069
	84,970

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.

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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.

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:

	30 June 2003	***%***	***30 June 2002***	***%***
Taxes on income/(loss) per statutory tax rate	30,506	30.00	(64,560)	(33.00)
Permanent differences relating to the restatement of non-monetary items per IAS 29	37,400	36.78	(69,899)	(35.73)
Effect of permanent differences on consolidation adjustments	8,907	8.76	(8,982)	(4.59)
Income items exempt from tax or subject to different tax rates	(34,080)	(33.51)	(30,217)	(15.45)
Investment incentives	4,749	4.67	-	-
Disallowable expenses	7,183	7.06	3,841	1.96
Effect of change in legal tax rate	42,077	41.38	-	-
Others	(3,253)	(3.20)	(3,759)	(1.92)
Taxation charge/(credit)	93,489	91.94	(173,576)	(88.73)

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18 Taxation on income (continued)

The taxation credit comprise the following:

	30 June 2003	*30 June 2002*
Current taxes	13,121	12,021
Deferred taxes	80,368	(185,597)
Taxation charge/(credit)	93,489	(173,576)

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

The current taxes payable on income comprise the following:

	30 June 2003	*31 December 2002*
Provision for current taxes payable on income before deductions	93,489	(74,381)
Add: Taxes payable carried forward	32,852	35,641
Add/(less): Deferred tax assets/liabilities	(80,368)	91,533
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 30 June 2003	(5,320)	(8,402)
Taxes payable on income	40,653	44,391

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

	30 June 2003	*31 December 2002*
Deferred tax assets		
Tax losses carried forward	324,201	401,719
Capitalised expenses and leasing obligations	17,142	9,476
Investment incentives	23,698	31,711
Impairment in value of investments in associated companies and tangible assets	25,232	49,470
Valuation difference on financial assets and liabilities	21,653	30,088
Specific and general allowance for loan losses	17,912	9,787
Reserve for retirement pay	4,240	2,208
Others	7,328	14,691
Total deferred tax assets	441,406	549,150
Deferred tax liabilities		
Restatement of non-monetary items per IAS 29	128,990	125,339
Others	6,655	-
Total deferred tax liabilities	135,645	125,339
Net deferred tax assets	305,761	423,811

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inflation in TL units current at 30 June 2003 pursuant to IAS 29)

19 Other liabilities and accrued expenses

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

	30 June 2003	*31 December 2002*
Transfer orders	343,765	476,516
Miscellaneous payables	135,622	147,833
Factoring payables	95,000	56,133
Insurance technical provisions	56,635	58,748
Withholding taxes	45,323	42,816
Payables to insurance and reinsurance companies relating to insurance operations	24,302	20,275
Unearned income	20,883	10,966
Expense accruals	20,618	22,047
Blocked accounts	19,517	15,372
Reserve for severance payment	18,171	16,076
Payables to suppliers relating to financial leasing activities	12,064	7,350
General provision for non-cash loans	5,101	4,830
Others	65,792	61,158
	862,793	940,120

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, in 2002 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 1,713,080 billions in the accompanying consolidated financial statements.

The reserves include legal reserves amounting to TL 47,175 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 5,000 billions appropriated by management for the purpose of general banking risks.

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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 7,006,151 billions (31 December 2002: TL 7,496,282 billions), whereas the carrying amount is TL 7,009,615 billions (31 December 2002: TL 7,463,971 billions) in the accompanying consolidated balance sheet as at 30 June 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 the following:

	30 June 2003	*31 December 2002*
Letters of guarantee	3,257,560	3,768,517
Letters of credit	1,375,395	1,266,886
Acceptance credits	452,253	447,008
Other guarantees and endorsements	21,522	37,026
	5,106,730	5,519,437

As at 30 June 2003, commitment for uncalled capital of affiliated companies amounts approximately to TL 247 billions (31 December 2002: TL 301 billions).

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22 Commitments and contingencies (continued)

As at 30 June 2003, commitment for purchase and sale of foreign currencies under spot, forward, swap, future rate agreements or options and forward agreements for gold trading amounts to TL 2,919,397 billions (31 December 2002: TL 3,137,677 billions), all due within a year.

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

	30 June 2003		*31 December 2002*	
	Purchases	*Sales*	*Purchases*	*Sales*
Forward agreements for customer dealing activities	62,634	57,290	47,009	35,875
Currency swap agreements for customer dealing activities	24,831	17,675	22,075	20,145
Spot foreign currency transactions for customer dealing activities	8,801	21,725	2,800	1,867
Forward agreements for hedging purposes	990,084	53,476	1,455,610	38,476
Currency swap agreements for hedging purposes	1,282,462	87,269	1,204,776	118,894
Options	13,985	-	-	-
Future rate agreements	16,064	16,064	37,757	37,757
Forward agreements for gold trading	1,550	74,695	-	55,452
Spot foreign currency transactions	73,172	117,620	21,141	38,043
	2,473,583	445,814	2,791,168	346,509

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

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.

23 Risk management disclosures (continued)

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.

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.

23 Risk management disclosures (continued)

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.

23.3 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.

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

	30 June 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	291.138	-	-	-	-	291.138	944.273	-	-	-	-	944.273
Financial assets held for trading	5.498	148	6.463	133.932	188.100	334.141	9.488	12.145	18.346	303.575	48.549	392.103
Loans and advances to banks	41.097	4.602	-	-	-	45.699	135.244	6.448	1.125	-	-	142.817
Loans and advances to customers	1.450.531	108.591	129.242	133.840	414.243	2.236.447	1.196.194	98.813	100.446	95.814	406.404	1.897.671
Other assets	87.248	41.914	67.999	0	3.668	200.829	55.526	38.007	43.217	5.317	-	142.067
Security investments	45.228	18.626	91.469	1.092.581	583.908	1.831.812	9.683	62.235	687.966	104.453	695.482	1.559.819
Deferred tax assets	-	-	-	-	305.498	305.498	-	-	-	-	420.866	420.866
Total Turkish Lira monetary assets	1.920.740	173.881	295.173	1.360.353	1.495.417	5.245.564	2.350.408	217.648	851.100	509.159	1.571.301	5.499.616
Foreign currency												
Cash and cash equivalents	1.077.000	-	-	-	-	1.077.000	1.380.930	-	-	-	-	1.380.930
Financial assets held for trading	33.225	147.940	1.536	1.785	517.903	702.389	8.686	186.520	34.595	323.282	701.977	1.255.060
Loans and advances to banks	810.327	146.810	16.828	44.554	31.380	1.049.899	907.047	51.675	31.124	62.216	54.306	1.106.368
Loans and advances to customers	760.885	565.423	936.244	804.271	2.068.722	5.135.545	451.092	936.322	1.069.657	1.465.723	2.414.618	6.337.412
Other assets	47.290	33.834	7.347	16.596	321	105.388	110.326	48.724	34.779	206	-	194.035
Security investments	35.684	63.503	40.679	1.598.741	3.439.196	5.177.803	59	103.096	163.616	188.291	5.449.090	5.904.152
Deferred tax assets	-	-	-	-	263	263	-	-	-	-	2.945	2.945
Total foreign currency monetary assets	2.764.411	957.510	1.002.634	2.465.947	6.057.785	13.248.287	2.858.140	1.326.337	1.333.771	2.039.718	8.622.936	16.180.902
Total Monetary Assets	4.685.151	1.131.391	1.297.807	3.826.300	7.553.202	18.493.851	5.208.548	1.543.985	2.184.871	2.548.877	10.194.237	21.680.518
MONETARY LIABILITIES												
Turkish Lira												
Deposits	3.997.985	643.586	281.164	63.620	458	4.986.813	4.390.289	561.190	76.043	14.156	839	5.042.517
Obligations under repurchase agreements	430.574	4.315	16.189	-	-	451.078	302.683	-	-	-	-	302.683
Loans and advances from banks	48.008	30.127	33.598	18.682	-	130.415	168.766	42.019	55.977	8	7	266.777
Bonds payable	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities and accrued expenses	188.419	28.608	36.613	103.799	28.699	386.138	182.273	45.652	33.865	60.657	22.912	345.359
Total Turkish Lira monetary liabilities	4.664.986	706.636	367.564	186.101	29.157	5.954.444	5.044.011	648.861	165.885	74.821	23.758	5.957.336
Foreign currency												
Deposits	8.177.103	1.129.300	273.123	420.237	360.881	10.360.644	10.162.232	1.275.493	341.363	292.259	95.198	12.166.545
Obligations under repurchase agreements	280.800	326.828	189.998	-	-	797.626	544.239	358.802	-	-	-	903.041
Loans and advances from banks	10.730	86.282	470.361	661.186	553.668	1.782.227	22.637	45.181	1.098.255	1.274.793	439.563	2.880.429
Bonds payable	-	-	-	-	-	-	-	84.970	-	-	-	84.970
Other liabilities and accrued expenses	251.836	88.849	115.638	54.287	4.706	515.316	217.575	234.441	62.887	122.196	-	637.099
Total foreign currency monetary liabilities	8.720.469	1.631.259	1.049.120	1.135.710	919.255	13.455.813	10.946.683	1.998.887	1.502.505	1.689.248	534.761	16.672.084
Total Monetary Liabilities	13.385.455	2.337.895	1.416.684	1.321.811	948.412	19.410.257	15.990.694	2.647.748	1.668.390	1.764.069	558.519	22.629.420

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.

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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 half of 2003 and the year of 2002:

	2003			
	US$ %	***EURO %***	***TL %***	***Other Currencies %***
Assets				
Loans and advances to banks	1.08-7.00	2.00-4.25	37.80-46.00	3.25-7.00
Debt and other fixed or floating income instruments	7.26-12.53	9.06-9.85	46.02-51.92	7.76
Loans and advances to customers	2.57-16.00	5.23-10.75	45.48-60.75	7.65
Liabilities				
Deposits:				
- Foreign currency deposits	1.50-5.75	2.00-6.00	-	2.00-10.50
- Bank deposits	1.50-6.00	2.94-4.55	39.67-40.11	1.00-12.50
- Saving deposits	-	-	38.02-49.44	-
- Commercial deposits	-	-	37.86-48.89	-
- Public and other deposits	-	-	45.87	-
Obligations under repurchase agreements	2.69	-	46.77	-
Loans and advances from banks	1.10-13.96	2.00-10.50	37.80-63.88	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 30 June 2003 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 are as follows:

	30 June 2003			
	US$	*EURO*	*Other Currencies*	*Total*
Assets				
Cash and cash equivalents	853,740	217,096	6,164	1,077,000
Financial assets held for trading	567,542	90,175	44,672	702,389
Investments	4,453,641	685,998	38,164	5,177,803
Loans and advances to banks	515,157	491,364	43,385	1,049,906
Loans and advances to customers	4,025,426	969,977	137,266	5,132,669
Other assets	42,547	54,851	14,869	112,267
Investments in associated companies	-	507	5,626	6,133
Tangible assets	329	59,180	7,784	67,293
Deferred tax asset	13	-	250	263
Total Assets	10,458,395	2,569,148	298,180	13,325,723

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2003 pursuant to IAS 29)

23 Risk management disclosures (continued)

	30 June 2003			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	10,458,395	2,569,148	298,180	13,325,723
Liabilities				
Deposits	5,903,262	4,159,725	297,657	10,360,644
Obligations under repurchase agreements	743,687	53,939	-	797,626
Loans and advances from banks	1,608,467	168,451	5,309	1,782,227
Current tax liability	17	37,404	-	37,421
Other liabilities and accrued expenses	382,192	86,341	9,359	477,892
Total Liabilities	8,637,625	4,505,860	312,325	13,455,810
Net On Balance Sheet Position	1,820,770	(1,936,712)	(14,145)	(130,087)
Off Balance Sheet Net Notional Position	*(2,049,959)*	*1,936,096*	*112,655*	*(1,208)*

	31 December 2002			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	12,912,142	2,909,557	451,136	16,272,835
Total Liabilities	10,915,288	5,418,271	338,525	16,672,084
Net On Balance Sheet Position	1,996,854	(2,508,714)	112,611	(399,249)
Off Balance Sheet Net Notional Position	(2,350,151)	2,483,422	(68,683)	64,588

Of the amounts shown in the table above, at 31 December 2002, 16% (30 June 2003: -%) 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.

The net of Russian Roubles denominated assets and liabilities as included in the above table at their TL equivalents, comprise net asset of TL 57,385 billions at 30 June 2003 (31 December 2002: TL 67,516 billions). For the purposes of the evaluation of the table above, these amounts should not be considered as hard currency.

For the six-month period ended 30 June 2003, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US$ 46,334 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.

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23 Risk management disclosures (continued)

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

	30 June 2003				
	Loans	*Total Assets*	*Total Liabilities*	*Non-Cash Loans*	*Capital Expenditure*
Turkey	6,475,925	18,461,785	13,311,946	4,740,522	51,569
Holland	929,264	2,221,997	2,573,489	249,443	323
England	3,834	294,025	500,819	2	-
USA	-	76,278	740,906	54	-
Switzerland	52,270	63,049	546,525	34,453	-
Luxembourg	-	26,493	314,666	15,003	-
Germany	-	28,616	664,151	191	-
Japan	-	3,256	10,101	4	-
Malta	-	2,929	2,161	-	-
Others	57,090	351,495	747,485	67,058	53
TOTAL	7,518,383	21,529,923	19,412,249	5,106,730	51,945

	31 December 2002				
	Loans	*Total Assets*	*Total Liabilities*	*Non-Cash Loans*	*Capital Expenditure*
Turkey	7,055,754	21,173,212	15,525,796	5,172,164	173,065
Holland	1,217,284	2,614,140	2,645,380	221,998	5,109
England	4,760	305,280	1,181,500	8,374	-
Japan	-	134,392	-	-	-
Switzerland	113,588	126,825	295,311	41,317	-
Germany	-	60,629	923,115	2,100	-
USA	-	50,803	857,413	-	-
Luxembourg	-	45,527	406,987	23,686	-
Malta	-	3,220	1,446	1,335	-
Others	80,343	226,918	794,525	48,463	471
TOTAL	8,471,729	24,740,946	22,631,473	5,519,437	178,645

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 60% of the balance of outstanding loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates’ obligations. The extent of collateral held for guarantees and letters of credit is around 95%.

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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:

	30 June 2003	*31 December 2002*
Cash loans		
Secured loans:	4,317,796	5,393,914
Secured by cash collateral	223,432	299,870
Secured by mortgages	545,921	603,958
Secured by government institutions or government securities	1,013,758	1,225,194
Guarantees issued by financial institutions	57,258	163,773
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,477,427	3,101,119
Unsecured loans	2,854,150	2,576,650
Total performing loans and financial lease receivables	7,171,946	7,970,564
Non-cash loans		
Secured loans:	4,849,438	5,236,855
Secured by cash collateral	468,484	439,258
Secured by mortgages	266,443	241,811
Secured by government institutions or government securities	9,579	13,428
Guarantees issued by financial institutions	170,569	189,443
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	3,934,363	4,352,915
Unsecured loans	257,292	282,582
Total non-cash loans	5,106,730	5,519,437

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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24 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 30 June 2003:

Affiliates	***Shareholding interest (%)***
Garanti Bank International NV	100.00
Ana Konut Danışmanlık AŞ	100.00
Garanti Bank Moscow	100.00
Garanti Emeklilik ve Hayat 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
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
Voyager Mediterranean Turizm End. AŞ	77.00
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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24 Affiliates and associates (continued)

By reporting date, Instruments Finance Company is in liquidation process. Liquidations of United Turkish Gulf Bank International Ltd. and Körfez Financial Services plc. have been completed by 30 June 2003 and the reporting date, respectively. The shares in Ottoman Real Estate Investment Company SA have been sold in June 2003.

The table below sets out the Associates and shows their shareholding structure as at 30 June 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
Doc Finance SA	29.23

Late in 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 increase.

25 Subsequent event

A one-year syndicated term-loan facility in the amount of EUR 400 millions with libor+0.75% per annum was signed on 7 July 2003 with the 16 mandated arrangers. The proceeds will be used to finance pre-finance export contracts of the Bank's corporate customers.

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