KPMG

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements

31 December 2003

With Independent Auditors' Report Thereon

11 March 2004

This report contains the "Independent Auditors' Report" comprising 1 page; and the "Consolidated financial statements and their explanatory notes" comprising 56 pages.

Türkiye Garanti Bankası Anonim Şirketi

And Its Affiliates

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 31 December 2003; and the consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Garanti Bankası Anonim Şirketi and its affiliates as of 31 December 2003; and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul,
11 March 2004

KPMG Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik A.Ş.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet
At 31 December 2003

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

	Notes	31 Dec 2003	31 Dec 2002
Assets			
Cash and cash equivalents	*3*	1,643,270	2,376,683
Financial assets held for trading	*4*	952,395	1,720,370
Loans and advances to banks	*5*	1,335,658	1,276,842
Loans and advances to customers	*6*	9,714,137	8,659,294
Other assets	*8*	1,271,450	1,094,587
Security investments	*9*	8,120,882	7,592,485
Investments in equity participations	*10*	394,931	213,384
Tangible assets, net	*11*	1,633,964	1,778,838
Intangible assets, net	*12*	120,685	143,036
Deferred tax assets	*18*	467,583	537,772
Total assets		**25,654,955**	**25,393,291**
Liabilities			
Deposits from banks	*13*	908,114	802,509
Deposits from customers	*14*	16,277,665	16,787,563
Obligations under repurchase agreements	*15*	1,616,357	1,232,419
Loans and advances from banks	*16*	3,226,733	3,216,886
Bonds payable	*17*	-	86,851
Current tax liability	*18*	30,273	45,374
Deferred tax liabilities	*18*	4,714	104,578
Other liabilities and accrued expenses	*19*	916,746	960,934
Total liabilities		**22,980,602**	**23,237,114**
Minority interest		**203,409**	**221,736**
Shareholders' equity	*20*		
Paid-in capital		1,904,901	1,751,008
Accumulated profits		566,043	183,433
Total shareholders' equity		**2,470,944**	**1,934,441**
Total liabilities, minority interest and shareholders' equity		**25,654,955**	**25,393,291**
Commitments and contingencies	*22*		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Operations
For The Year Ended 31 December 2003

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

	Notes	2003	2002
Interest income:-			
Interest on loans		1,262,818	1,136,921
Interest on securities		965,799	1,264,794
Interest on deposits at banks		150,268	315,255
Interest on lease business		47,172	36,302
Others		66,324	64,320
		2,492,381	2,817,592
Interest expenses:-			
Interest on saving, commercial and public deposits		(1,697,017)	(2,207,857)
Interest on borrowings		(389,120)	(299,909)
Interest on bank deposits		(106,860)	(328,241)
Others		(4,678)	(12,979)
		(2,197,675)	(2,848,986)
Net interest income/(expenses)		**294,706**	**(31,394)**
Fee and commission income		633,265	640,085
Fee and commission expense		(243,908)	(253,163)
Net fee and commission income		**389,357**	**386,922**
Trading account income, net		611,070	404,109
Foreign exchange gain, net		183,939	330,542
Gross profit from retail business		171,365	70,152
Premium income from insurance business		74,812	66,285
Other operating income		134,994	82,518
Operating income		**1,860,243**	**1,309,134**
Salaries and wages		(342,531)	(314,161)
Depreciation and amortization	*11,12*	(201,527)	(202,870)
Impairment losses	*6,7,10,11,12*	(117,618)	(157,132)
Employee benefits		(81,562)	(79,804)
Rent expenses		(67,841)	(83,956)
Advertising expenses		(62,683)	(70,332)
EDP expenses		(57,434)	(78,282)
Utility expenses		(35,010)	(19,550)
Saving deposits insurance fund		(31,786)	(47,318)
Taxes and duties other than on income		(30,787)	(32,536)
Claim loss from insurance business		(25,908)	(46,774)
Repair and maintenance expenses		(19,602)	(16,788)
Provision for severance payments		(17,551)	(6,998)
Stationary expenses		(11,201)	(14,048)
Research and development expense		(2,777)	(12,659)
Other operating expenses		(333,211)	(260,885)
Operating expenses		(1,439,029)	(1,444,093)
Income/(loss) from operations		**421,214**	**(134,959)**
Gain/(loss) on net monetary position, net		(2,346)	55,638
Income/(loss) before tax		**418,868**	**(79,321)**
Taxation credit	*18*	61,626	76,028
Income/(loss) after tax		**480,494**	**(3,293)**
Minority interest		56,009	35,214
Net income for the period		**536,503**	**31,921**
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**	**1,527.8 billion**
Earning per share (Full TL amount)		**338.81**	**20.89**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity
For The Year Ended 31 December 2003

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

				Accumulated profits		Total
	Notes	Paid-in capital	Reserves	Unappropriated earnings/(losses)	Total	shareholders' equity
Balances at 1 January 2002		**2,269,486**	**72,871**	**(367,912)**	**(295,041)**	**1,974,445**
Effect of prior year adjustments on the opening balance sheet	*6, 9,11*	-	-	(71,925)	(71,925)	(71,925)
Restated balances at 1 January 2002		**2,269,486**	**72,871**	**(439,837)**	**(366,966)**	**1,902,520**
Compensation of prior period losses	*20*	(518,478)	-	518,478	518,478	-
Reserve for general banking risks,net		-	20,253	(20,253)	-	-
Reversal of restatement on reserves for the effects of inflation		-	(17,580)	17,580	-	-
Net income for the year		-	-	31,921	31,921	31,921
Balances at 31 December 2002		**1,751,008**	**75,544**	**107,889**	**183,433**	**1,934,441**
Correction of additional paid-in capital	*20*	153,893	-	(153,893)	(153,893)	-
Reserve for general banking risks,net			14,110	(14,110)	-	-
Reversal of restatement on reserves for the effects of inflation			(8,445)	8,445	-	-
Net income for the year				536,503	536,503	536,503
Balances at 31 December 2003		**1,904,901**	**81,209**	**484,834**	**566,043**	**2,470,944**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2003

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

	Notes	2003	2002
Cash flows from operating activities:-			
Net income for the period		536,503	31,921
Adjustments for non-cash items:-			
Taxation credit	*18*	(61,626)	(76,028)
Minority interest		(56,009)	(35,214)
Impairment losses	*6,7,10,11,12*	117,618	157,132
Insurance technical provision		25,908	46,774
Provision for severance payments		17,551	6,998
Depreciation and amortization	*11,12*	201,527	202,870
Loss on sale of premises and equipment		17,399	95,088
Change in accrued interest and other income		(171,586)	(240,998)
Change in accrued interest and other expense		(10,893)	(52,191)
Correction on beginning tangible assets		-	50,092
Monetary loss effect of above corrections		22,775	(89,989)
Changes in operating assets and liabilities:-			
Deposits from banks		104,049	(1,052,021)
Deposits from customers		(496,104)	776,570
Obligations under repurchase agreements		378,941	876,275
Financial assets held for trading		735,143	695,296
Loans and advances to banks		(63,127)	825,998
Loans and advances to customers		(1,097,900)	(206,142)
Other assets		(148,988)	500,234
Other liabilities		(78,827)	(258,305)
Income taxes paid		(39,766)	(7,231)
Net cash provided by/(used in) operating activities		**(67,412)**	**2,247,129**
Cash flows from investing activities:-			
Increase in security investments		(346,224)	(835,670)
Increase in investments in equity participations-net		(194,372)	(131,175)
Proceeds from sales of tangible assets and tangible assets held for resale		105,749	69,871
Additions to tangible assets and tangible assets held for resale		(182,161)	(549,126)
Net cash used in investing activities		**(617,008)**	**(1,446,100)**
Cash flows from financing activities:-			
Decrease in loans and advances from banks		10,375	(1,764,996)
Decrease in bonds payable		(81,670)	(19,576)
Proceeds from issuance of share capital to minorities		22,302	187,524
Net cash used in financing activities		**(48,993)**	**(1,597,048)**
Net decrease in cash and cash equivalents		**(733,413)**	**(796,018)**
Cash and cash equivalents at beginning of the period		2,376,683	3,172,701
Cash and cash equivalents at end of the period	*3*	**1,643,270**	**2,376,683**

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 year ended 31 December 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 309 domestic branches, two foreign branches, five representative offices abroad, five change offices, three in-store branches and 24 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 shareholder 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 Bank and its Turkish affiliates 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); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign affiliates maintain their books of accounts 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 for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board.

Significant accounting policies (continued)

(b) Basis of preparation

The accompanying consolidated financial statements are presented in Turkish Lira (TL), rounded to the nearest billion as adjusted for the effects of inflation in TL units current at 31 December 2003.

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

Affiliates are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

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

Significant accounting policies (continued)

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(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 181.12% as at 31 December 2003, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 31 December 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. For the last three years, such indices and conversion factors used to restate the accompanying consolidated financial statements were as follows:

Date	***Index***	***Conversion factor***
31 December 2003	7,382.1	1.000
31 December 2002	6,478.8	1.139
31 December 2001	4,951.7	1.491

The main guidelines for the restatement above mentioned 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 that 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.

Significant accounting policies (continued)

- Non-monetary assets and liabilities that 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 effects of inflation on the net monetary positions 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.

(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)).

Significant accounting policies (continued)

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 financial 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 through 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.

(g) Goodwill/Negative Goodwill

Positive and negative goodwill consist of the excess/shortage of the total acquisition costs over/under the 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 consume.

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 consume. Amortization expense/income of goodwill and negative goodwill is reflected in the accompanying statement of operations.

Significant accounting policies (continued)

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 certain debt and equity investments.

Recognition

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

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

Significant accounting policies (continued)

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 amortised cost.

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, fair value of an instrument is estimated using the available market information and the 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 and short-term highly liquid investments with maturities of three months or less when purchased. Money market placements are classified in loans and advances to banks as originated loans and receivables.

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.

Financial lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial 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 4.8% 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 period 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 period 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 is 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 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 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 and available-for-sale.

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 31 December 2003 pursuant to IAS 29)

1 Segment reporting (continued)

1.2 Business segments

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

31 December 2003	*Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial Sectors*	*Retail*	*Other Non-Financial Sectors*	*Combined*	*Eliminations*	*Total*
Interest income	2,432,487	57,437	11,496	167	11,051	5,201	899	2,518,738	(26,357)	2,492,381
Interest expenses	(2,161,072)	(17,459)	-	(6,108)	(757)	(37,212)	(1,455)	(2,224,063)	26,388	(2,197,675)
Net interest income / (expenses)	271,415	39,978	11,496	(5,941)	10,294	(32,011)	(556)	294,675	31	294,706
Fee and commission income, net	379,663	-	(1,925)	13,689	22,715	(16,130)	(6)	398,006	(8,649)	389,357
Trading account income, net	608,511	-	32	-	2,527	-	-	611,070	-	611,070
Foreign exchange gain, net	178,729	2,537	(769)	(606)	(733)	4,366	301	183,825	114	183,939
Gross profit from retail business	-	-	-	-	-	171,365	-	171,365	-	171,365
Premium income from insurance business	-	-	74,812	-	-	-	-	74,812	-	74,812
Other operating income	110,953	3,387	1,848	934	1,878	7,035	35,803	161,838	(26,844)	134,994
Salaries and wages	(238,914)	(5,884)	(15,772)	(1,374)	(8,012)	(51,033)	(21,542)	(342,531)	-	(342,531)
Impairment losses	(93,251)	(3,268)	-	-	(4,087)	-	(4,903)	(105,509)	(12,109)	(117,618)
Other operating expenses	(692,715)	(10,006)	(62,814)	(2,565)	(12,275)	(184,253)	(33,432)	(998,060)	19,180	(978,880)
Gain/(loss) on net monetary position	4,427	(10,990)	(1,557)	(1,490)	(4,340)	7,442	(4,095)	(10,603)	8,257	(2,346)
Taxation (charge)/credit	(46,813)	(3,754)	(1,414)	(737)	(2,021)	16,991	99,374	61,626	-	61,626
Minority interest	-	-	-	-	-	-	-	-	56,009	56,009
Net income/(loss) for the year	482,005	12,000	3,937	1,910	5,946	(76,228)	70,944	500,514	35,989	536,503
Segment assets	23,776,822	351,295	141,916	98,311	99,421	432,355	593,829	25,493,949	(233,925)	25,260,024
Investments in equity participations	1,732,600	709	243	8,096	5,538	100	17,640	1,764,926	(1,369,995)	394,931
Total assets	25,509,422	352,004	142,159	106,407	104,959	432,455	611,469	27,258,875	(1,603,920)	25,654,955
Segment liabilities	22,490,759	251,070	102,555	85,062	5,277	211,196	33,548	23,179,467	(198,865)	22,980,602

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

1 **Segment reporting** (continued)

31 December 2002	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	2,766,956	53,658	9,087	382	14,471	10,200	2,017	2,856,771	(39,179)	2,817,592
Interest expenses	(2,828,946)	(20,110)	(9)	(4,446)	(2,473)	(29,585)	(2,936)	(2,888,505)	39,519	(2,848,986)
Net interest income / (expenses)	(61,990)	33,548	9,078	(4,064)	11,998	(19,385)	(919)	(31,734)	340	(31,394)
Fee and commission income, net	367,101	-	(237)	13,846	20,408	(14,148)	-	386,970	(48)	386,922
Trading account income, net	405,545	-	161	-	(1,654)	-	57	404,109	-	404,109
Foreign exchange gain, net	348,135	1,029	134	(2,077)	(2,999)	(10,298)	(5,253)	328,671	1,871	330,542
Gross profit from retail business	-	-	-	-	-	70,152	-	70,152	-	70,152
Premium income from insurance business	-	-	66,285	-	-	-	-	66,285	-	66,285
Other operating income	128,771	1,689	161	123	11,414	15,356	46,414	203,928	(121,410)	82,518
Salaries and wages	(210,749)	(5,716)	(11,630)	(1,416)	(8,604)	(43,624)	(32,422)	(314,161)	-	(314,161)
Impairment losses	(104,063)	(2,920)	-	-	(1,256)	-	(29,500)	(137,739)	(19,393)	(157,132)
Other operating expenses	(675,832)	(11,473)	(61,904)	(4,732)	(29,521)	(206,058)	(18,198)	(1,007,718)	34,918	(972,800)
Gain/(loss) on net monetary position	(63,251)	(22,114)	383	5,670	(7,626)	126,542	58,131	97,735	(42,097)	55,638
Taxation (charge)/credit	28,435	27,612	(2,618)	(42)	8,104	30,196	(12,401)	79,286	(3,258)	76,028
Minority interest	-	-	-	-	-	-	-	-	35,214	35,214
Net income/(loss) for the year	162,102	21,655	(187)	7,308	264	(51,267)	5,909	145,784	(113,863)	31,921
Segment assets	23,608,761	304,988	115,897	100,326	113,875	453,336	698,093	25,395,276	(215,369)	25,179,907
Investments in equity participations	1,495,248	769	11	8,096	8,443	116	32,169	1,544,852	(1,331,468)	213,384
Total assets	25,104,009	305,757	115,908	108,422	122,318	453,452	730,262	26,940,128	(1,546,837)	25,393,291
Segment liabilities	22,679,955	217,740	89,554	88,985	26,422	199,566	240,879	23,543,101	(305,987)	23,237,114

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 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

	2003	2002
Balance sheet		
Obligations under repurchase agreements	299	378
Loans and advances to customers including accrued interest income	527,799	798,080
Loans granted in TL	*225*	*2,875*
Loans granted in foreign currency:	*US$354,606,491*	*US$410,539,146*
	EUR 14,923,596	*EUR 24,875,014*
Miscellaneous receivables	3,670	2,492
Deposits received	101,498	147,362
Commitments and contingencies		
Non-cash loans	225,482	268,896

2.2 Transactions

	2003	2002
Interest income	26,779	69,078
Interest expense	9,453	45,144

In 2003, interest rates applied to foreign currency receivables from and payables to related parties vary at ranges of 2-10% and 0.75-2.75% (2002: 4-10% and 1-10%) respectively. The interest rates applied to Turkish Lira payables to related parties vary at ranges of 25-27% (2002: 28-43%). Various commission rates are applied to transactions involving guarantees and commitments.

The share of 77 % in Voyager Mediterranean Turizm Endüstri ve Ticaret AŞ has been purchased for TL 166,132 billion (Note 10) in June 2003.

In 2003, the Bank sold 37% owned shares of Volkswagen Doğuş Tüketici Finasmanı AŞ to Doğuş Otomotiv Holding AŞ with a price equal to its cost amounting to TL 9,659 billions. Impairment on this equity participation amounting to TL 9,659 billions was reversed upon this sale.

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

3 Cash and cash equivalents

	2003	2002
Cash at branches	166,194	205,304
Balances with Central Bank of Turkey	1,464,180	2,166,928
Others	12,896	4,451
	1,643,270	2,376,683

At 31 December 2003, cash and cash equivalents included balances with the Central Bank of Turkey of TL 1,125,632 billions (2002: TL 1,118,326 billions) as minimum reserve requirement, 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

	2003				2002
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments held for trading:					
Government bonds in foreign currency	471,133	469,797	1.28-6.00	2005	782,032
Bonds issued by foreign governments	324,760	327,313	0.87-10.00	2030	181,656
Government bonds in Turkish lira	43,100	39,451	26.92-56.00	2005	2,743
Bonds issued by corporates	33,145	35,414	8.89-18.72	2013	36,739
Eurobonds	23,342	28,086	7.00-12.75	2030	303,236
Discounted government bonds in Turkish lira	20,540	18,170	25.51-26.47	2005	269,932
Government bonds at floating rates	11,057	11,336	27.22	2004	37,366
Treasury bills in Turkish lira	6,589	5,930	25.26-41.50	2004	79,063
Others		844			16,252
		936,341			1,709,019
Equity and other non-fixed income instruments:					
Listed shares		16,054			11,351
Total financial assets held for trading		952,395			1,720,370

Income from debt and other instruments held for trading is recognized in interest on securities. Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are recognized in net trading income.

For the year ended 31 December 2003, net income on trading of financial assets amounting to TL 611,070 billions (2002: TL 404,109 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 10,374 billions (2002: TL 297,541 billions).

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

4 Financial assets held for trading (continued)

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 2003, 70% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (2002: 16%).

	Notional amount with remaining life of					
At 31 December 2003	***Upto 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Future rate agreements	-	-	-	36,054	56,492	92,546
Purchases	-	-	-	*18,027*	*28,246*	*46,273*
Sales	-	-	-	*18,027*	*28,246*	*46,273*
Currency Derivatives						
Spot exchange contracts	181,499	-	-	-	-	181,499
Purchases	*76,282*	-	-	-	-	*76,282*
Sales	*105,217*	-	-	-	-	*105,217*
Forward exchange contracts	81,188	11,505	2,043	706	-	95,442
Purchases	*45,298*	*7,094*	*1,043*	*141*	-	*53,576*
Sales	*35,890*	*4,411*	*1,000*	*565*	-	*41,866*
Currency/cross currency swaps	2,842,466	481,009	467,742	228,133	-	4,019,350
Purchases	*2,668,388*	*476,919*	*467,742*	*216,524*	-	*3,829,573*
Sales	*174,078*	*4,090*	-	*11,609*	-	*189,777*
Options	33,929	50,824	-	70,600	-	155,353
Purchases	*5,689*	*46,592*	-	*70,600*	-	*122,881*
Sales	*28,240*	*4,232*	-	-	-	*32,472*
Foreign currency futures	-	84,720	-	-	-	84,720
Purchases	-	*84,720*	-	-	-	*84,720*
Sale	-	-	-	-	-	-
Other foreign exchange contracts	81,265	25,652	-	-	-	106,917
Purchases	*1,374*	*1,832*	-	-	-	*3,206*
Sale	*79,891*	*23,820*	-	-	-	*103,711*
Subtotal Purchases	2,797,031	617,157	468,785	305,292	28,246	4,216,511
Subtotal Sales	423,316	36,553	1,000	30,201	28,246	519,316
Total of Transactions	3,220,347	653,710	469,785	335,493	56,492	4,735,827

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 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	-	1,117	76,070	-	-	77,187
Purchases	*-*	*-*	*38,593*	*-*	*-*	*38,593*
Sales	*-*	*1,117*	*37,477*	*-*	*-*	*38,594*
Currency Derivatives						
Spot exchange contracts	65,265	-	-	-	-	65,265
Purchases	*24,471*	*-*	*-*	*-*	*-*	*24,471*
Sales	*40,794*	*-*	*-*	*-*	*-*	*40,794*
Forward exchange contracts	1,586,160	11,622	12,280	1,822	-	1,611,884
Purchases	*1,520,894*	*4,683*	*10,310*	*-*	*-*	*1,535,887*
Sales	*65,266*	*6,939*	*1,970*	*1,822*	*-*	*75,997*
Currency/cross currency swaps	257,611	548,944	414,037	175,538	-	1,396,130
Purchases	*217,580*	*534,627*	*414,037*	*87,769*	*-*	*1,254,013*
Sales	*40,031*	*14,317*	*-*	*87,769*	*-*	*142,117*
Other foreign exchange contracts	56,680	-	-	-	-	56,680
Purchases	*-*	*-*	*-*	*-*	*-*	*-*
Sale	*56,680*	*-*	*-*	*-*	*-*	*56,680*
Subtotal Purchases	1,762,945	539,310	462,940	87,769	-	2,852,964
Subtotal Sales	202,771	22,373	39,447	89,591	-	354,182
Total of Transactions	1,965,716	561,683	502,387	177,360	-	3,207,146

5 Loans and advances to banks

	2003			***2002***		
	Turkish Lira	***Foreign Currency***	***Total***	***Turkish Lira***	***Foreign Currency***	***Total***
Loans and advances-demand						
Domestic banks	2,836	4,774	7,610	1,893	65	1,958
Foreign banks	3	139,798	139,801	-	174,683	174,683
	2,839	144,572	147,411	1,893	174,748	176,641
Loans and advances-time						
Domestic banks	138,265	613,681	751,946	82,821	223,621	306,442
Foreign banks	32,040	401,858	433,898	58,612	728,433	787,045
	170,305	1,015,539	1,185,844	141,433	952,054	1,093,487
Accrued interest on loans and advances	387	2,016	2,403	2,659	4,055	6,714
Total loans and advances to banks	173,531	1,162,127	1,335,658	145,985	1,130,857	1,276,842
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	173,531	1,162,127	1,335,658	145,985	1,130,857	1,276,842

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

5 Loans and advances to banks (continued)

As at 31 December 2003, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 0.5-6% per annum for foreign currency time deposits and 15-42% per annum for Turkish lira time deposits (2002: 1-10% and 41-59%, respectively).

As at 31 December 2002, TL 217,146 billions (2003: nil) of term deposits at domestic banks are the funds lent against government securities received as collateral under contractual agreements to sell back (reverse repo) such securities at a predetermined sale price at the maturity dates.

As at 31 December 2003, demand deposits at foreign banks include blocked accounts of TL 33,720 billions (2002: TL 39,756 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:

	2003	2002
Consumer loans	2,139,802	1,315,736
Industrial	2,113,012	2,037,095
Turkish Treasury	1,531,469	429,185
Financial institutions	1,260,914	1,338,091
Service sector	815,762	674,080
Construction	355,461	317,892
Agriculture	202,885	126,395
Foreign trade	193,852	1,150,267
Tourism	186,933	73,181
Transportation	82,132	84,069
Domestic commerce	36,594	24,034
Media	17,374	20,456
Others	185,168	336,274
Total performing loans	9,121,358	7,926,755
Non-performing loans	311,172	444,787
Total gross loans	9,432,530	8,371,542
Accrued interest income on loans	227,175	270,374
Financial lease receivables, net of unearned income (Note 7)	257,172	220,278
Allowance for possible losses from loans and lease receivables	(202,740)	(202,900)
Loans and loans.advances to customers	9,714,137	8,659,294

As at 31 December 2003, loans given to customers have interest rates between 1-18% (2002: 2-14%) per annum for foreign currency loans and 29-49% (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 70,641 billions (2002: TL - billions).

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

6 Loans and advances to customers (continued)

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 28,033 billions and an increase in 2001 net loss by TL 18,782 billions, net of deferred income taxes of TL 9,251 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 18,782 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:

	2003	***2002***
Balance at the beginning of the year	202,900	423,569
Restatement effect of the beginning balance and current year provision for the effects of inflation	(29,340)	(93,793)
Write-offs	(6,842)	(198,540)
Recoveries	(28,384)	(6,450)
Provision for the year	64,406	78,114
Balance at the end of the year	202,740	202,900

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

7 Financial lease receivables

The financial 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 through the underlying assets. Loans and advances to customers include the following financial lease receivables:

	2003	2002
Financial lease receivables, net of unearned income (Note 6)	257,172	220,278
Less: allowance for possible losses from lease receivables	(6,917)	(7,810)
	250,255	212,468
Analysis of net financial lease receivables		
Not later than 1 year	212,846	178,557
Later than 1 year and not later than 5 years	85,945	80,588
Later than 5 years	-	-
Financial lease receivables, gross	298,791	259,145
Unearned income	(48,536)	(46,677)
Financial lease receivables, net	250,255	212,468
Analysis of net financial lease receivables, net		
Not later than 1 year	178,773	148,024
Later than 1 year and not later than 5 years	71,482	64,444
Later than 5 years	-	-
Financial lease receivables, net	250,255	212,468

8 Other assets

	2003	2002
Tangible assets held for resale	562,379	606,427
Accrued exchange gain on derivatives	149,349	79,860
Miscellaneous receivables	128,796	64,273
Factoring receivables	96,304	93,304
Forfaiting receivables	94,564	-
Prepaid expenses, insurance claims and similar items	75,691	74,305
Insurance premium receivables	53,575	47,598
Retail business stocks	48,724	50,868
Taxes and funds to be refunded	11,425	18,370
Purchased cheques	1,473	17,417
Others	49,170	42,165
	1,271,450	1,094,587

The portion amounting to TL 297,162 billions of tangible assets held for resale comprise of real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed within three years following their acquisitions per the Turkish Banking Law. This legal period can be extended upon legal permission.

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

9 Security investments

	2003				*2002*
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments available-for-sale:					
Eurobonds	1,290,038	1,575,943	2.38-12.75	2030	1,085,091
Government bonds at floating rates	796,991	854,175	24.83-32.67	2005	58,030
Bonds issued by financial institutions	212,065	218,831	8.27-9.37	2008	-
Government bonds in foreign currency	219,441	217,722	1.77-6.00	2005	-
Discounted government bonds in Turkish Lira	224,253	188,535	25.51-26.47	2005	-
Bonds issued by foreign governments	159,414	166,400	2.38-14.5	2008	23,333
Treasury bills in Turkish Lira	19,047	17,638	25.22-26.54	2004	2,641
Government bonds indexed to foreign currency		-			126,085
Others		7,230			9,411
Total securities available-for-sale		3,246,474			1,304,591
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	2,402,460	2,930,772	***(a)***	2006	3,859,777
Eurobonds	974,062	987,588	4.54-12.75	2010	850,969
Government bonds at floating rates	620,106	614,867	***(b)***	2005	1,171,739
Bonds issued by foreign governments	149,299	152,375	2.63-8.25	2008	8,672
Bonds issued by corporates	72,449	72,449	8.5-15.00	2006	-
Discounted government bonds in Turkish lira	41,200	29,997	25.51-26.44	2005	92,820
Bonds issued by financial institutions	15,964	15,964	4.50-8.85	2007	47,710
Treasury bills in Turkish lira		-			76,474
Government bonds-CPI		-			77,481
Others		301			17,215
		4,804,313			6,202,857
Accrued interest on held-to-maturity portfolio		70,095			85,037
Total securities held-to-maturity		4,874,408			6,287,894
Total security investments		8,120,882			7,592,485

(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.*

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 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 2,013,719 billions (2002: TL 1,165,181 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 2,799,159 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 321,934 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 29,227 billions and an increase in 2001 net loss by TL 19,581 billions net of deferred income taxes of TL 9,646 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 19,581 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:

	2003		***2002***	
	Face Value	***Carrying value***	***Face Value***	***Carrying value***
US$ eurobonds collateralised to foreign banks	1,863,840	2,062,401	942,320	1,128,010
Deposited at Central Bank of Turkey (CBT) for interbank transactions	630,000	753,536	630,000	959,662
Deposited at CBT for foreign currency money market transactions	320,000	382,748	320,000	487,448
Reserve requirements at CBT	300,000	358,826	300,000	456,982
Deposited at Clearing Bank (Takasbank)	193,500	200,935	214,944	256,125
Deposited at CBT for repurchase transactions	76,374	81,062	124,219	154,873
Deposited at Istanbul Stock Exchange		-	157,410	182,368
Others		26,493		28,445
		3,866,001		3,653,913

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

10 Investments in equity participations

	2003		*2002*	
	Carrying Value	***Ownership %***	***Carrying Value***	***Ownership %***
Investments in associated companies:				
Garanti Turizm ve Yatırım İşl. AŞ	30,388	44.89	24,699	44.89
Petrotrans Nakliyat ve Tic. AŞ	9,781	99.60	11,146	99.60
Others	5,568		21,767	
	45,737		57,612	
Equity participations available-for-sale:				
Voyager Med. Tur. End. ve Tic. AŞ	166,132	77.00 ***(a)***	-	-
Doğuş Otomotiv Holding A.Ş.	128,163	19.82	128,163	19.82
Akarnet Konakl. Tes. Yat. İşl. AŞ	26,705	100.00 ***(a)***	-	-
IMKB Takasbank AŞ	10,011	5.83	10,011	5.83
Others	18,183		17,598	
	349,194		155,772	
	394,931		213,384	

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.

In 2003, the Bank sold 37% owned shares of Volkswagen Doğuş Tüketici Finasmanı AŞ to Doğuş Otomotiv Holding AŞ with a price equal to its cost amounting to TL 9,659 billions. Impairment on this equity participation amounting to TL 9,659 billions was reversed upon this sale.

IMKB Takasbank AŞ and equity participations available-for-sale disclosed in others do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and unworkable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at the balance sheet date.

(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 31 December 2003 pursuant to IAS 29)

11 Tangible assets

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

	1January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs					
Land and buildings	1,431,320	37,324	(4,985)	(45,802)	1,417,857
Furniture, fixture and equipments	993,983	62,078	(1,316)	(96,513)	958,232
Leasehold improvements	402,054	34,537	(1,094)	(79,543)	355,954
	2,827,357	133,939	(7,395)	(221,858)	2,732,043
Less: Accumulated depreciation					
Land and buildings	148,654	29,101	29	(32,114)	145,670
Furniture, fixture and equipments	634,566	109,630	(982)	(95,397)	647,817
Leasehold improvements	212,710	43,326	(968)	(58,134)	196,934
	995,930	182,057	(1,921)	(185,645)	990,421
Construction in progress	11,036	(786)***(a)***	-	-	10,250
	1,842,463		(5,474)	(36,213)	1,751,872
Impairment in value of tangible assets	(63,625)				(117,908)
	1,778,838				1,633,964

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	1,203,627	-	286,564	683	(59,554)	1,431,320
Furniture, fixture and equipments	1,127,901	18,830	84,328	5	(237,081)	993,983
Leasehold improvements	475,104	(71,908)	27,221	-	(28,363)	402,054
	2,806,632	(53,078)	398,113	688	(324,998)	2,827,357
Less: Accumulated depreciation						
Land and buildings	134,633	-	19,459	(247)	(5,191)	148,654
Furniture, fixture and equipments	708,791	47,424	115,062	(32)	(236,679)	634,566
Leasehold improvements	218,299	(50,409)	48,882	-	(4,062)	212,710
	1,061,723	(2,985)	183,403	(279)	(245,932)	995,930
Construction in progress	226,548	-	(215,512) ***(a)***	-	-	11,036
	1,971,457	(50,093)		967	(79,066)	1,842,463
Impairment in value of tangible assets	(32,639)					(63,625)
	1,938,818					1,778,838

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

11 Tangible assets (continued)

Depreciation expense for the year ended 31 December 2003 amounts to TL 182,057 billions (2002: TL 183,404 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%.

Impairment losses which were provided for decreases in the value of land and buildings were determined based upon expertise of independent appraiser firms. As of 31 December 2003, land and buildings which carrying values amounted to TL 246,078 billions (2002: TL 255,717 billions) in total, were impaired by TL 117,908 billions (2002: TL63,625 billions).

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 the 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 50,092 billions and an increase in 2001 accumulated losses by TL 33,562 billions, net of deferred income tax of TL 16,531 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 33,562 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 24.11% ownership in and majority voting rights in the Board of Directors of Tansaş Perakende Mağazacılık Ticaret AŞ, 29% 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 31 December 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 120,685 billions (2002:TL 143,036 billions), net of accumulated amortization, in the accompanying consolidated balance sheets.

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

12 Intangible assets (continued)

Movement in goodwill for the period of 1 January – 31 December 2003 is as follows:

	1January	Additions	Disposals	31 December
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	125,588	-	-	125,588
Doğuş Hava Taşımacılığı AŞ	42,921	-	-	42,921
Garanti Yatırım Menkul Kıymetler AŞ	22,555	-	-	22,555
Docfinance SA	9,344	-	-	9,344
Garanti Finans Faktoring Hizmetleri AŞ	6,619	-	-	6,619
Garanti Finansal Kiralama AŞ	5,172	-	-	5,172
Sititur Tur.T.Taş.Org.Bilg.Dan.Y.San.veTic. AŞ	3,202	-	-	3,202
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,469	-	-	1,469
Garanti Sigorta AŞ	1,226	-	-	1,226
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	506	-	-	506
Garanti Emeklilik ve Hayat AŞ	42	-	-	42
Total goodwill	218,644	-	-	218,644
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	25,120	14,818	-	39,938
Doğuş Hava Taşımacılığı AŞ	6,443	2,146	-	8,589
Garanti Yatırım Menkul Kıymetler AŞ	2,662	1,128	-	3,790
Docfinance SA	1,726	467	-	2,193
Garanti Finans Faktoring Hizmetleri AŞ	330	331	-	661
Garanti Finansal Kiralama AŞ	259	259	-	518
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	161	160	-	321
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	73	73	-	146
Garanti Sigorta AŞ	182	61	-	243
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	25	25	-	50
Garanti Emeklilik ve Hayat AŞ	5	2	-	7
	36,986	19,470	-	56,456
Goodwill, net of accumulated amortization	181,658			162,188
Impairment in value of goodwill	(38,622)			(41,503)
	143,036			120,685

Impairment losses are provided for decreases in the value of consolidated entities which were determined assessing their internal and external sources. As of 31 December 2003 and 2002, Doğuş Hava Taşımacılığı AŞ and Docfinance SA which have net goodwill amount of TL 34,332 billions and TL 7,151 billions, respectively were impaired by TL 38,622 billions in total.

A further provision of TL 2,881 billions was provided for the net goodwill recorded by the Bank for Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ as this company currently does not have any operations.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 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	125,588	-	-	125,588
Doğuş Hava Taşımacılığı AŞ	42,921	-	-	42,921
Garanti Yatırım Menkul Kıymetler AŞ	22,555	-	-	22,555
Docfinance SA	9,344	-	-	9,344
Garanti Finans Faktoring Hizmetleri AŞ	6,619	-	-	6,619
Garanti Finansal Kiralama AŞ	5,172	-	-	5,172
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	3,202	-	-	3,202
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,469	-	-	1,469
Garanti Sigorta AŞ	1,226	-	-	1,226
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	506	-	-	506
Garanti Emeklilik ve Hayat AŞ	42	-	-	42
Total goodwill	218,644	-	-	218,644
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	10,306	14,814	-	25,120
Doğuş Hava Taşımacılığı AŞ	4,298	2,146	-	6,444
Garanti Yatırım Menkul Kıymetler AŞ	1,534	1,128	-	2,662
Docfinance SA	1,259	467	-	1,726
Garanti Finans Faktoring Hizmetleri AŞ	-	330	-	330
Garanti Finansal Kiralama AŞ	-	259	-	259
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	-	161	-	161
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	-	73	-	73
Garanti Sigorta AŞ	121	61	-	182
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	-	25	-	25
Garanti Emeklilik ve Hayat AŞ	2	2	-	4
	17,520	19,466	-	36,986
Goodwill, net of accumulated amortization	201,124			181,658
Impairment in value of goodwill	-			(38,622)
	201,124			143,036

13 Deposits from banks

Deposits from banks comprise the following:

	2003	2002
Payable on demand	19,500	25,037
Term deposits	884,565	774,979
	904,065	800,016
Accrued interest on deposits from banks	4,049	2,493
	908,114	802,509

Deposits from banks include both TL accounts of TL 494,627 billions (2002: TL 97,439 billions) and foreign currency accounts of TL 409,438 billions (2002: TL 702,577 billions).

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

14 Deposits from customers

Deposits from customers comprise the following:

	2003			2002
	Demand	***Time***	***Total***	***Total***
Foreign currency	3,681,690	6,951,797	10,633,487	11,656,493
Saving	305,708	2,649,800	2,955,508	2,262,602
Commercial	915,794	1,357,304	2,273,098	2,492,751
Public and other	214,751	47,264	262,015	208,366
	5,117,943	11,006,165	16,124,108	16,620,212
Accrued interest expenses on deposits from customers	-	153,557	153,557	167,351
	5,117,943	11,159,722	16,277,665	16,787,563

As at 31 December 2003, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 26-42 % and 1-6% (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:

2003	***Carrying value***	***Fair value of underlying assets***	***Carrying amount of corresponding liabilities***	***Range of repurchase dates***	***Repurchase price***
Trading instruments	10,374	10,374	7,911	Jan-August 2004	9,096
Security investments	2,013,719	2,114,764	1,555,496	Jan-Sept 2004	1,567,691
Originated loans	70,641	82,788	52,950	April-Sept 2004	53,878
	2,094,734	2,207,926	1,616,357		1,630,665
2002					
Trading instruments	297,138	297,541	277,163	Jan-Sept 2003	278,423
Security investments	1,165,181	1,187,983	955,256	Jan-Sept 2003	957,823
Originated loans	-	-	-		-
	1,462,319	1,485,524	1,232,419		1,236,246

Accrued interest on obligations under repurchase agreements amounting to TL 6,161 billions (2002: TL 1,164 billions) is included in the carrying amount of corresponding liabilities.

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

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2003, the maturities and interest rates of the obligations are within one to twelve months and between 0.9-20% (2002: 1.5-34%).

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

16 Loans and advances from banks

Loans and advances from banks comprise the following:

	2003	2002
Short-term borrowings		
Domestic banks	238,433	309,216
Foreign banks	1,945,471	2,112,611
	2,183,904	2,421,827
Short-term portion		
Long-term debts	339,144	320,412
Medium and long-term portion	671,531	441,965
	1,010,675	762,377
Accrued interest on loans and advances from banks	32,154	32,682
	3,226,733	3,216,886

As at 31 December 2003, short-term borrowings from foreign banks included a one-year syndicated term-loan facility in the amount of US$ 450 millions (equivalent of TL 635,400 billions) signed on 20 November 2003 available to corporate customers to pre-finance export contracts and again a one-year syndicated facility to finance pre-finance export contracts of the Bank's corporate customers for the amount of EUR 400 millions (equivalent of TL 712,749 billions) signed on 7 July 2003.

As at 31 December 2002, short-term borrowings from foreign banks included a syndicated pre-export credit facility available to Turkish exporters in the amount of EUR350 millions signed in May 2002, and a syndicated term-loan facility in the amount of US$325 millions signed in October 2002 available to corporate customers to pre-finance export contracts. In December 2002, the Bank also obtained a short term fund in the amount of US$200 millions through its Diversified Payment Rights Securitisation transaction (the "DPR Securitisation"). As stated below, the maturity of DPR Securitisation lengthened to five years in 2003.

Long-term debts comprise the following:

	2003					2002
	Interest rate%	*Maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
DPR Securitisation	3.55-3.58	2008	US$350 mio	-	494,200	-
Anatolia Finance Company	7.24	2004	US$59.5 mio	84,014	-	108,388
Cobank	1.26-1.42	2006	US$62 mio	39,179	48,452	60,479
Deutsche Bank	1.28-1.46	2006	US$43 mio	26,079	34,575	45,370
TPR Securitisation-I	Libor+4.4-10.81	2004	US$28.4 mio	40,116	-	51,755
Standard Chartered	1.28-1.44	2006	US$22 mio	12,837	18,789	18,368
DEG	8	2005	EUR7.5 mio	8,909	4,455	14,311
ABN Amro Bank	5.75-6.3	2004	EUR5 mio	8,245	-	15,498
World Bank	3.24	2004	US$4 mio	5,648	-	9,107
Others				114,117	71,060	118,689
				339,144	671,531	441,965

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

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16 Loans and advances from banks (continued)

certificates amounting to US$ 175 millions in total pursuant to the Trust Agreement dated 3 February 1998 between the SPC and the Bank of New York as trustee. The trust certificates will be repaid in the period from March 1998 to December 2004 on a quarterly basis. In line with the repayment schedule, the outstanding balance of this loan as of 31 December 2003 is US$ 59.5 millions. The property of the Trust includes, among other things; (i) the right to receive a specified amount of current and future US Dollar amounts owed or to be owed by Visa, MasterCard and Europay to or for the account of Türkiye Garanti Bankası AŞ, in respect of credit and debit card merchant voucher receivables generated by the usage in Turkey of Visa, MasterCard ad Europay credit cards issued by non-Turkish financial institutions and acquisition of such voucher receivables by the Bank for processing and payment by Visa, MasterCard and Europay in accordance with their respective collection and settlement systems, subject to the pari-passu rights of the holders of the Prior Certificates, (ii) or funds collected or to be collected in respect of such receivables, (iii) or other payments by any other person in respect thereof and (iv) certain money on the deposit in certain accounts of the Trust.

In June 1999, the Bank obtained a fund in the amount of US$ 200 millions through its Trade Payment Rights Securitisation transaction (the “TPR Securitisation-I”). The TPR Securitisation-I consists of a floating and fixed tranche for an amount of US$ 29 millions and US$ 171 millions, respectively. In line with repayment schedule, the outstanding balance of this loan as of 31 December 2003 is US$ 28.4 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 through Bank of America Securities LLC, Bank of America International Limited and Credit Suisse First Boston Corporation (CSFB) was appointed as co-manager.

As stated above, inn December 2002 the Bank obtained a short term fund in the amount of US$ 200 millions through its “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 October 2003, its maturity lengthened to five years and a further US$ 150 millions was obtained in December 2003.

17 Bonds payable

The bonds which were fully repaid early in 2003, were as follows as at 31 December 2002:

Bearer notes	81,670
Accrued interest on bonds payable	5,181
	86,851

At 31 December 2002, bearer notes represented Euro notes issued by Garanti Bank International NV, 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 March 2003.

18 Taxation on income

As at 31 December 2002, the corporation tax rate was 30%; contribution to a state fund was 10% of this tax that 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 pay in one installment within the time frame of preparation of Annual Tax Return.

With introduction of inflation accounting in Turkish tax practice beginning from 1 January 2004, all restatement differences from inception date to 31 December 2003 are not subject to corporation tax and they become permanent differences. Accordingly, in the accompanying consolidated financial statements, deferred taxes computed on such restatement differences as of 31 December 2003 were reversed through the statement of operations for the year then ended. All restatement differences that are arising from inflation accounting for the period beginning from 1 January 2004 will be subject to income tax.

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.

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18 Taxation on income (continued)

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

	2003	%	2002	%
Taxes on income/(loss) per statutory tax rate	125,661	30.00	(26,176)	(33.00)
Permanent differences relating to the restatement of non-monetary items per IAS 29	(83,673)	(19.97)	(51,471)	(64.88)
Effect of permanent differences on consolidation adjustments	44,165	10.54	40,410	50.94
Income items exempt from tax or subject to different tax rates	(93,032)	(22.21)	(36,734)	(46.30)
Investment incentives	4,782	1.14	(4,387)	(5.53)
Disallowable expenses	15,079	3.60	1,709	2.15
Reversal of restatement of non-monetary items per IAS29	***(a)***(112,404)	(26.83)	-	-
Effect of change in legal tax rate	40,431	9.65	-	-
Others	(2,635)	(0.63)	621	0.79
Taxation credit	(61,626)	(14.71)	(76,028)	(95.83)

(a) See the third paragraph of this note for taxation on income.

The taxation credit comprise the following:

	2003	2002
Current taxes	24,723	17,531
Deferred taxes	(86,349)	(93,559)
Taxation credit	(61,626)	(76,028)

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:

	2003	2002
Provision for current taxes payable on income before deductions	(61,626)	(76,028)
Add: Taxes payable carried forward	6,950	36,430
Add/(less): Deferred tax assets/liabilities	86,349	93,559
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 31 December 2003	(1,400)	(8,587)
Taxes payable on income	30,273	45,374

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18 Taxation on income (continued)

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

	2003	2002
Deferred tax assets		
Tax losses carried forward	365,370	410,613
Valuation difference on financial assets and liabilities	31,253	30,754
Investment incentives	23,665	32,413
Capitalised expenses and leasing obligations	13,953	9,686
Impairment in value of investments in associated companies and tangible assets	17,552	50,565
Specific and general allowance for loan losses	14,000	10,004
Others	1,790	17,273
Total deferred tax assets	467,583	561,308
Deferred tax liabilities		
Restatement of non-monetary items per IAS 29	- ***(a)***	(128,114)
Others	(4,714)	-
Total deferred tax liabilities	(4,714)	(128,114)

(a) See the third paragraph of this note for taxation on income.

Deferred tax assets and liabilities were offset as follows:

	2003		2002	
	Asset	Liability	Asset	Liability
Deferred tax	467,583	(4,714)	561,308	(128,114)
Offsetting	-	-	(23,536)	23,536
Net deferred tax	467,583	(4,714)	537,772	(104,578)

19 Other liabilities and accrued expenses

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

	2003	2002
Transfer orders	350,266	487,066
Miscellaneous payables	187,525	151,106
Insurance technical provisions	67,395	60,049
Withholding taxes	46,671	43,764
Factoring payables	45,176	57,376
Unearned income	39,774	11,209
Reserve for severance payment	33,993	16,432
Payables to insurance and reinsurance companies relating to insurance operations	25,891	20,724
Expense accruals	24,586	22,536
Blocked accounts	20,987	15,713
General provision for non-cash loans	11,274	4,937
Payables to suppliers relating to financial leasing activities	9,208	7,512
Others	54,000	62,510
	916,746	960,934

20 Shareholders' equity

The authorized nominal share capital of the Bank amounted to TL 822,038 billions comprising 1,644,075,624,859 registered shares of five hundred Turkish liras each and 1,728 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.

The Bank had made two transactions in 2001 to be subsidized from its major shareholder in order to mitigate the effects of its one-time losses resulting from economic crisis in Turkey. As a result of these transactions, the Bank had reflected an income in 2001. However, these transactions were in substance, capital contributions by shareholders since such financing could not have been entered into on an arm's-length basis with a third party. Consequently, "accumulated profits" account was corrected by decreasing TL 153,893 billions and an additional paid-in capital by the same amount was accounted as at 30 September 2003. Accordingly, the share capital was reflected as TL 1,904,901 billions in the accompanying consolidated financial statements.

The reserves include legal reserves amounting to TL 48,209 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 unless they exceed 50% of the share capital. In the accompanying consolidated financial statements, legal reserves are included at their historical amounts. The reserves also include TL 33,000 billions appropriated by management for the purpose of general banking risks.

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 using available market information by the Bank, 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 security 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,

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21 Fair value information (continued)

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 security investments is TL 8,209,512 billions (2002: TL 7,662,250 billions), whereas the carrying amount is TL 8,120,882 billions (2002: TL 7,629,224 billions) in the accompanying consolidated balance sheet as at 31 December 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:

	2003	2002
Letters of guarantee	3,630,676	3,851,953
Letters of credit	1,311,985	1,294,935
Acceptance credits	521,537	456,904
Other guarantees and endorsements	19,882	37,846
	5,484,080	5,641,638

As at 31 December 2003, commitment for uncalled capital of affiliated companies amounts approximately to TL 127 billions (2002: TL 308 billions).

As at 31 December 2003, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 4,735,827 billions (2002: TL 3,207,146 billions), all due within a year. The breakdown of outstanding commitments, by type, are presented as follows:

	2003		2002	
	Purchases	Sales	Purchases	Sales
Forward agreements for customer dealing activities	27,383	11,254	48,050	36,669
Currency swap agreements for customer dealing activities	31,845	15,066	22,564	20,591
Spot foreign currency transactions for customer dealing activities	7,822	3,027	2,862	1,909
Forward agreements for hedging purposes	26,193	30,612	1,487,837	39,328
Currency swap agreements for hedging purposes	3,797,728	174,711	1,231,449	121,526
Options	122,881	32,472	-	-
Future rate agreements	130,993	46,273	38,593	38,594
Forward agreements for gold trading	3,206	103,711	-	56,680
Spot foreign currency transactions	68,460	102,190	21,609	38,885
	4,216,511	519,316	2,852,964	354,182

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.

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-

23 Risk management disclosures (continued)

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.

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

Market risk

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

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

23 Risk management disclosures (continued)

23.3 Non-trading activities

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

Liquidity risk

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

The Bank and its affiliates have access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed through identifying and monitoring changes in funding required for meeting 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:

	2003						*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	347,610	-	-	-	-	347,610	965,179	-	-	-	-	965,179
Financial assets held for trading	2,645	15,300	5,258	34,599	33,135	90,937	9,696	12,414	18,753	310,296	49,624	400,783
Loans and advances to banks	164,071	9,466	-	-	-	173,537	138,239	6,590	1,150	-	-	145,979
Loans and advances to customers	1,672,272	138,998	173,204	680,669	966,017	3,631,160	1,222,679	101,001	102,670	97,936	415,402	1,939,688
Other assets	164,191	24,740	61,026	-	-	249,957	56,756	38,849	44,174	5,435	-	145,214
Security investments	316,212	110,034	14,546	427,423	878,014	1,746,229	9,898	63,613	703,198	106,765	710,880	1,594,354
Deferred tax assets	-	-	-	-	464,081	464,081	-	-	-	-	534,762	534,762
Total Turkish Lira monetary assets	2,667,001	298,538	254,034	1,142,691	2,341,247	6,703,511	2,402,447	222,467	869,945	520,432	1,710,668	5,725,959
Foreign currency												
Cash and cash equivalents	1,295,660	-	-	-	-	1,295,660	1,411,504	-	-	-	-	1,411,504
Financial assets held for trading	1,433	291,887	1,195	429,537	137,406	861,458	8,878	190,650	35,361	330,440	754,258	1,319,587
Loans and advances to banks	717,165	100,116	159,663	169,521	15,656	1,162,121	927,129	52,819	31,813	63,594	55,508	1,130,863
Loans and advances to customers	580,937	599,391	916,806	841,593	3,035,818	5,974,545	461,076	957,052	1,093,339	1,498,174	2,468,078	6,477,719
Other assets	64,805	79,817	57,483	86,787	20,718	309,610	112,769	49,803	35,549	211	-	198,332
Security investments	43,136	155,293	1,388,075	52,695	4,735,454	6,374,653	60	105,378	167,239	192,460	5,532,994	5,998,131
Deferred tax assets	-	-	-	-	3,502	3,502	-	-	-	-	3,010	3,010
Total foreign currency monetary assets	2,703,136	1,226,504	2,523,222	1,580,133	7,948,554	15,981,549	2,921,416	1,355,702	1,363,301	2,084,879	8,813,848	16,539,146
Total Monetary Assets	5,370,137	1,525,042	2,777,256	2,722,824	10,289,801	22,685,060	5,323,863	1,578,169	2,233,246	2,605,311	10,524,516	22,265,105
MONETARY LIABILITIES												
Turkish Lira												
Deposits	4,875,598	903,029	223,897	80,530	447	6,083,501	4,487,488	573,615	77,727	14,470	858	5,154,158
Obligations under repurchase agreements	75,576	-	-	-	-	75,576	309,385	-	-	-	-	309,385
Loans and advances from banks	44,965	26,731	37,492	25,566	-	134,754	172,504	42,949	57,216	8	7	272,684
Bonds payable	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities and accrued expenses	231,973	45,998	36,290	71,718	50,217	436,196	186,308	46,663	34,615	61,999	127,997	457,582
Total Turkish Lira monetary liabilities	5,228,112	975,758	297,679	177,814	50,664	6,730,027	5,155,685	663,227	169,558	76,477	128,862	6,193,809
Foreign currency												
Deposits	8,697,934	1,371,688	374,383	271,868	386,405	11,102,278	10,387,225	1,303,732	348,921	298,730	97,306	12,435,914
Obligations under repurchase agreements	439,707	326,943	152,139	621,992	-	1,540,781	556,288	366,746	-	-	-	923,034
Loans and advances from banks	83,299	35,148	291,803	2,005,998	675,731	3,091,979	23,138	46,181	1,122,571	1,303,017	449,295	2,944,202
Bonds payable	-	-	-	-	-	-	-	86,851	-	-	-	86,851
Other liabilities and accrued expenses	153,186	192,876	142,296	20,691	4,515	513,564	222,392	239,631	64,279	124,901	-	651,203
Total foreign currency monetary liabilities	9,374,126	1,926,655	960,621	2,920,549	1,066,651	16,248,602	11,189,043	2,043,141	1,535,771	1,726,648	546,601	17,041,204
Total Monetary Liabilities	14,602,238	2,902,413	1,258,300	3,098,363	1,117,315	22,978,629	16,344,728	2,706,368	1,705,329	1,803,125	675,463	23,235,013

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 through 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 years 2003 and 2002:

	2003			
	US$ *%*	*EURO* *%*	*TL* *%*	*Other Currencies* *%*
Assets				
Loans and advances to banks	0.63-6.30	2.12-5.87	17.24-27.82	3.00-14.00
Debt and other fixed or floating income instruments	3.7-8.5	3.7-8.81	32.26-43.88	-
Loans and advances to customers	3.00-13.00	4.90-6.69	30.20-52.78	3.26-18.00
Liabilities				
Deposits:				
- Foreign currency deposits	1.00-6.00	1.50-5.75	-	2.85-12.50
- Bank deposits	1.25-5.25	3.00-3.33	24.99-26.55	2.75-6.00
- Saving deposits	-	-	25.40-31.50	-
- Commercial deposits	-	-	23.51-31.92	-
- Public and other deposits	-	-	28.86	-
Obligations under repurchase agreements	2.52	2.55	28.86	-
Loans and advances from banks	1.10-13.96	2.00-9.50	26.78-30.24	4.90-5.40
Bonds payable	-	-	-	-

	2002			
	US$ *%*	*EURO* *%*	*TL* *%*	*Other Currencies* *%*
Assets				
Loans and advances to banks	0.75-6.25	1.50-5.17	41.00-64.00	-
Debt and other fixed or floating income instruments	6.81-10.43	7.68-9.86	58.12	8.44
Loans and advances to customers	2.57-14.00	5.99-10.75	42.09-67.53	11.64
Liabilities				
Deposits:				
- Foreign currency deposits	2.00-4.75	3.87-4.64	-	6.15
- Bank deposits	1.50-3.00	3.10-6.42	42.34-53.20	13.00
- Saving deposits	-	-	41.63-55.02	-
- Commercial deposits	-	-	42.34-55.35	-
- Public and other deposits	-	-	53.52	-
Obligations under repurchase agreements	2.33	-	51.09	-
Loans and advances from banks	1.73-13.96	2.00-10.00	44.50-47.52	2.75-5.40
Bonds payable	-	8.00	-	-

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 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:

	2003			
	US$	***EURO***	***Other Currencies***	***Total***
Assets				
Cash and cash equivalents	1,233,811	55,643	6,206	1,295,660
Financial assets held for trading	816,004	13,377	32,077	861,458
Loans and advances to banks	870,313	238,638	53,170	1,162,121
Loans and advances to customers	4,659,920	1,149,712	150,479	5,960,111
Other assets	96,519	212,749	5,939	315,207
Security investments	5,598,376	775,828	449	6,374,653
Investments in equity participations	-	563	4,870	5,433
Tangible assets	275	67,294	4,850	72,419
Intangible assets	-	-	-	-
Deferred tax asset	234	3,022	246	3,502
Total Assets	13,275,452	2,516,826	258,286	16,050,564

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23 Risk management disclosures (continued)

	2003			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	13,275,452	2,516,826	258,286	16,050,564
Liabilities				
Deposits	6,114,739	4,679,119	308,420	11,102,278
Obligations under repurchase agreements	1,259,652	281,129	-	1,540,781
Loans and advances from banks	2,174,925	914,265	2,789	3,091,979
Bonds payable	-	-	-	-
Current tax liability	-	20,727	2,474	23,201
Other liabilities and accrued expenses	363,350	119,537	7,476	490,363
Total Liabilities	9,912,666	6,014,777	321,159	16,248,602
Net On Balance Sheet Position	3,362,786	(3,497,951)	(62,873)	(198,038)
Net Off Balance Sheet Position	(3,490,009)	3,499,112	130,034	139,137

	31 December 2002			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	13,198,017	2,973,975	461,124	16,633,116
Total Liabilities	11,156,952	5,538,232	346,020	17,041,204
Net On Balance Sheet Position	2,041,065	(2,564,257)	115,104	(408,088)
Net Off Balance Sheet Position	(2,402,184)	2,538,405	(70,203)	66,018

Of the amounts shown in the table above, at 31 December 2003, 70% (2002: 16%) are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The net of Russian Rubles denominated assets and liabilities as included in the above table at their TL equivalents, comprise net asset of TL 33,552 billions at 31 December 2003 (2002: TL 69,010 billions). For the purposes of the evaluation of the table above, these amounts should not be considered as hard currency.

For the year ended 31 December 2003, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US$ 95,138 millions (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:

	2003				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	8,985,009	22,771,497	14,863,407	5,095,878	131,055
Holland	71,007	1,000,272	1,269,325	307,941	1,875
Switzerland	138,127	364,917	356,306	2,336	-
England	106,915	350,107	1,954,928	5	-
Russia	141,470	296,370	73,994	38,231	223
USA	9,663	159,233	1,059,827	100	-
Malta	1,405	158,066	8,672	-	-
Germany	69,914	119,913	2,114,643	253	-
Luxembourg	-	29,899	318,772	8,942	-
Japan	-	11,680	865	6	-
Others	190,627	393,001	959,863	30,388	-
TOTAL	9,714,137	25,654,955	22,980,602	5,484,080	133,153

	2002				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	7,211,969	21,746,567	15,974,116	5,286,677	176,897
Holland	1,244,235	2,672,018	2,703,949	226,913	5,222
England	4,865	312,039	1,207,658	8,559	-
Japan	-	137,368	-	-	-
Russia	45,697	130,823	73,086	8,741	482
Switzerland	116,103	129,633	301,849	42,232	-
Germany	-	61,971	943,552	2,147	-
USA	-	51,928	876,396	-	-
Luxembourg	-	46,535	415,998	24,210	-
Malta	-	3,292	1,478	1,365	-
Others	36,425	101,117	739,032	40,794	-
TOTAL	8,659,294	25,393,291	23,237,114	5,641,638	182,601

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, 71% 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 83%.

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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:

	2003	2002
Cash loans		
Secured loans:	6,671,862	5,513,336
Secured by cash collateral	298,927	306,510
Secured by mortgages	543,417	617,330
Secured by government institutions or government securities	2,338,244	1,252,320
Guarantees issued by financial institutions	136,041	167,398
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	3,355,233	3,169,778
Unsecured loans	2,706,668	2,633,697
Total performing loans and financial lease receivables	9,378,530	8,147,033
Non-cash loans		
Secured loans:	4,521,703	5,352,800
Secured by cash collateral	689,189	448,983
Secured by mortgages	171,862	247,165
Secured by government institutions or government securities	45,295	13,726
Guarantees issued by financial institutions	111,018	193,637
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	3,504,339	4,449,289
Unsecured loans	962,377	288,838
Total non-cash loans	5,484,080	5,641,638

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 31 December 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
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
Galata Araştırma Yay.Tanıtım ve Bil.Tek.Hiz. AŞ	100.00
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	100.00
Garanti Sigorta AŞ	100.00
Clover Investments Co.	100.00
Lasaş Lastikleri San ve Tic. AŞ	99.99
Garanti Financial Services plc.	99.99
Bosphorus Financial Services Ltd.	99.99
Konaklı Tur.Tem.Yapı.San. ve Tic. AŞ	99.97
Sititur Tur.Tem.Taş. Org.Bilgisayar Danışm.Yapı San.ve Tic.AŞ	99.95
Garanti Finansal Kiralama AŞ	98.89
Garanti Faktoring Hizmetleri AŞ	81.81
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.06
Tansaş Perakende Mağazacılık Ticaret AŞ	24.11 ***(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)

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

Associates	***Shareholding Interest (%)***
İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ	47.17
Garanti Turizm ve Yatırım İşl. AŞ	44.89
Doc Finance SA	29.00

Late in 2002, the Bank's controlling interest in Doc Finance SA decreased from 89.99% to 29.00%, as the Bank did not participate in the company's capital increase.

The liquidation process of United Turkish Gulf Bank International Ltd, Körfez Financial Services plc and Instruments Finance Company have been completed during the year.

The shares in Ottoman Real Estate Investment Company SA have been sold in June 2003.

The Bank sold 37% owned share of Volkswagen Doğuş Tüketici Finansmanı AŞ to Doğuş Otomotiv Holding AŞ in December 2003.

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