# 2002
## ANNUAL REPORT

GarantiBank

# CONTENTS

**2** CHRONOLOGY
**4** AWARDS
**6** FINANCIAL HIGHLIGHTS
**7** THE BANK IN BRIEF
**8** CHAIRMAN'S MESSAGE
**12** BOARD OF DIRECTORS
**14** CEO'S STATEMENT
**19** SENIOR MANAGEMENT
**20** FINANCIAL PERFORMANCE IN 2002 BASED ON IAS FINANCIALS
**24** BUSINESS REVIEW
- **24** Sales Effectiveness Strategy Project
- **25** The preferred bank of large corporations
- **26** Strengthening relationships with commercial customers
- **27** Producing solutions for small businesses
- **28** Responding to the expectations of retail customers
- **30** Reshaping the credit card market in Turkey
- **33** Non-stop service, endless reach
- **35** Customer focused Treasury policies
- **36** Project Finance as an investment banking activity
- **36** Custody Services
- **36** Ambitious in Asset Management
- **37** Pension Funds: A new concept in Turkey
- **38** High credibility in international markets
- **39** Making risk management a part of Garanti's culture
- **40** An expanding work force
- **41** Higher volumes and productivity
- **42** The challenge of growth
- **43** A new Head Office building

**44** PLAYING AN ACTIVE ROLE IN THE COMMUNITY
**46** ECONOMIC BACKGROUND
**50** SUBSIDIARIES
**57** AUDITORS' REPORT & CONSOLIDATED FINANCIAL STATEMENTS
**64** NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**107** DIRECTORY
**108** CORPORATE INFORMATION

# CHRONOLOGY

**1946** Türkiye Garanti Bankası A.Ş. was incorporated in Ankara as a partnership of 103 businessmen
**1983** Doğuş Group acquired 100% share in Garanti
**1988** Garanti expanded into consumer banking
**1990** Initial public offering on ISE
**1990** Garanti established a leasing company, Garanti Leasing
**1990** Garanti Bank International, Garanti's wholly-owned subsidiary, was established
**1992** Garanti became the first Turkish bank to have an on-line real-time branch automation system extended to its entire network
**1993** Garanti became the first Turkish institution to issue ADRs and GDRs in international capital markets
**1993** Garanti established its Luxembourg Branch
**1994** Garanti acquired Bank Ekspres
**1994** Garanti began the implementation of BEST, strategy for effectiveness in retail banking
**1995** Garanti established its Malta Branch
**1996** Garanti acquired Ottoman Bank
**1996** Garanti's subsidiary, Garanti Bank Moscow, commenced operations
**1996** Garanti became the first Turkish bank to issue Letter of Credit backed US Commercial Paper
**1996** Garanti became the first bank in Turkey to operate at lunchtime and on Saturdays
**1997** Garanti centralized all its operations to enable branches to focus solely on marketing and sales activities for an enhanced customer satisfaction
**1997** Garanti launched Internet banking
**1997** Garanti introduced its "Açık" branches, especially designed for mass-market customers
**1997** Garanti became the first Turkish bank to recognize small business banking as a separate business line
**1997** Business Process Reengineering project was initiated
**1997** Garanti established the first asset management company in Turkey, Garanti Asset Management
**1997** Garanti became the first private entity in Turkey to issue a Rule 144A Eurobond
**1997** Garanti finalized the first foreign currency cheque receivables securitization in Turkey
**1997** Garanti signed the first asset securitization under IFC umbrella in Turkey

**1998** Dusseldorf Branch was established

**1998** Garanti initiated the Nokta Project with the aim of providing differentiated services across its customer segments in a cost effective manner

**1998** Garanti launched its full-function live agent telephone banking and became the first Turkish bank to function on the dual platform

**1998** Garanti completed the first insured securitization in Turkey

**1998** Garanti executed the first SET (secure electronic transaction) compliant e-commerce transaction in Turkey (7th in the world, 4th in Europe)

**1998** Garanti's "Change Management" Program was analyzed as a case study at Harvard Business School

**1998** Garanti became the only Turkish bank member of EFQM (European Quality Management Fund)

**1999** Garanti opened its representative branch in Shanghai, the first for a Turkish bank in China

**1999** Garanti established Garanti Payment Systems, to integrate the Bank's existing credit card and debit card issuing and acquiring business

**1999** Garanti acquired a controlling stake in Tansaş, Turkey's second largest supermarket chain

**1999** Garanti introduced one of the world's first "Virtual Debit Card"

**1999** Garanti became the first bank in the world to undertake a trade payments right securitization

**2000** Garanti became the first Turkish bank to complete an SPO in international markets

**2000** Garanti introduced Bonus Card, Turkey's first multi-branded chip based credit card

**2000** Garanti introduced Shop&Miles Card, first frequent flyer program credit card in Turkey

**2000** Data warehousing and management reporting systems were established

**2001** Garanti introduced expatriate banking for foreigners living in Turkey through all of its delivery channels, providing all banking services in English, a first in Turkey

**2001** Garanti launched www.paragaranti.com, a finance portal

**2001** Garanti became the national sponsor of European 2001 - the 32nd European Basketball Championship held in Istanbul

**2001** Garanti merged with Ottoman Bank

**2002** Sales Efficiency Strategy Project, SES, was implemented

# AWARDS

**1995** Garanti became the first multi-branch bank in Turkey to acquire the **"ISO 9001 Quality System Certificate"** for excellence in all banking areas.

**1996** Garanti received the **"Global 500 Roll of Honour Award"** from the United Nations Environmental Program.

**1997** The E.L.M.A. product was chosen as one of the **"Most Creative Products"** by the Advisory Board Company USA.

**1997** Garanti was selected as one of the **"Most Respected Companies in Europe"** by Financial Times.

**1998** Laferty Publications selected Garanti's branches as the **"Most Suitable Banking Environment for the 21st Century"**.

**1998** Euro News chose Garanti Bank as the **"Most Successful Company in Turkey"**.

**1999** Garanti was chosen as the **"Best Smaller Bank in the World"** by Euromoney. This was the first time a Turkish bank has ever received this commendation.

**1999** Garanti was chosen by Europay as the **"Best Bank in Europe for Fraud Control Systems"**.

**1999 & 2000** Garanti was awarded by the Global Finance magazine as the **"Best Domestic Bank in Turkey"**.

**2000** Garanti was chosen as the **"Best Bank in Turkey"** by the Banker.

**2001** Garanti was awarded by the Emerging Markets Investor magazine as the **"Best Bank in Turkey"**.

**2001** World Wide Fund for Nature has rewarded Garanti Bank with the **"Gold Panda Award"** for ten years of support to Society for the Protection of Nature.

**2001** Europay International rewarded Garanti Bank with **“Master Award Certificate“**.

**2001 & 2002** Global Finance chose Garanti Bank as **“Turkey’s Best Internet Bank”**.

**2001** Garanti Bank was selected as **“Turkey’s Most Admired Company in Banking”** by Capital Magazine.

**2002** Garanti Bank was selected as **“Turkey’s Most Admired Company in Banking”** by Capital Magazine for the second time. It was also the only bank in the top ten list among all companies.

**2002** Bonus Card was recognized as **”Europe’s Biggest Program in ‘Co-branded’ Cards”**.

**2002** Euromoney selected Garanti as the **“Best Bank in Turkey”** for the 6th time (1995, 1996, 1997, 1999, 2000 and 2002).

**2002** Garanti Bank was selected as the **“Top-rated Custodian Bank in Turkey”** by GSCS Benchmarks, Global Investor and Global Custodian Magazine.

**2002** www.garanti.com.tr was selected as the **“Best Corporate Site“** and the **“Best Banking/Finance/Insurance Site“** in Altın Örümcek website competition organized by Doruknet A.Ş.

**2001 & 2002** www.paragaranti.com was chosen by Power, one of the leading economy magazines in Turkey, as the **“Best of 2001 & 2002“** in each category including web content, functionality, interactivity, updating, visual quality, net compliance.

**2002 & 2003** Garanti was awarded by the Global Finance magazine as the **“Best Trade Finance Bank in Turkey”**.

# FINANCIAL HIGHLIGHTS

## CONSOLIDATED IAS FINANCIAL STATEMENTS OF GARANTİ BANK AND ITS AFFILIATES

(US$ Millions)

| | 2002 | 2001 |
|---|---|---|
| Total Assets | 13,882 | 14,636 |
| Loans and Advances to Customers | 4,754 | 4,622 |
| Contingencies | 3,097 | 3,856 |
| Customer Deposits | 9,216 | 8,754 |
| Shareholders' Equity | 1,062 | 1,084 |
| Paid-in Share Capital | 961 | 1,246 |
| Operating Income | 719 | 507 |
| Net Income/Loss | 18 | (526) |
| Return on Average Assets (%) | 0.1 | (3.4) |
| Return on Average Shareholders' Equity (%) | 1.6 | (37.9) |
| Adjusted Net Interest Margin (%) | 1.3 | (1.5) |
| Cost/Income Ratio (%) | 83.7 | 186.3 |

US$1=TL 1,598,755 as of December 31, 2002

# THE BANK IN BRIEF

Garanti Bank is one of Turkey's largest and most highly regarded commercial banks. Based in Istanbul, it is the number one bank in Turkey for tax collections, custody, check clearing, tourism inflows, foreign trade volumes and internet banking and has the most admired and fastest growing credit card program in the country. With 340 branches, Garanti has the best per branch and per personnel efficiency ratios among its peers.

Garanti Bank is the heart of an integrated financial services group that includes leasing, insurance, factoring, securities and portfolio management companies in Turkey, Garanti Bank International in the Netherlands, Germany and Romania; Garanti Bank Moscow in Russia; and Garanti Bank branches in Luxembourg, Malta and Bahrain. Garanti's high credit ratings and emphasis on innovation, quality, efficiency and corporate citizenship have enhanced its esteem in both local and international markets.

Majority owned by the Doğuş Group, a privately held diversified conglomerate, 31.51% of Garanti shares are publicly traded under the Reuters symbol "GARAN.IS" on the Istanbul Stock Exchange.

# CHAIRMAN'S MESSAGE

**Ferit Faik Şahenk**
Chairman & Executive Director

## During 2002, Garanti benefited from its good reputation and the consolidation in the sector to make good progress in all areas; market share was up considerably in retail and commercial segments.

Over the past two years, the banking sector in Turkey has been reinvented. As part of this process, the number of private commercial banks has fallen sharply and the role of public banks has been circumscribed. In this environment, the market position of large, well-managed, strongly capitalized banks has improved considerably.

In 2002 Garanti, the flagship of the Doğuş Group, has taken full advantage of the opportunities presented by this new environment to achieve very good results. There are two important reasons behind this. Firstly, during a period of fundamental change in the Turkish banking sector, Garanti has generated sustainable efficiency, profitability and growth. Secondly, the courageous decision to merge all our banks has produced positive results that are visible in almost every area of business.

The restructuring projects implemented in 2002 increased our efficiency and the satisfaction of our customers. Moreover, a sound financial foundation was achieved in a period in which Turkish banks were compelled to perform according to global competitive conditions. Garanti, by gathering all the financial and banking

## Foresight, effective change management and careful planning have brought Garanti to the top of the banking sector during a most difficult time.

services under one roof, has become a brand which has set the seal of the Doğuş Group on the sector.

Regulations imposed by the Banking Regulation and Supervision Agency (BRSA) have created a more legalistic, more transparent foundation for the sector while application of international accounting and auditing standards led to the publication of standardized, comparable balance sheets. With the destabilizing impact of public banks eliminated and lowering of interest rates and margins, the general trend in the system is changing toward productivity, efficiency and diversity in funding. These changes made 2002 a positive year for the banking sector and laid the foundation for future growth.

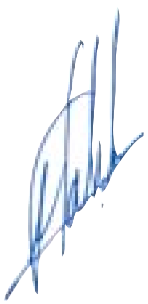
During 2002, Garanti benefited from its good reputation and the consolidation in the sector to make good progress in all areas; market share was up considerably in retail and commercial segments. Increases were noted in both the number of customers and transaction volumes. Significant growth in business volumes for loans, deposits and credit cards has raised the Bank's market share in all these areas over the last two years. Credit cards moved into prominence, proving to be a sustainable source of revenue and income.

Foresight, effective change management and careful planning have brought Garanti to the top of the banking sector during a most difficult time. The professional ability and dedication of our management and staff, a sound financial structure and consolidation has propelled Garanti to the summit, an achievement of which we are justly proud.

The move to the new Head Office building in the Levent district of Istanbul in December provides a comfortable working environment on a platform equipped with the latest technology. Designed by Gerner Kronick +

Valcarel Architects, an American firm, the building is modern in concept with exterior stone facing reminiscent of Ottoman construction techniques. The arresting design and excellent location of the Garanti Head Office adds color and architectural richness to Istanbul's business center.

In closing I would like to thank the other members of the Board for their contribution to Garanti's success and present my respects to our esteemed shareholders.



**Ferit Faik Şahenk**
Chairman & Executive Director

# BOARD OF DIRECTORS

**FERİT FAİK ŞAHENK**
Chairman and Executive Director
Doğuş Group of Companies and
Garanti Bank

**YÜCEL ÇELİK**
Vice Chairman and Executive Director

**SÜLEYMAN SÖZEN**
Executive Director

**Dr. A. MAHFİ EĞİLMEZ**
Executive Director

**Y. AKIN ÖNGÖR**
Executive Director

**ACLAN ACAR**
Executive Director

**Dr. AHMET KAMİL ESİRTGEN**
Executive Director

**HÜSNÜ AKHAN**
Executive Director

**SİNCAR TOKER**
Member of the Board

**ERGUN ÖZEN**
Member of the Board
President and CEO

Garanti Bank is a subsidiary of Doğuş Group.

# CEO'S STATEMENT

**Ergun Özen**
President and CEO

## We aspire to be a competitive bank that is preferred for the quality of its service and that creates value added for society.

2002 witnessed the continuation of rapid change on the international, national and corporate level.

However, our central objective remained unchanged: to be a competitive bank that is preferred for the quality of its service and that creates value added for society.

### Positive performance

Garanti Bank posted a consolidated net income of TL 28,015 billion in 2002. Net income of the banking group on a consolidated basis reached TL 142,271 billion at year-end 2002. The Bank's asset size amounted to TL 22,194 trillion and shareholders' equity to TL 1,698 trillion. Cash loans increased by 2.8% to TL 7,600 trillion while customer deposits rose to TL 14,733 trillion, an increase of 5.3%. The Bank's financial soundness was demonstrated by a Capital Adequacy Ratio of 13.2%.

Improvement in our performance was not limited to figures on the balance sheet and income statement. Large volumes in all business areas increased our market share and banking revenues. Despite the

## Improvement in our performance was not limited to figures on the balance sheet and income statement. Large volumes in all business areas increased our market share and banking revenues.

narrowing of credit markets, Garanti succeeded in increasing its total loans in real terms.

The Bank focused on raising the number of customers and increasing penetration of credit cards, cash management products and salary payments.

Net fee & commission income increased by 75.8% in 2002 compared to the previous year, reflecting our declared strategy of increasing sustainable sources of revenues. Net fee and commission income covered 35.9% of operating expenses in 2002, as compared to 13.6% in 2001. This is a noteworthy success, not only for Turkey but worldwide.

### A transitional year

Garanti achieved these results in an environment dominated by political uncertainty. Markets, following the deep crisis of 2001, remained cautious due to concerns regarding the future of coalition government, the prime minister's health, the formation of new political alliances, general elections, the timetable for entry to the European Union and the possibility of hostilities in Iraq.

In such a setting, investment in the economy was nil and consumption was minimal. Loan demand remained depressed despite relatively high GNP growth, the outcome of stock replacement and export growth.

### Recalibrating the cost curve

A behavioral analysis of customers provided the bedrock data for Strategies for Effective Sales (SES). The dimension and impact of the project makes it one of the most important restructuring efforts that Garanti has implemented to date.

More power was given to regional offices and the number of full service branches was increased in order to serve customers more efficiently. More branches were opened in provincial cities in the east, north and center of Anatolia, giving Garanti a presence in

## Garanti successfully implemented a strategy designed to lower its cost base and raise revenues; the balance sheet has been reshaped to withstand the impact of outside events and changing market conditions.

markets in which it was not previously represented. We aim to continue to move into new markets in 2003 while continuing to outperform our peers in per branch and per personnel productivity.

These efforts are intended to strengthen the Bank against outside influences amidst changing market conditions.

Following the integration of Ottoman Bank into Garanti, the Bank took aggressive measures to lower its cost/income ratio to a sustainable platform. We believe that the key to success in a low margin, low inflation environment is provision of quality services at a low cost. As a result of restructuring efforts, operating expenses were cut approximately by 34%.

2002 proved to be a very good year in terms of products and brand image, becoming a model for the market in many critical areas.

### Great strides

The Bank made great strides in raising volumes of deposits and loans. The composition of liabilities on the balance sheet changed in favor of customer deposits. At year-end, customer deposits accounted for 66.4% of liabilities, up from 59.8% a year earlier, resulting in a lower cost base for funding.

Volumes rose impressively in check clearing, tax collections and credit card receivables. The success of Bonus Card, which capitalizes on bank control of both merchants and cardholders, has made Garanti a leader in the credit card business. With Bonus being the largest co-branded card program in Europe, Garanti ranks as one of top ten issuers in Europe according to MasterCard.

Garanti's focus on customers was demonstrated by the establishment of a dedicated Customer Satisfaction Unit which responds to customer complaints and suggestions. Garanti is the first bank in Turkey to set up such a system.



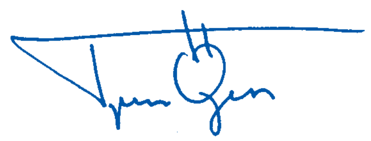


## Going into 2003, Garanti is in an enviable competitive position. Its strong human resources, sound financial structure and nationwide branch network will enable the Bank to serve ever larger numbers of customers.

Individual pension plans are a new business line that Garanti Bank as well as the Doğuş Group feel is quite important. Our subsidiary life insurance company, Garanti Life Insurance, has been renamed Garanti Pension Company in order to begin activities in this field. One of the first companies to be licensed, Garanti Pension Company is prepared to be one of the major players in individual pension plans. The cooperation we will create with our subsidiary will open a new and potentially large field of business for Garanti, which has successfully integrated sales of insurance products into its banking activities.

Going into 2003, Garanti is in an enviable competitive position. Its strong human resources, sound financial structure and nationwide branch network will enable the Bank to serve ever larger numbers of customers.

With the support of our shareholders and Board of Directors, the confidence of our correspondents and investors, the trust of our customers and the contribution of our employees, Garanti will continue to deliver more value to our local and foreign customers and business partners in 2003 and beyond.



Ergun Özen
President and CEO

# SENIOR MANAGEMENT

1
**ERGUN ÖZEN**
President & CEO

2
**GÜNİZ ŞENGÖLGE BİLGİN**
Executive Vice President
*Corporate Banking*

3
**KUBİLAY CİNEMRE**
Executive Vice President
*Treasury and Investment Banking*

4
**TOLGA EGEMEN**
Executive Vice President
*Financial Institutions*

5
**ALİ FUAT ERBİL**
Executive Vice President
*Human Resources and Channel Management*

6
**HÜSNÜ EREL**
Executive Vice President
*Operational Services*

7
**TURGAY GÖNENSİN**
Executive Vice President
*Commercial Banking*

8
**NAFİZ KARADERE**
Executive Vice President
*Retail Banking*

9
**ADNAN MEMİŞ**
Executive Vice President
*Support Services*

10
**MURAT MERGİN**
Head of Board of
Strategic Planning

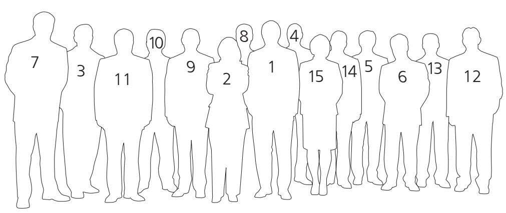
11
**CÜNEYT SEZGİN**
Head of Board of Auditors, Risk
Management and Internal Control

12
**MEHMET SEZGİN**
General Manager
Garanti Payment Systems

13
**ALİ TEMEL**
Executive Vice President
*Credits*

14
**A. CAN VERDİ**
Executive Vice President
*Legal Services*

15
**SEMA YURDUM**
Executive Vice President
*Management Services*



# FINANCIAL PERFORMANCE IN 2002 BASED ON IAS FINANCIALS

## 2002: A year of recuperation

2002 was a year of recuperation in Turkey. Despite the strong growth performance in GNP, it was a challenging year financially, with a difficult market environment depressing consumer demand and transaction volumes. In light of the increasing pressure on earnings and capital base, the consolidation through mergers and co-operation agreements gained importance in the banking sector.

As one of the beneficiaries of the consolidation process, Garanti strengthened its position in the market. While increasing its market share in almost all banking areas, Garanti continued to outperform its peers in per branch and per employee productivity ratios in terms of total assets, deposits and loans.

## Key performance targets

In 2002, Garanti management focused on four key performance targets, designed to ensure that the Bank delivers continually improving services for its client base and higher returns to its shareholders. Key performance targets included:

1. To bring cost/assets and cost/income ratios down to levels that compare positively with best-in-class competitors through cost reduction and earnings enhancement initiatives,

## While increasing its market share in almost all banking areas, Garanti continued to outperform its peers in per branch and per employee productivity ratios in terms of total assets, deposits and loans.

2. To guarantee a sustainable base for earnings growth through increased revenues that are less sensitive to market volatility such as fee and commission income,

3. To preserve Garanti's clear leading position in productivity ratios through measures and projects to improve efficiency,

4. To increase market shares and rankings in almost all banking areas, through the introduction of best-in-class products and services and best CRM solutions for its growing client base.

Garanti made significant progress in 2002, achieving the lowest cost/asset ratio and registering the highest increase in its fee and commission income among its peer group. The Bank introduced the most aggressive cost-cutting measures and achieved the best fee and commission income/opex ratio, increased the number of customers and the penetration of key products, increased its market share and strengthened its position in almost all banking areas. Garanti more than doubled its market share in deposit market during the last two years, registered one of the highest growth rate in loans and increased its ranking to the second leading position in credit cards, registering the highest growth rate in credit cards. Despite depressed market conditions, relative operational performance in core businesses remained strong and the Bank benefited from its prudent approach to risk and careful cost control.

In an attempt to increase efficiency, in 2002, Garanti initiated a new project entitled "Sales Effectiveness Strategy" to strengthen its effectiveness in the business areas by refining customer segmentation based on not only demographic but also behavioral data collected for over a period of three years. During the year, Garanti increased its sales force by over 20% and introduced a new sales platform to support the growth in its client base and market shares.

### IAS Financial Results - Segment Reporting

The segment reporting outlines the split of income and expense items between business groups. The segment reporting openly presents the strong progress in the financial performance of the banking group, compared to other business segments. The banking group registered

# During the year, net banking income, which includes adjusted NIM, net trading and net fee and commission income, increased by 78.1%.

a net income of TL 142,271 billion in 2002; as opposed to the Group's consolidated income of TL 28,015 billion. On the basis of the net banking income of the banking group (which includes adjusted NIM, net trading and net fee & commission income), net banking income increased from TL 452,059 billion to TL 805,169 billion, registering an increase of 78.1%.

## Summary of financial operations and performance on a consolidated basis

### Loans:

By year-end 2002, total assets on a consolidated basis stood at TL 22,194 trillion. Despite the shrinkage in the market, loans and advances to customers increased by 2.8% and the share of customer loans in total assets increased to 34% from 32% at year-end 2001. Non-cash loans stood at TL 4,951 trillion, among which 95% were comprised of secured loans. In terms of the currency breakdown, while 25% of the loan book was comprised of TL loans, 75% was comprised of FX loans.

### NPLs:

During the year, while increasing its loan book, Garanti also improved its asset quality. On a consolidated basis, share of non-performing loans in gross cash loans declined from 8.7% at year-end 2001 to 5.1% at year-end 2002. Allowances as a percentage of NPLs stood at 31.8%.

### Securities:

Financial assets held for trading stood at TL 1,478 trillion, declining by 28.9% and investments increased by 14.5%, reaching TL 6,696 trillion at year-end 2002. While the share of financial assets held for trading declined to 7% from 9%, the share of investments increased from 25% to 30%. In total investments, around 83% was classified as held to maturity and 17% as available-for-sale.

### Deposits:

Deposits from customers increased by 5.3% in year-end 2002 and its share in total liabilities and SHE increased to 66.4% from 59.8% a year earlier. The increase was registered despite depressed market conditions and the rationalization of the high-cost deposits during the first quarter of the year that came to Garanti as a result of the Ottoman Bank merger. (Deposits declined by around 8% in 1Q03 as a result of such rationalization) Within customer deposits, 19.8% of TL deposits was comprised of demand deposits, up from 18.8%, and 80.2%

# The Bank has recovered from the adverse impact on business volume and financial results caused by the 2001 crisis to rapidly regain previous levels of business volumes and profitability.

was comprised of time deposits. In FX deposits, while 32.2% was in demand deposits, up from 28.8%, 67.8% was in time deposits. Accordingly, share of demand deposits increased, supporting the improvement in funding structure.

## IEA vs IBL:

Interest earning assets comprised 79.8% of total assets in year-end 2002, as opposed to 78.9% in year-end 2001. Meanwhile, share of interest bearing liabilities declined to 67.8% as opposed to 71.0% at year-end 2001. Accordingly, the spread between IEAs and IBLs increased to TL 2,658 trillion from TL 1,859 trillion in 2001.

## Non-interest expenses:

During 2002, Garanti introduced strong cost-cutting measures. On a consolidated basis, total non-interest expenses (excluding F/X loss/gain) were down by 40.6% from TL 2,133 trillion in 2001 to T 1,267 trillion in 2002. Among the important items, salaries, benefits and severance payments registered a 34.3% decline, impairment losses declined by 70.3% and depreciation and amortization expenses declined by 18.4%. Accordingly, in 2002, the ratio of OPEX to average assets declined to 4.2% from 5.8% in 2001. In terms of business segmentation, the highest decline was registered in the banking sector with 51%, followed by retail sector with 8%.

## Net fees and commissions:

Net fee and commission income increased from TL 193.2 trillion to TL 339.6 trillion, registering 76% increase. Net fee and commission income covered 35.9% of operating expenses and 1.5% of average assets. The highest increase in net fee and commission income was registered in the banking sector with 92%.

## Net income:

The Bank has recovered from the adverse impact on business volume and financial results caused by the 2001 crisis to rapidly regain previous levels of business volumes and profitability.

Garanti reported a net income of TL 28,015 billion in 2002 on a consolidated basis, compared to a loss of TL 840,865 billion in 2001. Net income of the banking group reached TL 142,271 billion as opposed to a loss of TL 849,065 billion in 2001.

## Sales Effectiveness Strategy Project

Garanti Bank initiated the Sales Effectiveness Strategy (SES) Project in 2002 in order to strengthen its effectiveness in the business areas it serves and to further improve its reputation as the "best service provider" in Turkey.

SES seeks to increase market share, penetration and profitability based on a behavioral segmentation of customers. The behavioral segmentation created a broader knowledge base that improved previous segmentations and enabled Garanti to fine-tune its organization and processes. Commercial customers were divided into two groups, one needing more sophisticated tailor-made products while the other requires more standard products. Efforts were made in the branches to match the right officer to the right customer and one person was given responsibility for after sales service.

The project, which started in April 2002, refined previous segmentations based on income, net worth and demographic factors, resulting in the realignment of front office and sales concepts, processes and organization. The branches, regional network, internal service points and Head

Garanti Bank initiated the Sales Effectiveness Strategy (SES) Project in 2002 in order to strengthen its effectiveness in the business areas it serves and to further improve its reputation as the "best service provider" in Turkey.

Office were reorganized. The branch network was redesigned to increase the number of full function branches from 42 to 106, while the number of commercial branches was trimmed from 40 to 29 and the number of retail branches were reduced from 138 to 81. All in all, Garanti opened 27 branches, most of them in provincial cities, merged seven and closed nine, to total 323 at year-end.

Loans and sales were separated into different departments and decentralized into nine regional offices, each with distinct sales and loan teams. Head Office units focus primarily on marketing, planning and support, while regional offices have responsibility for sales and loan approval and branches concentrate on customer relationship management. Service points in branches were differentiated to give more focus to after sales service, and sales teams were reorganized to divide duties into specific functions. A 20% increase in the sales force and introduction of a new sales platform are intended to increase sales and generate profit from a larger group of customers.

These changes have created a clearer, simpler organization that takes advantage of proximity with customers to do more business more profitably and create synergy between different segments.

The Bank's 2002 performance reflects important gains in all the segments it serves. Successful results have been achieved in loan volume, foreign trade intermediation, credit card programs, e-commerce, asset management services, check clearing and custody services and project finance. The Bank has recovered from the adverse impact on business volume and financial results caused by the 2001 crisis to rapidly regain previous levels of business volumes and profitability. This success is the fruit of Garanti's financial strength, adherence to business principles, human resources, leadership and vision.

## The preferred bank of large corporations

Garanti focused on serving its top-flight portfolio of corporate customers during 2002. Garanti sought to deepen relations

## As more and more foreign companies put a foot in the Turkish market, they are choosing Garanti as their local bank counterparty.

with its corporate customers by adapting services to meet their specific needs through seven dedicated corporate branches. Cash Management and Treasury Marketing Unit, and other value added services were critical factors in these efforts.

Cash management of daily local and foreign currency increased significantly as Garanti became the house bank of a growing number of major multinationals and local conglomerates with large dealer networks active in fast moving consumer goods, soft drinks, pharmaceuticals and other key sectors. Successful application of a direct debiting system created an important opening for Garanti in the area of cash management of both TL and foreign currencies.

In a year in which corporate business activity didn't grow and profit margins were tight, Garanti continued to raise its market share by offering customers all types of banking services.

Stable and close customer relationships make Garanti the first stop for companies seeking market and investment advisory services. As more and more foreign companies put a foot in the Turkish market, they are choosing Garanti as their local bank counterparty.

Combining its know-how with the project finance approach, Garanti has played a key role in the accomplishment of many large scale projects such as capacity improvement, modernization, acquisition of facilities and new investments in the fields of energy, infrastructure and real estate by providing medium and long term finance .

### Strengthening relationships with commercial customers

Garanti concentrated on strengthening its relationship with commercial customers in 2002 although loan demand remained slack. The Bank gained a 30% market share among publicly traded banks for commercial loans and increased exports by 35%. Foreign currency volumes stemmed mainly from exports of textiles and the travel industry.

Garanti's unique relationship –inherited from Ottoman Bank—with the IATA airline ticket business, tour agencies, foreign airlines and hotels made it the number one bank in Turkey in tourism inflows. In 2002, Garanti handled 35% of Turkey's total tourism foreign currency inflows generated by tour operators.

Garanti's Cash Management Department provides effective management of cash flows through payment management products and electronically supported collections that reduce the operational load of its customers and raise financial productivity. Garanti excels at check clearing and tax collections. Its large presence in the market and superior operational speed made it the top bank in these areas in 2002, with check clearing volume of TL 13 quadrillion and tax collections of TL 4.3 quadrillion.

Garanti believes that successful lending is based on two axis: thorough knowledge of customers and a rapid, reliable approval process. Typically, commercial loan applications take an average of three days to approve or decline after the preparation stage.

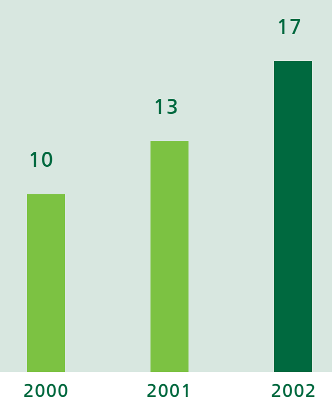
## Producing solutions for small businesses

Garanti's small business banking strategy is to offer appropriate solutions to the financial needs of small scale enterprises, tradesmen and small business owners—a segment that comprises the most dynamic and most widespread economic group in Turkey.

Garanti is the first bank in Turkey to recognize the potential of this group of customers, put in place an effective customer segmentation plan and organize its branches around this in order to serve this customer group. These pioneering efforts have made Garanti the leader in serving small business customers, who receive special attention from dedicated sales managers in the branches.

In addition to the special services provided to small businesses, Garanti offers a product package consisting of 10 different products targeted to meet the needs of tradesmen

**Market Share in Total Loans*** (%)




Despite adverse market conditions, Garanti continuously increased its loan book in real terms and strengthened its market position.

*Based on CBT statistics

and small business owners. This package, available through just one form, provides products and services that meet the cash flow, investment and credit requirements of these customers.

In 2002, Garanti continued to gain more business from small business by opening more branches and a closer focus on Anatolian cities. Small Business customers enabled the Bank to generate higher volumes parallel to economic developments in the country.

In 2003, Garanti intends to offer a product and service package to small business that will support finance, information and marketing management in order to become a solution partner to these customers.

Garanti is determined to raise its market share in the small business segment by expanding, refining and differentiating its product line in 2003, thus catching the expected economic recovery to generate profitable and sustainable growth.

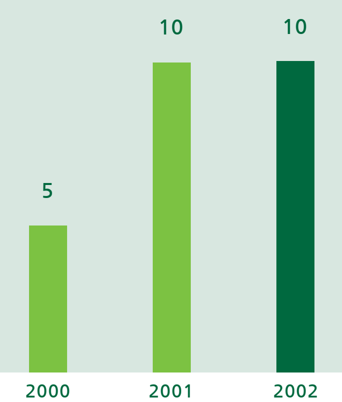
## Responding to the expectations of retail customers

Establishment of close and personal communication with customers is the most important factor in Garanti's market leadership in retail banking. In 2002, a new customer segmentation divided customers into eight groups by assessing their financial and demographic behavior.

Retail banking portfolio managers provide services within the framework of marketing and sales strategies developed to meet the needs of each of these segments. During the year, branches, sales points, organization and strategy were readjusted according to the new behavioral segmentation.

A central sales unit has been established to increase product penetration, reactivate customers and raise customer loyalty. Central Sales conducts sales activities through outbound telemarketing and alternative distribution channels according to marketing strategies formulated on analysis

**Market Share in Total Deposits*** (%)




As one of the strong beneficiaries of the consolidation process, Garanti almost doubled its market share in total deposits during the last two years.

*Based on CBT statistics

# Establishment of close and personal communication with customers is the most important factor in Garanti's market leadership in retail banking.

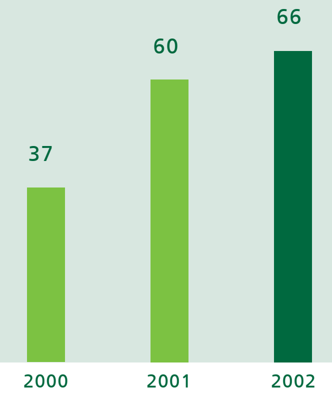
of customers' product tendencies. The average sales success rate among targeted customers is 26%.

In 2002, Garanti intensified its efforts in handling salary payments, private school fees and university tuition payments. As a result of intensive marketing efforts, the Bank has begun to work with many large universities for salary and tuition payments and also with public and private sector companies for salary payments. By the end of the year, Garanti was working with 50 universities and private schools in these areas.

Customers who receive their salaries through Garanti show a very high degree of loyalty and product penetration ratio. In 2002, the number of customers receiving salary payments increased by 50% while the number of companies rose by 38%.

Good growth was also achieved in personal cash management products and bill payments in 2002. The number of customers using ELMA (Excess Liquidity Management Account) increased by 145% while bill payments were up by 70%, reflecting successful marketing and sales strategies.

**Share of Deposits in Liabilities & SHE** (%)




While increasing its market share, Garanti altered the allocation of its balance sheet in favor of customer deposits, further improving its funding base.

Commitment to transparency and ethical values increased confidence in Garanti during the year while the Bank's larger presence generated a wider customer and deposit base. In 2002, Garanti has adopted a strategy based on a widespread funding base of customer time deposits, thus lowering funding and liability costs.

The dramatic increase in debit and credit card numbers and volumes reflect Garanti's larger role and increasing market share in the retail sector.

Six new Açık branches were opened in 2002, bringing the total number of Açık branches to 65 by year-end.

In 2003, Garanti plans to reactivate customers, increase product penetration to boost profitability and focus on salary payments and school fees. In addition, new banking packages will be developed that meet the life style needs of children, teenagers, university students and retirees.

## Reshaping the credit card market in Turkey

The card business is a key component and driver of Garanti's larger presence in the retail market.

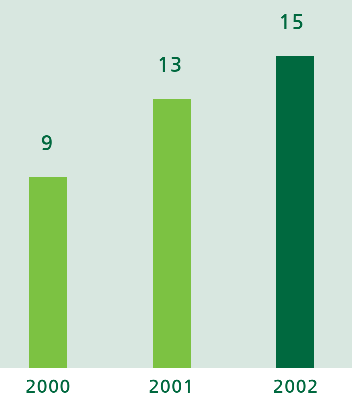
Increasingly, cards are viewed as a profitable separate business. Card receivables increased by over 60% in 2002, reaching TL 844 trillion.

In 2002, with the total number of cards up 31% to 2.3 million and volume market share up from 14% to 19% in a very competitive market, Garanti showed that it has the confidence to create and market a brand, and moreover, to beat its imitators.

Garanti Payments Systems, a subsidiary founded in 1999, is the Bank's service provider for credit and debit cards.

The tremendous success of Bonus Card and Shop&Miles cards has propelled Garanti to a leadership position as well as reshaping the credit card market in Turkey.

**Market Share in Number of Credit Cards** (%)




Garanti is the second leading bank in credit card business in Turkey. Garanti's Bonus Card was selected as the leading co-branded card in Europe by MasterCard in 2002.

# The tremendous success of Bonus Card and Shop&Miles has propelled Garanti to a leadership position as well as reshaping the credit card market in Turkey.

Bonus MasterCard, with 1.8 million card holders and 17,000 merchant partners is the largest co-branded program in Europe and helps Garanti to rank as one of top ten issuers in Europe according to MasterCard.

In order to further increase volume for merchants and strengthen the position of Bonus Card in the market, Garanti signed an agreement with Denizbank authorizing it to issue Bonus starting in May 2003. This agreement is the first of its kind in a single market and presages other such arrangements in the future.

Shop&Miles Visa, with 200,000 cards, is considered the most prestigious card brand in Turkey, generating four times the volume of average spending.

Garanti has been leading the international acquiring market for a long time now, capturing more than one third of the market in acquiring volume.

Garanti's Business and Corporate Cards are number one in the market with a 37% market share. Distribution Card (Ortak Card) which is used by small businesses to buy goods from large suppliers on a future date

**Market Share in Issuing Volume** (%)


Total issuing volume more than doubled in 2002, registering the highest growth rate among the peer group.

of their choice is taking the place of promissory notes and post-dated checks as a commonly accepted method of payment.

Garanti also issues virtual cards that enable customers to control online expenditures. The Bank offers virtual card versions of Bonus Card and Shop&Miles as well as of classic Visa and MasterCard versions that function as debit cards.

On the other hand, Bonus Gift Card is created on the Internet with a preset limit and sent physically to the recipient.

During the year, the number of Garanti24 Maestro and Electron debit cards rose by 57% to 2.3 million.

Garanti built on its superiority in e-commerce to increase the number of merchants on garantialisveris.com, one of the top five virtual shopping malls in Turkey.

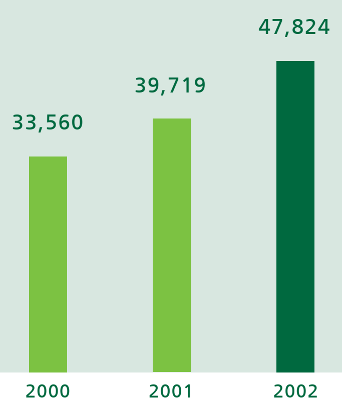
bonuscardshop.com, which was launched during the year, introduces Bonus concepts for net shopping. It is the only virtual shopping center where all Bonus Card merchants are present.

On the acquiring side, Garanti increased the number of POS machines to 63,000 to gain 13% of the market. High volumes per POS terminal generate 16.3% of volume, underlining the efficiency of Garanti in this area.

An agreement with Japanese Credit Bureau (JCB) opened Garanti branches and POS terminals to JCB's 42 million members. In a period in which touristic and commercial traffic between Turkey, the Far East and Japan is increasing, this agreement will make an important contribution to Garanti's foreign acquiring volume.

New CRM techniques are used to stimulate sales and card usage and build sustainable partnerships with merchants. Garanti has been a pioneer in using chip technology and data warehouse to transform financial data into marketing techniques, using e-mail, SMS and personalized statements. The

**Merchant Network**




Garanti has one of the most widespread merchant networks in loyalty cards.

## Garanti has been a pioneer in using chip technology and data warehouse to transform financial data into marketing techniques, using e-mail, SMS and personalized statements.

technological dimension of these activities is not limited to cardholders. Garanti has opened its database to member merchants, enabling them to design and conduct promotions.

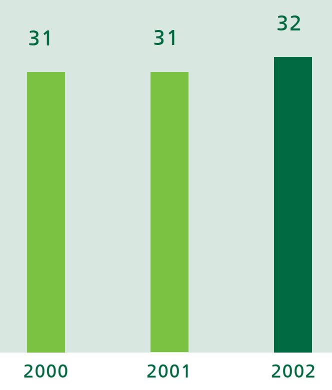
Garanti updated its credit card package system in 2002 and received EMV (Europay MasterCard Visa) certification.

The popularity of Bonus Card and other cards resulted in a dramatic increase in the number of card applications. In order to gain a long-term, profitable position, Garanti utilized improved scoring methods and tools to quickly and objectively evaluate applications. The scoring system enables Garanti to control new market segments and consequently decrease the rate of non-performing loan rates significantly. This system works in an integrated manner with Turkey's Credit Risk Monitoring Bureau.

### Non-stop service, endless reach

Garanti is the best user of alternative distribution channels in Turkey and the

**Market Share in International Acquiring** (%)




Garanti leads in international acquiring with a 32% market share

leader in innovation in these areas.
The Bank is recognized as an excellent provider of internet banking which has become an increasingly important banking channel in Turkey in recent years. Garanti, which was named "Turkey's Best Internet Bank" in both 2001 and 2002 by Global Finance, maintained its leading position in internet banking in 2002 in terms of number of customers, transactions and transactions volumes. The Bank continuously updates and develops its internet banking services. The inauguration of the paragaranti.com portal in 2002 completed the range of services offered by Garanti, enabling the Bank to meet the financial needs of all customer segments and thus fortify its leading position in this area.

Garanti views internet applications as an area of opportunity and growth in the near future of banking. The Bank is determined to increase its presence on the internet by developing the number of products and services and expanding communication channels.

Garanti's Call Center ranks as Turkey's biggest financial sector call center.

During 2002, processes were controlled to lower the cost base and operations and the technological infrastructure was optimized. For the first time in the Turkish banking sector, speech recognition was implemented and accepted by customers.

At year-end 2002, Garanti had 730 ATMs. In addition, as a member of the Gold Point Alliance, Bank customers have access to an additional 3500 machines. During the year, Garanti was one of the only banks in the world and the first in Turkey to adopt Window Open System Architecture (WOSA) for its ATMs. This enables the Bank to use various models of ATMs while centralizing control.

Garanti also started to employ smart ATMs (CRS) in its branches. This new generation of machines counts cash deposits and credits the amount immediately to the customer's account. Garanti is one of two banks in Turkey with this new technology.

**Number of Customers** ('000)


The number of customers registered a significant increase during the last two years. While Garanti outperformed its peers in per branch and per personnel operational efficiency, the Bank maintained its leading position in the utilization of alternative delivery channels.

Garanti is committed to providing optimal service to its client base in the belief that sustainable treasury revenues should be earned from flow of business.

## Customer focused Treasury policies

Garanti's global strategy for treasury operations proved successful in 2002. Sound exposure and risk management practices and a commitment to high quality service in flow business increased the efficiency of treasury transactions. Utilization of risk management tools, techniques and standards gave a more realistic, quantitative and objective approach to treasury activities.

Garanti is committed to providing optimal service to its client base in the belief that sustainable treasury revenues should be earned from flow of business. Trading units were reorganized according to customer focus teams that can deliver efficient pricing and an appropriate level of service to each customer group.

Diversification, in terms of product mix continued to be a priority in the trading activities. In 2002, the Proprietary Trading Unit expanded its transaction volumes, product and market coverage, and was named as a primary dealer. The Unit aims to operate within the capital limits allocated and achieve superior returns in 2003.

Garanti gives utmost importance to risk management. In addition to the Bank's Risk Management Department, Treasury was supported by a dedicated Risk Control Unit. Market risks are evaluated consistently on a portfolio basis to account for the benefits of diversification. "Value at Risk" (VaR) models are used to measure market risks. In addition to these, stress tests are run to capture the sensitivity of portfolios to individual risk factors, and scenario analyses are conveyed to measure exposures to extreme events. The Unit conveys risk budgeting activities and establishes VaR limits for individual desks, sets stop-loss limits, and monitors limit breaches in addition to computing risk adjusted return measures. These risk adjusted return measures are also computed for market benchmarks for risk adjusted return and performance comparisons.

## Project Finance as an investment banking activity

Garanti considers project finance an investment banking activity going beyond the conventional lending approach. In 2002, Garanti achieved a 40% market share in project finance, with US$ 650 million in mandates for government and private sector infrastructure, energy and environmental projects. The Bank plans to maintain its dominant position in this area in 2003 and underwrite new projects.

Garanti helps its corporate and commercial customers invest in their businesses by arranging medium and long term financing via export credit agencies and supranational institutions. A widespread correspondent banking network and relations with many export credit agencies and supranational institutions make Garanti the market leader in financing the imports of investment goods.

## Custody Services

Garanti Bank Securities Services is the Bank's leading domestic financial organization specializing in offering securities custody and clearing services to non-resident institutional investors in Turkey. It started operating as part of Ottoman Bank in 1990 and moved to Garanti Bank following the merger. Garanti Bank is part of the network of the leading European Securities Services providers thanks to a co-operation agreement with BNP Paribas Securities Services (http://securities.bnpparibas.com). This ensures that Garanti Bank Securities Services benefits from the most advanced technological and product developments in the industry.

Garanti Bank Securities Services has consistently received high ratings from specialist publications and clients alike, including the Global Custodian Emerging Markets Agent Bank Review, where it has been ranked a Top Rated Custodian since 1997, and the number one Top Rated Custodian in Turkey since 1998. In addition, Global Investor magazine, in its 1999-2000-2001-2002 "Emerging Markets" evaluation, granted Garanti Bank a top place.

Garanti Bank Securities Services accounts for one third of the non-resident activity in Turkish Capital Markets.

## Ambitious in Asset Management

Garanti is an ambitious and experienced player in asset management and brokerage services. These services, which are provided through Investment Centers, branches and alternative distribution channels, encompass trading of equities and fixed income securities, mutual funds, advisory services for foreign investments and custody services for foreign investors in Turkey.

Garanti provides investment advisory services to its top 2000 clients in terms of assets and activity. The ten Investment Centers handled US$ 2 billion in client custody, earning

## In 2002, Garanti achieved a 40% market share in project finance, with US$ 650 million in mandates for government and private sector infrastructure, energy and environmental projects.

US$ 1.2 million in net quality revenues per center for the year.

Garanti ranked as the biggest bank in terms of foreign currency flows in 2002 and was the leader in both TL bond brokerage and Eurobond custody. Once again, Garanti was chosen as the best local provider of custody service, which the Bank views as an important aspect of integrated capital market service.

With US$ 800 million under management at year-end 2002, the number of fund customers doubled, resulting in sustainable volumes, and the composition of investments changed in favor of non-liquid funds.

The Bank initiated institutional money management for foundations and private capital groups in 2002 and feels certain this will lead to bigger business in 2003.

In equity brokerage, Garanti ranks among the top five brokerage houses with a diverse client base. During the year, the domestic sale services of Garanti Securities were merged with the Bank in order to streamline and integrate services. In addition, International Capital Markets and Research departments were combined to eliminate repetition and address the real needs of clients.

### Pension Funds: A new concept in Turkey

Private pension plans are a new concept in Turkey and one that Garanti Bank is fully committed to. Individual pension plans, which will be managed by Garanti Pension Company, a member of the Garanti Financial Services Group, will add a new dimension to the perspective of long term investment.

Garanti Pension Company is one of the first companies to gain a license to manage private pension plans. The Bank has developed a core group of 20,000 customers interested in pension products through other accumulated saving products, a factor that will be critical in the initial success of its pension funds.

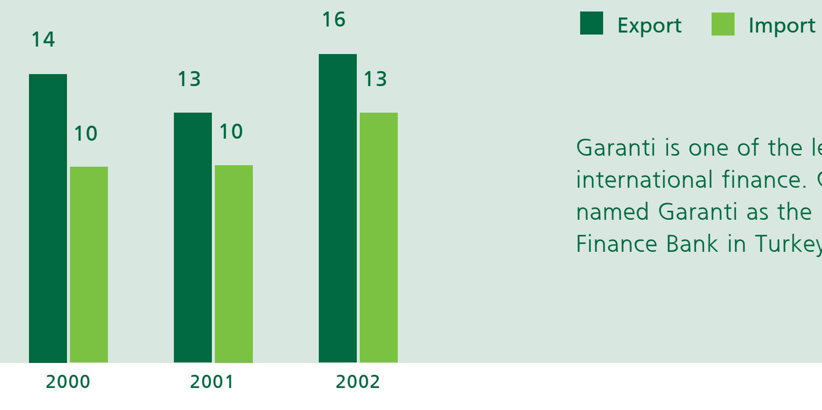
# Garanti maintained its position as Turkey's largest borrower and the only bank to secure two financing facilities from the international markets in 2002.

## High credibility in international markets

Despite special triple audit regulations imposed by the Banking Regulation and Supervision Board on all banks which delayed publication of financials to the end of June, Garanti maintained its position as Turkey's largest borrower and the only bank to secure two financing facilities from the international markets in 2002.

Garanti demonstrated its high degree of credibility in international markets in May by concluding a € 350 million Syndicated Term Loan Facility. A total of 45 banks participated from 23 countries, an indication of the strength and diversity of Garanti's relationship base. Due to a significant oversubscription, the size of the facility was raised from € 200 million to € 350 million. The facility represented the first syndicated loan for Garanti following its merger with Ottoman Bank and the first syndication for a Turkish bank in 2002, establishing a benchmark in the market.

**Market Share in Foreign Trade** (%)




Garanti is one of the leading banks in international finance. Global Finance named Garanti as the "Best Foreign Trade Finance Bank in Turkey" in 2002 and 2003.

The second syndication of the year, a US$ 325 million one year syndicated term loan facility was signed on October 11th. Heavy demand for the issue increased the amount from US$ 225 million to US$ 325 million and attracted 41 banks from 20 countries.

A widespread correspondent network and strong reputation in international markets has enabled Garanti to meet the demand of its customers during the past two years and increased international trade volumes. Market share, already high after the Ottoman merger, remained stable at 13% of imports and 16% of exports.

Foreign trade marketing unit worked to structure deals for big trade companies and support branches. Structured Trade Finance business is now handled by Garanti Bank International (GBI) in order to further strengthen Garanti's leadership position in this area and to increase cooperation and coordination between Garanti, its branches in Bahrain, Malta and Luxembourg and its foreign subsidiaries.

GBI maintained its leading position in trade finance in the European Union, diversifying its business base to include non-Turkish customers and transactions to make a significant contribution to Garanti's consolidated earnings.

Garanti Bank Moscow became more active during the year, reflecting its positive outlook on the Russian economy.

The Shanghai representative office which was opened in May 1999 has established correspondent relations with 14 Chinese banks. Business volume with China rose 2.5 times to reach US$ 85 million.

Garanti believes that a steady increase of export volumes on a country by country basis will contribute to the development of the Turkish economy. Acting as a business partner, the Bank organized regular meetings with customers in different regions of Turkey in 2002. In 2003 this concept was widened to include a series of quarterly meetings on foreign trade in different world regions with the aim of helping Turkish companies do business in these markets.

## Making risk management a part of Garanti's culture

Risk management concepts and practices are developing very fast, not only in Turkey but worldwide. Recent developments in Turkey are driven by the IMF and BRSA, which has introduced important regulations for audit standards and reserve requirements.

At Garanti, the process started well before mandatory requirements were put into place. The Bank's organizational structure, models, personnel and processes were altered, and per BRSA directives, risk management and audit now report directly to the Board of Directors rather than to the General Manager. Cooperation with Oliver and Wyman of the U.S. and Deloitte Touche, two leading companies in this field, enhanced Garanti's risk management

Garanti's goal is to make risk management an integral part of daily business functions and to make sure that these tools and concepts are used throughout the Bank in an effective and precise way.

competence and knowledge. As a pioneer in this area, Garanti is working with BRSA to introduce and implement new regulations.

Garanti is now able to measure market and credit risk by using advanced models and is getting ready for new BIS proposals on operational risk management. Control activities have been strengthened and models to control operational risk are being developed. Internal control and audit have been combined under one group to create synergy and support a better division of labor. Emphasis is placed on making risk management concept a part of Garanti's culture.

Garanti's goal is to make risk management an integral part of daily business functions and to make sure that these tools and concepts are used throughout the Bank in an effective and precise way.

## An expanding work force

Garanti expanded its work force from 6,173 employees in January 2002 to 6,592 at the end of the year, concrete proof that Garanti has become a bigger player in the banking sector in the aftermath of the 2001 crisis.

Increasing the satisfaction, the competence and skills of employees are a priority at Garanti. Each employee spent an average of six days in training, ranking among the top in the sector. All managers started participating in "Management Culture Program" designed to develop managerial and leadership skills. The Assessment and Development Center actively identifies and trains a new generation of managers.

Many new human resources projects were implemented during the year. "Competency Based Career Planning" was adopted in 2002 and function related career maps were introduced. Web based, self-service Oracle HR applications were launched during the year. Garanti became the leader in Web based Training Programs as well. An Economic Value Added (EVA) based financial performance management tool and incentive program has been put into place and will be used in 2003 to calculate salary bonuses.

# The change management program applied by Garanti in recent years targeted increasing efficiency and productivity in order to succeed in a low inflation environment.

In October, Reward and Recognition Programs were introduced to motivate employees and award achievement. Additionally, an "Internal Customer Satisfaction Survey" and "Employee Satisfaction Survey were conducted that generated useful data and information.

## Higher volumes and productivity

The change management program applied by Garanti in recent years targeted increasing efficiency and productivity in order to succeed in a low inflation environment.

In 2002, important advances were made in central operations and the technological infrastructure. Abacus, Garanti's operation unit, increased the back office centralization rate from 77% (2001 average ) to 92% (2002 average), a key factor in improving efficiency. Although the number of transactions was up by 21% to 25.5 million, the number of staff decreased by 7%, transaction per staff ratio increased by 31%, and costs declined by 29%.

Abacus handles foreign trade, loans, EFTs, other payments, checks, promissory notes, document management, SWIFT transactions and cash supply management, including all cash transfers, handling and distribution.

Garanti Technology, a subsidiary company, is responsible for hosting and midrange systems for operation, networking for Doğuş Group, software development, new business development and security.

Development of a wide range of Customer Relationship Management applications enables Garanti to measure performance and profit/loss for each customer, branch, region and business line. A contact management system tracks each and every contact through the Bank for each customer. A new platform enables all sales and marketing people to see all customers with complete information on every transaction and due date while a campaign management program provides data-based campaigns.

In 2003, Garanti will focus on accepting and serving a larger number of customers through a greater number of outlets while controlling the cost of this expansion in order to improve profitability.

The Bank improved its utilization of technology in other ways as well. A new software for document management and imaging has been instrumental in improving the speed of check clearing. A new financial analysis system for commercial loans using HTML technology increased the efficiency and accuracy of the loan approval process. New ATMs with WOSA technology were installed and internet and Bonus Card functions were improved .

Garanti is committed to using information technology in all business processes in an effective manner to attain sustainable profitability and growth.

## The challenge of growth

Garanti's diversified portfolio of financial services, efficient operating structure, good reputation and brand awareness has made it Turkey's leading bank in many key areas.

In 2003, Garanti will focus on accepting and serving a larger number of customers through a greater number of outlets while controlling the cost of this expansion in order to improve profitability.

## A new Head Office building

Garanti invested in a new Head Office building both in order to provide customers with more effective services and to offer employees a work environment that complies with world standards.

The Bank moved in stages to its new building located in the central Zincirlikuyu district of Istanbul in December. The building, with its large interior spaces and technical infrastructure is a model structure.

Designed by Gerner Kronick + Valcarel Architects , an American firm, the building is modern in concept with exterior stone facing and a tower crown reminiscent of Ottoman fountains and buildings, adding color and richness to Istanbul's architectural landscape.

# PLAYING AN ACTIVE ROLE IN THE COMMUNITY

The relationship between product and service quality and quality of life is the basis for Garanti's sensitivity toward and support for culture, art, education, sports and environmental protection.

Garanti's mission is to increase in a continuous and clear way the value it adds to society and the environment. The Bank selects sponsorships within the outlines of this mission, choosing certain areas to give long-term support to with the aim of strengthening the Garanti brand and making a meaningful contribution to the community.

OTTOMAN BANK MUSEUM

**Ottoman Bank Museum** was born from Garanti's commitment to preserve the heritage of Ottoman Bank, which occupies a unique place in the history of Turkish banking. In just nine months, the original head office building of Ottoman Bank, built in 1892, was transformed from the "Ottoman Bank Archive and Research Center" into the "Ottoman Bank Museum" .

Opened to the public on December 19, Ottoman Bank Museum has set a new standard for museums in Turkey. Housed in the historic Ottoman Bank building, the Museum uses documents from the Ottoman Bank archives to weave a social and economic history of the late Ottoman and early Republican periods.

The Museum functions as more than a classic museum: with a café, archive, research center and library, it has become a cultural center.

PLATFORM GARANTİ CONTEMPORARY ART CENTER

**Platform**, an exhibition space and research center on contemporary art has become a center for the avantgarde in Turkey. Its extensive archives have attracted the attention of well-known European and Asian art professionals. As a result of work done in the archive, Turkish artists and writers have been invited to participate in exhibitions and biennali in various countries.

Platform organized eight exhibits during the year in addition to various conferences, film screenings and workshops. In 2003, Platform will add an international dimension to its activities by initiating an "Istanbul Guest" program in which artists from various countries will be invited to work and exhibit at Platform.

**Garanti Art Gallery**, a leader in the Istanbul art scene since 1986, held 13 exhibitions in 2002. In 2003, the gallery will be transformed into a center for the international study of design in all its facets.

## Garanti's support for jazz

Garanti's support for jazz is long-standing in the belief that corporate culture resembles the team work and harmony of jazz. A founding member of the Istanbul Foundation for Art and Culture, Garanti continues to be the main sponsor of the International Istanbul Jazz Festival, which is held every July, as well as of the Ankara Music Festival. Additionally, Garanti sponsors monthly concerts at Babylon, a popular Istanbul jazz club.

## Sensitivity to the environment

For the last decade, Garanti has supported various environmental conservation programs. In 2002, Garanti continued to support various projects carried out by the Society for the Protection of Nature/WWF with the goal of safeguarding natural resources for future generations.

In addition, the Bank sponsored the 4th Environmental News Competition, the 6th International Environmental Film Festival and Green Atlas Magazine.

## Making basketball a more popular sport

Garanti, the main sponsor of the Turkish National Basketball Team in 2002, extended its sponsorship pledge for another three years. With the aim of attracting a larger audience for basketball in Turkey, Garanti also provides support for basketball training schools. In addition, Garanti was one of the sponsors of the "Basketball without Borders" started as an initiative of the NBA and United Nations.

## Employee support for schools

An employee-initiated primary school building project known as Denizyıldızları (Sea Stars) resulted in the construction of a school in the Darıca suburb of Istanbul in 1999. A second school is now under construction, funded by voluntary donations from employees, and is expected to open for the 2003-2004 academic year. The schools include sports facilities and a multipurpose room.

# ECONOMIC BACKGROUND

In 2002, restrictive aggregate demand policy and the appreciation in Turkish Lira resulted in a decline in inflation, while continued cutbacks in the labor market and depressed domestic demand lowered forward-looking inflationary expectations. Annual inflation maintained its downward trend, ending 2002 at 29.7% for CPI, five percentage points below the stand-by target.

Due to the strong recovery in economic growth during the second half of the year, 2002 growth rate reached 7.8%, significantly above the original program target of 3%. Economic recovery has been driven by several factors including a consistent rise in exports, steady improvement in domestic confidence and faster than expected turnaround in inventory accumulation. The sharp turnaround in inventory building and strong export performance boosted industrial output nearly 9.4% in 2002 on an annual basis. Despite strong export performance, foreign trade balance exerted a negative effect on GDP growth; because of a stronger performance in imports.

The recovery in inventory building, together with the slight turnaround in overall domestic spending caused import volumes

## Economic recovery has been driven by several factors including a consistent rise in exports, steady improvement in domestic confidence and faster than expected turnaround in inventory accumulation.

(CIF) to increase by 17.9% from a year earlier during January-November 2002, after contracting 26% in 2001. The rebound in stockbuilding and export-oriented output growth increased imports of raw materials, but weak investment appetite in private sector kept the growth of investment goods import limited. With a much stronger (10.9%) than expected growth in exports, foreign trade balance (FOB) showed a moderate deficit of US$ 6.5 billion.

Contrary to consensus view a year earlier, these results implied that export sector gained some price competitiveness in 2002. Relative unit labor costs continued to drop all through 2002, while Turkish Lira, which stayed at TL 1,642,000 / US$ at the end of December 2002, surpassed purchasing power parity based fair value of TL 1,622,000 / US$ in CPI terms. Thus a surge in labor productivity, together with a fairly priced Lira helped boost Turkey's external competitiveness, which allowed export volumes to rise to 16.8% more than a year earlier.

A front loaded IMF financing package and relatively greater access to international capital markets early in 2002 helped increase the foreign exchange reserves to a near record of US$ 27 billion or 7 months' merchandise imports. FDI stayed weak at US$ 410 million during January-December 2002, while Turkey faced a slight decline of US$ 694 million in portfolio equity investments. The most appealing development was the significant increase in the government external borrowing.

The central government primary budget surplus narrowed to around 4.7% of GNP in 2002 from 7.1% of GNP in 2001; mainly because of personnel outlays, transfers to social security system, direct income support for farmers, and tax rebates for exporters and households. While the IMF-defined primary surplus declined to about 2.9% of GNP, compared to the year-end target of 5.4% of GNP; the government committed to a credible fiscal austerity policy framework to put the stand-by program back on track.

The government announced additional revenue-generating and expenditure-cutting measures to raise a total of TL 12.8 quadrillion (equivalent to 3.5% of GNP) for 2003. With the announcement of the corrective fiscal measures, the government is expected to cap the budget expenditures at TL 146 quadrillion and raise its domestic sources enough to meet 2003 financing needs without undermining the planned improvement of state bank balance sheets and private banks' capacity to lend to the private sector. In the absence of further hikes in oil prices, additional efforts to run a tighter budget in 2003 should help sustain the initial anti-inflationary gains in the economy.

During the first quarter of 2003, the Turkish government committed to a new set of strict fiscal policies to put the stand-by program back on track and introduced a second fiscal package of TL 4 quadrillion in order to place 2003 fiscal targets within reach. Based on corrective fiscal measures, including revenue from tax peace project, the government expects tax revenues to show a significant real increase, as much as 15.8% to TL 85.9 quadrillion. With additional cutbacks in investment spending, and non-interest transfers to social security system and agriculture sector, the government expects a further improvement of 0.6% of GNP in the IMF-defined central government primary budget surplus, which is expected to reach 6% of GNP in year-end 2003.

The Treasury succeeded in reducing the foreign exchange component of outstanding domestic debt to 31% at the end of February 03 from 36% at the end of December 01. Besides, the proportion of the floating rate notes also showed a significant drop during the period December 01-February 03, declining as much as 8 percentage points to 42% from 50%. As a result, existing interest rate structure left the Treasury's debt payment capacity less sensitive to spikes in short-term interest rates, compared with a year earlier.

Nearly 68.5% of the central government external borrowing was made up of disbursements from the IMF. (Eurobond issues by the government amounted to US$ 3.2 billion in 2002 as a whole). From January through December, the central government received a total of US$ 12.6 billion, US$ 6.2 billion of which was used by the Central Bank of Turkey (CBT) to repay the SRF that was drawn in 2000. As a result of these developments, external debt stock reached US$ 131.5 billion in 2002, equivalent to 329.3% of merchandise exports (FOB). Short-term external debt stock stood at US$ 15.1 billion at the end of December 02, or 56.7% of the CBT's foreign exchange reserves.

Given the government's sincerity on its recent rhetoric of sticking to the fiscal austerity package and structural adjustment agenda, a potential U.S. financial aid package of US$ 1 billion, which includes

## During the first quarter of 2003, the Turkish government committed to a new set of strict fiscal policies to put the stand-by program back on track.

funds to support up to US$ 8.5 billion in direct loans or loan guarantees, is the key to improve market sentiment. A US$ 8.5 loan package is likely to ease 2003 total debt servicing burden. Excluding external debt service, this year's amortization of domestic debt of US$ 89.5 billion will likely require a domestic debt rollover rate of around 79.9%, well below the rollover rate of 92.6% in the case of a financing structure that lacks direct bilateral assistance from the U.S. government. In this circumstance, without disturbing comfortable liquidity position of the state banks, a much lower market-to-market rollover rate of 91.6% should lay the infrastructure that would ensure the debt sustainability.

Structural adjustment program is on track. In 2002 more concrete steps were (1) the approval of the public procurement law, (2) the closing down of 800 branches at public-sector banks, and (3) improvement of credit assessment and risk management systems in the financial sector. Following the approval of the legislation for the second phase of the tax reform by mid April 03, the Parliament is expected to pass the legislation to improve the governance in public institutions (especially State Economic Enterprises) and adopt a reform package for Execution and Bankruptcy Act, strengthening Turkey's capital structure.

# SUBSIDIARIES

## Garanti has 10 financial subsidiaries.

Garanti's 10 financial subsidiaries provide services to millions of customers in Turkey and abroad with a broad range of high quality financial products. Garanti Technology provides information technology support for products and services offered by Garanti Bank and its subsidiaries to customers.

## GarantiBank International N.V.

GarantiBank International N.V. was established in 1990 as the international trade finance bank of Doğuş Group in Europe. Originally established under the name of United GarantiBank International N.V., the name was changed to GarantiBank International N.V. at the beginning of 2002.

Today the operating environment of GarantiBank International N.V. extends beyond the Netherlands to Romania and Germany. Despite the economic and financial deterioration of the global business environment, 2002 was a good year for the Bank with a gross income of € 19.3 million. Total assets remained almost unchanged and amounted € 1.5 billion.

The core business of GarantiBank International N.V. is financing international trade. The trade finance volume of the bank reached in 2002 an amount of € 2.8 billion, up 35% over the previous year. More importantly, the Bank's diversification efforts continued to bear its fruits. The non-Turkish risk transaction volume increased by 80% and reached to € 1.1 billion in 2002. Needless to say, Garanti Bank International N.V. continues to be a key player in its core products in its major niche market of Turkey.

## GarantiBank Moscow

Garanti Bank Moscow (GBM), which started operations in October 1996, is 78.35% owned by Garanti Bank. GBM serves Turkish and Russian companies active in Russia as well as participating in trade finance transactions between Turkey and Russia and other CIS countries.

The Bank has one branch and two exchange bureaus and is a member of the Russian Banking Union.

At year-end 2002, Garanti Bank Moscow had total assets of US$ 91 million. Garanti Bank Moscow ranked 136th by amount of assets and 135th by amount of shareholders equity among 1,319 banks as of end of 2002.

## Garanti Securities

Garanti Securities was formed with the merger of capital markets operations of Garanti Bank, Ottoman Bank and Körfezbank in 1999. Wholly owned by Garanti Bank, it is the leading securities and investment banking house in Turkey. It provides brokerage, trading and research services for equities and fixed income to 135,000 customers as of March 2003.

Garanti Securities has consistently been among the top five brokerage houses in terms of equity brokerage volume. In 2002, Garanti Securities obtained a 3.2% market share in equity trading with a total transaction volume of US$ 4.4 billion.

Garanti Securities is also the leading name in corporate finance advisory services for mergers, acquisitions, tender offers and privatization transactions. It has been the lead manager of many important equity public offerings.

Garanti Securities was voted as the “Most Admired Securities House ” in 2002 by Capital, a reputable business magazine.

## Garanti Asset Management

Founded in June 1997 as a wholly owned subsidiary, Garanti Asset Management (GAM) is Turkey’s first asset management company. Assets under management have increased from US$ 425 million in 2001 to US$ 760 million at the end of 2002.

GAM currently manages 14 funds sponsored by Garanti Bank and Garanti Securities. In addition to these, GAM manages one closed-end investment trust listed on İstanbul Stock Exchange and by the end of the year had a 13% market share in this segment.

GAM’s investment philosophy in a broader sense combines long-term fundamental and short-term behavioral approaches, while maintaining the flexibility in decision making processes, critically relying on risk management, compliance, consensus management, research and team work. The company maintains a highly liquid balance sheet with the majority of the assets consisting of trading assets, securities purchased under agreements to resell, securities borrowed and deposits which are readily convertible into cash.

## Garanti Leasing

Established in 1990, Garanti Leasing is Turkey's largest and most prestigious leasing company with a high degree of international credibility with total assets of US$ 151 million at the end of 2002.

In 2002, in line with a decision taken by Doğuş Holding, Aktif Leasing was merged with Garanti Leasing and paid-in capital was raised to TL 13 trillion.

Garanti Leasing secured a US$ 51 million financing facility from IFC in 2000, the first on-shore asset backed securitisation of Turkey. Garanti Leasing is one of 10 companies in Turkey to receive a credit rating from Standard and Poors.

With a 16% market share in the leasing sector, the company has net leased assets of US$ 126 million in 2002 and finalized 3,012 new lease contracts. The company's portfolio emphasizes the automotive, food, textile, medical equipment and tourism sectors.

## Garanti Factoring

Garant Factoring was incorporated in June 1990 as Aktif Finans. The Company was renamed as Garanti Factoring in 2002. Garanti Bank holds 55.4% of the Company and 34.8% is traded on the Istanbul Stock Exchange under the symbol AKFIN.IS. Turk Eximbank holds the remaining 9.8% of the Company.

Garanti Factoring supplies domestic and international factoring services to industrial and commercial companies in Turkey.
As the only company in Turkey with membership in two international factoring organizations (FCI-Factors Chain International and IFG-International Factors Group), Garanti Factoring is very active in export factoring with a market share of 7%.
As of year-end 2002, the Company had total assets of US$ 143 million.

## Garanti Insurance

Garanti Insurance, founded in 1989, is active in non-life and health insurance. With its strong financial structure, advanced technology, rapid and quality service, it occupies a different position in the sector. The Company has effectively used bank branches, both of Garanti and other banks, to sell insurance. In addition, the Company works with a network of agents and brokers.

Garanti Insurance focused on marketing and sales in 2002 as well as improving its risk management capabilities.

The Company holds a 3.2% market share in non-life insurance in Turkey as premium production reached TL 87.1 trillion in 2002.

## Garanti Pension Company

In early 2003 Garanti Life Insurance was renamed Garanti Pension Company as the life insurance company changed its focus to pension funds.

The Company has been successful in using bank branches as an effective distribution channel for life insurance products. Bank branches will also be a primary distribution channel for pension funds, the first of which is planned for release in July 2003.

The Company holds a 1.9% market share in life insurance in Turkey as premium production reached TL 18.7 trillion in 2002.

Volkswagen Doğuş Consumer Finance was established in 1999 as a joint venture between Volkswagen Financial Services AG, Doğuş Group of Companies and Garanti. The company functions as a consumer finance provider for Volkswagen, Audi, Skoda and Seat motor vehicles and as of April 2002 also for other brands (such as Citroen, Mitsubishi, Hyundai etc.) In the year 2002, the Company extended 7,728 new loans and total assets reached TL 114 trillion.

Garanti Payment Systems was established in 1999 as the single service point for the entirety of Garanti's credit card businesses. The Company is 99.92% owned by Garanti.

Garanti, the fastest growing bank in credit card business, ranks as the second largest player in the credit card market in Turkey. Garanti Payment Systems is a pioneer in developing chip-based multi-branded cards. It also provides commercial cards and acquiring and e-commerce services.

At year-end 2002, Garanti Payment Systems handled total domestic transaction volume of US$ 2.74 billion and an acquiring volume of US$ 2.71 billion, with 65,000 POS terminals.

# Garanti Technology

Garanti Technology operates as the information technology provider for Garanti Bank and its subsidiaries as well as for Doğuş Group subsidiaries.

With 11,000 Win2000 Desktop, 1,100 Win2000 servers, 100 Unix system, 3,633 MIPS CPU power mainframe, 10 Terabyte disk capacity and an average of 99.99% system reliability, Garanti Technology is Turkey's leading information technology provider.

The leased line communication infrastructure is supported uninterrupted dialup and satellite lines. Data, video and voice communications over this infrastructure is transferred through 63,000 POS machines, 730 ATMs and Cash Recycle Systems. The reliability of the communication network is 99.96%.

Having a total of 515 employees, Garanti Technology provides application software services for banking, financial services, retail and automotive sectors with a team of 245 software developers and analysts. Garanti Technology provides complete software solutions for retail and commercial banking, credit card issuing and acquiring, securities, insurance, leasing, factoring and other financial services companies. These solutions are designed to operate 7x24 and are integrated with multi-channel CRM, document management and workflow software.

Garanti Technology supports every kind of technological cooperation to develop joint solutions and create new, customer-focused platforms for the business world.

# Türkiye Garanti Bankası Anonim Şirketi And Its Affiliates
Consolidated Financial Statements
31 December 2002
With Independent Auditors' Report Thereon

21 March 2003

This report contains the "Independent Auditors' Report" comprising 1 page and; the "Consolidated financial statements and their explanatory notes" comprising 47 pages.

# Türkiye Garanti Bankası Anonim Şirketi
# And Its Affiliates

## Table of Contents

Independent Auditors' Report
Consolidated Balance Sheet
Consolidated Statement of Operations
Consolidated Statement of Changes in Shareholders' Equity
Consolidated Statement of Cash Flows
Notes to Consolidated Financial Statements

KPMG

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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 2002 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.

As disclosed note 2, the Bank made two transactions in 2001 to be subsidised from its major shareholder in order to mitigate the effects of its one-time losses resulting from economic crises in Turkey. As a result of these transactions, the Bank has recognized a receivable of TL 442,043 billions as of 31 December 2001 and an income of TL 715,594 billions for the year then ended. Since such transactions, in substance represent capital contributions by the shareholders they should be reflected as "Additional paid-in capital" rather than in the statement of operations. It should be noted that such financing could not have been entered into on an arm's length basis with a third party. As disclosed in note 20, at the Board of Directors meeting held on 28 November 2002, it was decided to compensate prior period statutory losses through a transfer of TL 1,035,567 billions from share capital. In the accompanying consolidated financial statements, the Bank has made a portion amounting to TL 455,036 billions of this compensation in order to partially adjust prior years capital contribution that explained above. Consequently, as a result of all above transactions, "Additional paid in capital" was understated by TL 135,063 billions and "Accumulated profits" was overstated by the same amount as of 31 December 2002.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, 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 2002; and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

İstanbul,
21 March 2003

KPMG Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik AŞ

# Consolidated Balance Sheet
# At 31 December 2002

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

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

# Consolidated Statement of Operations
# For The Year Ended 31 December 2002

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

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

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

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

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

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

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

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

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

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

## 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 2002 comprise the Bank and its affiliates (the Affiliates) and their interest in associates.

### *(a) Brief History*

Foundation of the Bank was approved by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 and "Articles of Association" was published at official gazette dated 25 April 1946. The Bank provides corporate, commercial and retail banking services through a network of 301 domestic branches, three foreign branches, five representative offices abroad, five change offices, four in-store branches and 15 domestic liaison offices. In addition to its branches, the Bank has 100% ownership in two banks located in Amsterdam and Moscow. The Bank's head office is located in İstanbul.

### *(b) Ownership*

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

Doğuş Holding AŞ, Doğuş İnşaat ve Ticaret AŞ, Doğuş Otomotiv Sanayi ve Ticaret AŞ and Somtaş Tarım ve Ticaret AŞ have sold (i) an aggregate of 36.400.000.000 common shares in registered form each with nominal value of TL500 ("Shares") representing 7.0% of the share capital of Türkiye Garanti Bankası AŞ on 24 March 2000 and (ii) additional 5.460.000.000 shares in registered form each with nominal value of TL500 representing 1.05% of the share capital of the Bank by 31 March 2000 to foreign investors abroad at the price TL7,900 (TL22,781 as restated for the effects of inflation current at 31 December 2002) for each unit of two shares. Accordingly, the total ownership interest in the Bank of those shareholders other than the Doğuş Group Companies and the individuals controlling this Group increased to 31.51%.

## Significant accounting policies

### *(a) Statement of compliance*

The consolidated entities in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); while the other consolidated entities maintain their books of account and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications including restatement for the changes in the general purchasing power of the Turkish Lira, for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board.

### *(b) Basis of preparation*

The accompanying consolidated financial statements are presented in Turkish Lira (TL), rounded to the nearest billion as adjusted for the effects of inflation in TL units current at 31 December 2002 pursuant to International Accounting Standards (IAS) 29, "Financial Reporting in Hyperinflationary Economies".

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

## Significant accounting policies continued

The accounting policies have been consistently applied by the Bank and its affiliates and are consistent with those used in previous years.

### *(c) Basis of consolidation*

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements.

*Affiliates*

For the purposes of the accompanying consolidated financial statements, the Affiliates are those companies over which the Bank has a controlling power on their operating and financial policies through:

- having more than 50% of the ordinary shares held by the Bank and/or its other affiliates and/or;
- exercising the voting power relating to the shares held by the members of Şahenk family since the members of Şahenk family allow the Bank to exercise a voting power with respect to their shares held in these companies and/or;
- exercising actual dominant influence over the financial and operating policies although not having 50% voting power.

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

- The balance sheets and statements of operations of the Affiliates are consolidated on a line-by-line basis.
- All intercompany investments, receivables, payables, dividends received and paid and other intercompany transactions reflected in the balance sheets and statements of operations are eliminated.
- The results of the Affiliates are included in or excluded from the consolidation from their effective dates of acquisition or disposal respectively.
- Minority interests in the shareholders' equity and net results of the consolidated affiliates are separately classified in the consolidated balance sheet and consolidated statement of operations.

*Associates*

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates' share of fair values is lower than the carrying amount of the associate, the carrying amount is reduced to reflect impairment in value.

### *(d) Accounting in hyperinflationary economies*

Financial statements of the Turkish entities were restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%.

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

## Significant accounting policies continued

Three years inflation rate in Turkey has been 227.29% as at 31 December 2002, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 31 December 2002 based on IAS 29. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such indices and conversion factors used to restate the accompanying consolidated financial statements at 31 December 2002, 2001 and 2000, are given below:

| Date | Index | Conversion factor |
|---|---|---|
| 31 December 2002 | 6,478.8 | 1.000 |
| 31 December 2001 | 4,951.7 | 1.308 |
| 31 December 2000 | 2,626.0 | 2.467 |

The main guidelines for the above mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities which are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant conversion factors.
- All items in the statement of operations are restated by applying the monthly conversion factors except for those deriving from non-monetary items, which are calculated based on the restated values of the related items.
- The effect of inflation on the net monetary position of the Bank and its affiliates, is included in the statement of operations as "gain/(loss) on net monetary position, net".

### *(e) Foreign currency*

*Foreign currency transactions*

Transactions are recorded in Turkish Lira, which represents its functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into Turkish Lira at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the statement of operations as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of operations as realized during the course of the period.

*Financial statements of foreign operations*

The foreign operations of the Bank and its affiliates are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Turkish Lira at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Turkish Lira at foreign exchange rates ruling at the balance sheet date pursuant to IAS 29.

## Significant accounting policies continued

### *(f) Tangible assets and related depreciation*

*Owned assets*

The costs of the tangible assets are restated for the effects of inflation in TL units current at the balance sheet date pursuant to IAS 29. Accordingly, tangible assets are carried at restated costs, less accumulated depreciation and impairment losses (refer accounting policy (r)).

*Leased assets*

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

*Subsequent expenditure*

Expenditure incurred to replace a component of an item of tangible assets that is accounted for separately, including major inspection and overhaul costs, is capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are recognized in the statement of operations as an expense as incurred.

*Depreciation*

Tangible assets are depreciated over the estimated useful lives of the related assets from the date of purchase or the date of installation, on a straight-line basis. The estimated useful lives are as follows:

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

Leasehold improvements are amortised over the periods of the respective leases, also on a straight-line basis.

Expenditures for major renewals and betterment of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

### *(g) Goodwill/Negative Goodwill*

Positive and negative goodwill consist of the excess/shortage of the total acquisition costs over/under the attributable share of the Bank and its affiliates in the fair value of net assets of the acquired companies at the dates of acquisitions. Goodwill is reflected in 'intangible assets' in the consolidated balance sheets and is amortised on a straight-line basis over 20 years, the time during which benefits are expected to be consumed.

Negative goodwill is included under 'other liabilities' in the accompanying consolidated balance sheets and is credited to income over 20 years, the time during which benefits are expected to be consumed. Amortization expense/income of goodwill and negative goodwill is reflected in the accompanying statement of operations.

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

## Significant accounting policies continued

### *(h) Financial instruments*

*Classification*

*Trading instruments* are those that are principally hold for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

*Originated loans and receivables* are loans and receivables created by the Bank and its affiliates providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include money market placements and certain debt and equity investments.

*Recognition*

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

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

*Measurement*

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

*Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated by the Bank using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in current market exchange.

## Significant accounting policies continued

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank and its affiliates would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

*Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair value of trading instruments and available-for-sale assets are recognized in the statement of operations.

*Specific instruments*

*Cash and cash equivalents:* Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, demand deposits at domestic and foreign banks and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the central bank. Money market placements are classified as held-to-maturity assets.

*Investments:* Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

*Loans and advances to banks and customers:* Loans and advances originated by the Bank and its affiliates are classified as originated loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

*Finance lease receivables:* Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

*Bonds payable:* Bonds issued by the Bank and its affiliates are classified as non-trading liabilities.

### *(i) Derecognition*

A financial asset is derecognised when the control over the contractual rights that comprise that asset, is lost. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

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

### *(j) Securities borrowing and lending business*

Investments lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and

## Significant accounting policies continued

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.

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, 10% discount rate and 92% turnover rate to estimate the probability of retirement assumptions were used in the calculation of the total liability in the accompanying consolidated financial statements.

### *(n) Taxes on income*

Taxes on income for the year comprise current tax and the change in the deferred taxes. Current taxes on income comprises tax payable calculated on the basis of expected taxable income for the year using the tax rates enacted by the balance sheet date and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences relating to goodwill not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit. Deferred tax liabilities and assets are recognised when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Bank and its affiliates. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

Deferred tax assets and liabilities relating to an individual consolidated affiliate that reports to a specific tax office are offset against each other in the accompanying consolidated financial statements.

## Significant accounting policies continued

### *(o) Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### *(p) Capital increase*

Capital increase pro-rata to existing shareholders are accounted for at par value as approved at the annual meeting of shareholders.

### *(q) Earnings per share*

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

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

### *(r) Impairment*

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

*Originated loans and advances and held-to-maturity instruments*

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

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

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

*Financial assets remeasured to fair value*

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

## Significant accounting policies continued

Where an asset remeasured to fair value is impaired, the write-down is recognized in the statement of operations.

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

### *(s) Income and expense recognition*

*Interest income and expense*
Interest income and expense is recognized in the statement of operations as it accrues, except for interest income on overdue loans, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income on overdue loans is recognized only when received.

*Fee and commission income*
Fee and commission income arising on financial services provided including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services is recognized when the corresponding service is provided. Certain commissions, such as those deriving from letters of guarantee and other similar banking services, are usually recognized as income only when received.

*Net trading income*
Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

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

*Insurance business*
*Earned premiums:* In respect of non-life branches, under the annual basis of accounting, written premiums comprise the premiums due on contracts, net of taxes and cancellations, entered into during a financial year. These premiums are adjusted by the reserve for unearned premiums. In respect of life branches, earned premiums represent premiums accrued on policies issued and adjusted by the reserve for unearned policies during the period.

*Unearned premium reserve:* Provision for unearned premiums is provided for in respect of in-force policies for which the premium period does not end simultaneously with the accounting period. Unearned premiums are determined from premiums written during the year, less reinsurance on the basis that premiums are written on the middle day of each month (the twenty fourth basis).

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

## Significant accounting policies continued

*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
2 Related party disclosures
3 Cash and cash equivalents
4 Financial assets held for trading
5 Investments
6 Loans and advances to banks
7 Loans and advances to customers
8 Finance lease receivables
9 Other assets
10 Investments in associated companies
11 Tangible assets
12 Intangible assets
13 Deposits from banks
14 Deposits from customers
15 Obligations under repurchase agreements
16 Loans and advances from banks
17 Bonds payable
18 Taxation
19 Other liabilities and accrued expenses
20 Shareholders' equity
21 Extraordinary item
22 Fair value information
23 Commitments and contingencies
24 Risk management disclosures
25 Affiliates and associates

## 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 at 31 December 2002 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 2002 | Banking | Leasing | Insurance | Factoring | Other Financial Sectors | Retail | Other Non-Financial Sectors | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest income | 2,428,382 | 47,092 | 7,975 | 335 | 12,700 | 8,952 | 1,770 | 2,507,206 | (34,385) | 2,472,821 |
| Interest expenses | (2,482,786) | (17,649) | (8) | (3,902) | (2,170) | (25,965) | (2,577) | (2,535,057) | 34,683 | (2,500,374) |
| Net interest income | (54,404) | 29,443 | 7,967 | (3,567) | 10,530 | (17,013) | (807) | (27,851) | 298 | (27,553) |
| Fee and commission income, net | 322,181 | - | (208) | 12,152 | 17,911 | (12,417) | - | 339,619 | (42) | 339,577 |
| Trading account income, net | 355,922 | - | 141 | - | (1,452) | - | 50 | 354,661 | - | 354,661 |
| Foreign exchange gain, net | 305,536 | 903 | 118 | (1,823) | (2,632) | (9,038) | (4,610) | 288,454 | 1,642 | 290,096 |
| Gross profit from retail business | - | - | - | - | - | 61,568 | - | 61,568 | - | 61,568 |
| Premium income from insurance business | - | - | 58,174 | - | - | - | - | 58,174 | - | 58,174 |
| Other operating income | 113,015 | 1,482 | 141 | 108 | 10,017 | 13,477 | 40,735 | 178,975 | (106,554) | 72,421 |
| Salaries and wages | (184,960) | (5,017) | (10,207) | (1,243) | (7,551) | (38,286) | (28,455) | (275,719) | - | (275,719) |
| Impairment losses | (91,330) | (2,563) | - | - | (1,102) | - | (25,890) | (120,885) | (17,020) | (137,905) |
| Other operating expenses | (593,136) | (10,069) | (54,329) | (4,153) | (25,909) | (180,844) | (15,971) | (884,411) | 30,645 | (853,766) |
| Gain/(loss) on net monetary position | (55,510) | (19,408) | 336 | 4,976 | (6,693) | 111,058 | 51,018 | 85,777 | (36,946) | 48,831 |
| Taxation (charge)/credit | 24,957 | 24,233 | (2,298) | (37) | 7,112 | 26,501 | (10,884) | 69,584 | (2,859) | 66,725 |
| Minority interest | - | - | - | - | - | - | - | - | 30,905 | 30,905 |
| Net income/(loss) for the year | 142,271 | 19,004 | (165) | 6,413 | 231 | (44,994) | 5,186 | 127,946 | (99,931) | 28,015 |
| Segment assets | 20,719,763 | 267,669 | 101,295 | 86,493 | 98,503 | 397,864 | 524,452 | 22,196,039 | (189,017) | 22,007,022 |
| Investments in associated companies | 1,312,284 | 675 | 10 | 7,105 | 7,410 | 102 | 28,233 | 1,355,819 | (1,168,545) | 187,274 |
| Total assets | 22,032,047 | 268,344 | 101,305 | 93,598 | 105,913 | 397,966 | 552,685 | 23,551,858 | (1,357,562) | 22,194,296 |
| Segment liabilities | 19,904,609 | 191,096 | 78,175 | 76,540 | 21,751 | 175,146 | 123,184 | 20,570,501 | (268,544) | 20,301,957 |

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

## 1 Segment reporting continued

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

| 31 December 2001 | Banking | Leasing | Insurance | Factoring | Other Financial Sectors | Retail | Other Non-Financial Sectors | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Segment assets | 21,839,625 | 318,529 | 104,120 | 52,981 | 276,707 | 435,339 | 547,752 | 23,575,053 | (258,598) | 23,316,455 |
| Investments in associated companies | 1,061,111 | 3,247 | 26 | 5 | 13,863 | 882 | 37,878 | 1,117,012 | (1,034,609) | 82,403 |
| Total assets | 22,900,736 | 321,776 | 104,146 | 52,986 | 290,570 | 436,221 | 585,630 | 24,692,065 | (1,293,207) | 23,398,858 |
| Segment liabilities | 20,834,597 | 266,089 | 76,735 | 47,624 | 178,619 | 389,821 | 270,527 | 22,064,012 | (462,475) | 21,601,537 |

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

| | 2002 | 2001 |
|---|---|---|
| *2.1 Outstanding balances* | | |
| Balance sheet | | |
| Obligations under repurchase agreements | 332 | 960 |
| Loans and advances to customers including accrued interest income | 700,424 | 757,700 |
| *Loans granted in TL* | 2,523 | 28,292 |
| *Loans granted in foreign currency:* | US$ 410,539,146 | US$ 276,025,103 |
| | EUR 24,875,014 | EUR 73,072,128 |
| | - | CHF 86,702,810 |
| Miscellaneous receivables (Note 9) | 2,187 | 402,644 |
| Deposits received | 129,330 | 195,374 |
| *Commitments and contingencies* | | |
| Non-cash loans | 235,993 | 256,063 |
| Derivative transactions | - | 17,468 |
| *2.2 Transactions* | | |
| Interest income | 60,625 | 96,211 |
| Interest expense | 39,620 | 42,017 |

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

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

## 3 Cash and cash equivalents

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

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

### 3 Cash and cash equivalents continued

At 31 December 2002, cash and cash equivalents included balances with the Central Bank of Turkey of TL981,484 billions (2001: TL1,026,473 billions) as minimum reserve requirements, these funds are not available for the Bank and its affiliates' daily business. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

### 4 Financial assets held for trading

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

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

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

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

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

The following table summarizes the contractual amounts of the forward exchange, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date. Monetary items denominated in a foreign currency are economically hedged using foreign currency derivative contracts. The Bank and its affiliates do not use hedge accounting for its foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of operations. At 31 December 2002, 16% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (2001: 8%).

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

## 4 Financial assets held for trading continued

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

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

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

## 5 Investments

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

*(a) The interest rate applied on these securities are Libor+2.85% as fixed semiannually by the Turkish Treasury.*

*(b) The interest rate applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

*(c) The interest rate applied on these securities is the function of changes in consumer price index and a security coefficient described in the documents relating to the issuance of these bonds.*

Income from debt and other fixed- or floating-income instruments is recognized in interest on securities.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL1,022,605 billions (2001: TL201,021 billions).

During the second quarter of 2002, the Bank management has decided to transfer the available-for-sale securities (government bonds indexed to foreign currency) with a face value of TL2,456,644 billions to its held to maturity portfolio.

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

## 5 Investments continued

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

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

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

## 6 Loans and advances to banks

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

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

### 6 Loans and advances to banks continued

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

As at 31 December 2001, TL190,575 billions (2002: nil) of term deposits at domestic banks are the funds lent against government securities received as collateral under contractual agreements to sell back (reverse repo) such securities at a predetermined sale price at the maturity dates.

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

### 7 Loans and advances to customers

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

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

As at 31 December 2002, loans given to customers have interest rates between 2-14% (2001: 2-30%) per annum for foreign currency loans and 31-80% (2001: 32-89%) per annum for Turkish lira loans.

The specific allowance for possible losses is comprised of amounts for specifically identified problem and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

In addition to the allowance for specific loan losses explained in the above paragraph, the Bank also provides general provisions for inherent credit risk on loans and guarantees and commitments. The level of general provision is based on management's evaluation of the loan portfolio, including such factors as the volume and character of loans outstanding, past loan loss experience and general economic conditions.

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

## 7 Loans and advances to customers continued

In 2002, the Bank discovered a fundamental error on the computation of amortized costs of outstanding loans and advances to customers as of 31 December 2001. This computation is made for the first time as of this date in compliance with IAS39, "Financial Instruments: Recognition and Measurement". The effects of the correction of this fundamental error incurred due to an error in data transfer from the system, on 31 December 2001 financial statements would be a decrease in the total interest income on loans by TL24,603 billions and an increase in 2001 net loss by TL16,484 billions, net of deferred income taxes of TL8,119 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL16,484 billions, which is the net amount of adjustments relating to prior period. However, the comparative information for prior year was not restated in the accompanying consolidated financial statements due to the fact that it is impractible to determine the effect of significant part of total fundamental error as disclosed in Note 11 on the consolidated balance sheet as of 31 December 2000 and the consolidated statement of operations for the year ended 31 December 2001.

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

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

## 8 Financial lease receivables

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

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

## 8 Financial lease receivables continued

Loans and advances to customers include the following finance lease receivables:

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

## 9 Other assets

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

Tangible assets held for resale mainly comprise of real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed within three years following their acquisitions per the Turkish Banking Law. This legal period can be extended upon receiving legal permission.

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

## 10 Investments in associated companies

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Carrying value | Ownership % | Carrying value | Ownership % |
| Doğuş Otomotiv Holding A.Ş. | 112,481 | 19.82 | - | - |
| İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ | 89,048 | 47.17 | 89,048 | 47.17 |
| Petrotrans Nakliyat ve Ticaret AŞ | 49,671 | 99.60 | 49,671 | 99.60 |
| Garanti Turizm ve Yatırım İşl. AŞ | 48,347 | 44.89 | 48,347 | 44.89 |
| Others | 61,459 | | 58,481 | |
| | 361,006 | | 245,547 | |
| Impairment in value of investments | (173,732) | | (163,144) | |
| | 187,274 | | 82,403 | |

The Bank had previously made available loans to Petrotrans Nakliyat Ticaret AŞ (Petrotrans) in an amount equal to US$29.5 millions. However due to fact that the financial condition of the company deteriorated, the Bank decided to takeover the shares of the company on 30 November 1997 at the same amount of TL equivalent of its outstanding loan receivable at that date. Petrotrans is presently a dormant company, however the Bank's intention is to hold this investment for only its property of which the fair value is equal to this investment's carrying value, net-off impairment reduction.

## 11 Tangible assets

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

| | 1 January | Correction | Additions | Currency Adjustment | Disposals | 31 December |
|---|---|---|---|---|---|---|
| *Costs* | | | | | | |
| Land and buildings | 1,056,347 | - | 251,499 | 599 | (52,267) | 1,256,178 |
| Furniture, fixture and equipments | 989,887 | 16,526 | 74,009 | 4 | (208,071) | 872,355 |
| Leasehold improvements | 416,969 | (63,109) | 23,890 | - | (24,892) | 352,858 |
| | 2,463,203 | (46,583) | 349,398 | 603 | (285,230) | 2,481,391 |
| *Less: Accumulated depreciation* | | | | | | |
| Land and buildings | 118,159 | - | 17,078 | (217) | (4,556) | 130,464 |
| Furniture, fixture and equipments | 622,061 | 41,621 | 100,983 | (28) | (207,718) | 556,919 |
| Leasehold improvements | 191,587 | (44,241) | 42,901 | - | (3,565) | 186,682 |
| | 931,807 | (2,620) | 160,962 | (245) | (215,839) | 874,065 |
| *Construction in progress* **(a)** | 198,827 | - | (189,141) | - | - | 9,686 |
| | 1,730,223 | (43,963) | | 848 | (69,391) | 1,617,012 |
| *Impairment in value of tangible assets* | (28,645) | | | | | (55,839) |
| | 1,701,578 | | | | | 1,561,173 |

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

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

## 11 Tangible assets continued

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

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

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

Depreciation expense for the year ended 31 December 2002 amounts to TL160,962 billions (2001: TL210,510 billions). The premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range from 8% to 25%.

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

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

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

## 12 Intangible assets

Intangible assets represent goodwill arising from the direct acquisitions of 25.92% ownership in and majority voting rights in the Board of Directors of Tansaş Perakende Mağazacılık Ticaret AŞ, 29.23% ownership in Doc Finance S.A., 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Doğuş Hava Taşımacılığı AŞ, 99.99% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Hayat Sigorta AŞ, 98.89% ownership in Garanti Finansal Kiralama AŞ, 81.81% ownership in Garanti Finans Faktoring Hizmetleri AŞ, 56.06% ownership in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, 100% ownership in Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ, and 99.95% ownership in Sititur Tur.Tem.Taşımacılık Org.Bilgisayar Dan.Yapı.San. ve Tic. AŞ consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

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

| | 1 January | Additions | Disposals | 31 December |
|---|---|---|---|---|
| *Goodwill* | | | | |
| Tansaş Perakende Mağazacılık Ticaret AŞ | 110,221 | - | - | 110,221 |
| Doğuş Hava Taşımacılığı AŞ | 37,669 | - | - | 37,669 |
| Garanti Yatırım Menkul Kıymetler AŞ | 19,795 | - | - | 19,795 |
| Docfinance SA | 8,201 | - | - | 8,201 |
| Garanti Finans Factoring Hizmetleri AŞ | 5,809 | - | - | 5,809 |
| Garanti Finansal Kiralama AŞ | 4,539 | - | - | 4,539 |
| Sititur Tur.Tem.Taş.Org. Bilg. Danışmanlık Yapı San. Ve Tic. | 2,810 | - | - | 2,810 |
| Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ | 1,289 | - | - | 1,289 |
| Garanti Sigorta AŞ | 1,076 | - | - | 1,076 |
| Garanti Gayrimenkul Yatırım Ortaklığı AŞ | 444 | - | - | 444 |
| Garanti Hayat Sigorta AŞ | 37 | - | - | 37 |
| Total goodwill | 191,890 | - | - | 191,890 |
| *Less: Accumulated amortization* | | | | |
| Tansaş Perakende Mağazacılık Ticaret AŞ | 9,045 | 13,001 | - | 22,046 |
| Doğuş Hava Taşımacılığı AŞ | 3,772 | 1,883 | - | 5,655 |
| Garanti Yatırım Menkul Kıymetler AŞ | 1,346 | 990 | - | 2,336 |
| Docfinance SA | 1,105 | 410 | - | 1,515 |
| Garanti Finans Factoring Hizmetleri AŞ | - | 290 | - | 290 |
| Garanti Finansal Kiralama AŞ | - | 227 | - | 227 |
| Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic. | - | 141 | - | 141 |
| Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ | - | 64 | - | 64 |
| Garanti Sigorta AŞ | 106 | 54 | - | 160 |
| Garanti Gayrimenkul Yatırım Ortaklığı AŞ | - | 22 | - | 22 |
| Garanti Hayat Sigorta AŞ | 2 | 2 | - | 4 |
| | 15,376 | 17,084 | - | 32,460 |
| *Goodwill, net of accumulated amortization* | 176,514 | | | 159,430 |
| *Impairment in value of goodwill* | - | | | (33,896) |
| | 176,514 | | | 125,534 |

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

## 12 Intangible assets continued

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

| | 1 January | Additions | Disposals | 31 December |
|---|---|---|---|---|
| *Goodwill* | | | | |
| Tansaş Perakende Mağazacılık Ticaret AŞ | 60,294 | - | - | 60,294 |
| Makro | - | 49,927 | - | 49,927 |
| Doğuş Hava Taşımacılığı AŞ | 26,622 | 11,047 | - | 37,669 |
| Garanti Yatırım Menkul Kıymetler AŞ | 8,730 | 11,065 | - | 19,795 |
| Docfinance SA | 7,280 | 921 | - | 8,201 |
| Garanti Finans Factoring Hizmetleri AŞ | - | 5,809 | - | 5,809 |
| Garanti Finansal Kiralama AŞ | - | 4,539 | - | 4,539 |
| Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic. | - | 2,810 | - | 2,810 |
| Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ | - | 1,289 | - | 1,289 |
| Garanti Sigorta AŞ | 1,076 | - | - | 1,076 |
| Garanti Gayrimenkul Yatırım Ortaklığı AŞ | - | 444 | - | 444 |
| Garanti Hayat Sigorta AŞ | 37 | - | - | 37 |
| Osmanlı Bankası AŞ | 173,176 | - | (173,176) | - |
| Total goodwill | 277,215 | 87,851 | (173,176) | 191,890 |
| | | | | |
| *Less: Accumulated amortization* | | | | |
| Tansaş Perakende Mağazacılık Ticaret AŞ | 6,030 | 3,015 | - | 9,045 |
| Makro | - | - | - | - |
| Doğuş Hava Taşımacılığı AŞ | 2,441 | 1,331 | - | 3,772 |
| Garanti Yatırım Menkul Kıymetler AŞ | 908 | 438 | - | 1,346 |
| Docfinance SA | 646 | 459 | - | 1,105 |
| Garanti Finans Factoring Hizmetleri AŞ | - | - | - | - |
| Garanti Finansal Kiralama AŞ | - | - | - | - |
| Sititur Tur.Tem.Taş.Org.Bilg.Danışmanlık Yapı San. Ve Tic. | - | - | - | - |
| Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ | - | - | - | - |
| Garanti Sigorta AŞ | 52 | 54 | - | 106 |
| Garanti Gayrimenkul Yatırım Ortaklığı AŞ | - | - | - | - |
| Garanti Hayat Sigorta AŞ | 1 | 1 | - | 2 |
| Osmanlı Bankası AŞ | 19,469 | 1,356 | (20,825) | - |
| | 29,547 | 6,654 | (20,825) | 15,376 |
| *Goodwill, net of accumulated amortization* | 247,668 | | | 176,514 |

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

## 13 Deposits from banks

Deposits from banks comprise of the following:

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

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

## 14 Deposits from customers

Deposits from customers comprise of the following:

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

As at 31 December 2002, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 36-59% and 1-13% (2001: 52-63% and 2-17%), respectively.

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

## 15 Obligations under repurchase agreements

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 31 December 2002 and 2001, assets sold under repurchase agreements were as follows:

| | Carrying value | Fair value of underlying assets | Carrying amount of corresponding liabilities | Range of repurchase dates | Repurchase price |
|---|---|---|---|---|---|
| *31 December 2002* | | | | | |
| Trading instruments | 260,779 | 261,133 | 243,248 | Jan-March 2003 | 244,354 |
| Investments | 1,022,605 | 1,042,617 | 838,368 | Jan-March 2003 | 840,620 |
| | 1,238,384 | 1,303,750 | 1,081,616 | | 1,084,974 |
| *31 December 2001* | | | | | |
| Trading instruments | 115,333 | 114,294 | 111,544 | Jan-Feb 2002 | 115,758 |
| Investments | 201,021 | 201,021 | 201,021 | Jan-Feb 2002 | 202,121 |
| | 316,354 | 315,315 | 312,565 | | 317,879 |

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

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2002, the maturities and interest rates of the obligations are within one to three months and between 1.5-34% (2001: 12-79%).

## 16 Loans and advances from banks

Loans and advances from banks comprise of the following:

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

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

## 16 Loans and advances from banks continued

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

Long-term debts comprise of the following:

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

In February 1998, the Bank sold certain future credit card receivables due or to become due to the Bank from Visa International Service Association (Visa), MasterCard International Incorporated (MasterCard) and Europay International S.A. (Europay), to Anatolia Finance Company, a special purpose company (SPC) organized under the laws of the Cayman Islands for the amount of US$175 millions. The SPC sold to the Bank of New York, as trustee of the Credit Cards Receivables Trust 1998 - I (the Trust), which issued the trust certificates amounting to US$175 millions in total pursuant to the Trust Agreement dated 3 February 1998 between the SPC and the Bank of New York as trustee. The trust certificates will be repaid in the period from March 1998 to December 2004 on a quarterly basis. In line with repayment schedule, the outstanding balance of this loan as of 31 December 2002 is US$94 millions. The property of the Trust includes, among other things, (i) the right to receive a specified amount of current and future US Dollar amounts owed or to be owed by Visa, MasterCard and Europay to or for the account of Türkiye Garanti 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.

### 16 Loans and advances from banks continued

In June 1999, the Bank obtained a fund in the amount of US$200 millions through its Trade Payment Rights Securitisation transaction (the "TPR Securitisation-I"). The TPR Securitisation-I consists of a floating and fixed tranche for an amount of US$29 millions and US$171 millions, respectively. In line with repayment schedule, the outstanding balance of this loan as of 31 December 2002 is US$81 millions. The TPR Securitisation-I securitises the Bank's collection and reimbursement rights related to export transactions, specifically letters of credits and cash against documents transactions, and has a maturity of 5 years with an average life of 3.14 years. The TPR Securitisation-I was arranged by Bank of America Securities LLC, Bank of America International Limited and Credit Suisse First Boston Corporation (CSFB) was appointed as co-manager.

As at 31 December 2001, the outstanding loans from International Finance Company (IFC) amounted to US$102 millions. In view of the latest developments in the Turkish macroeconomic conditions and the excess liquidity, the Bank prepaid all the outstanding loans and other amounts due under the investment agreement in April 2002.

### 17 Bonds payable

Bonds payable comprised of the following:-

| | 2002 | | | | 2001 |
|---|---|---|---|---|---|
| | Amount in original currency in millions | Maturity | Interest rates % | Carrying value | Carrying value |
| Bearer notes | EUR 43 | 2003 | 8 | 71,677 | 72,298 |
| Indenture notes | | | | - | 16,560 |
| | | | | 71,677 | 88,858 |
| Accrued interest on bonds payable | | | | 4,547 | 4,816 |
| | | | | 76,224 | 93,674 |

Bearer notes represent Euro notes bearing 8% interest per annum and payable annually in arrear on 21 March in each year commencing on 21 March 2001 and maturing in 2003 issued by Garanti Bank International NV (GBI), a consolidated affiliate, on 21 March 2000 through the arrangement of Goldman Sachs International. The notes comprising 4.575 units will be in the denomination of EUR10,000 each. Unless previously redeemed or canceled, the notes will be redeemed at their principal amount on 21 March 2003 and are subject to redemption in whole at their principal amount at the option of GBI at any time in the event of certain changes affecting taxation in the Netherlands.

### 18 Taxation on income

The corporation tax rate is 30%; contribution to a state fund is 10% of this tax which results in effective corporation tax rate of 33%. In addition, there will be an income tax charge; Council of Ministers is authorised to determine this income tax rate up to the level of 25%, contribution to state fund is 10% of this tax as well. Presently, this income tax charge is at the rate of 5% (for companies of which shares are not publicly traded; 15%) to be computed only on the amounts of dividend distribution and accrued only at the time of such payments.

In Turkey, there are no procedures for the final agreement of tax assessments. Tax returns are filed within four months at the end of year to which they relate. The tax authorities may, however, examine the accounting records and/or revise assessments within five years.

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

## 18 Taxation on income continued

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for permanent differences not deductible for tax purposes and initial recognition of assets and liabilities which effect neither accounting nor taxable profit.

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

| | 2002 | % | 2001 | % |
|---|---|---|---|---|
| Taxes on income/(loss) per statutory tax rate | (22,973) | (33.00) | (424,854) | (33.00) |
| Permanent differences relating to the restatement of non-monetary items per IAS 29 | (45,173) | (64.88) | 310,055 | 24.08 |
| Tax effect of merger with Körfezbank | - | - | (145,194) | (11.27) |
| Effect of permanent differences on consolidation adjustments | 35,465 | 50.94 | 6,552 | 0.51 |
| Income items exempt from tax or subject to different tax rates | (32,239) | (46.30) | (125,482) | (9.75) |
| Investment incentives | (3,850) | (5.53) | (24,597) | (1.91) |
| Disallowable expenses | 1,500 | 2.15 | 22,851 | 1.77 |
| Effect of different tax rates applicable to the consolidated affiliates | 545 | 0.79 | 21,133 | 1,64 |
| Taxation credit | (66,725) | (95.83) | (359,536) | (27.93) |

The taxation credit comprise the following items:

| | 2002 | 2001 |
|---|---|---|
| Current taxes | 15,386 | 75,560 |
| Deferred taxes | (82,111) | (435,096) |
| Taxation credit | (66,725) | (359,536) |

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

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

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

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

## 18 Taxation on income continued

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

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

## 19 Other liabilities and accrued expenses

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

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

## 20 Shareholders' equity

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

The reserves include legal reserves amounting to TL46,300 billions in total which were established by annual appropriations amounting to 5% of income disclosed in the Bank's and its affiliates' statutory accounts until it reaches 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital are to be appropriated to increase legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends. In the accompanying consolidated financial statements, legal reserves are included at their historical amounts. The reserves also include some reserves appropriated by management for the general banking reserve as well as amounts appropriated for purposes of adding to the Bank's statutory reserves.

## 21 Extraordinary item

Late 1999, Turkish Government has imposed one time only extraordinary tax measures to finance the public expenditures caused by the massive earthquakes on 17 August and 12 November 1999 in Marmara Region. One of such tax measures is the withholding tax on interest income on government securities that will be held at maturity. The tax rate on such interest income changes from 4% to 19% according to maturities of certain securities. As at 31 December 2001, extraordinary item of TL37,656 billions comprised such withholding tax on the matured securities. As of 31 December 2002 and 2001, the Bank and its affiliates hold no such securities subject to withholding tax.

## 22 Fair value information

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. Turkey has shown 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.

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

## 22 Fair value information continued

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for investments. These balance sheet instruments include loans and advances to banks and customers, deposits from banks and customers, obligations under repurchase agreements, loans and advances from banks, bonds payable and other short-term assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Fair value of investments is TL6,724,670 billions (2001: TL5,792,392 billions), whereas the carrying amount is TL6,695,685 billions (2001: TL5,848,982 billions) in the accompanying consolidated balance sheet as at 31 December 2002.

The fair values of share capital, leasehold improvements and other assets and liabilities that are not of contractual natures, are not calculated as they are not considered financial instruments.

## 23 Commitments and contingencies

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

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

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

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

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

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

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

## 24 Risk management disclosures

This section provides details of the Bank and its affiliates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its 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 24.2 contains risk management information related to the trading portfolio and section 24.3 deals with the non-trading portfolio.

### *24.1 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 23. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below

*Swaps*

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in market rates relative to the contractual rates of the contract.

*Futures and forwards*

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually-traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are futures exchanges. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

*Options*

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

### *24.2 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,

## 24 Risk management disclosures continued

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.

### *24.3 Non-trading activities*

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

*Liquidity risk*

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

The Bank and its affiliates have access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy. In addition, a portfolio of liquid assets is held as a part of the Bank's liquidity risk management strategy.

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

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

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

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

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

## 24 Risk management disclosures continued

*Market risk*

*Interest rate risk:* The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and six months libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have indefinite maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded by liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the years 2002 and 2001:

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

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

## 24 Risk management disclosures continued

| | 2001 | | | |
|---|---|---|---|---|
| | US$ % | EURO % | TL % | Other Currencies % |
| *Assets* | | | | |
| Loans and advances to banks | 0.40-10.66 | 3.25-5.50 | 39.50-85.21 | 34.00 |
| Debt and other fixed or floating income instruments | 6.60-12.06 | 7.80-9.24 | 42.98-83.80 | 8.00-34.50 |
| Loans and advances to customers | 3.13-15.43 | 6.28-20.00 | 37.97-88.08 | - |
| *Liabilities* | | | | |
| Deposits: | | | | |
| - Foreign currency deposits | 3.85-14.30 | 3.50-5.87 | - | 4.83 |
| - Bank deposits | 3.00-13.00 | 3.92-13.00 | 57.82-77.88 | - |
| - Saving deposits | - | - | 57.27-77.95 | - |
| - Commercial deposits | - | - | 58.23-79.83 | - |
| - Public and other deposits | - | - | 77.95 | - |
| Obligations under repurchase agreements | 2.84 | - | 77.30 | - |
| Loans and advances from banks | 2.00-25.60 | 4.00-14.00 | 15.00-59.00 | 2.50-18.00 |
| Bonds payable | 3.98 | 8.00 | - | - |

*Equity price risk*

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The primary exposure to equity prices arises from trading activities and the Bank limits the risk by maintaining a small portfolio. Exposure to market risk is formally managed in accordance with risk limits.

*Currency risk*

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

The Bank and its affiliates' main foreign operations are in Holland and Moscow. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is the Turkish Lira (TL), the consolidated financial statements are affected by currency exchange rate fluctuations against TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of operations. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved, excluding borrowings treated as hedges of net investments in foreign operations.

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

## 24 Risk management disclosures continued

These exposures were as follows:

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

| | 2001 | | | |
|---|---|---|---|---|
| | US$ | EURO | Other Currencies | Total |
| *Total Assets* | 12,840,815 | 2,885,915 | 695,650 | 16,422,380 |
| *Total Liabilities* | 11,220,047 | 4,960,747 | 472,034 | 16,652,828 |
| *Minority interest* | - | - | 285 | 285 |
| *Net On Balance Sheet Position* | 1,620,768 | (2,074,832) | 223,331 | (230,733) |
| *Off Balance Sheet Net Notional Position* | (1,923,802) | 1,865,644 | 77,173 | 19,015 |

Of the amounts shown in the table above, at 31 December 2002, 16% (2001: 8%) are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

## 24 Risk management disclosures continued

For the purposes of the evaluation of the table above, attention should be given to the assets and liabilities denominated in Russian Roubles which are considered as foreign currency items. Russia is a highly inflationary environment as evidenced by a very high cumulative inflation rate of %166.44 the three years ended 31 December 2002. The Russian Roubles denominated net assets/(liabilities) as included in the above table at their TL equivalents at 31 December 2002 amounted to TL60,566 billions (2001: TL68,093 billions).

For the year ended 31 December 2002, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US$52,896 millions (2001: US$46,335 millions).

*Credit risk*

The Bank and its affiliates are subject to credit risk through its trading, lending, hedging and investing activities and in cases where they act as intermediaries on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The Bank and its affiliates' primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (note 23).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Bank and its affiliates' investments, loans and advances and guarantees issued. There is no exposure to any individual customer or counterparty.

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

## 24 Risk management disclosures continued

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

| | 2002 | | | | |
|---|---|---|---|---|---|
| | Loans | Total Assets | Total Liabilities | Non-Cash Loans | Capital Expenditure |
| Turkey | 6,329,487 | 18,993,798 | 13,927,685 | 4,639,780 | 155,251 |
| Holland | 1,091,986 | 2,345,060 | 2,373,084 | 199,147 | 4,583 |
| Germany | - | 54,388 | 828,096 | 1,884 | - |
| USA | - | 45,574 | 769,157 | - | - |
| Luxembourg | - | 40,841 | 365,095 | 21,248 | - |
| Malta | - | 2,889 | 1,297 | 1,198 | - |
| England | 4,270 | 273,857 | 1,059,885 | 7,512 | - |
| Switzerland | 101,896 | 113,771 | 264,914 | 37,064 | - |
| Japan | - | 120,559 | - | - | - |
| Others | 72,073 | 203,559 | 712,746 | 43,474 | 423 |
| TOTAL | 7,599,712 | 22,194,296 | 20,301,957 | 4,951,307 | 160,257 |

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

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility. The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Approximately 65% of the balance of outstanding loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for guarantees and letters of credit is around 95%.

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

## 24 Risk management disclosures continued

The Bank generally seeks collateral security comprising real estate and other mortgages of varying ranking, charges on commodity inventories, letters of guarantee, promissory notes and similar items. The breakdown of cash and non-cash loans and advances to customers by type collateral is as follows:

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

### *24.4 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.

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

## 25 Affiliates and associates

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

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

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

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

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

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

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

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# CORPORATE INFORMATION

Garanti Bank common stock is listed on the İstanbul Stock Exchange and the London Stock Exchange. Analysts, portfolio managers and other investors seeking further information on Garanti Bank may contact the Investor Relations Department at (+90 212) 318 23 50.

| | |
|---|---|
| Number of Shares (million) | 791,748 |
| Free float | 31.51% |
| US Exchange (ADRs) | PORTAL |
| DR: Underlying Share Ratio | 1:2000 |
| Ticker symbols | Reuters: GARAN.IS |
| | Bloomberg: GARAN TI |

Garanti Bank's annual reports, interim financial statements, corporate announcements, news releases, and ownership structure as well as other relevant information can be found on Garanti Bank's web site at www.garantibank.com

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