KPMG

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements

30 June 2004

With Independent Auditors'

Review Report Thereon

2 August 2004

This report contains the "Independent Auditors' Review Report" comprising 1 page and; the "Consolidated financial statements and their explanatory notes" comprising 54 pages.

Türkiye Garanti Bankası Anonim Şirketi

And Its Affiliates

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Independent Auditors' Review Report

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

We have reviewed the accompanying consolidated balance sheet of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 30 June 2004; and the consolidated statements of operations, changes in shareholders' equity and cash flows for the six-month period then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the personnel of the Bank and its affiliates and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true and fair view in accordance with International Financial Reporting Standards.

İstanbul,
2 August 2004

KPMG Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik AŞ

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet
At 30 June 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2004 pursuant to IAS 29)

	Notes	30 June 2004	31 December 2003
Assets			
Cash and cash equivalents	*3*	2.576.526	1.776.965
Financial assets held for trading	*4*	910.269	1.132.139
Loans and advances to banks	*5*	1.735.998	1.409.125
Loans and advances to customers	*6*	13.739.913	10.643.806
Other assets	*8*	932.353	1.168.500
Security investments	*9*	6.562.812	8.781.589
Investments in equity participations	*10*	400.048	427.062
Tangible assets, net	*11*	1.677.386	1.766.902
Intangible assets, net	*12*	120.066	130.504
Deferred tax assets	*17*	343.821	505.625
Total assets		**28.999.192**	**27.742.217**
Liabilities			
Deposits from banks	*13*	1.251.340	981.997
Deposits from customers	*14*	17.990.626	17.601.999
Obligations under repurchase agreements	*15*	1.906.651	1.747.862
Loans and advances from banks	*16*	3.830.767	3.489.257
Current tax liability	*17*	27.338	32.736
Deferred tax liabilities	*17*	245	5.098
Other liabilities and accrued expenses	*18*	1.052.093	991.332
Total liabilities		**26.059.060**	**24.850.281**
Minority interest		**193.885**	**219.958**
Shareholders' equity	*19*		
Paid-in capital		2.059.882	2.059.882
Retained earnings		686.365	612.096
Total shareholders' equity		**2.746.247**	**2.671.978**
Total liabilities, minority interest and shareholders' equity		**28.999.192**	**27.742.217**
Commitments and contingencies	*21*		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Operations
For The Six-Month Period Ended 30 June 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2004 pursuant to IAS 29)

	Notes	Six-month period ended 30 June 2004	Three-month period ended 30 June 2004	Six-month period ended 30 June 2003	Three-month period ended 30 June 2003
Interest income:-					
Interest on loans		799.086	400.307	610.937	286.334
Interest on securities		400.059	147.016	683.501	534.325
Interest on deposits at banks		85.033	45.916	81.251	35.051
Interest on lease business		20.514	11.350	22.665	10.772
Others		38.698	8.560	25.647	8.296
		1.343.390	613.149	1.424.001	874.778
Interest expenses:-					
Interest on saving, commercial and public deposits		(706.737)	(353.741)	(980.734)	(477.885)
Interest on borrowings		(129.859)	(59.743)	(229.984)	(120.044)
Interest on bank deposits		(47.003)	(26.431)	(71.943)	(46.882)
Others		(16.690)	(8.566)	(3.471)	2.495
		(900.289)	(448.481)	(1.286.132)	(642.316)
Net interest income		**443.101**	**164.668**	**137.869**	**232.462**
Fee and commission income		385.377	201.146	335.675	178.725
Fee and commission expense		(116.468)	(61.631)	(123.965)	(64.609)
Net fee and commission income		**268.909**	**139.515**	**211.710**	**114.116**
Gross profit from retail business		103.316	57.903	65.848	39.319
Trading account income, net		72.752	13.193	242.082	132.895
Premium income from insurance business		44.951	24.751	39.140	17.402
Others		37.242	10.640	67.019	31.941
Other operating income		**258.261**	**106.487**	**414.089**	**221.557**
Total operating Income		**970.271**	**410.670**	**763.668**	**568.135**
Salaries and wages		(191.970)	(94.974)	(173.927)	(85.559)
Depreciation and amortization	*11,12*	(103.967)	(51.190)	(106.839)	(53.048)
Impairment losses	*6,7,8,10,11,12*	(94.314)	(66.216)	(50.678)	(13.565)
Employee benefits		(51.920)	(24.774)	(39.579)	(19.532)
Advertising expenses		(37.232)	(20.445)	(28.302)	(16.851)
Rent expenses		(33.153)	(16.468)	(37.003)	(18.822)
Communication expenses		(32.321)	(13.227)	(22.741)	(14.906)
Claim loss from insurance business		(31.242)	(25.437)	(20.943)	(8.891)
Saving deposits insurance fund		(24.586)	(12.944)	(20.125)	(7.937)
EDP expenses		(23.222)	(16.135)	(32.400)	(16.168)
Utility expenses		(15.498)	(6.360)	(18.168)	(8.359)
Taxes and duties other than on income		(13.784)	(5.558)	(16.089)	(8.001)
Foreign exchange gain, net		(9.857)	(60.357)	48.313	35.738
Repair and maintenance expenses		(8.767)	(5.072)	(9.495)	(7.250)
Stationary expenses		(5.556)	(2.997)	(5.021)	(2.530)
Other operating expenses		(115.402)	(43.631)	(133.230)	(78.431)
Total operating expenses		**(792.791)**	**(465.785)**	**(666.227)**	**(324.112)**
Income/(loss) from operations		**177.480**	**(55.115)**	**97.441**	**244.023**
Gain/(loss) on monetary position, net		4.149	109	14.954	(20.309)
Income/(loss) before tax		**181.629**	**(55.006)**	**112.395**	**223.714**
Taxation charge	*17*	(141.416)	(32.964)	(103.333)	(15.283)
Income/(loss) after tax		**40.213**	**(87.970)**	**9.062**	**208.431**
Minority interest		26.279	8.602	37.440	7.965
Net income/(loss) for the period		**66.492**	**(79.368)**	**46.502**	**216.396**
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)	*19*	**1,583.5 billion**	**1,583.5 billion**	**1,583.5 billion**	**1,583.5 billion**
Earning/(loss) per share (Full TL amount)		**41,99**	**(50,12)**	**29,37**	**136,66**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity
For The Six-Month Period Ended 30 June 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2004 pursuant to IAS 29)

			Retained earnings			Total
				Unappropriated		shareholders'
	Notes	Paid-in capital	Reserves	earnings/(losses)	Total	equity
Balances at 1 January 2003		**1.893.468**	**81.690**	**116.667**	**198.357**	**2.091.825**
Release from general banking risks, net		-	(17.345)	17.345	-	-
Reversal of restatement on reserves for the effects of inflation		-	(6.676)	6.676	-	-
Net income for the six-month period		-	-	46.502	46.502	46.502
Balances at 30 June 2003		**1.893.468**	**57.669**	**187.190**	**244.859**	**2.138.327**
Correction of additional paid-in capital	*19*	166.414	-	(166.414)	(166.414)	-
Reserve for general banking risks, net		-	32.602	(32.602)	-	-
Reversal of restatement on reserves for the effects of inflation		-	(2.456)	2.456	-	-
Net income for the six-month period		-	-	533.651	533.651	533.651
Balances at 31 December 2003		**2.059.882**	**87.815**	**524.281**	**612.096**	**2.671.978**
Net fair value gains from cash flow hedges		-	7.777	-	7.777	7.777
Reserve for general banking risks, net		-	16.680	(16.680)	-	-
Reversal of restatement on reserves for the effects of inflation		-	(7.848)	7.848	-	-
Net income for the six-month period		-	-	66.492	66.492	66.492
Balances at 30 June 2004		**2.059.882**	**104.424**	**581.941**	**686.365**	**2.746.247**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Six-Month Period Ended 30 June 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 30 June 2004 pursuant to IAS 29)

	Notes	Six-month period ended 30 June 2004	Six-month period ended 30 June 2003
Cash flows from operating activities:-			
Net income for the period		66.492	46.502
Adjustments for non-cash items:-			
Taxation charge	*17*	141.416	103.333
Minority interest		(26.279)	(37.440)
Impairment losses	*6,7,8,10,11,12*	94.314	50.678
Insurance technical provision		21.888	13.855
Provision for severance payments		1.047	4.092
Depreciation and amortization	*11,12*	103.967	106.839
Loss on sale of premises and equipment		5.021	5.389
Change in accrued interest and other income		275.968	30.381
Change in accrued interest and other expense		(31.304)	(23.398)
Monetary loss effect of above corrections		23.654	59.376
Changes in operating assets and liabilities:-			
Deposits from banks		268.407	248.402
Deposits from customers		418.654	(2.297.584)
Obligations under repurchase agreements		155.754	41.859
Financial assets held for trading		216.714	680.252
Loans and advances to banks		(326.677)	165.982
Loans and advances to customers		(3.133.443)	984.459
Other assets		77.313	23.238
Other liabilities		50.507	(86.620)
Income taxes paid		(19.851)	(18.402)
Net cash (used in)/provided by operating activities		**(1.616.438)**	**101.193**
Cash flows from investing activities:-			
Decrease in security investments		2.076.073	585.986
Increase in investments in equity participations-net		(1.129)	(255.616)
Proceeds from sales of tangible assets and tangible assets held for resale		32.634	31.283
Additions to tangible assets and tangible assets held for resale		(39.404)	(81.234)
Net cash provided by investing activities		**2.068.174**	**280.419**
Cash flows from financing activities:-			
Increase/(decrease) in loans and advances from banks		347.825	(1.351.140)
Decrease in bonds payable		-	(88.316)
Net cash provided by/(used in) financing activities		**347.825**	**(1.439.456)**
Net increase/(decrease) in cash and cash equivalents		**799.561**	**(1.057.844)**
Cash and cash equivalents at beginning of the period		1.776.965	2.570.048
Cash and cash equivalents at end of the period	*3*	**2.576.526**	**1.512.204**

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the six-month period ended 30 June 2004 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 323 domestic branches, three foreign branches, five representative offices abroad, four change offices, two in-store branches and 33 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 the following address: Levent Nispetiye Mah. Aytar Cad. 2, Beşiktaş 34340 İstanbul.

(b) Ownership

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

The ownership interest in the Bank of those shareholders other than the Doğuş Group Companies and the individuals controlling this Group is 31.51%.

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

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

Significant accounting policies (continued)

(b) Basis of preparation

The accompanying consolidated financial statements are presented in Turkish Lira (TL), rounded to the nearest billion as adjusted for the effects of inflation in TL units current at 30 June 2004.

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

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

(c) Basis of consolidation

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

Affiliates

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

Associates

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

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

Significant accounting policies (continued)

Transactions eliminated on consolidation

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

(d) Accounting in hyperinflationary economies

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

Three years inflation rate in Turkey has been 110.31% as at 30 June 2004, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 30 June 2004 based on IAS 29. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics. For the last three years, such indices and conversion factors used to restate the accompanying consolidated financial statements were as follows:

Date	Index	Conversion factor
30 June 2004	7,982.7	1.000
31 December 2003	7,382.1	1.081
30 June 2003	7,222.2	1.105

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

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

Significant accounting policies (continued)

- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant conversion factors.
- All items in the statement of operations are restated by applying the monthly conversion factors except for those deriving from non-monetary items, which are calculated based on the restated values of the related items.
- The effects of inflation on the net monetary positions of the Bank and its affiliates, is included in the statement of operations as "gain/(loss) on monetary position, net".

(e) Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

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

(f) Tangible assets and related depreciation

Owned assets

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

Significant accounting policies (continued)

Leased assets

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

Subsequent expenditure

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

Depreciation

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

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

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

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

(g) Goodwill/Negative Goodwill

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

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

Significant accounting policies (continued)

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

(h) Financial instruments

Classification

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

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

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

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.

Recognition

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

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

Significant accounting policies (continued)

Measurement

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

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

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

Fair value measurement principles

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

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

Gains and losses on subsequent measurement

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

Significant accounting policies (continued)

Specific instruments

Cash and cash equivalents: Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturities of three months or less when purchased. Money market placements are classified in loans and advances to banks as originated loans and receivables.

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

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

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

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

(i) Derecognition

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

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

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

Significant accounting policies (continued)

(j) Securities borrowing and lending business

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

(k) Repurchase and resale agreements over investments

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

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest.

(l) Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated balance sheets, since such items are not under the ownership of the Bank.

(m) Reserve for severance payments

Reserve for severance payments represent the present value of the estimated future probable obligation of the Bank and its affiliates arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government.

Significant accounting policies (continued)

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, 6% discount rate and 4.5% turnover rate to estimate the probability of retirement assumptions were used in the calculation of the total liability in the accompanying consolidated financial statements.

(n) Taxes on income

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

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

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

(o) Offsetting

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

(p) Capital increase

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

Significant accounting policies (continued)

(q) Earnings per share

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

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

(r) Impairment

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

Originated loans and advances and held-to-maturity instruments

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

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

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

Significant accounting policies (continued)

Financial assets remeasured to fair value

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

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

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

(s) Income and expense recognition

Interest income and expense

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

Fee and commission income

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

Net trading income

Net trading income includes gains and losses arising from disposals of financial assets and liabilities held for trading and available-for-sale.

Dividend income

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

Significant accounting policies (continued)

Insurance business

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

Unearned premium reserve: Provision for unearned premiums is provided for in respect of in-force policies for which the premium period does not end simultaneously with the accounting period. Unearned premiums are determined from premiums written during the year, less reinsurance.

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

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

Retail business

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

(t) Segment reporting

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

Index for the notes to the consolidated financial statements:

Note description

1 Segment reporting

Segment information is presented in respect of the Bank and its affiliates' geographical and business segments. The primary format, business segments, is based on the Bank and its affiliates' activities.

Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted at arm's length basis.

1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in Holland, Moscow, Ireland, Turkish Republic of Northern Cyprus, Malta and Luxembourg. As the operation results outside of Turkey, is quite negligible in the consolidated results, geographical segment information is not presented.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

1 Segment reporting (continued)

1.2 Business segments

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

30 June 2004	*Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial Sectors*	*Retail*	*Other Non-Financial Sectors*	*Combined*	*Eliminations*	*Total*
Interest income	1,308,537	30,949	5,583	-	3,549	3,956	307	1,352,881	(9,491)	1,343,390
Interest expenses	(884,599)	(8,404)	-	(3,447)	(97)	(12,871)	(376)	(909,794)	9,505	(900,289)
Net interest income/(expense)	423,938	22,545	5,583	(3,447)	3,452	(8,915)	(69)	443,087	14	443,101
Fee and commission income, net	255,503	-	(3,248)	7,549	16,536	(7,584)	-	268,756	153	268,909
Trading account income, net	66,948	-	17	-	751	-	-	67,716	5,036	72,752
Gross profit from retail business	-	-	-	-	-	103,316	-	103,316	-	103,316
Premium income from insurance business	-	-	44,951	-	-	-	-	44,951	-	44,951
Other operating income	33,211	531	6	68	1,058	1,776	17,227	53,877	(16,635)	37,242
Salaries and wages	(138,330)	(3,186)	(9,935)	(682)	(3,823)	(29,255)	(6,759)	(191,970)	-	(191,970)
Impairment losses	(89,283)	119	-	-	(306)	-	(5,042)	(94,512)	198	(94,314)
Foreign exchange loss, net	(6,030)	195	(168)	(1,061)	394	(1,756)	(723)	(9,149)	(708)	(9,857)
Other operating expenses	(343,799)	(5,922)	(43,092)	(988)	(7,212)	(91,407)	(12,237)	(504,657)	8,007	(496,650)
Gain/(loss) on monetary position,net	29,422	(6,718)	(1,589)	(976)	(2,250)	1,600	(4,382)	15,107	(10,958)	4,149
Taxation (charge)/credit	(130,593)	(3,121)	(1,120)	(481)	(3,136)	(2,483)	(482)	(141,416)	-	(141,416)
Minority interest	-	-	-	-	-	-	-	-	26,279	26,279
Net income/(loss) for the period	100,987	4,443	(8,595)	(18)	5,464	(34,708)	(12,467)	55,106	11,386	66,492
Segment assets	26,827,750	436,162	185,294	105,569	109,719	424,792	621,830	28,711,116	(111,972)	28,599,144
Investments in equity participations	1,832,035	489	262	8,755	6,150	110	19,314	1,867,115	(1,467,067)	400,048
Total assets	28,659,785	436,651	185,556	114,324	115,869	424,902	641,144	30,578,231	(1,579,039)	28,999,192
Segment liabilities	25,460,615	323,061	136,065	91,258	6,025	220,349	28,388	26,265,761	(206,701)	26,059,060

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

1 Segment reporting (continued)

30 June 2003	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	1,390,900	31,041	5,249	164	6,192	2,087	433	1,436,066	(12,065)	1,424,001
Interest expenses	(1,279,652)	(10,387)	-	(4,081)	(610)	(3,467)	-	(1,298,197)	12,065	(1,286,132)
Net interest income/(expense)	111,248	20,654	5,249	(3,917)	5,582	(1,380)	433	137,869	-	137,869
Fee and commission income, net	205,491	-	621	7,954	9,913	(8,251)	(4)	215,724	(4,014)	211,710
Trading account income, net	241,568	-	172	-	342	-	-	242,082	-	242,082
Foreign exchange gain, net	41,020	2,141	(669)	229	(1,574)	5,427	1,882	48,456	(143)	48,313
Gross profit from retail business	-	-	-	-	-	65,848	-	65,848	-	65,848
Premium income from insurance business	-	-	39,140	-	-	-	-	39,140	-	39,140
Other operating income	48,439	1,998	1,487	1,090	1,070	8,029	20,471	82,584	(15,565)	67,019
Salaries and wages	(121,888)	(2,855)	(9,293)	(627)	(4,065)	(24,207)	(10,992)	(173,927)	-	(173,927)
Impairment losses	(25,127)	(632)	-	-	(1,782)	-	(16,491)	(44,032)	(6,646)	(50,678)
Other operating expenses	(345,243)	(4,568)	(32,777)	(1,766)	(7,051)	(90,101)	(20,000)	(501,506)	11,571	(489,935)
Gain/(loss) on monetary position,net	25,105	(9,501)	(1,045)	(1,346)	(2,855)	(8,551)	9,114	10,921	4,033	14,954
Taxation (charge)/credit	(92,856)	6,036	(1,093)	(265)	(334)	1,179	(16,000)	(103,333)	-	(103,333)
Minority interest	-	-	-	-	-	-	-	-	37,440	37,440
Net income/(loss) for the period	87,757	13,273	1,792	1,352	(754)	(52,007)	(31,587)	19,826	26,676	46,502

31 December 2003	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Segment assets	25,711,280	379,876	153,462	106,309	107,510	467,531	642,142	27,568,110	(252,955)	27,315,155
Investments in equity participations	1,873,562	767	263	8,755	5,989	108	19,075	1,908,519	(1,481,457)	427,062
Total assets	27,584,842	380,643	153,725	115,064	113,499	467,639	661,217	29,476,629	(1,734,412)	27,742,217
Segment liabilities	24,320,584	271,497	110,899	91,983	5,706	228,379	36,277	25,065,325	(215,044)	24,850,281

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

2 Related party disclosures

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

2.1 Outstanding balances

	30 June 2004	***31 December 2003***
Balance sheet		
Obligations under repurchase agreements	82	323
Loans and advances to customers including accrued interest income	540,038	570,740
Loans granted in TL	*958*	*243*
Loans granted in foreign currency:	*US$ 357,802,230*	*US$ 354,606,491*
	EUR0 5,886,278	*EUR 14,923,596*
Miscellaneous receivables	4,118	3,969
Deposits received	113,036	109,756
Commitments and contingencies		
Non-cash loans	258,231	243,827

2.2 Transactions

	Six-month period ended 30 June 2004	***Three-month period ended 30 June 2004***	***Six-month period ended 30 June 2003***	***Three-month period ended 30 June 2003***
Interest income	9,440	6,857	19,375	5,893
Interest expense	4,801	3,382	5,871	1,945

In 2004, interest rates applied to foreign currency receivables from and payables to related parties vary at ranges of 1.5-10% and 0.75-6.25% (31 December 2003: 2-10% and 0.75-2.75%), respectively. The interest rates applied to Turkish Lira payables to related parties vary at ranges of 20-24% (31 December 2003: 25-27%). Various commission rates are applied to transactions involving guarantees and commitments.

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

3 Cash and cash equivalents

	30 June 2004	*31 December 2003*
Cash at branches	135,669	179,715
Balances with Central Bank of Turkey	2,426,931	1,583,304
Others	13,926	13,946
	2,576,526	1,776,965

At 30 June 2004, cash and cash equivalents included balances with the Central Bank of Turkey in the amount of TL 1,337,494 billions (31 December 2003: TL 1,217,212 billions) as minimum reserve requirement. These funds are not available for the Bank and its affiliates' daily business. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

4 Financial assets held for trading

	30 June 2004				*31 December 2003*
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments held for trading:					
Government bonds in foreign currency	463,568	464,197	4-9	2007	508,019
Government bonds at floating rates	175,931	175,173	21-34	2006	12,258
Discounted government bonds in Turkish lira	55,242	46,035	20-29	2005	19,648
Bonds issued by foreign governments	43,985	43,272	5-10	2040	353,943
Treasury bills in Turkish lira	44,256	40,424	20.5-54.5	2005	6,412
Eurobonds	27,118	32,603	6.5-12	2034	30,371
Bonds issued by corporates	27,818	28,885	5-18	2010	38,295
Government bonds in Turkish lira	30,909	25,271	15-54.5	2005	42,661
Others		4,334			913
		860,194			1,012,520
Equity and other non-fixed income instruments:					
Forfaiting receivables		38,067			102,258
Listed shares		12,008			17,361
Total financial assets held for trading		910,269			1,132,139

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 account income.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

4 Financial assets held for trading (continued)

For the six-month period ended 30 June 2004, net income on trading of financial assets amounting to TL 72,752 billions and to TL 13,193 billions for the three-month period ended 30 June 2004 (30 June 2003: TL 242,082 billions and three-month period ended 30 June 2003: TL 132,895 billions) in total is included in “trading account income, net”.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL 127,775 billions (31 December 2003: TL 11,218 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 30 June 2004, 64% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (31 December 2003: 70%).

	Notional amount with remaining life of					
At 30 June 2004	***Upto 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Future rate agreements	-	-	29,642	103,747	103,747	237,136
Purchases	*-*	*-*	*29,642*	*74,105*	*14,821*	*118,568*
Sales	*-*	*-*	*-*	*29,642*	*88,926*	*118,568*
Interest rate options	1,108	-	-		-	1,108
Purchases	*1,108*	*-*	*-*		*-*	*1,108*
Sales	*-*	*-*	*-*		*-*	*-*
Currency Derivatives						
Spot exchange contracts	200,384	-	-	-	-	200,384
Purchases	*84,760*	*-*	*-*	*-*	*-*	*84,760*
Sales	*115,624*	*-*	*-*	*-*	*-*	*115,624*
Forward exchange contracts	72,018	73,159	11,799	9,917	-	166,893
Purchases	*45,480*	*59,726*	*5,181*	*9,917*	*-*	*120,304*
Sales	*26,538*	*13,433*	*6,618*	*-*	*-*	*46,589*
Currency/cross currency swaps	3,180,775	749,029	501,021	418,970	34,228	4,884,023
Purchases	*2,986,601*	*571,897*	*501,021*	*389,460*	*34,228*	*4,483,207*
Sales	*194,174*	*177,132*	*-*	*29,510*	*-*	*400,816*
Options	82,176	196,609	97,200	13,774	-	389,759
Purchases	*42,296*	*72,457*	*11,675*	*6,887*	*-*	*133,315*
Sales	*39,880*	*124,152*	*85,525*	*6,887*	*-*	*256,444*
Foreign currency futures	-	89,802	-	-	-	89,802
Purchases	*-*	*-*	*-*	*-*	*-*	*-*
Sale	*-*	*89,802*	*-*	*-*	*-*	*89,802*
Other foreign exchange contracts	-	2,748	-	-	-	2,748
Purchases	*-*	*2,748*	*-*	*-*	*-*	*2,748*
Sale	*-*	*-*	*-*	*-*	*-*	*-*
Subtotal Purchases	3,160,245	706,828	547,519	480,369	49,049	4,944,010
Subtotal Sales	376,216	404,519	92,143	66,039	88,926	1,027,843
Total of Transactions	3,536,461	1,111,347	639,662	546,408	137,977	5,971,853

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

4 Financial assets held for trading (continued)

	Notional amount with remaining life of					
At 31 December 2003	***Upto 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Future rate agreements	-	-	-	38,988	61,088	100,076
Purchases	-	-	-	*19,494*	*30,544*	*50,038*
Sales	-	-	-	*19,494*	*30,544*	*50,038*
Currency Derivatives						
Spot exchange contracts	196,265	-	-	-	-	196,265
Purchases	*82,488*	-	-	-	-	*82,488*
Sales	*113,777*	-	-	-	-	*113,777*
Forward exchange contracts	87,793	12,441	2,209	763	-	103,206
Purchases	*48,983*	*7,671*	*1,128*	*152*	-	*57,934*
Sales	*38,810*	*4,770*	*1,081*	*611*	-	*45,272*
Currency/cross currency swaps	3,073,726	520,144	505,797	246,693	-	4,346,360
Purchases	*2,885,485*	*515,721*	*505,797*	*234,140*	-	*4,141,143*
Sales	*188,241*	*4,423*	-	*12,553*	-	*205,217*
Options	36,690	54,959	-	76,344	-	167,993
Purchases	*6,152*	*50,383*	-	*76,344*	-	*132,879*
Sales	*30,538*	*4,576*	-	-	-	*35,114*
Foreign currency futures	-	91,613	-	-	-	91,613
Purchases	-	*91,613*	-	-	-	*91,613*
Sale	-	-	-	-	-	-
Other foreign exchange contracts	87,877	27,739	-	-	-	115,616
Purchases	*1,486*	*1,981*	-	-	-	*3,467*
Sale	*86,391*	*25,758*	-	-	-	*112,149*
Subtotal Purchases	3,024,594	667,369	506,925	330,130	30,544	4,559,562
Subtotal Sales	457,757	39,527	1,081	32,658	30,544	561,567
Total of Transactions	3,482,351	706,896	508,006	362,788	61,088	5,121,129

5 Loans and advances to banks

	30 June 2004			***31 December 2003***		
	Turkish Lira	***Foreign Currency***	***Total***	***Turkish Lira***	***Foreign Currency***	***Total***
Loans and advances-demand						
Domestic banks	2,694	3,069	5,763	3,067	5,162	8,229
Foreign banks	100	182,387	182,487	3	151,172	151,175
	2,794	185,456	188,250	3,070	156,334	159,404
Loans and advances-time						
Domestic banks	270,866	684,766	955,632	149,514	633,004	782,518
Foreign banks	67,123	522,198	589,321	34,647	429,960	464,607
	337,989	1,206,964	1,544,953	184,161	1,062,964	1,247,125
Accrued interest on loans and advances	329	2,466	2,795	418	2,178	2,596
Total loans and advances to banks	341,112	1,394,886	1,735,998	187,649	1,221,476	1,409,125
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	341,112	1,394,886	1,735,998	187,649	1,221,476	1,409,125

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

5 Loans and advances to banks (continued)

As at 30 June 2004, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1-14% per annum for foreign currency time deposits and 22-23% per annum for Turkish lira time deposits (31 December 2003: 0.5-6% and 15-42%, respectively).

As at 30 June 2004, demand deposits at foreign banks include blocked accounts of TL 32,199 billions (31 December 2003: TL 39,118 billions) against the securitisation transactions on cheques, credit card receivables and insurance business.

6 Loans and advances to customers

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

	30 June 2004	*31 December 2003*
Industrial	3,308,417	2,284,924
Consumer loans	2,790,435	2,313,894
Turkish Treasury	2,381,173	1,656,068
Financial institutions	1,424,226	1,363,501
Service sector	1,180,752	882,132
Construction	384,371	369,888
Foreign trade	274,896	209,624
Agriculture	271,536	219,392
Tourism	269,032	202,142
Transportation	156,676	88,814
Domestic commerce	129,369	39,571
Media	17,900	18,788
Others	283,612	200,233
Total performing loans	12,872,395	9,848,971
Non-performing loans	337,099	336,489
Total gross loans	13,209,494	10,185,460
Accrued interest income on loans	260,923	245,656
Financial lease receivables, net of unearned income (Note 7)	340,186	278,095
Factoring receivables	104,325	104,139
Forfaiting receivables	68,310	49,691
Allowance for possible losses from loans and lease receivables	(243,325)	(219,235)
Loans and advances to customers	13,739,913	10,643,806

As at 30 June 2004, loans given to customers have interest rates between 1-14% (31 December 2003: 1-18%) per annum for foreign currency loans and 21-35% (31 December 2003: 29-49%) per annum for Turkish lira loans.

Included in loans and advances to customers were securities pledged under repurchase agreements with customers amounting to TL 567,957 billions (31 December 2003: TL 76,388 billions).

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

6 Loans and advances to customers (continued)

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

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

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

	30 June 2004	*31 December 2003*
Balance at the beginning of the period/year	219,235	219,408
The effect of inflation on the beginning balance and current transactions	(11,816)	(31,727)
Write-offs	(486)	(7,399)
Recoveries	(16,208)	(30,693)
Provision for the period/year	52,600	69,646
Balance at the end of the period/year	243,325	219,235

7 Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates.

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

	30 June 2004	*31 December 2003*
Financial lease receivables, net of unearned income (Note 6)	340,186	278,095
Less: allowance for possible losses from lease receivables	(8,500)	(7,480)
	331,686	270,615
Analysis of net financial lease receivables		
Not later than 1 year	275,552	230,163
Later than 1 year and not later than 5 years	104,564	92,937
Later than 5 years	-	-
Financial lease receivables, gross	380,116	323,100
Unearned income	(48,430)	(52,485)
Financial lease receivables, net	331,686	270,615
Analysis of net financial lease receivables, net		
Not later than 1 year	243,760	193,318
Later than 1 year and not later than 5 years	87,926	77,297
Later than 5 years	-	-
Financial lease receivables, net	331,686	270,615

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

8 Other assets

	30 June 2004	*31 December 2003*
Tangible assets held for resale	591,278	608,134
Prepaid expenses, insurance claims and similar items	77,845	81,849
Insurance premium receivables	76,677	57,934
Retail business stocks	50,069	52,688
Miscellaneous receivables	46,389	139,275
Taxes and funds to be refunded	17,568	12,355
Accrued exchange gain on derivatives	17,567	161,500
Others	54,960	54,765
	932,353	1,168,500

The portion amounting to TL 307,817 billions (31 December 2003: TL 321,339 billions) of tangible assets held for resale comprise of real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed within three years following their acquisitions per the Turkish Banking Law. This legal period can be extended upon legal permission.

Impairment losses provided for decreases in the value of real estates held for resale were determined based upon expertise of independent appraiser firms. As of 30 June 2004, real estates held for resale with carrying values amounted to TL 95,768 billions (31 December 2003: TL 115,411billions) impaired by TL 40,631 billions (31 December 2003: TL 36,785 billions).

9 Security investments

	30 June 2004				*31 December 2003*
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments available-for-sale:					
Eurobonds	690,109	761,510	6.5-12.5	2034	1,704,160
Discounted government bonds in Turkish Lira	596,303	479,910	26-29	2005	203,874
Government bonds at floating rates	229,055	231,917	21-34	2006	923,670
Government bonds in foreign currency	199,568	197,823	3.5-7	2005	235,436
Bonds issued by foreign governments	156,748	159,540	2-10.5	2008	179,938
Bonds issued by financial institutions	73,850	75,141	9	2008	211,283
Government bonds in Turkish Lira	60,451	59,710	28-53	2005	2,732
Bonds issued by corporates	7,978	8,988	12.75	2005	25,351
Treasury bills in Turkish Lira	1,025	1,315	27-54	2005	19,073
Others		551			5,087
Total securities available-for-sale		1,976,405			3,510,604

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

9 Security investments (continued)

	30 June 2004				31 December 2003
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Total securities available-for-sale		1,976,405			3,510,604
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	1,632,695*	1,571,347	***(a)***	2006	3,169,217
Eurobonds	1,402,927	1,491,185	7-12	2030	1,067,937
Government bonds at floating rates	862,303	877,306	***(b)***	2005	664,892
Bonds issued by corporates	190,852	190,791	7-8.5	2008	78,343
Bonds issued by foreign governments	155,888	158,738	2.5-8.5	2008	164,772
Government bonds in Turkish Lira	81,700	81,370	30	2005	-
Discounted government bonds in Turkish lira	41,200	29,997	20-26	2004	32,438
Bonds issued by financial institutions	7,411	7,411	5	2007	17,263
Others		-			325
		4,408,145			5,195,187
Accrued interest on held-to-maturity portfolio		178,262			75,798
Total securities held-to-maturity		4,586,407			5,270,985
Total security investments		6,562,812			8,781,589

(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.*

***** *The face value represents TL equivalent of the foreign currency in which the government bonds were indexed to.*

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

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL 1,842,284 billions (31 December 2003: TL 2,177,553 billions).

In the second quarter of 2004, the Bank management has decided to transfer the available-for-sale securities (eurobonds and government bonds in Turkish Lira and at floating rates) with a face value of TL 1,179,857 billions to its held-to-maturity portfolio. Despite this reclassification, the size of the securities held-to-maturity portfolio decreased from TL 5,270,985 billions as of 31 December 2003 to TL 4,586,407 billions as of 30 June 2004 as some securities matured and collected during the period.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

9 Security investments (continued)

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

	30 June 2004		*31 December 2003*	
	Face Value	***Carrying value***	***Face Value***	***Carrying value***
Collateralised to foreign banks	1,837,715	1,983,066	1,863,840	2,230,196
Deposited at Central Bank of Turkey (CBT) for interbank transactions	380,000	479,240	630,000	814,843
Deposited at Istanbul Stock Exchange	444,818	464,117	-	-
Reserve requirements at CBT	340,000	428,794	300,000	388,020
Deposited at CBT for foreign currency money market transactions	320,000	403,571	320,000	413,888
Deposited at Clearing Bank (Takasbank)	192,000	200,254	193,500	217,283
Deposited at CBT for repurchase transactions	94,161	92,512	76,374	87,657
Others		73,430		28,648
		4,124,984		4,180,535

10 Investments in equity participations

	30 June 2004		*31 December 2003*	
	Carrying Value	***Ownership %***	***Carrying Value***	***Ownership %***
Investments in associated companies:				
Garanti Turizm ve Yatırım İşl. AŞ	30,388	44.89	32,860	44.89
Petrotrans Nakliyat ve Tic. AŞ	9,781	99.99	10,577	99.99
Others	7,193		6,021	
	47,362		49,458	
Equity participations available-for-sale:				
Voyager Med. Tur. End. ve Tic. AŞ	166,132	77.00 ***(a)***	179,648	77.00
Doğuş Otomotiv Servis ve Tic. AŞ	127,337	19.78	138,590	19.82
Akarnet Konakl. Tes. Yat. İşl. AŞ	28,878	100.00 ***(a)***	28,878	100.00
IMKB Takasbank AŞ	10,825	5.83	10,825	5.83
Others	19,514		19,663	
	352,686		377,604	
	400,048		427,062	

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

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

10 Investments in equity participations (continued)

Doğuş Otomotiv Holding AŞ is merged under the name of Doğuş Otomotiv Servis ve Ticaret AŞ, formerly its subsidiary, with Doğuş Otomotiv Servis ve Ticaret AŞ, Genpar Otomotiv Ticaret AŞ, Doğuş Motor Servis ve Ticaret AŞ and Doğuş Ağır Vasıta Servis ve Ticaret AŞ in March 2004. After the merge, the Bank and its affiliates' shares in the new company, Doğuş Otomotiv Servis ve Ticaret AŞ decreased to 19.78%.

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

Petrotrans is presently a dormant company. As the Bank's intention is to hold this investment for only its property of which the fair value is equal to this investment's carrying value, net-off impairment reduction, it is not consolidated.

Impairment losses are provided for decreases in the value of certain investments in associated companies amounting to TL 3,551 billions in the current period. Accordingly, the cumulative provisions for such impairment losses increased to TL 196,835 billions as of 30 June 2004.

11 Tangible assets

Movement in tangible assets for the period of 1 January – 30 June 2004 is as follows:

	1January	***Additions***	***Adjustment for Currency Translation***	***Disposals***	***30 June***
Costs					
Land and buildings	1,533,212	8,148	(8,220)	(22,376)	1,510,764
Furniture, fixture and equipments	1,036,193	15,506	(2,023)	(12,626)	1,037,050
Leasehold improvements	384,914	14,785	-	(8,320)	391,379
	2,954,319	38,439	(10,243)	(43,322)	2,939,193
Less: Accumulated depreciation					
Land and buildings	157,522	15,211	(714)	(4,465)	167,554
Furniture, fixture and equipments	700,523	55,481	(871)	(10,244)	744,889
Leasehold improvements	212,956	22,751	-	(3,208)	232,499
	1,071,001	93,443	(1,585)	(17,917)	1,144,942
Construction in progress	11,084	(151) ***(a)***	-	-	10,933
	1,894,402		(8,658)	(25,405)	1,805,184
Impairment in value of tangible assets	(127,500)				(127,798)
	1,766,902				1,677,386

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

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

11 Tangible assets (continued)

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

	1January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs					
Land and buildings	1,547,771	40,361	(5,392)	(49,528)	1,533,212
Furniture, fixture and equipments	1,074,852	67,129	(1,423)	(104,365)	1,036,193
Leasehold improvements	434,762	37,347	(1,180)	(86,015)	384,914
	3,057,385	144,837	(7,995)	(239,908)	2,954,319
Less: Accumulated depreciation					
Land and buildings	160,748	31,469	32	(34,727)	157,522
Furniture, fixture and equipments	686,194	118,549	(1,062)	(103,158)	700,523
Leasehold improvements	230,016	46,851	(1,047)	(62,864)	212,956
	1,076,958	196,869	(2,077)	(200,749)	1,071,001
Construction in progress	11,934	(850)***(a)***	-	-	11,084
	1,992,361		(5,918)	(39,159)	1,894,402
Impairment in value of tangible assets	(68,801)				(127,500)
	1,923,560				1,766,902

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

Depreciation expense for the six-month period ended 30 June 2004 and for the three-month period ended 30 June 2004, amounts to TL 93,443 billions and TL 45,924 billions, respectively (the six-month period ended 30 June 2003: TL 96,310 billions and the three-month period ended 30 June 2003: TL 47,781 billions). The premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range from 8% to 25%.

Impairment losses provided for decreases in the value of land and buildings were determined based upon expertise of independent appraiser firms. As of 30 June 2004, land and buildings with carrying values amounted to TL 255,722 billions (31 December 2003: TL 266,099 billions) impaired by TL 127,798 billions (31 December 2003: TL 127,500 billions).

12 Intangible assets

Intangible assets represent goodwill arising from the direct acquisitions of 24.11% ownership in and majority voting rights in the Board of Directors of Tansaş Perakende Mağazacılık Ticaret AŞ, 29% ownership in Doc Finance SA, 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Doğuş Hava Taşımacılığı AŞ, 100% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Emeklilik ve Hayat AŞ, 98.89% ownership in Garanti Finansal Kiralama AŞ, 81.81% ownership in Garanti 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.

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

12 Intangible assets (continued)

As at 30 June 2004, goodwill is amortized on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL 120,066 billions (31 December 2003:TL 130,504 billions), net of accumulated amortization, in the accompanying consolidated balance sheets.

Movement in goodwill for the period of 1 January – 30 June 2004 is as follows:

	1January	***Additions***	***Disposals***	***30 June***
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	135,806	-	-	135,806
Doğuş Hava Taşımacılığı AŞ	46,413	-	-	46,413
Garanti Yatırım Menkul Kıymetler AŞ	24,390	-	-	24,390
Doc Finance SA	10,104	-	-	10,104
Garanti Finans Faktoring Hizmetleri AŞ	7,158	-	-	7,158
Garanti Finansal Kiralama AŞ	5,593	-	-	5,593
Sititur Tur.T.Taş.Org.Bilg.Dan.Y.San.veTic. AŞ	3,463	-	-	3,463
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,589	-	-	1,589
Garanti Sigorta AŞ	1,326	-	-	1,326
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	547	-	-	547
Garanti Emeklilik ve Hayat AŞ	45	-	-	45
Total goodwill	236,434	-	-	236,434
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	43,187	8,008	-	51,195
Doğuş Hava Taşımacılığı AŞ	9,288	1,160	-	10,448
Garanti Yatırım Menkul Kıymetler AŞ	4,098	610	-	4,708
Doc Finance SA	2,371	252	-	2,623
Garanti Finans Faktoring Hizmetleri AŞ	715	179	-	894
Garanti Finansal Kiralama AŞ	560	140	-	700
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	347	87	-	434
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	158	40	-	198
Garanti Sigorta AŞ	263	33	-	296
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	54	14	-	68
Garanti Emeklilik ve Hayat AŞ	8	1	-	9
	61,049	10,524	-	71,573
Goodwill, net of accumulated amortization	175,385			164,861
Impairment in value of goodwill	(44,881)			(44,795)
	130,504			120,066

Impairment losses are provided for decreases in the value of consolidated entities which were determined assessing their internal and external sources. As of 30 June 2004, Doğuş Hava Taşımacılığı AŞ, Doc Finance SA and Sititur Tur. Tem. Taş. Org. Bilg. Dan. Yap.San. ve Tic. AŞ which have net goodwill amount of TL 35,965 billions, TL 7,481 billions and TL 3,029 billions, respectively were impaired by TL 44,795 billions in total (31 December 2003: TL 44,881 billions).

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

12 **Intangible assets** (continued)

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

	1January	*Additions*	*Disposals*	*31 December*
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	135,806	-	-	135,806
Doğuş Hava Taşımacılığı AŞ	46,413	-	-	46,413
Garanti Yatırım Menkul Kıymetler AŞ	24,390	-	-	24,390
Docfinance SA	10,104	-	-	10,104
Garanti Finans Faktoring Hizmetleri AŞ	7,158	-	-	7,158
Garanti Finansal Kiralama AŞ	5,593	-	-	5,593
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	3,463	-	-	3,463
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,589	-	-	1,589
Garanti Sigorta AŞ	1,326	-	-	1,326
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	547	-	-	547
Garanti Emeklilik ve Hayat AŞ	45	-	-	45
Total goodwill	236,434	-	-	236,434
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	27,164	16,023	-	43,187
Doğuş Hava Taşımacılığı AŞ	6,967	2,321	-	9,288
Garanti Yatırım Menkul Kıymetler AŞ	2,879	1,219	-	4,098
Docfinance SA	1,866	505	-	2,371
Garanti Finans Faktoring Hizmetleri AŞ	357	358	-	715
Garanti Finansal Kiralama AŞ	280	280	-	560
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	174	173	-	347
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	79	79	-	158
Garanti Sigorta AŞ	197	66	-	263
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	27	27	-	54
Garanti Emeklilik ve Hayat AŞ	5	3	-	8
	39,995	21,054	-	61,049
Goodwill, net of accumulated amortization	196,439			175,385
Impairment in value of goodwill	(41,764)			(44,881)
	154,675			130,504

13 **Deposits from banks**

Deposits from banks comprise the following:

	30 June 2004	*31 December 2003*
Payable on demand	54,579	21,086
Term deposits	1,191,451	956,532
	1,246,030	977,618
Accrued interest on deposits from banks	5,310	4,379
	1,251,340	981,997

Deposits from banks include both TL accounts of TL 449,397 billions (31 December 2003: TL 534,869 billions) and foreign currency accounts of TL 796,633 billions (31 December 2003: TL 442,749 billions).

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

14 Deposits from customers

Deposits from customers comprise the following:

	30 June 2004			*31 December 2003*
	Demand	***Time***	***Total***	***Total***
Foreign currency	3,978,016	6,844,432	10,822,448	11,498,616
Saving	422,535	3,271,171	3,693,706	3,195,965
Commercial	1,166,996	1,521,036	2,688,032	2,458,035
Public and other	587,541	62,878	650,419	283,332
	6,155,088	11,699,517	17,854,605	17,435,948
Accrued interest expenses on deposits from customers	-	136,021	136,021	166,051
	6,155,088	11,835,538	17,990,626	17,601,999

As at 30 June 2004, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 20-29% and 1-12.5% (31 December 2003: 26-42% and 1-6%), respectively.

15 Obligations under repurchase agreements

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

30 June 2004	***Carrying value***	***Fair value of underlying assets***	***Carrying amount of corresponding liabilities***	***Range of repurchase dates***	***Repurchase price***
Trading instruments	127,775	128,773	111,901	July-Aug. 2004	121,235
Security investments	1,842,284	1,868,305	1,337,834	July’04-April’08	1,390,457
Originated loans	567,957	555,273	456,916	July-Dec. 2004	457,276
	2,538,016	2,552,351	1,906,651		1,968,968
31 December 2003					
Trading instruments	11,218	11,218	8,555	Jan.-Aug. 2004	9,836
Security investments	2,177,553	2,286,819	1,682,050	Jan.-Sept. 2004	1,695,232
Originated loans	76,388	89,524	57,257	April-Sept. 2004	58,261
	2,265,159	2,387,561	1,747,862		1,763,329

Accrued interest on obligations under repurchase agreements amounting to TL 9,697 billions (31 December 2003: TL 6,663 billions) is included in the carrying amount of corresponding liabilities.

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

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 30 June 2004, the maturities and interest rates of the obligations are within one to four years and between 2-17 % (31 December 2003: 1-20%).

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

16 Loans and advances from banks

Loans and advances from banks comprise the following:

	30 June 2004	*31 December 2003*
Short-term borrowings		
Domestic banks	229,394	257,832
Foreign banks	2,108,917	2,103,753
	2,338,311	2,361,585
Long-term debts		
Short-term portion	254,189	366,736
Medium and long-term portion	1,209,811	726,166
	1,464,000	1,092,902
Accrued interest on loans and advances from banks	28,456	34,770
	3,830,767	3,489,257

As at 30 June 2004, short-term borrowings from foreign banks included a one-year syndicated term-loan facility in the amount of US$ 450 millions (equivalent of TL 664,650 billions) signed on 20 November 2003 available to corporate customers to pre-finance export contracts and again a one-year syndicated facility to finance pre-finance export contracts of the Bank's corporate customers for the amount of EUR 400 millions (equivalent of TL 720,599 billions) signed on 7 July 2003.

Long-term debts comprise the following:

	30 June 2004					*31 December 2003*
	Interest rate%	*Latest Maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
DPR Securitisation-I	3.55-3.58	2008	US$350 mio	-	516,950	534,408
DPR Securitisation-II	2	2012	US$325mio	-	480,025	-
Cobank	1.31-2.43	2006	US$58 mio	49,324	36,185	52,394
Anatolia Finance Company	7.24	2004	US$38 mio	55,456	-	-
Deutsche Bank	1.31-1.45	2006	US$35 mio	29,038	22,026	37,388
Standard Chartered	1.29-1.86	2006	US$15 mio	13,428	8,947	20,318
DEG	8	2005	EUR5 mio	9,007	-	4,817
Others				97,936	145,678	76,841
				254,189	1,209,811	726,166

In June 2004, the Bank completed a securitisation (the "DPR Securitisation-II") transaction by issuance of two classes of certificates: US$175 million Floating Rate Series 2004-B and US$150 million Floating Rate Series 2004-C. The Series 2004-B issue has a financial guarantee issued by MBIA Insurance Corporation, a final maturity of 5 years and an average life of 3.6 years. The Series 2004-C issue has a financial guarantee issued by Ambac Assurance Corporation, a final maturity of 8 years and an average life of 5.6 years. The DPR-II securitises the Bank's payment orders created via SWIFT MT 103 or similar payment orders accepted as derived primarily from the Bank's trade finance and other corporate businesses and paid through foreign depository banks.

16 Loans and advances from banks (continued)

In December 2002, the Bank obtained a short-term fund in the amount of US$ 200 millions through its "DPR Securitisation" (the "DPR Securitisation-I"). The DPR Securitisation-I securitises the Bank's all right, title and interest to US dollar, Euro or Sterling-denominated MT100-series messages under the Society for Worldwide Interbank Financial Telecommunication (SWIFT) message system received by the Bank. Subsequently in October 2003, its maturity lengthened to five years as US$ 200 millions Floating Rate Series 2003-A issue and a further US$ 150 millions Floating Rate Series 2003-B issue was obtained in December 2003.

In February 1998, the Bank sold certain future credit card receivables due or to become due to the Bank from Visa International Service Association (Visa), MasterCard International Incorporated (MasterCard) and Europay International SA (Europay), to Anatolia Finance Company, a special purpose company (SPC) organized under the laws of the Cayman Islands for the amount of US$ 175 millions. The SPC sold to the Bank of New York, as trustee of the Credit Cards Receivables Trust 1998 - I (the Trust), which issued the trust certificates amounting to US$ 175 millions in total pursuant to the Trust Agreement dated 3 February 1998 between the SPC and the Bank of New York as trustee. The trust certificates are repaid in the period from March 1998 to December 2004 on a quarterly basis. In line with the repayment schedule, the outstanding balance of this loan as of 30 June 2004 is US$ 38 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.

17 Taxation on income

Corporate income tax is levied at the rate of 33% on the statutory Turkish Lira corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2004. This rate will be 30% in the following years. There is an additional tax computed only on the amounts of dividend distribution and is accrued only at the time of such payments. According to the amendments in tax legislations, which are effective from 24 April 2003, no income tax withholding is calculated over the dividends that are distributed to the shareholders from the profits of the preiod between 1999 and 2002 if these profits are exempted from corporation tax bases of the corporate.

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

17 Taxation on income (continued)

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, provision for taxation charge, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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

	30 June 2004	*%*	*30 June 2003*	*%*
Taxes on income/(loss) per statutory tax rate	59,937	33.00	33,718	30.00
Permanent differences relating to the restatement of non-monetary items per IAS 29	60,592	33.36	41,338	36.78
Effect of permanent differences on consolidation adjustments	34,630	19.07	9,845	8.76
Income items exempt from tax or subject to different tax rates	(7,645)	(4.21)	(37,669)	(33.51)
Disallowable expenses	5,844	3.22	7,939	7.06
Investment incentives	(5,719)	(3.15)	5,249	4.67
Effect of change in legal tax rate	(5,449)	(3.00)	46,508	41.38
Others	(774)	(0.43)	(3,595)	(3.20)
Taxation charge	141,416	77,86	103,333	91.94

The taxation charge comprise the following:

	For the six-month periods ended	
	30 June 2004	*30 June 2003*
Current taxes	19,851	14,503
Deferred taxes	121,565	88,830
Taxation charge	141,416	103,333

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

17 Taxation on income (continued)

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

The current taxes payable on income comprise the following:

	30 June 2004	*31 December 2003*
Provision for current taxes payable on income before deductions	141,416	(66,640)
Add: Taxes payable carried forward	10,498	7,515
Add/(less): Deferred tax assets/liabilities	(121,565)	93,375
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 30 June 2004	(3,011)	(1,514)
Taxes payable on income	27,338	32,736

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

	30 June 2004	*31 December 2003*
Deferred tax assets		
Tax losses carried forward	290,852	395,096
Impairment in value of investments in associated companies and tangible assets	39,885	18,980
Investment incentives and exemptions	29,384	25,590
Capitalised expenses and leasing obligations	13,314	15,088
Tax base difference on tangible assets	(15,201)	-
Valuation difference on financial assets and liabilities	(14,096)	33,796
Specific and general allowance for loan losses	(2,472)	15,139
Others, net	2,155	1,936
Total deferred tax assets	343,821	505,625
Deferred tax liabilities		
Total deferred tax liabilities	(245)	(5,098)

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

18 Other liabilities and accrued expenses

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

	30 June 2004	*31 December 2003*
Transfer orders	449,784	378,763
Miscellaneous payables	197,950	202,782
Insurance technical provisions	87,934	72,878
Unearned income	43,952	43,010
Factoring payables	43,603	48,851
Withholding taxes	41,998	50,468
Payables to insurance and reinsurance companies relating to insurance operations	32,304	27,997
Reserve for severance payment	30,604	36,759
Expense accruals	27,654	26,586
Blocked accounts	22,212	22,694
Payables to suppliers relating to financial leasing activities	17,905	9,957
General provision for non-cash loans	14,016	12,191
Others	42,177	58,396
	1,052,093	991,332

19 Shareholders' equity

The authorized nominal share capital of the Bank amounted to TL 822,038 billions comprising 1,644,075,624,859 registered shares of five hundred Turkish liras each and 1,728 registered shares of on hundred Turkish liras each. The portion of share capital arising from the amounts paid in by the shareholders was restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements; however, the transfers from revaluation surplus on fixed assets for statutory purposes and transfers from statutory retained earnings were eliminated.

The Bank had made two transactions in 2001 to be subsidized from its major shareholder in order to mitigate the effects of its one-time losses resulting from economic crisis in Turkey. As a result of these transactions, the Bank had reflected an income in 2001. However, these transactions were in substance, capital contributions by shareholders since such financing could not have been entered into on an arm's-length basis with a third party. Consequently, "retained earnings" account was corrected by decreasing TL 166,414 billions and an additional paid-in capital by the same amount was accounted as at 30 September 2003. Accordingly, the share capital was reflected as TL 2,059,882 billions in the accompanying consolidated financial statements.

The reserves include legal reserves amounting to TL 67,647 billions in total which were established by annual appropriations amounting to 5% of income disclosed in the Bank's and its affiliates' statutory accounts until it reaches 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital are to be appropriated to increase legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital. In the accompanying consolidated financial statements, legal reserves are included at their historical amounts. The reserves also include TL 29,000 billions appropriated by management for the purpose of general banking risks.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

20 Fair value information

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

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. Turkey has shown sings of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for security investments and Turkish Treasury caption under loans and advances to customers. These balance sheet instruments include loans and advances to banks and customers except for loans to Turkish Treasury against securities, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Fair value of security investments and loans to Turkish Treasury against securities is TL 8,938,186 billions (31 December 2003: TL 8,877,429 billions), whereas the carrying amount is TL 9,006,602 billions (31 December 2003: TL 8,781,589 billions) in the accompanying consolidated balance sheet as at 30 June 2004.

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.

21 Commitments and contingencies

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

Commitments and contingent liabilities comprise the following:

	30 June 2004	*31 December 2003*
Letters of guarantee	4,342,455	3,926,064
Letters of credit	1,692,712	1,418,727
Acceptance credits	610,078	563,969
Other guarantees and endorsements	-	21,500
	6,645,245	5,930,260

As at 30 June 2004, commitment for uncalled capital of affiliated companies amounts approximately to TL 13 billions (31 December 2003: TL 137 billions).

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

21 Commitments and contingencies (continued)

As at 30 June 2004, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 5,971,853 billions (31 December 2003: TL 5,121,129 billions), almost all due within a year. The breakdown of outstanding commitments, by type, are presented as follows:

	30 June 2004		*31 December 2003*	
	Purchases	*Sales*	*Purchases*	*Sales*
Forward agreements for customer dealing activities	19,528	2,403	29,611	12,170
Currency swap agreements for customer dealing activities	54,330	84,221	34,436	16,292
Spot foreign currency transactions for customer dealing activities	23,756	23,744	8,458	3,273
Forward agreements for hedging purposes	100,776	44,186	28,323	33,102
Currency swap agreements for hedging purposes	4,428,877	316,595	4,106,707	188,925
Interest rate and foreign currency options	134,423	256,444	132,879	35,114
Future rate agreements and foreign currency futures	118,568	208,370	141,651	50,038
Forward agreements for gold trading	-	-	3,467	112,149
Spot foreign currency transactions	63,752	91,880	74,030	110,504
	4,944,010	1,027,843	4,559,562	561,567

22 Risk management disclosures

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

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 22.2 contains risk management information related to the trading portfolio and section 22.3 deals with the non-trading portfolio.

22.1 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 21. 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.

22 Risk management disclosures (continued)

Futures and forwards

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

Options

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

22.2 Trading activities

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

The Bank and its affiliates' counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

22 Risk management disclosures (continued)

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

Market risk

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

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

22.3 Non-trading activities

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

Liquidity risk

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

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

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 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:

	30 June 2004						*31 December 2003*					
	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	539.570	-	-	-	-	539.570	375.891	-	-	-	-	375.891
Financial assets held for trading	983	3.549	52.140	22.990	219.237	298.899	2.858	16.545	5.686	37.414	35.831	98.334
Loans and advances to banks	341.081	29	-	-	-	341.110	177.417	10.236	-	-	-	187.653
Loans and advances to customers	2.622.318	519.919	420.738	419.280	1.671.944	5.654.199	1.829.230	172.958	199.455	736.048	1.044.611	3.982.302
Other assets	64.770	14.630	45.797	-	-	125.197	156.647	4.102	53.832	-	-	214.581
Security investments	35.251	194.484	63.579	1.082.548	436.516	1.812.378	341.940	118.986	15.729	462.198	949.448	1.888.301
Deferred tax assets	-	-	-	-	341.025	341.025	-	-	-	-	501.838	501.838
Total Turkish Lira monetary assets	3.603.973	732.611	582.254	1.524.818	2.668.722	9.112.378	2.883.983	322.827	274.702	1.235.660	2.531.728	7.248.900
Foreign currency												
Cash and cash equivalents	2.036.956	-	-	-	-	2.036.956	1.401.074	-	-	-	-	1.401.074
Financial assets held for trading	4.445	5.112	456.081	28.016	117.716	611.370	3.221	321.440	7.498	531.546	170.100	1.033.805
Loans and advances to banks	810.833	175.694	207.098	181.089	20.174	1.394.888	775.513	97.324	161.506	171.093	16.036	1.221.472
Loans and advances to customers	567.690	668.845	1.260.563	1.395.829	4.099.013	7.991.940	642.609	684.281	1.008.329	925.328	3.283.703	6.544.250
Other assets	44.632	1.077	15.173	-	-	60.882	53.998	55.320	50.168	23.742	889	184.117
Security investments	57.770	-	51.122	226.151	4.415.391	4.750.434	46.646	167.927	1.501.007	56.982	5.120.726	6.893.288
Deferred tax assets	-	-	-	-	2.796	2.796	-	-	-	-	3.787	3.787
Total foreign currency monetary assets	3.522.326	850.728	1.990.037	1.831.085	8.655.090	16.849.266	2.923.061	1.326.292	2.728.508	1.708.691	8.595.241	17.281.793
Total Monetary Assets	7.126.299	1.583.339	2.572.291	3.355.903	11.323.812	25.961.644	5.807.044	1.649.119	3.003.210	2.944.351	11.126.969	24.530.693
MONETARY LIABILITIES												
Turkish Lira												
Deposits	6.497.898	871.372	120.818	29.443	571	7.520.102	5.272.271	976.499	242.113	87.082	483	6.578.448
Obligations under repurchase agreements	492.643	-	-	-	-	492.643	81.724	-	-	-	-	81.724
Loans and advances from banks	75.614	48.208	8.081	12.721	-	144.624	48.623	28.906	40.542	27.646	-	145.717
Other liabilities and accrued expenses	197.819	54.753	25.979	39.755	65.118	383.424	250.846	49.740	39.243	77.553	54.303	471.685
Total Turkish Lira monetary liabilities	7.263.974	974.333	154.878	81.919	65.689	8.540.793	5.653.464	1.055.145	321.898	192.281	54.786	7.277.574
Foreign currency												
Deposits	9.275.556	1.328.732	426.796	540.534	150.246	11.721.864	9.405.589	1.483.287	404.842	293.987	417.843	12.005.548
Obligations under repurchase agreements	874.686	193.131	48.070	75.043	223.078	1.414.008	475.481	353.543	164.517	672.597	-	1.666.138
Loans and advances from banks	888.138	180.648	836.570	566.669	1.214.118	3.686.143	90.076	38.008	315.544	2.169.204	730.708	3.343.540
Other liabilities and accrued expenses	562.907	28.247	12.293	88.656	2.087	694.190	165.649	208.568	153.873	22.374	4.882	555.346
Total foreign currency monetary liabilities	11.601.287	1.730.758	1.323.729	1.270.902	1.589.529	17.516.205	10.136.795	2.083.406	1.038.776	3.158.162	1.153.433	17.570.572
Total Monetary Liabilities	18.865.261	2.705.091	1.478.607	1.352.821	1.655.218	26.056.998	15.790.259	3.138.551	1.360.674	3.350.443	1.208.219	24.848.146

22 **Risk management disclosures** (continued)

Market risk

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

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

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

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

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

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 30 June 2004 pursuant to IAS 29)

22 Risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the first half of 2004 and the year of 2003:

	30 June 2004			
	US$ %	***EURO %***	***TL %***	***Other Currencies %***
Assets				
Loans and advances to banks	1.00-6.40	2.09-3.50	16.12-22.75	4.72-14.00
Debt and other fixed or floating income instruments	5.60-12.48	8.30-10.03	30.50-34.10	-
Loans and advances to customers	3.00-12.00	4.84-6.44	25.88-37.84	1.96-14.00
Liabilities				
Deposits:				
- Foreign currency deposits	1.00-6.00	1.50-5.75	-	3.00-12.50
- Bank deposits	1.60-5.25	2.31-3.86	21.42-22.53	7.50-900
- Saving deposits	-	-	20.78-26.50	-
- Commercial deposits	-	-	22.21-27.13	-
- Public and other deposits	-	-	25.53	-
Obligations under repurchase agreements	2.53-2.59	2.65-2.74	25.89	-
Loans and advances from banks	1.10-13.96	1.96-7.00	21.54-24.72	4.32-5.40

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

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inflation in TL units current at 30 June 2004 pursuant to IAS 29)

22 Risk management disclosures (continued)

Equity price risk

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

Currency risk

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

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

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

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

These exposures are as follows:

	30 June 2004			
	US$	EURO	Other Currencies	Total
Assets				
Cash and cash equivalents	1,608,350	418,024	10,582	2,036,956
Financial assets held for trading	566,277	14,103	30,990	611,370
Loans and advances to banks	1,049,724	275,080	70,084	1,394,888
Loans and advances to customers	6,523,122	1,344,897	122,567	7,990,586
Other assets	34,824	34,705	5,540	75,069
Security investments	4,153,117	597,317	-	4,750,434
Investments in equity participations	-	569	6,344	6,913
Tangible assets	721	66,711	2,482	69,914
Intangible assets	-	-	-	-
Deferred tax asset	351	2,221	224	2,796
Total Assets	13,936,486	2,753,627	248,813	16,938,926

(Currency: Billions of Turkish Lira as adjusted for the effects of
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22 Risk management disclosures (continued)

	30 June 2004			
	US$	*EURO*	*Other Currencies*	*Total*
Total Assets	13,936,486	2,753,627	248,813	16,938,926
Liabilities				
Deposits	6,280,702	5,001,529	439,633	11,721,864
Obligations under repurchase agreements	1,183,296	230,712	-	1,414,008
Loans and advances from banks	2,739,216	928,989	17,938	3,686,143
Current tax liability	-	24,261	-	24,261
Other liabilities and accrued expenses	537,714	118,144	14,071	669,929
Total Liabilities	10,740,928	6,303,635	471,642	17,516,205
Net On Balance Sheet Position	3,195,558	(3,550,008)	(222,829)	(577,279)
Net Off Balance Sheet Position	(3,522,332)	3,605,334	285,788	368,790
Net Position	(326,774)	55,326	62,959	(208,489)

	31 December 2003			
	US$	*EURO*	*Other Currencies*	*Total*
Total Assets	14,355,529	2,721,592	279,300	17,356,421
Total Liabilities	10,719,151	6,504,133	347,288	17,570,572
Net On Balance Sheet Position	3,636,378	(3,782,541)	(67,988)	(214,151)
Net Off Balance Sheet Position	(3,773,952)	3,783,796	140,613	150,457
Net Position	(137,574)	1,255	72,625	(63,694)

Of the amounts shown in the table above, at 30 June 2004, 64% (31 December 2003: 70%) are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The net of Russian Rubles denominated assets and liabilities as included in the above table at their TL equivalents, comprise net asset of TL 79,527 billions at 30 June 2004 (31 December 2003: TL 36,282 billions). For the purposes of the evaluation of the table above, these amounts should not be considered as hard currency.

For the first half of 2004, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US$ 111,374 millions (the year 2003: US$ 95,138 millions).

22 Risk management disclosures (continued)

Credit risk

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

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

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

The Bank and its affiliates' primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (note 21).

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

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

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22 Risk management disclosures (continued)

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

	30 June 2004				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	12,825,801	26,009,372	16,941,839	6,421,626	36,182
Holland	153,104	920,398	1,048,490	10,021	1,929
USA	17,927	447,028	1,500,894	5,287	-
Russia	201,536	396,607	94,205	38,556	177
Switzerland	249,848	258,704	679,081	23,493	-
Germany	31,373	194,076	2,207,222	4,820	-
Romania	60,258	144,064	33,304	12,520	-
France	13,502	128,129	8,795	1,038	-
England	28,585	111,833	2,128,019	28,749	-
Luxembourg	1,513	39,883	456,828	8,566	-
Others	156,466	349,098	960,383	90,569	-
TOTAL	13,739,913	28,999,192	26,059,060	6,645,245	38,288

	31 December 2003				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	9,850,764	24,624,162	16,072,678	5,510,473	141,718
Holland	80,702	1,081,653	1,372,596	332,995	2,028
Switzerland	149,365	394,606	385,295	2,526	-
England	115,613	378,591	2,113,979	5	-
Russia	153,655	320,482	80,015	41,341	241
USA	10,449	172,188	1,146,053	108	-
Germany	75,602	129,669	2,286,688	274	-
Romania	67,896	111,699	88,631	-	-
Luxembourg	-	32,332	344,704	9,670	-
France	9,699	14,200	10,828	163	-
Others	130,061	482,635	948,814	32,705	-
TOTAL	10,643,806	27,742,217	24,850,281	5,930,260	143,987

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 72% 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 79%.

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22 Risk management disclosures (continued)

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

	30 June 2004	***31 December 2003***
Cash loans		
Secured loans:	9,588,859	7,291,530
Secured by cash collateral	943,166	323,247
Secured by mortgages	1,146,933	588,670
Secured by government institutions or government securities	3,166,622	2,528,481
Guarantees issued by financial institutions	126,441	147,109
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	4,205,697	3,704,023
Unsecured loans	3,796,357	2,989,366
Total performing loans and financial lease receivables	13,385,216	10,280,896
Non-cash loans		
Secured loans:	5,237,241	4,889,584
Secured by cash collateral	609,125	745,261
Secured by mortgages	36,607	185,845
Secured by government institutions or government securities	142	48,980
Guarantees issued by financial institutions	46,229	120,050
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	4,545,138	3,789,448
Unsecured loans	1,408,004	1,040,676
Total non-cash loans	6,645,245	5,930,260

22.4 *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. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

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23 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 30 June 2004:

Affiliates	***Shareholding Interest (%)***
Garanti Bank International NV	100.00
Garanti Bank Moscow	100.00
Garanti Sigorta AŞ	100.00
Garanti Emeklilik ve Hayat AŞ	100.00
Garanti Portföy Yönetimi AŞ	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00
Garanti Financial Services plc.	100.00
Garanti Fund Management Co. Ltd.	100.00
Imperial Ottoman Bank Off-Shore Ltd.	100.00
Bosphorus Financial Services Ltd.	100.00
Clover Investments Co.	100.00
Garanti Bilişim Teknolojisi	100.00
Ana Konut Danışmanlık AŞ	100.00
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	100.00
Galata Araştırma Yay.Tanıtım ve Bil.Tek.Hiz. AŞ	100.00
Şahintur Şahinler Otelcilik Turizm Yatırım İşl. AŞ	100.00
Doğuş Hava Taşımacılığı AŞ	100.00
Lasaş Lastikleri San ve Tic. AŞ	99.99
Konaklı Tur.Tem.Yapı.San. ve Tic. AŞ	99.97
Sititur Tur.Tem.Taş. Org.Bilgisayar Danışm.Yapı San.ve Tic.AŞ	99.95
Garanti Finansal Kiralama AŞ	98.89
Garanti Faktoring Hizmetleri AŞ	81.81
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.06
Tansaş Perakende Mağazacılık Ticaret AŞ	24.11 ***(a)***

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

The liquidation of Imperial Ottoman Bank Off-Shore Ltd. has been completed in July 2004. Bosphorus Financial Services Ltd. and Clover Investments Co. are under liquidation as of the reporting date. The liquidation procedures for these two affiliates are expected to complete before the end of 2004.

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23 Affiliates and associates (continued)

The table below sets out the Associates and shows their shareholding structure as at 30 June 2004:

Associates	***Shareholding Interest (%)***
İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ	46.65
Garanti Turizm ve Yatırım İşl. AŞ	44.89
Doc Finance SA	29.00

24 Subsequent events

24.1 On 29 March 2004, the Bank's parent company, Doğuş Holding AŞ had announced that a heads of agreement was signed between Doğuş Holding AŞ and Banca Intesa to start the negotiations between parties for the acquisition of 40.05% shares in the Bank by Banca Intesa. Furthermore, it had also announced that Banca Intesa would have a purchase option to acquire a further 9.96% stake in the Bank. Subsequently on 20 July 2004, the parties has announced that as they were not able to reach to a conclusion, they have decided not to continue the negotiations.

24.2 By the decision no.2107 of the Board of the Directors dated 27 April 2004, it has been decided to increase the Bank's nominal share capital from TL 822,038 billions to TL 1,200,000 billions through appropriation of real estate sales income of TL 20,515 billions, equity participation sales income of TL 6,947 billions and retained earnings of TL 350,500 billions.

24.3 A one-year syndicated term-loan facility in the amount of EUR 450 millions with Euribor+0.55% per annum was signed on 9 July 2004 with the 25 mandated arrangers. The proceeds will be used to finance pre-finance export contracts of the Bank's corporate customers.

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