ANNUAL REPORT 2003

Garanti

Contents

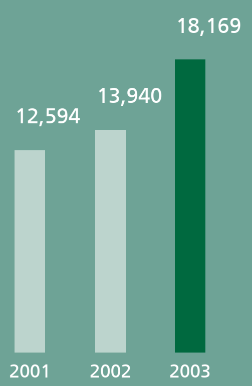
The Bank in Brief

Garanti Bank is a prestigious Turkish high street bank serving corporate, commercial, small business and retail customers nationwide through 343 domestic branches. As one of Turkey's top three private sector banks, it is the market leader in tax collections, custody, check clearing, tourism inflows, foreign trade volumes and internet banking, and manages the fastest growing credit card loyalty reward program in the country, the innovative Bonus Card. Garanti achieved 30% growth in US$ terms in total assets in 2003 to post net income of US$ 380 million.

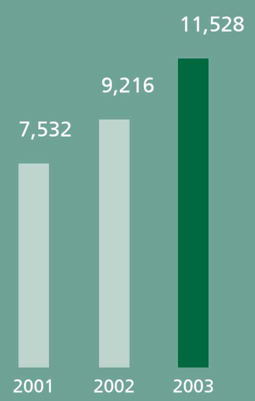
Garanti Bank is the heart of an integrated financial services group that includes leasing, insurance, factoring, securities and portfolio management companies in Turkey; GarantiBank International N.V. in the Netherlands with branches in Germany and Romania; GarantiBank Moscow in Russia; and Garanti Bank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

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

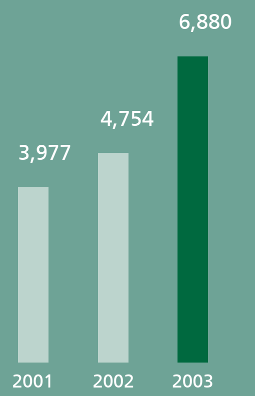
Assets*
(US$ Million)



Deposits from Customers*
(US$ Million)



Loans to Customers*
(US$ Million)



* Foreign currency, not inflation adjusted.

ISTANBUL STOCK EXCHANGE London STOCK EXCHANGE Garanti Bank's shares are listed on the İstanbul and London Stock Exchanges.

Financial Highlights

Consolidated IAS Financial Statements of Garanti Bank (US$ Million)	**2003**	2002
Total Assets	**18,169**	13,940
Loans and Advances to Customers	**6,880**	4,754
Contingencies	**3,884**	3,097
Customer Deposits	**11,528**	9,216
Shareholders' Equity	**1,750**	1,062
Paid-in Share Capital	**1,349**	961
Operating Income	**1,317**	719
Net Income/Loss	**380**	18
Return on Average Assets (%)	**2.10**	0.12
Return on Average Shareholders' Equity (%)	**24.36**	1.63
Adjusted Net Interest Margin (%)	**2.03**	1.34
Cost/Income Ratio (%)	**63.17**	83.74

US$ 1= TL 1,598,755 as of December 31, 2002
US$ 1= TL 1,412,000 as of December 31, 2003

Awards

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

1997 E.L.M.A. (Excess Liquidity Management Account) was chosen as one of the "Most Creative Products" by the Advisory Board Company USA.

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

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

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

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

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

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

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

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

2001 Europay International recognized Garanti Bank with "Master Award Certificate".

2001 & 2002 Garanti Bank was selected as "Turkey's Most Admired Company in Banking" by *Capital* magazine. It was also the only bank in the top ten list among all companies.

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

2001, 2002 & 2003 *Global Finance* chose Garanti Bank as "Turkey's Best Internet Bank".

2002 Bonus Card was recognized as "Europe's Biggest Program in 'Co-branded' Cards".

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

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

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

2002, 2003 & 2004 www.garanti.com.tr was awarded the Grand Prize in the Golden Spider (Altın Örümcek) Competition for the Best Banking / Financial Services Website and the Best Corporate Website. In addition, www.paragaranti.com won second place in 2003 and third place in 2004 in the Best Banking / Financial Services Website category.

2003 Bonus Card was presented with awards for Customer Focused Utilization of Technology and the Most Advantageous Customer Program by *Power* magazine and CRM Institute of Turkey.

2003 Garanti24 Cardless Transaction Project won the Ahmed Dallı Banking Award.

2003 Garanti was chosen as Turkey's Most Admired Bank in 2003 in a survey conducted by *Capital* magazine. It also ranked among the top ten most admired companies in Turkey in terms of Service and Product Quality, Social Responsibility, Management Quality, Management and Corporate Transparency, Information and Technology Investment, Communications and Public Relations, Ethical Behavior Toward Competitors and New Product Development.

2003 Garanti was selected for the seventh consecutive year as the only "Top-Rated" sub-custodian in Turkey by *Global Custodian* magazine and as "The Best Sub-Custodian in Turkey" by *Global Finance*.

2003 The EUR 400 million syndicated finance facility secured by Garanti was voted "Best Turkish Loan in 2003" by international banks polled by *EuroWeek*.

2003 Garanti Operations was presented "Quality Recognition Award in Payments" by Citigroup and "Straight Through Processing (STP) Excellence Award" by Deutsche Bank.

2004 Garanti Operations was presented "STP Excellence Award" by Deutsche Bank and The Bank of New York.

2004 EFQM (European Foundation for Quality Management) presented Garanti's Call Center with the "Committed to Excellence in Europe" award, making it the first Call Center ever to receive this award. The prestigious EFQM award was given for achievement in the areas of contribution to affiliated company, leadership, sales performance and efficiency/cost management.

2004 Garanti was awarded by the *Emerging Markets* newspaper as the "Best Project Finance Bank in Turkey".

Chairman's Message

Ferit Faik Şahenk
Chairman

Garanti recorded growth in all business segments in 2003, assuming a leading position in the market in diverse service segments, including credit cards, small business banking, cash management, alternative distribution channels and foreign trade financing.

2003 was a banner year for Garanti. Business sentiment improved markedly and the Turkish economy made solid progress.

The real economy recovered to a large degree as macroeconomic conditions improved, making a sustained positive outlook possible. Production and investment volumes rose while inflation continued to decline. Foreign trade volumes rose parallel to high increases in exports.

Timely preparation for a low inflation environment

Today Garanti's entire organization revolves around a customer focused business model in tune with market realities that is designed to foster sustainable growth and produce added value in a low inflation business environment. The Bank reached the final stage of a comprehensive, long-term transformation in line with disinflationary trends, putting into practice every aspect of our new business models.

Performance was very positive. Garanti recorded growth in all business segments in 2003, assuming a leading position in the market in diverse service segments, including credit cards, small business banking, cash management, alternative distribution channels and foreign trade financing. A higher profile in the sector was accompanied by excellent financial results.

The post crisis period not only changed economic realities and business sentiment but also thoroughly restructured the banking sector. A stronger legal structure and application of international accounting and auditing standards have improved transparency, making the balance sheets of Turkish banks globally comparative.

Our fundamental responsibility is to carry out our obligations towards customers impeccably and to place the assets entrusted to us in the most appropriate investments.

This responsibility has developed two axes for bank shareholders. The first is to comply with the highest standards of accuracy and ethics in the execution of banking transactions and the second is to maintain a strong capital base. Doğuş Holding has more than lived up to its obligations in both respects, empowering Garanti to reach its present position.

Garanti is Doğuş Group's leading brand in financial markets. Doğuş Group also operates in automotive distribution, food retailing, construction, media and tourism.

Doğuş Group's emphasis on corporate governance, professionalism and synergy has contributed to the success of its brands, creating a stronger whole than the sum of its parts.

The customer is everything …

Garanti's mission and position are predicated on serving satisfied customers. The Bank's key objective is to meet the financial needs of our diverse customer base in their entirety with integrated, individually tailored solutions.

Garanti's organization and corporate culture rests on a customer focused approach to business. Its success reflects its ability to respond to the multifaceted requirements of customers ranging from consumer to corporate banking.

Commitment to long-term development of sustainable customer relationships will keep Garanti at the forefront of the banking sector in the years to come.

Application of our business strategy in real market conditions this year has positioned Garanti for rapid growth in 2004 and beyond.

Banking requires dedication …

Application of our business strategy in real market conditions this year has positioned Garanti for rapid growth in 2004 and beyond. Our professional management team and employees have carried out their responsibilities with unflagging dedication, energy and commitment. Their performance will no doubt pave the way for Garanti to reach its objectives in the coming years.

I would like to thank our shareholders for their continued support during 2003 and express my gratitude to all my associates, for their valuable contribution in making Garanti the admired bank that is today.

Ferit Faik Şahenk
Chairman

Board of Directors

FERİT FAİK ŞAHENK
Chairman
Doğuş Group of Companies and Garanti Bank

SÜLEYMAN SÖZEN
Vice Chairman

Dr. A. MAHFİ EĞİLMEZ
Member of the Board

Dr. AHMET KAMİL ESİRTGEN
Member of the Board

SİNCAR TOKER
Member of the Board

A. CAN VERDİ
Member of the Board

ERGUN ÖZEN
Member of the Board,
President and CEO

Garanti Bank is a subsidiary of Doğuş Group.

CEO's Statement

Ergun Özen
President and CEO

Stability and positive sentiment in the markets made it possible to digest all organizational and structural changes fully and translate this into enhanced business prowess.

2003 was a very successful year for Garanti Bank in terms of financial performance and market penetration. With assets up 30% to US$ 18.2 billion and net income of US$ 380 million, Garanti exceeded expectations with a stellar performance.

Garanti exceeded its own forecasts as well as analysts expectations for 2003. The Bank accomplished all its strategic objectives, including:

- achievement of targeted volumes for lucrative products and business lines
- growth in the number of branches and in the number of cities and regions served
- improvement of ROA and ROE
- gains in efficiency
- winning higher market shares in credit cards, loans, deposits, asset management and foreign trade.

Continuous balance sheet restructuring in line with disinflationary trends has made Garanti a sounder bank financially. Stability and positive sentiment in the markets made it possible to digest all organizational and structural changes fully and translate this into enhanced business prowess.

Garanti demonstrated its strength in customer businesses, using technology as a tool to penetrate new markets and customers in coordination with skillful and motivated human resources. Every function of the Bank moved forward and increased market share in 2003, especially in credit cards, where Garanti is now number two in the market and quickly closing the gap. In a year of falling interest rates and shrinking margins, net fees and commissions covered 35% of operating expenses, a noteworthy achievement.

In 2004, introduction of new and original products and services for retail and commercial segments will support increased penetration of these important customer groups.

The ability to foresee and plan for change

The ability to shift course and adjust strategy according to changes in the operating environment are of paramount importance in Turkey. Even more essential is the ability to foresee and plan for change. In this regard, Garanti has been remarkably successful. Early recognition that government and IMF efforts would eventually bring inflation down to single digits caused the Bank to restructure its business lines, technology and human resources well ahead of the sector. These efforts, which started in the mid-1990s, have borne fruit, making Garanti into today's efficient and profitable high street bank.

The correlation between political stability and inflation in Turkey is well documented. Low inflation signals a high degree of political and economic stability. This is amply demonstrated by the events of 2003 when even major shocks such as Iraq war failed to disturb the stability of markets. Sound economic management, effective reforms and stronger institutions enabled the markets to remain relatively stable, evidence that Turkey has become a more shock resistant country.

We expect that domestic consumption will be a primary driver of economic growth in 2004. A strong currency, low interest rates, availability of consumer credit and the very real possibility of achieving single digit inflation in 2004 will motivate spending for durables, automobiles and housing. This will reflect on asset prices, leading to gains for the real estate and construction sectors in particular. A boom in these sectors will kick start many sectors, fueling general economic activity.

These developments will impact retail banking in particular. Garanti will continue to focus on retail and commercial lending in response to anticipated demand, making 2004 a year of true growth.

Garanti intends to grow its market share by continuous introduction of innovative product packages designed to enfranchise important customer segments such as small and medium size business. In 2003, the Bank signed agreements with 26 Chambers of Trade and Industry all over Turkey to provide financing to qualified companies. These and other similar loan programs are playing a critical role in stimulating economic growth throughout the country.

Establishment of 20 new full service branches in these and other cities in Anatolia are increasing Garanti’s visibility and reach. By targeting the right areas, Garanti continues to enlarge its branch network efficiently. Garanti ranks first in deposits and assets per branch in Turkey.

In 2004, introduction of new and original products and services for retail and commercial segments will support increased penetration of these important customer groups. Introduction of smart financial solutions through software and consultancy services for small business is designed to build loyalty and generate higher volumes. The development of lifetime banking services for customers, following the lifecycle from childhood to retirement, entails introduction of new products for teenagers, university students, housewives and retirees with the aim of enlarging Garanti’s customer base. The launch of an affluent banking program aims to give more personal attention and service to a special group of high income customers with large amounts of savings and investments.

Our aim to make Garanti a sales machine is becoming a reality. Product penetration per customer is up sharply. Central phone sales have proven remarkably effective. Strategies for Effective Sales (SES), based on a behavioral analysis of customers, resulted in a wide reaching restructuring in 2003 in which more power was given to branches and regional offices and the number of full service branches was increased in order to serve customers more efficiently. In 2004, in order to achieve a further impact on sales, efforts will concentrate on refining segmentation and training sales representatives as well as tellers in the principles of SES.

To be the best

As Garanti moves forward to serve more customers in more segments and more markets, we face the challenge of how to enhance the quality of customer service while maintaining high profitability. To do this we rely on two factors: a bank culture based on teamwork, empowerment, loyalty, motivation and reward and a business integrated approach to technology.

For 2004 we have set ambitious but achievable goals, the most important of which are to:

- increase market shares with focus on high margin products and business lines
- increase the percentage of loans to total assets
- enhance the quality of earnings by broadening the fees and commissions base in all segments
- expand the number of branches to 375 while migrating as much business as possible to alternative delivery channels
- focus on getting value for our services from customers.

With fewer private sector banks operating in Turkey and a sharp division in asset size between the top four and the others, the dominance of Garanti and a few other institutions is slowly becoming a reality. When the 100% deposit guarantee is lifted in July 2004, funds will gradually look for safer havens, benefiting big, solid banks like Garanti.

2004 will be a truer test of a low-inflation environment for banks without the cushion of income from high interest T-bills although a stock of high yield securities will keep producing income for another few years. Towards the end of 2005 and into 2006 and 2007, however, we anticipate a flurry of mergers in the market between smaller banks.

At Garanti, earnings quality will continue to improve. Strong non-interest income will shield Garanti from lower margins and rapidly falling interest rates. Garanti will continue to be one of the biggest generators of fee-based income among Turkish banks in 2004.

The impressive performance of Garanti in 2003 is the result of many years of preparation. The contribution made by our managers and staff can not be overstated. The support given to us by the Board of Directors and our shareholders has been of inestimable value. As we move forward, we are determined to continue to merit the business of our customers and thus achieve our vision of becoming the top quality service bank in Turkey.

Ergun Özen
President and CEO

Senior Management

1
ERGUN ÖZEN
President and CEO

2
GÜNİZ ŞENGÖLGE BİLGİN
Executive Vice President
Corporate Banking

3
KUBİLAY CİNEMRE
Executive Vice President
Treasury and Investment Banking

4
TOLGA EGEMEN
Executive Vice President
Financial Institutions

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

6
HÜSNÜ EREL
Executive Vice President
Operational Services

7
TURGAY GÖNENSİN
Executive Vice President
Commercial Banking

8
NAFİZ KARADERE
Executive Vice President
Retail Banking

9
ADNAN MEMİŞ
Executive Vice President
Support Services

10
MURAT MERGİN
Head of Board of Strategic Planning

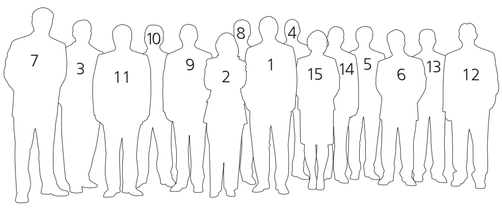
11
CÜNEYT SEZGİN
Head of Risk Management and Internal Audit

12
MEHMET SEZGİN
General Manager
Garanti Payment Systems

13
ALİ TEMEL
Executive Vice President
Credits

14
A. CAN VERDİ
Member of the Board

15
SEMA YURDUM
Executive Vice President
Management Services



Business Review

Garanti's business goal is to increase market share, penetration and profitability. It has accomplished this by creating a clear and simple organization that takes advantage of proximity with customers to do more business more profitably and create synergy between different segments.

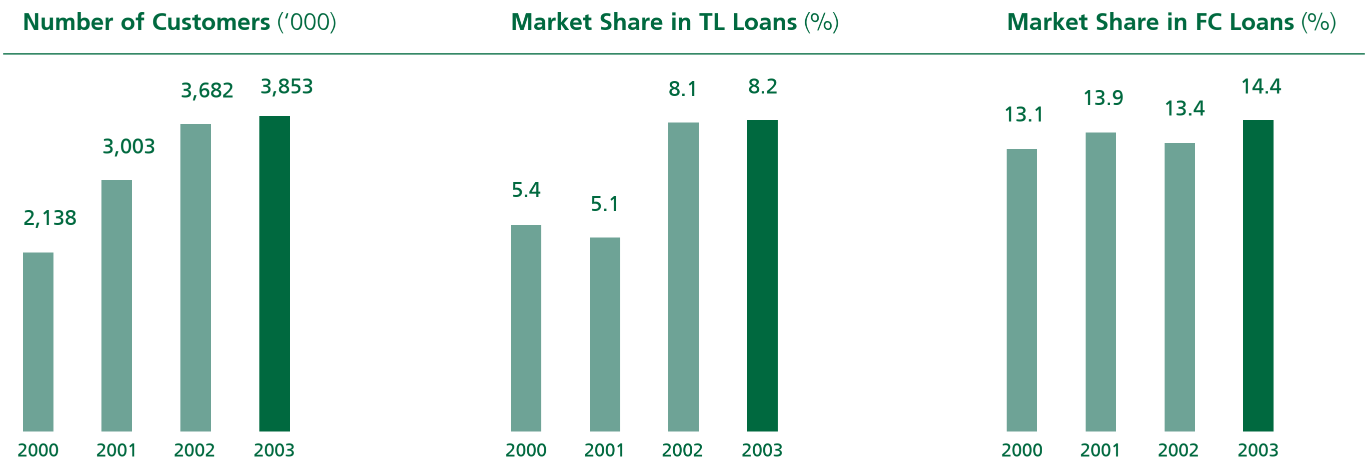
A behavioral segmentation of customers has supported the Bank's sales campaigns, making it possible to measure the proclivity of certain customers to use certain products, and thus ensure a high success rate in both calls initiated by the Database Marketing Center and by branches.

Customer satisfaction matters to Garanti: Garanti is the only bank to establish a dedicated department that prides itself on answering each customer communication in less than one working day.

Garanti has jumpstarted growth in the economy through a lending program designed to benefit small and medium size businesses across the country. Parallel to this, the Bank has increased its nationwide presence by opening branches in economically active cities in provincial areas.

At the end of 2003, Garanti is a bigger and more profitable bank. It has assumed a leading position in the market in loans, foreign trade intermediation, credit card programs, e-commerce, asset management services, check clearing, custody services and project finance.

The Bank has demonstrated its ability to serve customers from huge multinational corporations to small provincial businesses to parents saving for the future of their children to working people putting money away for their retirement to credit cardholders eager to qualify for bonuses.



The number of customers increased by 80.2% over the last three years while Garanti has maintained its leading position in the sector in per branch efficiency in terms of both assets and deposits.

During 2003 Garanti registered 71.7% increase in TL loans in real terms and 18.8% increase in FC loans in US$ basis, while changing the composition of the loan book in favor of more profitable TL loans.

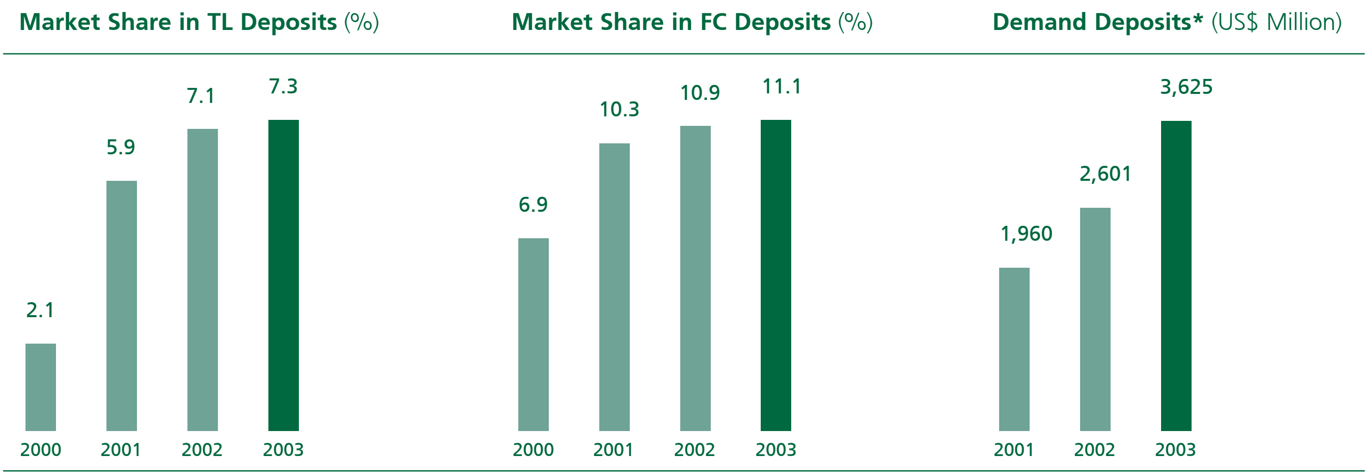
This success is the fruit of Garanti's financial strength, adherence to business principles, human resources, leadership and vision.

A strategic approach to corporate banking

Garanti has become the most important banking partner of major multinational and national corporations in Turkey through a strategic approach that emphasizes long-term and reliable relationships with its customers through changing market conditions over the years. The Bank's priority in the field of corporate banking is to become the housebank of large corporations and the first choice of foreign investors in Turkey.

The corporate customers of Garanti are multinational and national corporations mainly in the automotive, food and beverage, chemical, household appliances, oil and iron & steel industries as well as international construction and retail businesses. Decreasing inflation and narrowing profit margins have resulted in the convergence of pricing policies of banks in Turkey. Corporations prefer Garanti for its financial strength and reliable reputation, the quality of its technological infrastructure, human resources and financial services, its know-how and emphasis on customer relations, its unique expertise in discovering custom-made banking solutions.

The quality of our financial services and commitment to customers deepened relations with important corporate customers in 2003 as we became the housebank for an increasing number of corporations. The loan portfolio has been selectively increased and new facilities were created to meet the special needs of our corporate customers. The growing demand for specialized services in the banking sector, mainly in international trade finance, has increased Garanti's market share in this segment considerably over the last two years.



Garanti continued to increase its market share in deposits in 2003 while increasing the share of demand deposits in total deposits, further improving its cost of funding.

*Foreign currency, not inflation adjusted.

Garanti's cash management services provide a highly technological, fast, reliable and cost-effective package that meets the cash collection needs of corporate customers in all of their commercial activities. Cash management services have played a very important role in the development of relationships with customers.

Corporate branches of Garanti provide retail banking services tailor-made for partners and top managers of corporate clients.

In 2004, Garanti is expecting to increase its participation in corporate banking activities. New investments that have been put off will be made especially in the automotive, iron and steel industries. This positive investment environment will certainly provide strong banks like Garanti with new opportunities. International trade finance, IPOs and privatization are other areas of opportunity for Garanti's expanding corporate banking activities in 2004.

Broad based growth in commercial banking

Winning more business from customers led to sustainable growth in 2003. New segmentation was created for commercial clients, classifying companies with US$ 1-5 million in annual gross sales as medium size clients and those with US$ 5-50 million in annual gross sales as large size clients. Tailored services in accordance with this segmentation generated an 11% increase in new customers in 2003.

Garanti achieved high real growth rates in loans, both TL and FC, as well as in demand deposits. Foreign currency export loans, for example, soared by 67%. At the same time, the nonperforming debt ratio fell to record lows. Demand deposits also increased by 35% in real terms.

Strong sectors in 2003 included tourism, the automotive industry, hazelnuts and other agricultural product exports, iron&steel, shipbuilding and construction. For Garanti, three sectors gained particular importance in 2003: tourism, shipbuilding and hazelnuts.

Garanti enjoyed a tremendous market share in tourism currency inflows of main travel agents with a 52% market share, up from 35% in 2002, in the main Mediterranean-Aegean resort areas. Garanti works with 48% of hotels and international tour operators in the region as the housebank and is the top bank for financing the renovation, expansion and construction of hotels. By providing full service for clients, Garanti expects to maintain and even increase its share in tourism revenues in 2004.

In shipbuilding, Garanti provided bridge financing totaling US$ 82 million for 12 ships, eight through project financing. The Bank anticipates financing 17-18 shipbuilding projects in 2004 without compromising its conservative approach.

In 2003, Garanti financed nearly half of all loans provided to the hazelnut sector, one of Turkey's most important export products.

In big ticket items, Garanti financed the construction of a new plant for Konya Sugar Factory, thus gaining all the company's banking business. In the coming years, new investment in the commercial sector are

The first bank to offer specifically tailored services and solutions for small and medium size businesses in Turkey, Garanti is now the acknowledged leader in this segment.

envisioned through medium term (seven year) loans and privatizations. Garanti is also very strong in gold trading with 59% of import/export volumes.

A more efficient regional office structure created good synergy and succeeded in generating retail business out of commercial customers. New, more efficient and productive software for loans was put into place. Essential infrastructure changes are now in place to support an increase in loan volumes in 2004. The new system favors rapid decision making at the branch level for smaller loans and at Head Office for larger volumes. Paper documentation has been replaced by electronic information available to authorized users on intranet. This has resulted in a 10% reduction in number of personnel despite the high increase in loan volumes.

Enfranchising small businesses into the banking system

The first bank to offer specifically tailored services and solutions for small and medium size businesses in Turkey, Garanti is now the acknowledged leader in this segment. Small and medium size businesses comprise the most dynamic part of the economy and generate a significant portion of employment in the country. Garanti's small business banking strategy is to offer appropriate solutions to the financial needs of this group covering cash flow, investments and loans in addition to standard retail banking products for business owners.

In 2003, Garanti made notable progress in small business banking by taking two important steps. First, the Bank started to open branches in towns and cities across Turkey in order to create a larger service network capable of serving more small business customers. Second, in order to stimulate loan demand, Garanti signed agreements with chambers of commerce and industry in 26 cities, thus providing member firms with loans at favorable terms. By the end of the year close to 1,500 firms had borrowed a total of TL 40 trillion under this program.

Efforts to diversify loan activities included introduction of a pre-approval system based on an assessment of customer-bank relations and utilization of installment loans according to previously approved limits.

Garanti's retail banking strategy is to provide products and services appropriate to the needs of target customers, thus securing their satisfaction and loyalty. To this end, the Bank is developing high added value products and services that are easily accessible.

The Bank provides financing for a wide range of needs with flexible payment terms and maturities of up to 24 months, including loans for machinery and equipment, office and premises renovation, information technology solutions and business support. The Bank will continue to plan new SME banking products in line with customer needs and new banking trends. Furthermore, POS credits (collateral taken as blocked merchant turnover) solved the very common problem of loan collateral, sparking considerable interest among customers.

Garanti is committed to helping small and medium size businesses achieve their potential. Implementation of a scorecard, which is currently in the process of being developed, will enable the Bank to grant credits to more customers more efficiently.

The Sales Opportunities System prioritizes customers into marketing groups. The system analyzes the propensity to purchase and utilize various products, sectoral cyclicality, product usage and transaction volume. The customer relation management system adopted in 2003 seeks to increase effectiveness and productivity in sales.

In October, Garanti added private pension plans to its product range. Very promising results were obtained in a few months, underlining the potential of this product for small business owners.

Introducing high value added products for retail customers

Garanti's retail banking strategy is to provide products and services appropriate to the needs of target customers, thus securing their satisfaction and loyalty. To this end, the Bank is developing high added value products and services that are easily accessible.

Retail banking is the cornerstone of Garanti's growth strategy. The Bank is determined to encourage greater individual utilization of banking products parallel to developments in the economy. Garanti's basic goal is to provide access to a wide variety of quality products in a faster and more effective way, taking into account the differentiation and diversification of customer needs and habits. Special attention is given to offering high value added loan and investment products in addition to classic banking products.

At year-end 2003, Garanti was serving over three million retail customers through a nationwide network of 343 branches, 866 ATMs, the Call Center and internet branch.

New customer acquisition continued energetically in 2003 with a focus on credit cards, consumer loans, payroll and school fee payments. Pre-approval of loans for payroll customers and other similar projects deepened relations with customers.

The Sales Opportunities System introduced in 2003 monitors the propensity of customers to buy products and aims to increase the effectiveness of cross-selling.

Developing the potential of mass banking in Turkey

Garanti's mass banking branch Açık aims to give fast quality service to a large number of customers through standardization of products and services. Açık's success in 2003 raised its share in the Bank's balance sheet from 3% to 4.4%. Consumer loans in this segment rose from TL 8 trillion to TL 20 trillion in the last quarter and the number of customers reached 1.5 million.

Database Marketing pursues a marketing strategy based on analysis of customer product propensity, reaching target customers using telemarketing techniques and through alternative distribution channels. In 2003, Database Marketing had impressive results in new product sales and new customer acquisition.

Life-cycle banking brings a new perspective to consumer banking. Garanti is pushing ahead to develop banking services for every stage of life, from childhood to retirement. MiniBank, a program for parents of small children, was successfully introduced in 2003.

Introduction of private pension plans started in the second half of 2003. Garanti Pension Company is one of the first companies to be active in this area. The Bank gives great importance to individual pension funds and believes that this product has strategic importance for retail banking.

Increasing trust in Garanti resulted in a larger customer base and bigger deposit base for both time and demand deposits. Innovative approach, success in product engineering and customer focused business mentality will ensure the continuity of growth for Garanti in retail banking.

Setting the agenda for credit cards in Turkey

Credit cards now generate 60% of total fee income of Garanti Bank which passed the three million mark for all credit cards in 2003. This is an indicator of the tremendous success of Garanti's credit card program over the last several years.

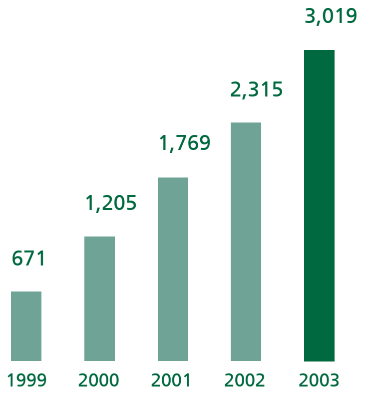
Bonus Card is a phenomenon. The multi-branded reward card has propelled Garanti into the second slot in credit card issuers in Turkey, up from 4th three years ago. With 2.5 million cards, Bonus has reached a level on par with the biggest issuers in Europe with revolving balances exceeding US$ 1 billion and an activity rate higher than international norms, attracting brand recognition to become a consumer brand on its own. Effective retention and extension strategies resulted in a higher increase in 2003 in card numbers than in other years despite highly competitive market conditions.

Garanti extended its Bonus Card franchise by granting issuing rights to DenizBank which issued half a million cards during the year. The brand was extended by creating two upgrades of Bonus as a reward for choosing Bonus merchant partners: Bonus Plus (50% more bonuses) and Bonus Premium (100% more bonuses). Another innovation was the member-get-member program that rewards cardholders for enrolling new members. Bonus Advance is another new program that grants instant extra bonuses in return for commitment of a certain level of spending for 12 months. Short Message Service (SMS) technology on mobile phones is now available for cardholders for inquiries on balances, limits and payments. A Bonus Debit Card program, Bonus Kontör was launched for 12-18 year olds as part of an effort to replace cash at payment points.

Bonus made history by receiving two CRM Oscars from CRM Institute of Turkey, in two categories in 2003, for Most Advantageous Loyalty Card Program for Plus and Premium and for Best Use of Technology.

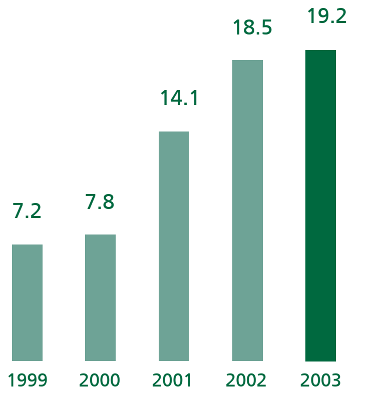
A new website–www.bonusloyalty.com–was launched for merchants, providing them with aggregate data on demographic information, spending behavior, volumes and all kind of information necessary for building campaign strategies. Garanti sponsored Bonus Academy–a program of conferences, seminars and foreign internships–for the 35,000 merchants enrolled in program.

Number of Credit Cards (thousand)



Market Share in Number of Credit Cards (%)

Market Share in Issuing Volume (%)



Garanti posted the highest and the most stable growth in credit cards over the last four years of any Turkish card issuer.

In 2004, Garanti will grow strongly in credit cards as it continues to develop and expand Bonus with the goal of having the highest number of cards in the market.

Garanti's other brand, Shop&Miles, renewed its exclusive contract with Turkish Airlines for five years. The brand continues to enroll upscale merchants in the program to run special promotions. Shop&Miles–in Classic, Gold and Platinum–is the most elite Travel and Entertainment card in Turkey.

In another innovation, Garanti made a deal with "Mailboxes Etc" for internet sales from US delivered to Turkey through douwantit.com.

In 2004, Garanti will grow strongly in credit cards as it continues to develop and expand Bonus with the goal of having the highest number of cards in the market. The Bank also aims to develop debit cards to replace cash, introduce Value Added services for Shop&Miles cardholders and export EMV migration and multi-branded loyalty program consultancy to other banks in other countries.

Turning alternative delivery channels into sales centers

Garanti has achieved remarkable success in migrating banking transactions from the branches to ATMs, the internet and the Call Center. In 2003, 69% of all comparable transactions were handled through ATMs (37.4%), the internet (29.6%), and the Call Center (2%), including cash transactions.

Garanti is continuously upgrading and expanding its ATM network. The number of ATMs is targeted to increase from 866 at end-2003 to 1,000 in 2004. Membership in Golden Point ATM network enables Garanti customers to check their balances and withdraw money through over 4,000 network ATMs.

The development of a "cardless" technology for paying credit card bills successfully channeled payments to ATMs. This trend will pick up speed in 2004 as the number of ATMs equipped with bill recognizing facility increases.

Garanti's internet branch was voted the "Best Corporate and Institutional Internet Bank in Turkey" by *Global Finance* in July 2003. The Bank continuously updates and develops its internet banking services, enabling it to meet the financial needs of all customer segments and thus fortify its leading position in this

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

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In 2004, Garanti will embrace mobile GSM technologies to introduce new products and services in addition to existing services like Short Message Service (SMS) alerts, inquiries through mobile phones and WAP.

Garanti Call Center is one of the largest and most advanced call centers in Turkey, receiving over 2 million calls per month. The Call Center grew in terms of agents to 430, in line with the increasing number of customers, mainly due to the higher number of credit card holders. To improve cost efficiency, Garanti expanded IVR usage from 50% to 70% of all calls and will continue to acclimatize customers to this approach.

The Call Center's performance has been recognized by EFQM (European Foundation for Quality Management) which presented it with the "Committed to Excellence in Europe" award, making it the first Call Center in the world to receive EFQM.

ADC Usage Rate in Key Products (%)

Money transfers	85%
Cash withdrawals	85%
Mutual funds	84%
Equity trading*	98%
FC	76%
Tax payments	60%

The Alternative Delivery Channel usage rate (including cash transactions) reached 69% as of end of 2003.

* Excluding investment centers

The Call Center has a high rate of success as a sales center. The number of products sold per month averages 30,000, mainly supplemental credit cards, insurance and various kinds of deposit/investment accounts, through both incoming and outgoing calls. Outgoing calls are made according to lists based on customer propensity to buy certain products. In 2003, a total of over 150,000 credit cards were sold through internet and the Call Center.

Higher client volumes in currency trading

Garanti's commitment to customer trading was reflected in the revenue mix in 2003. Foreign currency trading showed high client volumes, with more than 60% of revenues client based. Garanti trades an average of US$ 300 million per day with an average of 8,000 clients.

While the strategy remained the same in 2003, the Bank reviewed tactics and developed intelligent pricing programs using an accumulated mass of data to maximize customer satisfaction. This resulted in better quality revenues. In 2004, Garanti will be looking at artificial intelligence support for pricing to traders.

Eurobond trading by Turkish retail clients gathered force in 2003. Derivatives trading of both forwards and options will increase further in both numbers and volumes in 2004 as Garanti creates better access to these products. The number of people in risk management and derivatives was increased in response to client demand.

During the year, a corporate treasury desk for group financial companies was established, achieving cost containment, better risk management and better return on assets.

Stepped up involvement in project finance

Project financing is a specialized area of expertise for Garanti. Recognized as one of the foremost providers of project financing on both the national and international scene, Garanti provides value-added solutions both to private and public sectors.

Garanti considers project finance as an investment banking activity going beyond the conventional lending approach. For Garanti, project financing requires specialization and proficiency.

Once again in 2003, Garanti maintained its accustomed performance and achieved a 30% market share in project finance, with mandates worth more than US$ 650 million for private and public sector infrastructure and energy projects despite the uncertainty in public sector investment during the first quarter.

In 2003, privatization was an area of focus for Garanti. The Bank played a key role in financing of major projects. Privatization of Alkollü İçkiler Sanayi ve Ticaret A.Ş. (Alcoholic Beverages Industry) and Gemlik Gübre Sanayi A.Ş. (Gemlik Fertilizer Industry) were finalized in the beginning of 2004 with the participation of Garanti.

During the year, Garanti participated in syndicated loans arranged to finance infrastructure projects guaranteed by the Undersecretariat of Treasury, specifically Deriner and Muratlı-Borçka Dams and the Eastern Black Sea Coastal Highway.

In addition, Garanti took part in consortia organized by international banks to meet the financing requirements of Turkey's leading companies. Garanti provided risk participation for a letter of credit facility arranged for the Vestel Group and was the only Turkish bank to participate in the two-year US$ 100 million syndicated loan facility for Koç Holding A.Ş.

The fundamentals for the financing of ship building projects were laid down by Garanti in 2002. In 2003, the Bank provided financing for the construction of eight chemical tankers, six of which were ordered by foreign ship operators. In 2004, Garanti will continue to support Turkish shipyards which are rapidly establishing a worldwide reputation for quality shipbuilding.

Garanti also provides medium/long term loans from international and supranational institutions for import financing needs of its commercial and corporate customers. Due to its well-developed association with Export Credit Agencies and substantial correspondence bank network, Garanti also has a strong position in import financing activities.

In 2004, Garanti expects to see an increase in long term financing of investment goods importation, reflecting the prevailing optimism regarding Turkey's economic and political outlook.

The best custodian in Turkey

Garanti provides custody and clearing services to non-resident institutional investors operating in Turkish capital markets. Privacy, promptness, timeliness, precision and quality service have always been the distinguishing characteristics of Garanti's services.

In 2003, Garanti was selected for the seventh consecutive year as the only "Top-Rated" sub-custodian in Turkey by the *Global Custody* magazine. "The Best Sub-Custodian in Turkey" award from *Global Finance* further highlighted the success of this business line.

Garanti has developed and advanced the custody and clearing business that migrated from Ottoman Bank. Garanti's position as the preferred Turkish sub-custodian is demonstrated by the retention of all the current clients, the world's most reputable and well-known financial institutions and successful new contracts with top-tier clients.

In 2003, in addition to conventional clearing and custody services, Garanti participated in several remarkable transactions, acting as the primary custodian for takeovers and equity swaps involving foreign institutional investors.

With its experienced staff, know-how and strong technological infrastructure, Garanti is well positioned to expand in the custody business along with the increased interest from international investors in the Turkish capital markets.

Garanti is Turkey's number one trade finance bank, handling 16% of Turkey's exports and 14% of its imports. International esteem through both good and bad times has been a major element in Garanti's success in this competitive area.

Successful returns on asset management

Garanti exceeded all its benchmarks in 2003, delivering successful returns for each account.

US$ 1.6 billion in mutual funds puts Garanti in the top four in the mutual fund business in Turkey with an 11% market share. In 2003, it added more managed funds and with its subsidiary Garanti Asset Management developed corporate asset management services for foundations and corporations for their free capital, totaling US$ 80 million.

Pension Funds were introduced at end-November 2003 and already have 24% of the market with over 5,000 accounts. This places Garanti among the top three in the market for this promising business line as of December 2003.

Investment Centers are a leader in client brokerage business, serving a widespread and diverse customer base for all capital market brokerage activities. Client custody advised through investment centers increased from US$ 1.4 billion to US$ 2.5 billion.

In 2004, Garanti will look at the possibility of corporate bond issuance and investigate opportunities in fund management.

Diversifying international funding

Garanti is Turkey's number one trade finance bank, handling 16% of Turkey's exports and 14% of its imports. International esteem through both good and bad times has been a major element in Garanti's success in this competitive area.

In 2003, Garanti increased and diversified its international borrowing, finalizing the largest and most prestigious financing facilities in the Turkish market. The year was very successful in terms of increasing the size and participation of the Bank's two traditional syndications plus completing two securitizations in international debt capital markets. Moreover, Garanti attracted important strategic banks that had not previously participated in Turkish transactions, opening the path to productive relationships with these institutions.

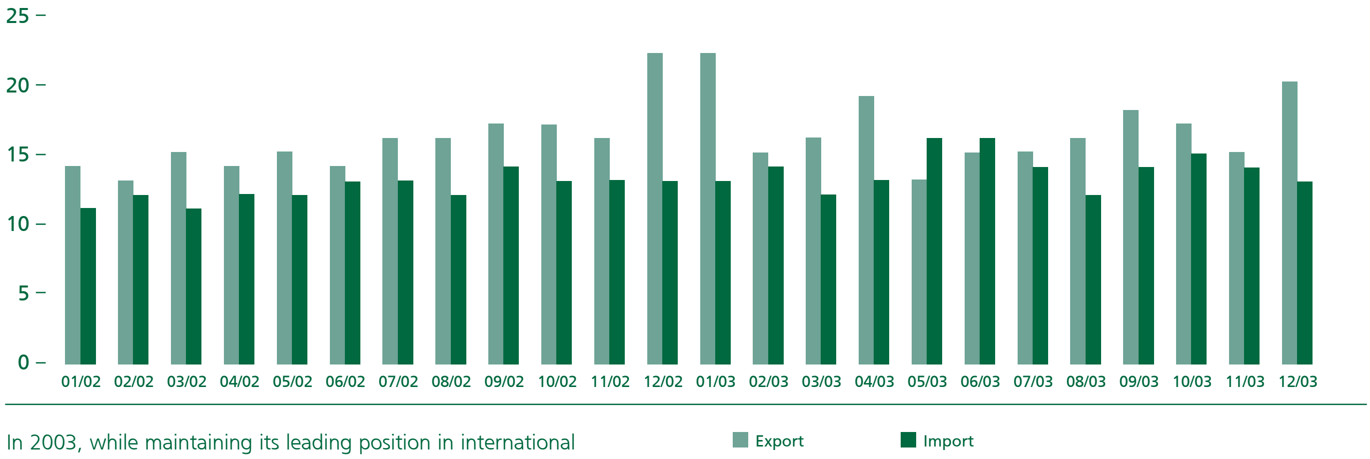
In July, Garanti signed the first Turkish syndication after the Iraqi War for EUR 400 million with the participation of 23 countries and 48 banks, setting the benchmark in the market. The deal was voted "Best Turkish Loan in 2003" by international banks polled by *EuroWeek*. Consequently, Garanti renewed its second syndicated financing facility for US$ 450 million, up from US$ 325 million in 2002, with improved pricing and participation of 58 banks from 26 countries.

After four years, in 2003, Garanti made a successful return to international debt capital markets. A US$ 200 million five year "Aaa" rated future flow receivables backed securitization based on diversified payment rights was wrapped by MBIA and lead managed by Standard Chartered. Completed at a favorable cost, it was distributed among institutional investors. A second transaction for US$ 150 million with a similar structure was rated "Baa3" by Moody's and lead managed by Deutsche Bank.

On the client side, the foreign trade marketing unit contributed to Garanti's leading position in trade finance by providing tailor-made solutions to top clients. Foreign Trade Meetings on China and Russia were held to help customers understand how to trade with these countries. The success of these meetings owes much to the inside knowledge of Garanti subsidiaries and offices in these countries. This series will continue in 2004.

Garanti was able to propose sophisticated trade finance solutions to customers by bringing together the expertise of GarantiBank Moscow, the representative office in Shanghai and GarantiBank International, one of the most successful structured trade finance banks in Europe. All overseas branches function in well regulated environments as full service branches. In 2004, following Malta's accession to the European Union, all branches will be operating in the EU. Garanti also plans to open a full branch in Turkish Republic of Northern Cyprus during the year.

Market Share in Foreign Trade (%)



In 2003, while maintaining its leading position in international finance, Garanti was selected "The Best Trade Finance Bank in Turkey" by the *Global Finance* magazine for the second consecutive year.

Garanti completed an integrated risk management system, making it one of few banks in Turkey to have full scale risk management in place.

Preparing for Basel II compliance

Garanti is preparing its risk management and internal audit/control structure to comply with Basel II requirements for risk management and audit principles. The Bank already has models for market and credit risk and is ready for a standard method of operational risk. Garanti achieved comprehensive auditing on all aspects of banking operations.

Garanti completed an integrated risk management system, making it one of few banks in Turkey to have full scale risk management in place. Trading risks are measured daily with a Value at Risk model. An internal rating based credit risk model for commercial and corporate loans as well as retail and credit card business is in place, enabling Garanti to measure risk in all areas of the loan portfolio.

Garanti supports its financial subsidiaries by implementing risk management systems according to their needs.

Motivating the work force

Garanti prides itself on the merit, capabilities and productivity of its human resources. In 2003, a focus on customer acquisition and the opening of new branches fostered an increase in the number of employees in order to provide the required level of service. The Bank hired nearly 500 people as management and sales trainees, assistant auditors, branch sales associates, assistant tellers, work flow assistants and customer/sales representatives for the Call Center.

Economic Value Added (EVA) bonuses were distributed for the first time in August 2003 and then again in March 2004. The EVA system, which seeks to increase sales by paying bonuses for successful sales performance, is used for all Garanti employees, and in particular for branch personnel. This practice has been accepted by all employees as a motivating force.

In 2003, a Career Planning Handbook was published that includes the criteria for transfers and promotions as a support tool for employees. In addition, in order to get better acquainted with our employees and explain

In 2003, Garanti became the first bank in Turkey to achieve "Investors in People (IIP)" standards, the first and only measurement of a company's investment in human resources.

career expectations, a Career Advisory program was initiated. During the year one-to-one talks were held with over 4,000 employees under this program.

An Assessment and Development Center for internal promotions, specifically for branch managers, has been set up. In 2003, the Center measured 108 branch manager candidates in terms of basic competencies, appointing 45 as branch managers.

In 2003, Garanti became the first bank in Turkey to achieve "Investors in People (IIP)" standards, the first and only measurement of a company's investment in human resources. The Bank targets qualifying for IIP certification in 2004.

In 2004, the Bank will focus on making a paradigm shift in the sales culture for all sales people. Close to 2,000 employees will attend workshops that propose a simplified model and technology to support sales culture, providing the methodology for analyzing portfolios with fail-proof solutions for all problems and approaches.

Number of Branches and Personnel

	2001	2002	2003
Number of personnel (excluding security staff) (A+B)	6,173	6,592	7,107
Number of personnel (excluding security staff) (B)	6,173	6,592	7,107
Number of contracted personnel (A)	-	-	-
Number of branches	319	323	343
Number of personnel per branch (excluding security staff)	19.35	20.41	20.70

(A) Number of contracted personnel
(B) Number of permanent personnel

Garanti is committed to continuous technological innovation. 2003 witnessed the development and implementation of key software modules.

Business integrated technology

Garanti is committed to continuous technological innovation. 2003 witnessed the development and implementation of key software modules. The Bank continued to renew its technology and to develop a powerful management information system for tracking customers, portfolios, branches, regions and lines of business.

At year-end commercial loan technology was re-implemented and the whole process was renewed based on new analysis techniques. Preparations were made to convert foreign trade functions of both processes and technology. The export module will go on-stream in early 2004.

ATMs were improved and new functions added, most notably for cardless credit card payments. Marketing efforts focused on calculating the propensity of customers to buy certain products, supporting central telephone sales.

As the first part of Lifecycle Banking, MiniBank and the first hook product of teenage banking, Bonus Kontör (Bonus Debit Card), were launched in 2003. Plans call for introducing a full-scale Teenage Banking and a new small business package in 2004.

The project for affluent banking will spin off affluent retail customers to new branches that offer a privileged product range for high income customers with large savings and investment portfolios. Affluent banking will be established as a new business line in the last part of 2004.

Central Operations handles almost 30 million transactions per year, or 95% of the total. In 2004, many technologies were renewed, especially regarding Letters of Guarantee and Letters of Credit.

Corporate governance

Garanti believes that effective corporate governance defines its corporate identity. Integrity and honesty are at the heart of Garanti's business and Garanti aspires to the highest standards of ethical conduct and cultural integrity within its organization. Garanti's corporate governance system is based on three key pillars: good relations with shareholders; transparent and accurate

Garanti provides timely, reliable, consistent and orderly information in compliance with regulatory and legal framework; and all parties in the investment community have fair access to this information.

reporting, and maintaining full compliance with the laws, rules and regulations that govern the Bank's businesses.

Garanti holds its Ordinary General Assembly once a year. The Assembly is open to the participation of all shareholders. The Istanbul Stock Exchange (ISE) and Capital Markets Board (CMB) are apprised of the date of the Assembly the same day the Board of the Directors decide on a date. Shareholders may attend the assembly by applying via branches and getting an admission card. Branches provide full information and guidance regarding procedure and voting. There is a dedicated Investor Relations (IR) department at Garanti, responsible for conducting relations with corporate and/or potential investors, shareholders, rating agencies and banking analysts and providing them with information about Garanti Bank, the Turkish economy and financial markets.

Garanti provides timely, reliable, consistent and orderly information in compliance with regulatory and legal framework; and all parties in the investment community have fair access to this information.

In compliance with internationally accepted standards, Garanti discloses IAS financials in addition to TR GAAP (BRSA), on quarterly basis.

Garanti shares are listed on the Istanbul Stock Exchange (ISE). Existing ADSs are admitted on the official list of the London Stock Exchange. In addition, the Existing International ADSs are quoted on SEAQ International and the Existing Rule 144A ADSs are designated as eligible for trading in PORTAL. Therefore, in addition to the notifications to Turkish authorities such as ISE and Capital Markets Board; Garanti Bank is obliged to notify its quarterly financials, shareholder meetings, capital structure changes, board member/CEO changes etc. to international authorities namely LSE (London Stock Exchange), SEC (Securities and Exchange Commission), BONY (The Bank of New York) and FSA (Financial Services Authority).

Playing an Active Role in the Community

Garanti's mission is to increase in a continuous and clear way the value it adds to society and the environment. The Bank creates and manages original projects as well as choosing certain areas to support over time.

Garanti creates its own institutions

Platform, an exhibition space and research center on contemporary art established in 2001, acts as a central meeting point in the city for cultural exchange between contemporary artists, curators and critics. The building contains an artist archive, research and lecture spaces, the recently initiated Istanbul Residency Program (open to international contemporary visual artists, critics and curators of contemporary art) and a gallery committed to exhibiting contemporary art from Turkey and abroad. Located in Beyoğlu, the most vibrant part of Istanbul, Platform attracted more than 96,000 visitors during the year to 12 exhibitions and 29 events.

Ottoman Bank Museum, located in the historic former head office of the Ottoman Bank, opened its doors to visitors in 2002. The Museum functions as more than a traditional museum: with a café, bookstore, archive, research center and library, it has become a cultural center frequented by students, academicians and the intelligentsia. A special exhibition "Plenty of Fantasy No Money- Caricatures of an Economy in Debt (1874-1954)" and 16 conferences drew more than 8,500 visitors in 2003.

Garanti Gallery, located in the heart of Istanbul's most cosmopolitan milieu, in a venue that represents the city's multicultural and urban heritage, is dedicated to the art of design, and aims to span all areas of the discipline such as architecture, industrial and product design, graphics, fashion and urban planning. As such, the Gallery seeks to contribute to the local dissemination of design concepts on the international agenda through exhibitions and other related activities. Garanti Gallery was inaugurated in August 2003, with the opening exhibition of Rural Studio: Architecture as Transgression and Ambiguity. Subsequently, Garanti Gallery hosted Idea and Phenomena: Steven Holl and Two Faces of Modernity: Amsterdam-Berlin, attracting more than 33,000 visitors to these three exhibits and three events.

Garanti supports important projects of non-governmental organizations

Garanti Jazz Green Like other great cities around the world, Istanbul prides itself on its cultural diversity. This variety is reflected in the musical life of the city. Jazz festivals, such as those sponsored by Garanti, play a key role in the increasing interest in jazz Istanbul has witnessed in recent years. Garanti continues to promote and develop jazz in Turkey under the slogan "Garanti Jazz Green" in the belief that corporate culture resembles the team work and harmony of jazz. A founding member of the İstanbul Foundation for Culture and Art, Garanti has been the main sponsor of the International Istanbul Jazz Festival for the past six years.

Basketball's 12 Giant Men Like basketball, Garanti's corporation culture rests on teamwork, trust and discipline. Garanti renewed its support of the National A Team for another three years in the belief that success requires long-term support and effort. Garanti acted as the Official Sponsor of the Basketball National A Team in 32nd European Basketball Championship, the World Basketball Championships in Indianapolis and the European Men's Basketball Championships in Norway. Garanti also sponsored 12 Giant Men Basketball Schools in 37 provinces and Northern Cyprus.

A Greener World For the last decade, Garanti has supported various environmental conservation programs. In 2003, Garanti continued to support various projects carried out by The Society for the Protection of Nature/WWF with the goal of safeguarding natural resources for future generations.

Employees building schools An employee-initiated primary school building project known as Denizyıldızları (Sea Stars) resulted in the construction of a school in the Darıca suburb of Istanbul in 1998. The school educates more than 1000 students every year. A second school is now under construction, funded by voluntary donations from employees. During the year, parents participated in the school by volunteering to lead a variety of activities, including chorus, painting, handicrafts, ballet, scouts, drama, volleyball, basketball, table tennis, handball and folkdancing.

Garanti believes in the power of knowledge

Garanti Anatolian Discussions Garanti organized twelve discussion meetings in 2002 and 2003 in various provincial cities of Turkey, bringing local industrialists and businessmen together with bank executives. The meetings were attended by 1,660 people.

Garanti Foreign Trade Meetings Garanti supports Turkey's remarkable progress in foreign trade with meetings designed to help companies enter new markets. In 2003, meetings were held on Russia and China with 1,300 participants.

Garanti Financial Services Group

Garanti is the leader of an integrated financial services group consisting of nine subsidiary companies. Garanti Technology provides information technology support for all products and services offered by Garanti Bank and its subsidiaries.

A concise guide to the activities of financial services group companies is given in the chart below:

GarantiBank International N.V.	Banking	**Leader in structured international trade financing** Operating in Amsterdam, GarantiBank International N.V. is a leading provider of international trade finance. As of end 2003, the total foreign trade finance volume of the bank is EUR 2.7 billion. (see p. 39)
GarantiBank Moscow	Banking	**Expert in Russia and Commonwealth of Independent States (CIS)** Based in Moscow, GarantiBank Moscow has expertise in trade finance transactions in Russian Federation and in CIS countries. Asset size totaled US$ 125 million in 2003. (see p. 39)
Garanti Securities	Investment	**Leader in research and corporate finance** Garanti Securities, with 4.2% market share, was elected "The Best Equity House" by *Euromoney* in 2003. (see p. 40)
Garanti Asset Management	Portfolio Management	**A pioneer in the sector** Garanti Asset Management is the first portfolio management company established in Turkey. Serving corporate clients in the areas of mutual funds, pension funds and segregated accounts, Garanti Asset Management has a market share of 11.4% in mutual funds management and 25.6% in corporate portfolio management. (see p. 40)
Garanti Leasing	Financial leasing	**Leader of the leasing sector** As the biggest, most prestigious and highest rated leasing company in Turkey, Garanti Leasing has a market share of 11.4% as of 2003. (see p. 41)
Garanti Factoring	Factoring	**An innovative approach to factoring** The only subsidiary of the Group in the factoring sector, Garanti Factoring has an innovative approach to products and services. The company's 2003 transaction volume reached US$ 250 million. (see p. 41)
Garanti Insurance	Non-life and health insurance	**A respected insurer** A respected and successful provider of insurance in Turkey, Garanti Insurance has a 3% market share as of year-end 2003. (see p. 42)
Garanti Pension Company	Private pension and life insurance	**A trusted name in a new business line** An experienced and qualified player in a new business line, Garanti Pension Company successfully continues its operations that started in the second half of 2003. (see p. 42)
Garanti Payment Systems	Credit card operations	**A world-class company in payment systems** As the fastest and most effective provider of credit card services, Garanti Payment Systems is admired in domestic and international markets for its products and services. (see p. 43)
Garanti Technology	Information technology	**Technology Provider** Garanti Technology is a strong and well established company in the IT sector. The company forms strategic partnerships with global technology leaders. (see p. 43)

GarantiBank International N.V.

Established in Amsterdam in 1990, GarantiBank International N.V. is a wholly owned subsidiary of Garanti and the second largest Turkish owned bank outside of Turkey with total assets of EUR 1,755 million. GarantiBank International N.V.'s operating environment extends beyond the Netherlands to Romania and Germany. The bank's two core business lines are International Trade Finance and Private Banking.

GarantiBank International N.V. has successfully diversified the composition of its business during the past three years. During 2003, the bank's trade finance volume reached EUR 2.7 billion, of which non-Turkish transactions comprised 53.4%. The bank is now a recognized market participant in all forms of trade finance activity in the Black Sea Region, particularly in Eastern Europe and the CIS.

The Private Banking client base and product range have been expanded to cover all major emerging and developed markets in equities, securities and derivative products, in addition to traditional Turkish financial instruments. In parallel with GarantiBank International N.V.'s diversification policy, the geographic breakdown of clients has also become more varied, with new corporations and high net worth individuals from Romania, Russia and the CIS countries. Total client assets reached US$ 550 million at end-2003.

After an absence of three years, GarantiBank International N.V. re-entered the international loan markets with a US$ 30 million Club Facility in January 2003. This transaction was renewed in January 2004 as a US$ 75 million Syndicated Term Loan with 12 banks from seven countries.

GarantiBank International N.V.'s operating result before tax and value adjustments to receivables increased 19% to EUR 27.3 million compared with EUR 22.9 million in 2002.

GarantiBank Moscow

GarantiBank Moscow started operations in October 1996. It provides wide range of banking services to credible Russian companies and Turkish owned companies operating in Russia as well as individuals through its main branch. GarantiBank Moscow is among 32 foreign banks in Russia and the biggest of the five Turkish owned banks in the country.

The growth strategy of the bank is to expand in a profitable manner in all major business areas under strict adherence to diligent counter-party policy and by applying thorough risk analysis at its broadest level. To keep its valuable position in the market, GarantiBank Moscow will closely monitor the improving business and investment climate in Russia and adopt timely strategies to achieve its long-term objectives.

GarantiBank Moscow posted a gross profit of US$ 9.4 million in 2003 and an asset size of US$ 124.7 million.

Garanti Securities

Wholly owned by Garanti Bank, Garanti Securities is the leading securities house and investment bank in Turkey. It was initially established as a part of Garanti Bank and then spun off as a separate company in 1991. The merger of capital markets operations of Garanti Bank, Ottoman Bank and Körfezbank in 1999 further reinforced Garanti Securities' leading position.

Garanti Securities was awarded "The Best Equity House in Turkey" in 2003 by *Euromoney*, a highly reputed international finance magazine. It was also awarded "Turkey's Most Admired House" by *Capital*, a reputable Turkish monthly business magazine, in 2002.

Garanti Securities provides brokerage, trading and research services for equities and fixed income securities to approximately 140,000 customers. It has consistently been among the top-five brokerage houses in terms of equity brokerage volume. Its highly qualified research team produces daily, weekly and monthly strategy reports, equity analyses and portfolio recommendations for both domestic and foreign investors.

Garanti Securities is also the leading name in advisory services for mergers, acquisitions, tender offers and privatization transactions. It has been the lead manager of countless public offerings. The company has been involved in 80 equity offerings since 1990. It has been the lead manager and bookrunner in 35 equity offerings, co-lead manager and co-manager in 45 equity offerings. Between 1990 and 2000, the total issue size of the equity offerings realized on the ISE amounted to US$ 9.6 billion, of which US$ 1.9 billion (20%) was led by Garanti Securities.

Garanti Asset Management

Founded in June 1997 as the first asset management company in Turkey, Garanti Asset Management is wholly owned by Garanti Bank. Garanti Asset Management manages 12 mutual funds of both Garanti Bank, Garanti Securities, six pension funds of Garanti Pension Company, 16 institutional segregated portfolios and Garanti Investment Trust, a closed-end fund listed on the ISE.

Garanti Asset Management's market share in domestic fund management increased from 3.8% in 1997 to 11.4% in 2003. Total asset size of mutual funds managed by Garanti Asset Management is US$ 1.6 billion. Institutional portfolio management started as a business line in July 2002 and accelerated in 2003. By the end of 2003 total assets reached US$ 80 million with 16 clients. The volume of pension funds was US$ 1.8 million at end-2003.

The high growth of the assets under management seen in 2003 raised total fees to US$ 42 million for the year, contributing to a net profit of US$ 3.2 million.

Garanti Leasing

Established in 1990, Garanti Leasing is Turkey's largest and most prestigious leasing company with a high degree of international credibility and total assets of US$ 249.1 million at the end of 2003.

Garanti Leasing sustains its strategy of focusing on small and medium-sized transactions in terms of amount and road transportation vehicle, manufacturing machinery, office equipment and real estate transactions in terms of asset type. Garanti Leasing brings customer oriented solutions with an innovative approach to the leasing needs of corporate, commercial and consumer banking clients through the Garanti Bank's branches.

Garanti Leasing is the only Turkish leasing company rated by international credit rating institutions. In their last reports, S&P gave B to both company's long-term foreign and local currency operations, and confirmed its outlook as stable. Fitch, another international rating institution, gave B+ to both long-term foreign and local currency operations, and confirmed its outlook as stable.

With a 11.4% market share in the leasing sector, the company had net leased assets of US$ 236 million in 2003 and finalized 3,250 new lease contracts.

Garanti Factoring

Garanti Factoring was incorporated in June 1990 as Aktif Finans and renamed Garanti Factoring in 2002. Garanti Bank holds 55.4% of the company while 34.8% is traded on the Istanbul Stock Exchange. The company is the only Turkish factoring company to be rated by Fitch, an esteemed international rating agency, which gave the company B+ for both long-term foreign and local currency operations with a stable outlook.

Garanti Factoring offers a range of new factoring products and services, which distinguish it from its competitors. Transaction volume in 2003 reached US$ 165 million for domestic and US$ 85 million for international transactions. This performance brought the company a net profit of TL 2,201 billion, according to IAS financial reporting. As of year-end 2003, the company had total assets of TL 99,075 billion.

Garanti Factoring provides services in both the domestic and international factoring, and remains the only Turkish factoring company that is a member of two international factoring organizations, IFG (International Factors Group) and FCI (Factors Chain International).

Garanti Insurance

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

Garanti Insurance also works with a network of agents and brokers. In 2003, the company continued to implement marketing and sales oriented policies effectively.

Active in all non-life branches, Garanti Insurance works with major international reinsurance companies. Its focus on innovation and quality service make it one of the most respected in the Turkish insurance sector with a market share of 3%.

In 2003, the company worked with more than 150,000 customers, providing them with a full range of products designed to meet their specific needs. At end-2003, Garanti Insurance reported premium production of TL 122.3 trillion.

Garanti Pension Company

Established in 1992 as Garanti Life Insurance, the company was renamed Garanti Pension Company in 2003 in line with legal changes regarding private pension funds.

In 2003, the company completed preparation for individual retirement plans, launching its first product in October. Over 5,000 pension plans were sold by the end of the year, a promising start. The company also has a total of 162,411 life insurance policies.

A large customer database, capable sales force, widespread investment fund utilization and technological infrastructure, optimum sales costs combined with effective service and customer satisfaction are the company's most important competitive advantages.

In 2003, Garanti Pension Company's total premium production amounted to TL 28.6 trillion, in real terms up 18% over the previous year. The company posted a technical profit of TL 8.7 trillion.

Garanti Payment Systems

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

GÖSAŞ is recognized as the company behind the fastest growing and most innovative products in the credit card business, not only in Turkey but internationally. Garanti Payment Systems is a pioneer in developing Bonus Card, a chip based multi branded loyalty card, and Shop&Miles, Turkish Airlines official air miles card. It also offers commercial cards, virtual cards, merchant marketing and e-commerce services.

At year-end 2003, with over 3 million credit cards, 2.5 million debit cards and 82,000 POS machines, GÖSAŞ reported total card transaction volume of US$ 5.1 billion and total merchant transaction volume of US$ 4.5 billion. Assets under management at Garanti Payment Systems amounted to US$ 1.1 billion as of end of 2003.

The company continued to receive praise in the credit and bank card market for the innovative products and services it has developed. The success GÖSAŞ has shown in utilization of chip technology has made the company an advisor for many financial institutions both in Turkey and abroad.

At end-2003, GÖSAŞ had total assets of TL 2.2 trillion and net income of TL 563.4 billion.

Garanti Technology

Garanti Technology is the information technology provider for the Doğuş Group.

It provides communication network and infrastructure, software and support on various platforms, systems management, internet applications and e-mail services and consultancy. Garanti Technology is one of the strongest and most respected companies in the IT sector in Turkey. It has strategic partnerships with leading global players in the field, providing services as a Microsoft Certified Solution Provider, Microsoft Certified Application Service Provider for Microsoft and is an authorized Sun I-Force provider for Sun Microsystems.

Garanti Technology supports every type of technological cooperation in order to create new platforms for the business world and develop joint solutions. It continued to operate as a leading service company in the IT sector with its customer focused approach.

Recognized for its achievement in technology by internal and external public opinion, Garanti Technology received a number of awards in 2003 for garanti.com.tr, e-business, network security and customer focused technology.

The company reported total assets of TL 7.7 trillion in 2003.

Economic Review

The Turkish economy outperformed the IMF stand-by program targets in 2003. This success was due to currency stability, productivity gains, competitive market pressures, strong export growth, improved business sentiment and high consumer confidence.

Successful implementation of the IMF-supported program, progress towards EU accession and continued strong relations with the United States restored stability to Turkey's financial markets. These three factors paved the way for sustained economic and political reform, providing a major boost to Turkey's anti-inflationary efforts, and in turn helping compress debt yields. Financial markets reacted positively to the declining inflation rates, with the nominal interest rates at a two-decade low and inflation expectations edging closer to the end-2004 CPI-inflation target of 12%.

In the disinflation process, most companies modified their pricing strategies and cost bases in response to new cost structure and demand conditions. Corporate sector rationalization helped strengthen competitive market pressures, overhauling Turkey's uncompetitive, oligopolistic market structure, and in turn decreasing market inefficiencies. Manufacturing industry benefited from strong productivity gains and sharp declines in unit labor costs, coupled with efficiency-enhancing measures. In private manufacturing industry, labor productivity per hour rose by 6.6% in 2002 and by around 8.8% for the January-September 2003 period.

Productivity growth and downside pressures on real wages not only contributed to the disinflation process, but also limited the adverse effects of the Turkish Lira's appreciation on Turkey's external competitiveness. Meanwhile, the overly appreciated currency encouraged manufacturers to replace domestically produced raw materials with imported ones, significantly improving EBIT margins.

Encouragingly, the corporate sector's return on equity and return on assets ratios are now back at the mid-1998 level. Improvements in productivity gains and corporate profits, combined with a sharp recovery in financial conditions, contributed to capital formation, increasing the private sector's appetite for hiring new staff and undertaking new investments. As a result, GDP rose by 5.8% in 2003, after increasing 7.9% on average in 2002. Private sector fixed capital formation increased significantly, growing as much as 20.3% in 2003.

On the fiscal front, the primary surplus floor as defined by the IMF Letter of Intent was achieved at the end of December 2003. According to the Ministry of Finance, the IMF-defined primary surplus (TL 17,950 trillion) reached 5.03% of GNP, exceeding the program target of 5.0%. More importantly, the government took convincing steps toward achieving IMF fiscal performance criteria. The government completed a wide ranging structural reform agenda, including:

Successful implementation of the IMF-supported program, progress towards EU accession and continued strong relations with the United States restored stability to Turkey's financial markets.

- approval of the privatization plan for Turk Telecom
- parliamentary approval of Law on Financial Management and Financial Control
- enactment of the changes to the Execution and Bankruptcy Act
- enactment of a new law on foreign direct investment
- reduction of redundant positions in state enterprises
- approval of the legislation to reform the three social security institutions
- approval of the legislation rationalizing investment incentives
- establishment of an inter-agency working committee to reduce intermediation costs in the banking sector
- implementation of a quarterly monitoring system for general government employment
- preparation of the legislation that will strengthen the effectiveness of the Banking Regulation and Supervisory Agency
- agreement with the IMF on additional measures to secure 2004 fiscal targets.

On the external front, although the currency's overvaluation and weak external backdrop raised concerns on export prospects, Turkey's exports continued to perform well in 2003, rising as much as 30.5%. The improvement in labor productivity, lower inflation and the downward trend in interest rates helped buffer external competitiveness from potential negative fallout of the appreciation build-up period. Turkey's exports took off in July 2002, increasing at an annual average rate of 19.2% from US$ 27.8 billion at the end-2000 to US$ 47.1 billion at the end-2003. Annual growth rates for exports of electronic equipment and major household appliances (22.8%), chemical and plastic (22.0%) and especially those of automobiles (48.8%) were even more robust over the 2001-2003 period. Not only did the annual rate of growth of exports surpass its historical average of 11.2%, but the export intensity of Turkey's output also increased at an unprecedented rate, both for the manufacturing sector as a whole and for individual plants and firms.

The export boom touched all industries in the manufacturing sector. Inflation declined to levels not seen for three decades.

The export boom touched all industries in the manufacturing sector. Every sector–except tobacco production–saw its exports rise by at least 30% from the 2000 level, while four industries more than doubled their exports. Traditionally strong export sectors, not surprisingly, dominated the aggregate numbers. The top five exporting industries, textile, iron and steel, machinery - electronic equipment, chemical and automobile accounted for 66.3% of total exports in 2003 and more than two-thirds of the total increase. The recovery in domestic consumption and investment spending, together with continued growth in industrial output caused import volumes (CIF) to increase significantly, rising by 33.5% to US$ 68.8 billion in 2003 from US$ 51.5 billion. Turkey's current account deficit widened to US$ 6.8 billion, compared to a deficit of US$ 1.5 billion for the full-year 2002, but much lower than the government forecast of US$ 7.7 billion. With a large trade deficit (totaling US$ 21.7 billion on a CIF basis), Turkey's current account deficit was at around 2.9% of GNP. Subtracting out interest payments on the external debt gives a deficit of 0.9% of GNP in basic balance.

Inflation declined to levels not seen for three decades. The Turkish economy is currently witnessing the lowest rate of inflation since the 1970s, with prices rising by 16.2% y/y in CPI. With moderate adjustments in administered prices, lower unit labor costs, ongoing productivity gains and currency strength, WPI fell to a single-digit pace (9.1% y/y) in February 2004.
A decelerating underlying inflation rate, together with the strong TL, has weakened inflationary pass-through effects, creating a virtuous circle of low inflation expectations. Given the strong prospects for conquering chronic high inflation, the Turkish economy now has the potential to buffer the lower rate of inflation from seasonal jumps and/or temporary disturbances.

The sharp turnaround in Turkey's economic and political fundamentals has fuelled resident capital repatriation, helping stimulate a de-dollarization process and thus fostering currency appreciation.

The sharp appreciation of the TL (in real and nominal terms) led the Central Bank to intervene heavily in the FC market. In 2003, Central Bank accumulated about US$ 9.9 billion via pre-announced daily FC purchase auctions and discretionary direct interventions, boosting official FC reserves to a record high of US$ 33.6 billion.

Today's 41% dollarization rate (the ratio of FC denominated deposits to M2Y) is on par with 1995 levels. As current deflationary momentum leads 'adaptive' inflation expectations towards the official target of 12%, we are likely to see a further drop in the dollarization rate to the range of 35% to 40% in the medium term. A lower degree of dollarization would imply a structural change in 'hedging' habits and a rebalancing of financial portfolios in favor of TL-denominated assets.

Currency strength, together with positive market sentiment and de-dollarization, pushed nominal interest rates (in compounding basis) down to around 25% in late December 2003 from 70% in mid March 03. In a period of falling real interest rates and improving investor mood, the Central Bank lowered the O/N interest rate six times in 2003, each time by 300 basis points, bringing the overnight borrowing rate down to 26% from 44%. With the ongoing deflationary pressures, improving inflation expectations, currency appreciation and introduction of the corrective fiscal measures to secure fiscal consolidation, the Central Bank further cut overnight borrowing rate by 400 basis points to a 22% simple annualized rate in January-March 2004.

Financial Review

IAS Financial Results – Segment Reporting

Net income of the banking segment increased to TL 482,005 billion, 197.3% higher than the preceding year. On a consolidated basis, net income of the Group totaled TL 536,503 billion. The net banking income of the banking group, (which includes adjusted NIM, net trading and net fee & commission income), rose by 49.9% to TL 1,374,792 billion in 2003. Adjusted NIM of the banking group increased by 167.0% over the preceding year to TL 386,618 billion. Net trading income was up 50% to TL 608,511 billion; while net fee and commission income amounted to TL 379,663 billion, 3.4% over the previous year.

Summary of financial operations and performance on a consolidated basis

Loans:

Total assets on a consolidated basis totaled TL 25,655 trillion (US$ 18.2 Billion). In line with the deflationary trends, the share of loans to customers in total assets increased to 37.9% in 2003 from 34.1% in 2002, on a consolidated basis. TL loans climbed by 71.7%, reaching TL 3,754 trillion; while FC loans rose 18.8% top US$ 4,221 million. In terms of currency breakdown, the share of TL loans in total loans increased to 38.6% in 2003, up from 25.2% in 2002; while FC loans constituted 61.4% of total loans at 2003 year-end. 71.1% of cash loans were secured as of end-2003. The proportion of consumer loans in total loans increased to 23.5% at year-end 2003, reflecting the improvement on the macro front.

NPLs:

Garanti not only increased its loan book but also continued to improve its asset quality. NPLs decreased by 30% to TL 311 trillion, decreasing the NPL ratio down to 3.1% at year-end 2003. Provisioning as a percentage of NPLs increased to 48.8%, up from 35.2% at year-end 2002.

Securities:

Financial assets held for trading amounted to TL 952.4 trillion, 44.6% lower than the preceding year. Security investments increased by 7.0% to TL 8.1 quadrillion at year-end 2003. Security investments made up 89.5% of total securities with financial assets held for trading making up the rest.

Deposits:

The opening of new branches increased the number of customers, leading to a stronger and more diversified deposit base in 2003. TL deposits registered an 18.0% increase, reaching TL 6,084 trillion; while FC deposits were up by 15.2%, reaching US$ 7,863 million. In terms of currency breakdown, the share of TL deposits in total deposits increased to 35.4% at year-end 2003 from 29.3% a year earlier. FC deposits accounted for 64.6% of total deposits (including deposits from banks). The share of demand deposits increased to 31.7% as of year-end 2003 compared with 28.5% the preceding year, improving the funding mix and pricing.

IEAs vs IBLs:

The share of interest earning assets in total assets increased to 79.6% at year-end 2003, while the share of interest bearing liabilities decreased to 65.1%. Consequently, the gap between IEAs and IBLs increased to TL 3,730 trillion, registering a 53.4% increase. The ratio of customer loans to customer deposits increased by 8.1 percentage points over 2002 year-end, reaching 59.7%. Loans to IEAs increased by 3.6 percentage points; while time deposits to IBLs declined by 2.6 percentage points, standing at 71.2%.

Non-interest expenses:

Total non-interest expenses (personnel, depreciation and other administrative expenses) increased by 1.9% to TL 1,303,860 billion. The slight increase in non-interest expenses was due to the increase in personnel expenses, in line with the expansion of distribution platforms. Other components of total non-interest expenses–depreciation & amortization and other administrative expenses–declined by 0.7% in 2003. Strong cost reduction and earnings enhancement measures over the last two years resulted in a 35.6% increase in income while operating expenses (non-interest expenses excluding depreciation) rose just 2.3%, bringing the Cost / Income ratio down by 20.5 percentage points to 63.2%.

Non-interest income:

Total non-interest income increased to TL 1,381,598 billion, 36.8% higher than the preceding year. Net fee and commission income increased by 0.6%, making up 28.2% of total non-interest income. Net trading registered a 51.2% increase, constituting 44.2% of total non-interest income. Income from retail business increased by 144.3%, bringing its share in total non-interest income to 12.4% by year-end 2003 compared with 6.9% the preceding year. Premium income from sales of insurance policies increased by 12.9%, constituting 5.4% of total non-interest income.

Net fees and commissions covered 35.3% of operating expenses in 2003; while net fees and commissions to average assets increased to 1.53% in 2003 compared with 1.49% in 2002.

Net Income:

Garanti reported net income of TL 536,503 billion on a consolidated basis, up from TL 31,921 billion in 2002. Net income of the banking group soared to TL 482,005 billion in 2003 from TL 162,102 billion in 2002.

The strong improvement in consolidated net income in 2003 boosted ROAA to 2.10% and ROAE to 24.36%.

Türkiye Garanti Bankası Anonim Şirketi and Its Affiliates
Consolidated Financial Statements
31 December 2003
With Independent Auditors' Report Thereon

Table of Contents

11 March 2004
This report contains the "Independent Auditors' Report" comprising 1 page; and the "Consolidated financial statements and their explanatory notes" comprising 49 pages.

KPMG

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Yeminli Mali Müşavirlik A.Ş.

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Independent Auditors' Report

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

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

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

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

İstanbul,
11 March 2004

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

Türkiye Garanti Bankası AŞ And Its Affiliates
Consolidated Balance Sheet
At 31 December 2003

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

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

Türkiye Garanti Bankası AŞ And Its Affiliates
Consolidated Statement of Operations
For the Year Ended 31 December 2003

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

	Notes	2003	2002
Interest income:-			
Interest on loans		1,262,818	1,136,921
Interest on securities		965,799	1,264,794
Interest on deposits at banks		150,268	315,255
Interest on lease business		47,172	36,302
Others		66,324	64,320
		2,492,381	2,817,592
Interest expenses:-			
Interest on saving, commercial and public deposits		(1,697,017)	(2,207,857)
Interest on borrowings		(389,120)	(299,909)
Interest on bank deposits		(106,860)	(328,241)
Others		(4,678)	(12,979)
		(2,197,675)	(2,848,986)
Net interest income/(expenses)		294,706	(31,394)
Fee and commission income		633,265	640,085
Fee and commission expense		(243,908)	(253,163)
Net fee and commission income		**389,357**	**386,922**
Trading account income, net		611,070	404,109
Foreign exchange gain, net		183,939	330,542
Gross profit from retail business		171,365	70,152
Premium income from insurance business		74,812	66,285
Other operating income		134,994	82,518
Operating income		**1,860,243**	**1,309,134**
Salaries and wages		(342,531)	(314,161)
Depreciation and amortization	11, 12	(201,527)	(202,870)
Impairment losses	6, 7, 10, 11, 12	(117,618)	(157,132)
Employee benefits		(81,562)	(79,804)
Rent expenses		(67,841)	(83,956)
Advertising expenses		(62,683)	(70,332)
EDP expenses		(57,434)	(78,282)
Utility expenses		(35,010)	(19,550)
Saving deposits insurance fund		(31,786)	(47,318)
Taxes and duties other than on income		(30,787)	(32,536)
Claim loss from insurance business		(25,908)	(46,774)
Repair and maintenance expenses		(19,602)	(16,788)
Provision for severance payments		(17,551)	(6,998)
Stationary expenses		(11,201)	(14,048)
Research and development expense		(2,777)	(12,659)
Other operating expenses		(333,211)	(260,885)
Operating expenses		**(1,439,029)**	**(1,444,093)**
Income/(loss) from operations		**421,214**	**(134,959)**
Gain/(loss) on net monetary position, net		(2,346)	55,638
Income/(loss) before tax		**418,868**	**(79,321)**
Taxation credit	18	61,626	76,028
Income/(loss) after tax		**480,494**	**(3,293)**
Minority interest		56,009	35,214
Net income for the period		**536,503**	**31,921**
Weighted average number of shares with a face value of TL 500 each (including those with TL 100 face value as expressed in terms of TL 500 face value)	20	**1,583.5 billion**	**1,527.8 billion**
Earning per share (Full TL amount)		**338.81**	**20.89**

Türkiye Garanti Bankası AŞ And Its Affiliates
Consolidated Statement of Changes in Shareholders' Equity
For the Year Ended 31 December 2003

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

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

Türkiye Garanti Bankası AŞ And Its Affiliates
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2003

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

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

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the year ended 31 December 2003 comprise the Bank and its affiliates (the Affiliates) and their interest in associates.

(a) Brief History

Foundation of the Bank was approved by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 and "Articles of Association" was published at official gazette dated 25 April 1946. The Bank provides corporate, commercial and retail banking services through a network of 309 domestic branches, two foreign branches, five representative offices abroad, five change offices, three in-store branches and 24 domestic liaison offices. In addition to its branches, the Bank has 100% ownership in two banks located in Amsterdam and Moscow. The Bank's head office is located in İstanbul.

(b) Ownership

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

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

Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation

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

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

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

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

Significant accounting policies (continued)

(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.

Transactions eliminated on consolidation

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

(d) Accounting in hyperinflationary economies

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

Three years inflation rate in Turkey has been 181.12% as at 31 December 2003, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 31 December 2003 based on IAS 29. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics. For the last three years, such indices and conversion factors used to restate the accompanying consolidated financial statements were as follows:

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

Significant accounting policies (continued)

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

(e) Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

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

(f) Tangible assets and related depreciation

Owned assets

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

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.

Significant accounting policies (continued)

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.

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.

Significant accounting policies (continued)

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

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

Recognition

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

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

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.

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.

Significant accounting policies (continued)

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.

(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

Significant accounting policies (continued)

accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements", a liability account.

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

(l) Items held in trust

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

(m) Reserve for severance payments

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

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, 6% discount rate and 4.8% turnover rate to estimate the probability of retirement assumptions were used in the calculation of the total liability in the accompanying consolidated financial statements.

(n) Taxes on income

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

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

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

(o) Offsetting

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

Significant accounting policies (continued)

(p) Capital increase

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

(q) Earnings per share

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

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

(r) Impairment

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

Originated loans and advances and held-to-maturity instruments

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

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

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

Financial assets remeasured to fair value

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

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.

Significant accounting policies (continued)

(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.

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).

Significant accounting policies (continued)

Retail business

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

(t) Segment reporting

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

Index for the notes to the consolidated financial statements:

Note description

1 Segment reporting

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

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

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

1.1 Geographical segments

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

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

1 Segment reporting (continued)

1.2 Business segments

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

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

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

1 Segment reporting (continued)

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

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

2 Related party disclosures

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

2.1 Outstanding balances

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

2.2 Transactions

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

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

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

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

3 Cash and cash equivalents

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

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

3 Cash and cash equivalents (continued)

At 31 December 2003, cash and cash equivalents included balances with the Central Bank of Turkey of TL 1,125,632 billions (2002: TL 1,118,326 billions) as minimum reserve requirement, these funds are not available for the Bank and its affiliates' daily business. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

4 Financial assets held for trading

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

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

For the year ended 31 December 2003, net income on trading of financial assets amounting to TL 611,070 billions (2002: TL 404,109 billions) in total is included in trading account income, net.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL 10,374 billions (2002: TL 297,541 billions).

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.

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

4 Financial assets held for trading (continued)

All gains and losses on foreign currency contracts are recognized in the statement of operations. At 31 December 2003, 70% of the net consolidated foreign currency open position was hedged through the use of foreign currency contracts (2002: 16%).

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

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

4 Financial assets held for trading (continued)

	Notional amount with remaining life of					
At 31 December 2002	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	over 1 year	Total
Interest Rate Derivatives						
Interest rate swaps	-	1,117	76,070	-	-	77,187
Purchases	-	-	38,593	-	-	38,593
Sales	-	1,117	37,477	-	-	38,594
Currency Derivatives						
Spot exchange contracts	65,265	-	-	-	-	65,265
Purchases	24,471	-	-	-	-	24,471
Sales	40,794	-	-	-	-	40,794
Forward exchange contracts	1,586,160	11,622	12,280	1,822	-	1,611,884
Purchases	1,520,894	4,683	10,310	-	-	1,535,887
Sales	65,266	6,939	1,970	1,822	-	75,997
Currency/cross currency swaps	257,611	548,944	414,037	175,538	-	1,396,130
Purchases	217,580	534,627	414,037	87,769	-	1,254,013
Sales	40,031	14,317	-	87,769	-	142,117
Other foreign exchange contracts	56,680	-	-	-	-	56,680
Purchases	-	-	-	-	-	-
Sale	56,680	-	-	-	-	56,680
Subtotal Purchases	1,762,945	539,310	462,940	87,769	-	2,852,964
Subtotal Sales	202,771	22,373	39,447	89,591	-	354,182
Total of Transactions	1,965,716	561,683	502,387	177,360	-	3,207,146

5 Loans and advances to banks

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

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

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

5 Loans and advances to banks (continued)

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

As at 31 December 2003, demand deposits at foreign banks include blocked accounts of TL 33,720 billions (2002: TL 39,756 billions) against the securitisation transactions on cheques and credit card receivables.

6 Loans and advances to customers

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

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

As at 31 December 2003, loans given to customers have interest rates between 1-18% (2002: 2-14%) per annum for foreign currency loans and 29-49% (2002: 31-80%) per annum for Turkish lira loans.

Included in loans and advances to customers were securities pledged under repurchase agreements with customers amounting to TL 70,641 billions (2002: TL - billions).

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

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

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

6 Loans and advances to customers (continued)

In 2002, the Bank discovered a fundamental error on the computation of amortized costs of outstanding loans and advances to customers as of 31 December 2001. This computation is made for the first time as of this date in compliance with IAS39, "Financial Instruments: Recognition and Measurement". The effects of the correction of this fundamental error incurred due to an error in data transfer from the system, on 31 December 2001 financial statements would be a decrease in the total interest income on loans by TL 28,033 billions and an increase in 2001 net loss by TL 18,782 billions, net of deferred income taxes of TL 9,251 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 18,782 billions, which was the net amount of adjustments relating to prior period.

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

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

7 Financial lease receivables

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

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

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

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

8 Other assets

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

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

9 Security investments

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

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

9 Security investments (continued)

(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.

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

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL 2,013,719 billions (2002: TL 1,165,181 billions).

During the second quarter of 2002, the Bank management has decided to transfer the available-for-sale securities (government bonds indexed to foreign currency) with a face value of TL 2,799,159 billions to its held to maturity portfolio.

In 2002, the Bank discovered a fundamental error that a part of Eurobond securities with a maturity of January 2030, which were not intended to hold until maturity by the Bank management were included in "securities held-to-maturity" by oversight during the presentation of financial statements as at 31 December 2001. The total carrying value of these securities with a face value of US$ 135 millions was TL 321,934 billions. The accompanying 2002 financial statements reflect the correct definition and presentation of these securities as "securities available-for-sale". The effects of the correction on 2001 financial statements would be a decrease in the total carrying value of these securities by TL 29,227 billions and an increase in 2001 net loss by TL 19,581 billions net of deferred income taxes of TL 9,646 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 19,581 billions, which is the net amount of adjustment relating to prior year.

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

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

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

10 Investments in equity participations

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

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

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

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

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

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

11 Tangible assets

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

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

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

	1 January	*Correction*	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs						
Land and buildings	1,203,627	-	286,564	683	(59,554)	1,431,320
Furniture, fixture and equipments	1,127,901	18,830	84,328	5	(237,081)	993,983
Leasehold improvements	475,104	(71,908)	27,221	-	(28,363)	402,054
	2,806,632	(53,078)	398,113	688	(324,998)	2,827,357
Less: Accumulated depreciation						
Land and buildings	134,633	-	19,459	(247)	(5,191)	148,654
Furniture, fixture and equipments	708,791	47,424	115,062	(32)	(236,679)	634,566
Leasehold improvements	218,299	(50,409)	48,882	-	(4,062)	212,710
	1,061,723	(2,985)	183,403	(279)	(245,932)	995,930
Construction in progress	226,548	-	(215,512) ***(a)***	-	-	11,036
	1,971,457	(50,093)		967	(79,066)	1,842,463
Impairment in value of tangible assets	(32,639)					(63,625)
	1,938,818					1,778,838

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

11 Tangible assets (continued)

Depreciation expense for the year ended 31 December 2003 amounts to TL 182,057 billions (2002: TL 183,404 billions). The premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range from 8% to 25%.

Impairment losses which were provided for decreases in the value of land and buildings were determined based upon expertise of independent appraiser firms. As of 31 December 2003, land and buildings which carrying values amounted to TL 246,078 billions (2002: TL 255,717 billions) in total, were impaired by TL 117,908 billions (2002: TL 63,625 billions).

The Bank has corrected the opening balance of its tangible assets. In years before 2002, the Bank was restating its tangible assets for the effects of inflation (refer accounting policy (d)) on the basis of monthly additions and disposals, since it was impracticable to adjust them item by item at the proper time. After a significant work for years, the Bank has completed the detailed list of its tangible assets as adjusted for the effects of inflation as at 31 December 2002. The effects of these adjustments on 31 December 2001 financial statements would be a decrease in net tangible assets by TL 50,092 billions and an increase in 2001 accumulated losses by TL 33,562 billions, net of deferred income tax of TL 16,531 billions. Accordingly, the opening accumulated losses as at 1 January 2002 have been restated by increasing the accumulated losses by TL 33,562 billions, which is the net amount of adjustment relating to periods prior to 31 December 2001.

During this detailed work, the depreciation rates applied to some of the items were also revised according to the expected useful lives of these assets starting from the year 2002. The effect of this change in accounting estimate relating to the 2002 depreciation charge was recognized in the determination of net profit of 2002.

12 Intangible assets

Intangible assets represent goodwill arising from the direct acquisitions of 24.11% ownership in and majority voting rights in the Board of Directors of Tansaş Perakende Mağazacılık Ticaret AŞ, 29% ownership in Doc Finance S.A., 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Doğuş Hava Taşımacılığı AŞ, 99.99% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Emeklilik ve Hayat AŞ, 98.89% ownership in Garanti Finansal Kiralama AŞ, 81.81% ownership in Garanti Finans Faktoring Hizmetleri AŞ, 56.06% ownership in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, 100% ownership in Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ, and 99.95% ownership in Sititur Tur. Tem. Taşımacılık Org. Bilgisayar Dan. Yapı. San. ve Tic. AŞ consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

As at 31 December 2003, goodwill is amortized on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL 120,685 billions (2002: TL 143,036 billions), net of accumulated amortization, in the accompanying consolidated balance sheets.

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

12 Intangible assets (continued)

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

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

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

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

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

12 Intangible assets (continued)

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

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

13 Deposits from banks

Deposits from banks comprise the following:

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

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

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

14 Deposits from customers

Deposits from customers comprise the following:

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

As at 31 December 2003, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 26-42% and 1-6% (2002: 36-59% and 1-13%), respectively.

15 Obligations under repurchase agreements

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

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

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

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

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

15 Obligations under repurchase agreements (continued)

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

16 Loans and advances from banks

Loans and advances from banks comprise the following:

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

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

As at 31 December 2002, short-term borrowings from foreign banks included a syndicated pre-export credit facility available to Turkish exporters in the amount of EUR 350 millions signed in May 2002, and a syndicated term-loan facility in the amount of US$ 325 millions signed in October 2002 available to corporate customers to pre-finance export contracts. In December 2002, the Bank also obtained a short term fund in the amount of US$ 200 millions through its Diversified Payment Rights Securitisation transaction (the "DPR Securitisation"). As stated below, the maturity of DPR Securitisation lengthened to five years in 2003.

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

16 Loans and advances from banks (continued)

Long-term debts comprise the following:

	2003					2002
	Interest rate%	Maturity	Amount in original currency	Short term portion	Medium and long term portion	Medium and long term debts
DPR Securitisation	3.55-3.58	2008	US$ 350 mio	-	494,200	-
Anatolia Finance Company	7.24	2004	US$ 59.5 mio	84,014	-	108,388
Cobank	1.26-1.42	2006	US$ 62 mio	39,179	48,452	60,479
Deutsche Bank	1.28-1.46	2006	US$ 43 mio	26,079	34,575	45,370
TPR Securitisation-I	Libor+4.4-10.81	2004	US$ 28.4 mio	40,116	-	51,755
Standard Chartered	1.28-1.44	2006	US$ 22 mio	12,837	18,789	18,368
DEG	8	2005	EUR 7.5 mio	8,909	4,455	14,311
ABN Amro Bank	5.75-6.3	2004	EUR 5 mio	8,245	-	15,498
World Bank	3.24	2004	US$ 4 mio	5,648	-	9,107
Others				114,117	71,060	118,689
				339,144	671,531	441,965

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

In June 1999, the Bank obtained a fund in the amount of US$ 200 millions through its Trade Payment Rights Securitisation transaction (the "TPR Securitisation-I"). The TPR Securitisation-I consists of a floating and fixed tranche for an amount of US$ 29 millions and US$ 171 millions, respectively. In line with repayment schedule, the outstanding balance of this loan as of 31 December 2003 is US$ 28.4 millions. The TPR Securitisation-I securitises the Bank's collection and reimbursement rights related to export transactions, specifically letters of credits and cash against documents transactions, and has a maturity of five years with an average life of 3.14 years. The TPR Securitisation-I was arranged through Bank of America Securities LLC, Bank of America International Limited and Credit Suisse First Boston Corporation (CSFB) was appointed as co-manager.

As stated above, in December 2002 the Bank obtained a short term fund in the amount of US$ 200 millions through its "DPR Securitisation". The DPR Securitisation securitises the Bank's all right, title and interest to US Dollar,

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

16 Loans and advances from banks (continued)

Euro or Sterling-denominated MT100-series messages under the Society for Worldwide Interbank Financial Telecommunication (SWIFT) message system received by the Bank. Subsequently in October 2003, its maturity lengthened to five years and a further US$ 150 millions was obtained in December 2003.

17 Bonds payable

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

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

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

18 Taxation on income

As at 31 December 2002, the corporation tax rate was 30%; contribution to a state fund was 10% of this tax that resulted in effective corporation tax rate of 33%. As described in temporary Article 1 of Act No.4842 as published in the Official Gazette dated 24 April 2003, the state fund of 10% was abolished and effective corporation tax rate was decreased from 33% to 30%. In addition, there will be an income tax charge; Council of Ministers is authorised to determine this income tax rate up to the level of 25%, contribution to state fund is 10% of this tax as well. Presently, this income tax charge is at the rate of 5% (for companies of which shares are not publicly traded; 15%) to be computed only on the amounts of dividend distribution and accrued only at the time of such payments.

In accordance with the change in tax legislation, starting from the second quarter of 2003, prepaid tax will be paid on the tax base calculated on the quarterly earnings of the companies at the rate of 30% as increased from 25%. These payments can be deducted from the annual corporate tax calculated for the whole year earnings. The remaining corporate tax liability is required to pay in one installment within the time frame of preparation of Annual Tax Return.

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

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

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

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

18 Taxation on income (continued)

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

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

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

The taxation credit comprise the following:

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

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

The current taxes payable on income comprise the following:

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

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

18 Taxation on income (continued)

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

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

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

Deferred tax assets and liabilities were offset as follows:

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

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

19 Other liabilities and accrued expenses

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

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

20 Shareholders' equity

The authorized nominal share capital of the Bank amounted to TL 822,038 billions comprising 1,644,075,624,859 registered shares of five hundred Turkish liras each and 1,728 registered shares of on hundred Turkish liras each. The portion of share capital arising from the amounts paid in by the shareholders was restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements; however, the transfers from revaluation surplus on fixed assets for statutory purposes and transfers from statutory accumulated profits were eliminated. From the restated share capital, in 2002 the prior periods losses were deducted in line with the compensation of such losses from the capital reserves from inflation adjustments to paid-in capital and other reserves in the statutory accounts of the Bank, which occurred on 28 November 2002 by the decision of the Board of Directors.

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

The reserves include legal reserves amounting to TL 48,209 billions in total which were established by annual appropriations amounting to 5% of income disclosed in the Bank's and its affiliates' statutory accounts until it reaches 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital are to be appropriated to increase legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital. In the accompanying consolidated financial statements, legal reserves are included at their historical amounts. The reserves also include TL 33,000 billions appropriated by management for the purpose of general banking risks.

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

21 Fair value information

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

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

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for security investments. These balance sheet instruments include loans and advances to banks and customers, deposits from banks and customers, obligations under repurchase agreements, loans and advances from banks, bonds payable and other short-term assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Fair value of security investments is TL 8,209,512 billions (2002: TL 7,662,250 billions), whereas the carrying amount is TL 8,120,882 billions (2002: TL 7,629,224 billions) in the accompanying consolidated balance sheet as at 31 December 2003.

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

22 Commitments and contingencies

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

Commitments and contingent liabilities comprise the following:

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

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

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

22 Commitments and contingencies (continued)

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

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

23 Risk management disclosures

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

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

23.1 Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the balance sheet dates are set out in note 22. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below

23 Risk management disclosures (continued)

Swaps

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

Futures and forwards

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

Options

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

23.2 Trading activities

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

Counterparty credit risk

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

23 Risk management disclosures (continued)

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

Market risk

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

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

23.3 Non-trading activities

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

Liquidity risk

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

The Bank and its affiliates have access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed 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 31 December 2003 pursuant to IAS 29)

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

	2003						2002					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
MONETARY ASSETS												
Turkish Lira												
Cash and cash equivalents	347,610	-	-	-	-	347,610	965,179	-	-	-	-	965,179
Financial assets held for trading	2,645	15,300	5,258	34,599	33,135	90,937	9,696	12,414	18,753	310,296	49,624	400,783
Loans and advances to banks	164,071	9,466	-	-	-	173,537	138,239	6,590	1,150	-	-	145,979
Loans and advances to customers	1,672,272	138,998	173,204	680,669	966,017	3,631,160	1,222,679	101,001	102,670	97,936	415,402	1,939,688
Other assets	164,191	24,740	61,026	-	-	249,957	56,756	38,849	44,174	5,435	-	145,214
Security investments	316,212	110,034	14,546	427,423	878,014	1,746,229	9,898	63,613	703,198	106,765	710,880	1,594,354
Deferred tax assets	-	-	-	-	464,081	464,081	-	-	-	-	534,762	534,762
Total Turkish Lira monetary assets	2,667,001	298,538	254,034	1,142,691	2,341,247	6,703,511	2,402,447	222,467	869,945	520,432	1,710,668	5,725,959
Foreign currency												
Cash and cash equivalents	1,295,660	-	-	-	-	1,295,660	1,411,504	-	-	-	-	1,411,504
Financial assets held for trading	1,433	291,887	1,195	429,537	137,406	861,458	8,878	190,650	35,361	330,440	754,258	1,319,587
Loans and advances to banks	717,165	100,116	159,663	169,521	15,656	1,162,121	927,129	52,819	31,813	63,594	55,508	1,130,863
Loans and advances to customers	580,937	599,391	916,806	841,593	3,035,818	5,974,545	461,076	957,052	1,093,339	1,498,174	2,468,078	6,477,719
Other assets	64,805	79,817	57,483	86,787	20,718	309,610	112,769	49,803	35,549	211	-	198,332
Security investments	43,136	155,293	1,388,075	52,695	4,735,454	6,374,653	60	105,378	167,239	192,460	5,532,994	5,998,131
Deferred tax assets	-	-	-	-	3,502	3,502	-	-	-	-	3,010	3,010
Total foreign currency monetary assets	2,703,136	1,226,504	2,523,222	1,580,133	7,948,554	15,981,549	2,921,416	1,355,702	1,363,301	2,084,879	8,813,848	16,539,146
Total Monetary Assets	5,370,137	1,525,042	2,777,256	2,722,824	10,289,801	22,685,060	5,323,863	1,578,169	2,233,246	2,605,311	10,524,516	22,265,105
MONETARY LIABILITIES												
Turkish Lira												
Deposits	4,875,598	903,029	223,897	80,530	447	6,083,501	4,487,488	573,615	77,727	14,470	858	5,154,158
Obligations under repurchase agreements	75,576	-	-	-	-	75,576	309,385	-	-	-	-	309,385
Loans and advances from banks	44,965	26,731	37,492	25,566	-	134,754	172,504	42,949	57,216	8	7	272,684
Bonds payable	-		-		-		-		-		-	-
Other liabilities and accrued expenses	231,973	45,998	36,290	71,718	50,217	436,196	186,308	46,663	34,615	61,999	127,997	457,582
Total Turkish Lira monetary liabilities	5,228,112	975,758	297,679	177,814	50,664	6,730,027	5,155,685	663,227	169,558	76,477	128,862	6,193,809
Foreign currency												
Deposits	8,697,934	1,371,688	374,383	271,868	386,405	11,102,278	10,387,225	1,303,732	348,921	298,730	97,306	12,435,914
Obligations under repurchase agreements	439,707	326,943	152,139	621,992	-	1,540,781	556,288	366,746	-	-	-	923,034
Loans and advances from banks	83,299	35,148	291,803	2,005,998	675,731	3,091,979	23,138	46,181	1,122,571	1,303,017	449,295	2,944,202
Bonds payable	-	-	-	-	-	-	-	86,851	-	-	-	86,851
Other liabilities and accrued expenses	153,186	192,876	142,296	20,691	4,515	513,564	222,392	239,631	64,279	124,901	-	651,203
Total foreign currency monetary liabilities	9,374,126	1,926,655	960,621	2,920,549	1,066,651	16,248,602	11,189,043	2,043,141	1,535,771	1,726,648	546,601	17,041,204
Total Monetary Liabilities	14,602,238	2,902,413	1,258,300	3,098,363	1,117,315	22,978,629	16,344,728	2,706,368	1,705,329	1,803,125	675,463	23,235,013

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

23 Risk management disclosures (continued)

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.

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

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

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

23 Risk management disclosures (continued)

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

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.

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

23 Risk management disclosures (continued)

These exposures are as follows:

	2003			
	US$	EURO	Other Currencies	Total
Assets				
Cash and cash equivalents	1,233,811	55,643	6,206	1,295,660
Financial assets held for trading	816,004	13,377	32,077	861,458
Loans and advances to banks	870,313	238,638	53,170	1,162,121
Loans and advances to customers	4,659,920	1,149,712	150,479	5,960,111
Other assets	96,519	212,749	5,939	315,207
Security investments	5,598,376	775,828	449	6,374,653
Investments in equity participations	-	563	4,870	5,433
Tangible assets	275	67,294	4,850	72,419
Intangible assets	-	-	-	-
Deferred tax asset	234	3,022	246	3,502
Total Assets	13,275,452	2,516,826	258,286	16,050,564
Liabilities				
Deposits	6,114,739	4,679,119	308,420	11,102,278
Obligations under repurchase agreements	1,259,652	281,129	-	1,540,781
Loans and advances from banks	2,174,925	914,265	2,789	3,091,979
Bonds payable	-	-	-	-
Current tax liability	-	20,727	2,474	23,201
Other liabilities and accrued expenses	363,350	119,537	7,476	490,363
Total Liabilities	9,912,666	6,014,777	321,159	16,248,602
Net On Balance Sheet Position	3,362,786	(3,497,951)	(62,873)	(198,038)
Net Off Balance Sheet Position	(3,490,009)	3,499,112	130,034	139,137

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

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

23 Risk management disclosures (continued)

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

For the year ended 31 December 2003, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US$ 95,138 millions (2002: US$ 52,896 millions).

Credit risk

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

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

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

The Bank and its affiliates' primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (note 22).

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

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

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

23 Risk management disclosures (continued)

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

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

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

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility. The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Approximately, 71% of the balance of outstanding loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for guarantees and letters of credit is around 83%.

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

23 Risk management disclosures (continued)

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

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

23.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. However, in the accompanying consolidated financial statements, hedge accounting was not used as hedge accounting relationship was not evidenced.

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

24 Affiliates and associates

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

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

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

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

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

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

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

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

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

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Corporate Information

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

Number of Shares (million)	822,038
Free float	31.51%
US Exchange (ADRs)	PORTAL
DR: Underlying Share Ratio	1:2000
Ticker symbols	Reuters: GARAN.IS
	Bloomberg: GARAN TI

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

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