

Türkiye Garanti Bankası A.Ş. And Its Affiliates

**Consolidated Financial Statements
For The Years Ended 31 December 1999, 1998 And 1997**

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Consolidated Balance Sheets At 31 December 1999, 1998 And 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

		<u>1999</u>	<u>1998</u>	<u>1997</u>			<u>1999</u>	<u>1998</u>	<u>1997</u>
		<u>TL billions</u>	<u>TL billions</u>	<u>TL billions</u>			<u>TL billions</u>	<u>TL billions</u>	<u>TL billions</u>
<u>ASSETS</u>					<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
Cash and due from banks	(Note 5)	888,018	830,221	518,642	Deposits	(Note 13)			
Interbank placings		40,044	23,423	10,818	Demand		822,377	758,060	609,097
Blocked accounts at Central Bank	(Note 6)	215,971	167,502	126,581	Time		<u>2,605,518</u>	<u>2,172,009</u>	<u>1,197,441</u>
Securities	(Note 7)	2,047,474	1,213,856	891,970			3,427,895	2,930,069	1,806,538
Loans, advances and discounts, less allowance for possible losses	(Note 8)	2,208,027	2,191,678	2,025,106	Interbank takings		168,342	116,542	-
Accrued interest, prepaid expenses and other assets	(Note 9)	516,680	491,587	284,566	Short-term borrowings	(Note 14)	930,486	560,618	789,445
Investments in affiliated companies	(Note 10)	60,369	58,694	51,495	Short-term bonds payable	(Note 15)	183,303	186,639	397,900
Bank premises and equipment, net	(Note 11)	444,453	331,350	238,869	Taxation on income	(Note 16)			
Intangible assets, net	(Note 12)	87,822	49,519	50,846	Current tax liability		114,782	13,124	4,004
					Deferred tax liability		<u>74,048</u>	<u>94,187</u>	<u>62,381</u>
							188,830	107,311	66,385
					Accrued interest and other liabilities	(Note 17)	332,420	237,290	175,255
					Long-term debts	(Note 18)	<u>548,533</u>	<u>624,182</u>	<u>541,418</u>
					Total liabilities		5,779,809	4,762,651	3,776,941
					Minority interest		19,828	4,040	2,236
					Shareholders' equity (Note 19) :-				
					Share capital: authorized, issued and fully paid		608,252	384,259	374,824
					Retained earnings		<u>100,969</u>	<u>206,880</u>	<u>44,892</u>
					Total shareholders' equity		709,221	591,139	419,716
TOTAL ASSETS		<u>6,508,858</u>	<u>5,357,830</u>	<u>4,198,893</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>6,508,858</u>	<u>5,357,830</u>	<u>4,198,893</u>
					Commitments and contingencies	(Note 22)			

The accompanying notes form integral parts of these financial statements.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Consolidated Statements Of Income
For The Years Ended 31 December 1999, 1998 And 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

	1999	1998	1997
	<u>TL billions</u>	<u>TL billions</u>	<u>TL billions</u>
Interest income:-			
Interest on securities	980,246	706,273	397,247
Interest on loans	614,667	605,741	451,571
Interest on deposits at banks	169,886	144,368	68,110
Interest on blocked accounts with Central Bank	19,596	26,095	20,738
Interest on financial leases	10,754	17,844	13,418
Others	13,988	8,920	5,322
Total interest income	1,809,137	1,509,241	956,406
Interest expenses:-			
Interest on bank deposits	407,260	249,925	84,267
Interest on saving, commercial and public deposits	378,619	269,266	151,822
Interest on borrowings	189,657	119,205	119,151
Interest on bonds	24,598	34,853	25,899
Others	42,686	18,896	2,583
Total interest expenses	1,042,820	692,145	383,722
Net interest income	766,317	817,096	572,684
Provision for possible loan losses (Note 8)	29,657	36,997	18,067
Net interest income after provision for possible loan losses	736,660	780,099	554,617
Other operating income:-			
Trading account income, net	168,232	64,518	58,336
Fees and commissions	120,458	71,883	35,592
Retail business income, net	31,505	-	-
Insurance business income, net	12,387	-	-
Dividends received from affiliated companies	2,036	964	1,218
Income on sale of participations (Note 1)	-	-	20,544
Other operating income	7,091	6,580	8,421
Total other operating income	341,709	143,945	124,111
Other operating expenses:-			
Foreign exchange loss, net	199,705	180,556	198,083
Salaries and wages	142,444	97,204	60,882
Fees and commissions	62,970	41,558	17,689
Depreciation and amortization	41,304	27,104	24,045
Employee benefits	38,632	29,864	24,219
Advertising expenses	24,946	18,795	6,046
EDP expenses	17,286	13,236	7,907
Rent expenses	13,686	8,193	4,097
Taxes and duties other than on income	13,200	9,905	10,185
Saving deposits insurance fund	12,301	10,319	5,214
Research and development expenses	10,648	9,462	7,153
Provision for severance payments	7,404	4,680	2,344
Stationary expenses	4,543	3,909	1,728
Repair and maintenance expenses	4,247	7,658	2,361
General provision for banking risks	-	16,739	-
Other operating expenses	70,436	32,420	36,743
Total other operating expenses	663,752	511,602	408,696
Income before taxes	414,617	412,442	270,032
Provision for taxes on income (Note 16)	(133,014)	(147,606)	(52,861)
Net income before minority interest	281,603	264,836	217,171
Minority interest	2,048	(1,060)	(417)
Net income before loss on net monetary position	283,651	263,776	216,754
Loss on net monetary position	(127,871)	(92,187)	(106,058)
Net income before extraordinary item	155,780	171,589	110,696
Extraordinary item (Note 20)	(37,698)	-	-
Net income	118,082	171,589	110,696
Weighted average number of shares with TL 500 value each; including those with TL 100 face value as expressed in terms of TL 500 face value (Notes 3.19 and 19)	520,000,000,000	520,000,000,000	508,203,333,333
Earning per share (Full TL amount)	227.08	329.98	217.82

The accompanying notes form integral parts of these financial statements.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Consolidated Statements Of Cash Flows
For The Years Ended 31 December 1999, 1998 And 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

	<u>1999</u> <u>TL billions</u>	<u>1998</u> <u>TL billions</u>	<u>1997</u> <u>TL billions</u>
Cash flows from operating activities:-			
Income before tax and minority interest for the year	249,048	320,255	163,974
Components of net income not generating or using liquidity:-			
Provision for possible loan losses	29,657	36,997	18,067
General provisions for banking risks	-	16,739	-
Provision for severance payment	7,404	4,680	(168)
Depreciation and amortisation	41,304	27,104	24,045
Provision for earthquake taxes	37,698	-	-
Change in accrued interest and other income	(202,890)	(98,437)	(61,257)
Change in accrued interest and other expense	35,719	41,578	33,858
(Reversal of)/decrease in value of investments	(406)	493	-
Monetary loss effect of above corrections	(74,537)	(28,430)	(19,320)
Operating profit before changes in operating assets and liabilities	122,997	320,979	159,199
Increase in deposits	497,826	1,182,860	336,348
Increase in gross loans, advances and discounts	(28,701)	(150,245)	(604,580)
Increase in securities	(879,645)	(351,750)	(10,523)
Increase in term placements at banks	(72,112)	(75,634)	-
Decrease/(increase) in prepaid expenses and other assets	34,259	(83,711)	(54,605)
(Increase)/decrease in blocked accounts at Central Bank	(48,469)	(40,921)	6,482
Extraordinary item paid	(1,392)	-	-
Income taxes paid	(55,912)	(92,661)	(12,005)
Net cash (used in)/provided by operating activities	(431,149)	708,917	(179,684)
Cash flows from investing activities:-			
Increase in investments in affiliated companies-net	1,269	7,692	17,113
Increase in bank premises and equipment-net	151,111	118,264	48,866
Increase/(decrease) in goodwill	41,599	-	(9,429)
Net cash used in investing activities	193,979	125,956	56,550
Cash flows from financing activities:-			
Increase in interbank takings	51,800	57,212	-
Increase/(decrease) in short-term borrowings	369,868	(228,828)	203,901
(Decrease)/increase in short-term bonds payable	(3,336)	(211,260)	199,198
(Decrease)/increase in long-term debts	(75,649)	82,765	337,937
Increase/(decrease) in other liabilities	23,050	(769)	14,374
Increase in minority interest due to consolidated subsidiaries	15,054	-	-
Proceeds from capital increase in cash	-	-	48,600
Dividends paid	-	-	(57,118)
Disposal of minority interest	-	-	(3,366)
Disposal of legal reserves on a consolidated affiliate	-	-	(1,602)
Proceeds from issuance of share capital to minorities	2,783	736	-
Net cash provided by/(used in) financing activities	383,570	(300,144)	741,924
(Net decrease)/increase in cash and cash equivalents	(241,558)	282,817	505,690
Cash and cash equivalents at beginning of year	1,199,255	916,438	410,748
Cash and cash equivalents at end of year (Note 3.20)	957,697	1,199,255	916,438

The accompanying notes form integral parts of these financial statements.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Consolidated Statements Of Changes In Shareholders' Equity
For The Years Ended 31 December 1999, 1998 And 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

	Share capital TL billions	Retained earnings		Total TL billions	Shareholders' equity TL billions
		Legal reserves TL billions	Unappropriated earnings TL billions		
Balances, 1 January 1997	317,614	5,422	(3,896)	1,526	319,140
Increase in capital:					
Cash contributed by shareholders	48,600				48,600
Transfer from retained earnings	8,610		(8,610)	(8,610)	
Appropriation of retained earnings:					
Dividends paid			(57,118)	(57,118)	(57,118)
Transfer to legal reserves		7,127	(7,127)		
Decrease in legal reserves due to sale of a consolidated affiliate		(244)	(1,358)	(1,602)	(1,602)
Net income for the year			110,696	110,696	110,696
Balances, 31 December 1997	374,824	12,305	32,587	44,892	419,716
Appropriation of retained earnings:					
Transfer to legal reserves and minority interest		13,928	(14,094)	(166)	(166)
Increase in capital:					
Transfer from retained earnings	9,435		(9,435)	(9,435)	
Net income for the year			171,589	171,589	171,589
Balances, 31 December 1998	384,259	26,233	180,647	206,880	591,139
Appropriation of retained earnings:					
Transfer to legal reserves and minority interest		2,865	(2,865)		
Restatement effect of legal reserves in TL unit current at 31 December 1999		(11,298)	11,298		
Increase in capital:					
Transfer from retained earnings	223,993		(223,993)	(223,993)	
Net income for the year			118,082	118,082	118,082
Balances, 31 December 1999	608,252	17,800	83,169	100,969	709,221

The accompanying notes form integral parts of these financial statements.

Türkiye Garanti Bankası A.Ş. And Its Affiliates

**Consolidated Financial Statements
For The Years Ended 31 December 1999, 1998 And 1997**

Türkiye Garanti Bankası A.Ş. And Its Affiliates

**Consolidated Financial Statements
For The Years Ended 31 December 1999, 1998 And 1997**

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements 31 December 1999 and 1998

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements 31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

1 Activities and ownership

Türkiye Garanti Bankası A.Ş. (the Bank) is principally engaged in wholesale and retail banking operations in Turkey. The Bank's head office is located in Istanbul. The Bank presently has 211 branches dispersed throughout the country; 3 branches in Luxembourg, Malta and Düsseldorf; and 19 "Open (Clover) Branches" which operate solely in credit card business.

The Bank has 100% ownership in United Garanti Bank International N.V., a bank established in late 1990 in Amsterdam; 80% ownership in Garanti Finansal Kiralama A.Ş., a leasing company also established in late 1990; 100% ownership in Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş., formerly named as Garanti Ticaret T.A.Ş.; a company engaged in EDP services mainly for banks; 100% ownership in Garanti Bank Moscow, a bank established in late 1996; 100% ownership in Garanti Funding Corporation I and Garanti Funding Corporation II, both engaged in issuing debt securities and investing the proceeds and established in July 1996; 100% indirect ownership in Osmanlı Bankası A.Ş.; a very well-known bank originally established as Imperial Ottoman Bank in 1863, acted as the State Bank until the formation of the Central Bank of Turkey and of which shares were acquired indirectly by the Bank in June 1996 by transferring all the shares of Compagnie Ottomane d'Investissement B.V. (COIBV), the Dutch parent of Osmanlı Bankası A.Ş., through the Bank's subsidiaries in Malta and Luxembourg, in October 1999, this structure was ceased and the Bank directly acquired COIBV; together with Osmanlı Bankası A.Ş.; 95% ownership in Garanti Portföy Yönetimi A.Ş., a company established in July 1997 and engaged mainly in providing portfolio management services; 100% ownership in Instruments Finance Company, a special purpose company organised under the laws of Cayman Islands in February 1997, for the purpose of issuance of the Floating Rate Certificates as explained in more detail in Note 18; 99.99% ownership in Garanti Financial Services plc, a company established in December 1997 and engaged in providing financial services to the customers in Ireland; 100% ownership in Garanti Fund Management Co Ltd, a fund managing company established in Malta in February 1998; 100% ownership in Ana Konut Danışmanlık A.Ş. a company acquired in February 1998; 100% ownership in Şahintur Şahinler Otelcilik Turz. Yat. İşl. A.Ş.; 99.99% ownership in Lasaş Lastikleri San. ve Tic. A.Ş.; 29% ownership in and majority voting rights in the Board of Directors of Tansaş İzmir Büyükşehir Belediyesi İç ve Dış Ticaret A.Ş., a company engaged in the sale of consumer products throughout Turkey through its distribution network consisting of 113 supermarkets, acquired in January 1999; 83.28% ownership in Doc Finance S.A. acquired in February 1999; 75.78% ownership in Garanti Yatırım Menkul Kıymetler A.Ş., a company engaged in providing brokerage and intermediary services in trading equity and debt securities, acquired in February 1999 and; 76.40% ownership in Doğu Hava Taşımacılığı A.Ş., a company engaged in air transportation services, acquired in March 1999. In the last quarter of 1999, the Bank established Clover Bank Off-Shore Ltd under the laws of Turkish Republic of Northern Cyprus (TRNC) with ownership of 100% to be engaged in all the banking activities in TRNC; and acquired 99.99% and 100% ownerships in Garanti Sigorta A.Ş., an insurance company engaged in mainly all the insurance branches except for life and health and Garanti Hayat Sigorta A.Ş, an insurance company engaged in the branches of health and life, respectively. The financial statements of these affiliates are consolidated in the accompanying financial statements.

In December 1999, the Bank established Garanti Ödeme Sistemleri A.Ş., a separate entity for the management of the Bank's credit card business with ownership of 100%. Also in December 1999, the Bank contributed the share capital of a newly established joint venture between Volkswagen and Doğu Groups, namely "Volkswagen Doğu Tüketici Finansmanı A.Ş.", by TL2,590 billions representing 37% of the issued capital; this company is mainly engaged in the financing of the customers for their purchases of Volkswagen branded cars. These affiliates are not consolidated as they did not have any material operations as at 31 December 1999.

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements

31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 1 – (Continued)

By March 1997, the Bank had 85.54% ownership in Bank Ekspres A.Ş., a bank established during late 1991 and of which shares were acquired by the Bank in 1994. In March 1997, the Bank fully divested all its interest in Bank Ekspres A.Ş. for USD85 millions. The net profit amounting to TL20,057 billions arising from this transaction was included in ‘income on sale of participations’ in the accompanying consolidated financial statements as at 31 December 1997.

The principal shareholders of the Bank are the Doğuş Group and its holding company, Doğuş Holding A.Ş., which currently holds 45.38% of the issued capital.

2 Basis of presentation of the financial statements

The consolidated entities in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira in accordance with the Turkish Uniform Chart of Accounts, the Turkish Commercial Code (the “TCC”) and tax legislation (collectively, “Turkish Practices”); while the other consolidated entities maintain their books of account and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements (the IAS Financial Statements) are based on the statutory records, which are maintained under the historical cost convention, (except for the revaluation of tangible assets) with adjustments and reclassification including restatement for the changes in the general purchasing power of the Turkish lira, for the purpose of fair presentation in accordance with Statements of International Accounting Standards (“IAS”) issued by the International Accounting Standards Committee. The restatement for the changes in the general purchasing power of the Turkish lira (TL) as at 31 December 1999 is 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%. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index (“WPI”) published by the State Institute of Statistics (“SIS”). Such indices and conversion factors used to restate the accompanying financial statements at 31 December 1999, 1998, 1997 and 1996, are given below:-

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
31 December 1999	1,978.5	1.000
31 December 1998	1,215.1	1.628
31 December 1997	787.7	2.512
31 December 1996	412.5	4.796

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

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

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 2 – (Continued)

- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date, and components shareholders' equity are restated by applying the relevant (monthly, yearly average, year end) conversion factors. Additions to premises and equipment in the year of acquisitions are restated using the relevant conversion factors.

Commencing for the financial statements for the periods ended 30 June 1999 and after, the Bank adopts a new policy for the restatement of transfers from retained earnings to share capital. Accordingly, the Bank started to transfer only up to the level of the restated amounts of such earnings as shown in the individual IAS financial statements of the consolidated entities concerned if their nominal values per statutory books as restated are higher.

- All items in the statements of income are restated by applying the monthly conversion factors except for those amounts deriving from non-monetary items, which are calculated based on the restated values of the related items.
- The effect of general inflation on the consolidated entities' net monetary position is included in the statements of income as monetary gain or loss.

3 Significant accounting policies

3.1 Income and expense recognition

General:-

The accrual basis of accounting is followed for the recognition of income and expense items, except for interest income on overdue loans which is generally recognised only when received. Certain commissions, such as those deriving from letters of guarantee, are also usually recognised as income only when received.

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 year.

Unearned premium reserve

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

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements

31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 3 – (Continued)

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).

3.2 Securities

Equity share certificates that are quoted at the stock exchange are reflected at market values ruling at period end; others are reflected at their cost values in the accompanying consolidated financial statements. Earned interest and gains or losses on the sales of securities are included in current operations (Note 7). Accrued interests on zero coupon securities are included in the carrying amount of the corresponding securities while accrued interests on other marketable securities are included in 'accrued interest, prepaid expenses and other assets'.

Securities, where original maturity periods at the time of purchase is less than three months, are considered as cash equivalents for the purposes of the statements of cash flows.

3.3 Securities under repurchase and resale transactions

These types of transactions of the Bank are short-term and entirely involve government securities. Securities sold under repurchase agreements, are deducted from the security portfolio. Any gain or loss at the time of sale is reflected in 'trading account income,net' in the statement of income. Obligations relating to purchases or sales of securities under agreements for repurchase or resale are recognised as commitments (Note 22).

3.4 Loans, advances and discounts

Loans and advances are stated at the principal amounts outstanding plus accrued interest, other than for loans placed on a non-accrual status. Accrual of interest is discontinued when payment of principal or interest by the borrower is considered doubtful. Discounts are stated at the amount disbursed plus a proportionate amount of the discount earned up to balance sheet date.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 3 – (Continued)

3.5 Allowance for possible loan losses

The Bank provides allowances for specific loan losses and losses under guarantees and commitments. Such allowance reflects the Bank's estimate of the amount of loans, which may ultimately be uncollectible due to borrowers' inability to repay and/or to shortfalls in the realisable value of collateral. The allowance also takes into account the Bank's exposure with respect to guarantees and other similar items issued on behalf of customers. Provision for possible losses is made on the allowance method and, accordingly, all provisions are credited to the allowance accounts and all write-offs and recoveries (reversals related to collection of prior periods' provisions credited to other income) are debited thereto. The amount required to maintain the allowance at the level considered adequate to cover the Bank's credit risk, is charged against income.

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. The Bank's general provision level also meets the statutory requirement, valid since 1 January 1998 and revised in August 1999, for provision of %0.5 on loans and %0.1 on guarantees and commitments. Retroactive effect of such a change in legislation was calculated as TL9,456 billions as at 1 January 1998, as remeasured to reflect the effect of changes in the general purchasing power of the Turkish lira and fully reflected in the accompanying consolidated financial statements.

3.6 Investments in affiliated companies

The companies in which the direct and indirect ownership of Türkiye Garanti Bankası A.Ş. exceed 50% as discussed in Note 1 above, are defined as consolidated affiliates. The financial statements include the accounts of the Bank and these affiliates which are consolidated. All material intercompany transactions and balances have been eliminated.

Investments in other affiliated companies are generally recorded at historical cost, reduced where necessary to reflect permanent impairments in value. Dividends obtained from the non-consolidated affiliated companies are recorded as income when received. Such entities in which the Bank holds a 20% to 50% interest are equitised based on their financial statements which are prepared in accordance with International Accounting Standards, if there is significant influence. Otherwise, they are accounted for at cost.

3.7 Depreciation

The bank premises and equipment is 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. Leasehold improvements are amortised over the periods of the respective leases, also on a straight-line basis. Expenditures for major renewals and betterment of premises and equipment are capitalised and depreciated over the remaining useful lives of the related assets, whereas the costs of ordinary maintenance and repairs are expensed as incurred.

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements

31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 3 – (Continued)

3.8 Financial leases

As lessee:-

Financial leases are recognised in the balance sheet by recording an asset and liability equal to the present value of minimum lease payments at the inception of the lease. Capitalised leased assets are depreciated in accordance with depreciation policy noted above, except where there is no reasonable certainty of obtaining ownership by the end of the lease term, in which case the asset is fully depreciated over the shorter of the lease term or its useful life. Lease liabilities are reduced by repayments of principal, while the finance charge component of the lease payment is charged directly to income.

As lessor:-

Assets leased under agreements that transfer substantially all the risks and rewards associated with ownership to customers, other than the legal title, are classified as finance leases. The leasing operations of the Bank's affiliate operating in leasing business, consist principally of the leasing of textile machinery, manufacturing machinery, printing, medical, construction, data processing, transportation and office equipment.

The sum of the minimum lease payments is recorded as gross investment in the leases. The difference between the gross investment and the cost of leased assets is recorded as unearned income and it is deducted from the gross investment in the leases. Income from finance leases is credited to the statement of income in a pattern reflecting a constant periodic rate of return on the net investments.

3.9 Goodwill/Negative goodwill

Positive and negative goodwills resulting from the indirect acquisition of 100% ownership in Osmanlı Bankası A.Ş. in 1996, the direct acquisition of 100% ownership in Ana Konut Danışmanlık A.Ş. in 1998 and; 29% ownership in Tansaş İzmir Büyükşehir Belediyesi İç ve Dış Ticaret A.Ş., 83.28% ownership in Doc Finance S.A., 75.78% ownership in Garanti Yatırım Menkul Kıymetler A.Ş., 76.40% ownership in Doğu Hava Taşımacılığı A.Ş., 99.99% ownership in Garanti Sigorta A.Ş. and 100% ownership in Garanti Hayat Sigorta A.Ş. in 1999 and consist of the excess/shortage of the total acquisition costs over/under the net assets of these consolidated entities at the dates of acquisitions. Such goodwill amounts are amortised on a straight line basis over 20 years, the time during which benefits are expected to be consumed. Negative goodwill on the acquisitions of Ana Konut Danışmanlık A.Ş., Garanti Sigorta A.Ş. and Garanti Hayat Sigorta A.Ş. is included under 'other liabilities' in the accompanying consolidated financial statements and credited to income over 20 years, the time during which benefits are expected to be consumed.

3.10 Foreign currency transactions

Gains and losses arising from foreign currency transactions are reflected in the statement of income as realised during the course of the period. Foreign currency assets and liabilities have been translated into Turkish Lira at foreign exchange rates prevailing at the period-end, the effects of which are also reflected in the statement of income as foreign exchange gain or loss.

3.11 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.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 3 – (Continued)

3.12 Retirement plan

The Bank has a trustee retirement plan covering all employees. Annual contributions are computed as a percentage of qualifying compensation and contributed by employees. Deficits, if any, are to be borne by the Bank. However, based on previous experience, management believes that any future cash flow, if any, for the purposes of this retirement plan will be insignificant.

3.13 Reserve for severance payments

Under the relevant provision of Turkish Labour Law, the Bank is required to make certain lump-sum payments to employees whose employment ceases due to retirement or reasons other than misconduct or resignation. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognized in the accompanying consolidated financial statements as accrued.

3.14 Taxes on income

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

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences relating to goodwill not deductible for tax purposes and initial recognition of assets and liabilities which effect neither accounting nor taxable profit (Note 16).

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. 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.

3.15 Forward foreign exchange contracts

Forward foreign exchange contracts which are entered into in connection with loans and borrowings for hedging purposes are treated as spot exchange contracts and, consequently, are valued at the spot rate; discounts or premiums recorded at the date of transaction are posted to the statement of income over the life of the contract (Note 22).

3.16 Fair value of financial instruments

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

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 3 – (Continued)

The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in current market exchange.

The following methods and assumptions were used to estimate the fair value of the Bank's financial instruments :-

Financial assets

Monetary assets for which fair value approximates carrying value:-

Balances denominated in foreign currencies are translated at period-end exchange rates.

The fair values of certain financial assets carried at cost, including cash and due from banks, deposits with banks, securities other than share certificates quoted at the stock exchange plus the respective accrued interest; share certificates quoted at the stock exchange, are reflected at their market values; and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The fair value of loans is also considered to approximate the carrying value. The major portion of loans have interest rates that are fixed on an entry value basis. The management believes that the risk factors embedded in the entry value of interest rates, along with the related allowances for collectibility as explained in 3.5 above, result in a fair valuation of such loans on an entry value basis.

Financial liabilities

Monetary liabilities for which fair value approximates carrying value:-

The fair value of customer deposits, funds borrowed and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

The Bank carries trading liabilities, as well as derivatives and foreign exchange instruments, at their estimated fair value.

Long-term debts which, in principle at variable rates, denominated in foreign currencies are translated at period-end exchange rates and accordingly their fair values approximate their carrying values. The carrying values of long-term debts in Turkish lira along with the related accrued interest are estimated to be their fair values.

Derivatives and hedging

The Bank uses derivative financial instruments to manage its exposures to foreign exchange, interest rate and commodity price risks arising from operational, financing and investing activities. In accordance with its treasury policy, in principle, the Bank does not currently hold or issue derivatives for trading purposes. The derivatives used for hedging purposes are accounted in the same way as the hedged transaction and offsetting gains and losses are recognised in the statement of income in the same financial period.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 3 – (Continued)

Interest rate risk

The Bank is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities and interest rate swap contracts. Interest differentials under swap agreements are accrued and recorded in the statement of income against interest expenses of the hedged loans.

Funding risk

The Bank manages its ability to fund the existing and prospective debt requirements and liquidity mismatches by maintaining adequate committed funding lines from high quality lenders.

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by internal credit ratings and limiting the aggregate risk to any individual counterparty. The credit risk of the Bank is highly diversified due to the large number of entities comprising the customer bases and their dispersion across many different industries.

Foreign exchange risk

The Bank is exposed to foreign exchange risk through the impact of exchange rate changes on liabilities and assets denominated in foreign currencies. These exposures are managed by using natural hedges that arise from offsetting foreign exchange assets and liabilities and forward foreign exchange and currency swap contracts.

Forward foreign exchange and currency swap contracts are mainly entered into as hedges against foreign currency loans and borrowings. These contracts are treated as spot exchange contracts and, consequently, are valued at the spot rate; discounts or premiums recorded at the date of transaction are posted to the statement of income over the life of the contract.

3.17 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.

3.18 Capital increase

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

3.19 Earnings per share

Earnings per share disclosed in the accompanying consolidated statements of income are determined by dividing net income 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.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 3 – (Continued)

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.

3.20 Reporting of cash flows

Cash and cash equivalents include only cash and due from banks and securities with original maturity periods of less than three months. Cash and cash equivalents as at 31 December 1999, 1998 and 1997, included in the accompanying consolidated statements of cash flows, are as follows:

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Cash and due from banks	795,178	792,872	529,460
Securities	<u>162,519</u>	<u>406,383</u>	<u>386,978</u>
	<u>957,697</u>	<u>1,199,255</u>	<u>916,438</u>

4 Related parties

For the purpose of this report, the Doğu Group's (Note 1) non-financial and financial companies and its principal shareholders 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. Interest rates applicable to foreign currency loans and deposits vary at ranges of 3.1-16.8% and 2.9-17%, and; for Turkish lira loans and deposits vary at ranges of 68-101% and 62-102% (1998: 5-18.5% and 2.7-14.1% and; for Turkish lira loans and deposits: 85% and 70-75%; and 1997: 12-13% and 5% and; for Turkish lira loans and deposits 70-105% and 75%), respectively. Various commission rates are applied to transactions involving guarantees and commitments.

The Bank has the following balances outstanding from related parties:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Bank placements and loans granted	<u>121,139</u>	<u>76,012</u>	<u>44,800</u>
Bank takings and deposits received	<u>21,698</u>	<u>34,141</u>	<u>5,570</u>
<u>Commitments and contingencies</u>			
Non-cash loans	60,977	66,994	69,789
Derivative transactions	41,444	1,528	-
Repurchase transactions	<u>11,317</u>	<u>314</u>	-
	<u>113,738</u>	<u>68,836</u>	<u>69,789</u>
Fixed asset purchases	-	<u>4,507</u>	-
Interest income	<u>31,044</u>	<u>17,292</u>	<u>19,161</u>

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

5 Cash and due from banks

Cash and due from banks comprise of the following:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Cash at branches	50,149	41,910	51,069
Due from banks-demand			
Domestic banks	75,484	43,553	93,045
Foreign banks	<u>64,479</u>	<u>40,422</u>	<u>35,955</u>
	<u>139,963</u>	<u>83,975</u>	<u>129,000</u>
Due from banks-time			
Domestic banks	88,524	174,814	<u>155,065</u>
Foreign banks	<u>609,382</u>	<u>529,522</u>	<u>183,508</u>
	<u>697,906</u>	<u>704,336</u>	<u>338,573</u>
	<u>888,018</u>	<u>830,221</u>	<u>518,642</u>

As at 31 December 1999, time deposits are all short-term, maturing within one year, with interest rates ranging between 4.63-14% per annum for foreign currency time deposits and 46-120% per annum for Turkish lira time deposits (1998: 3-16% and 78-125%, respectively).

6 Blocked accounts at Central Bank

Blocked accounts at the Central Bank of Turkey (the Central Bank) comprise of the following:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Reserve deposits	215,971	142,451	106,164
Government bond account funding legal reserves	-	<u>25,051</u>	<u>20,417</u>
	<u>215,971</u>	<u>167,502</u>	<u>126,581</u>

Reserve deposits represent the minimum cash reserve maintained with the Central Bank, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits were revised as 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

According to Turkish Banking Law, banks had been required to deposit an amount equal to their legal reserves with Central Bank in a special government bond account until November 1999. According to the recent changes in Banking Law, such deposits are no longer required. Consequently, such deposits, together with their accrued interests, outstanding as at that date were paid back to banks by the Central Bank. The account earned interest at the rate of 102.57-119.94% in 1999 (1998: 101.30-141.46% and 1997: 108.44%-135.52%), per annum.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

7 Securities

Securities portfolios comprise of the following:-

	1999				1998	1997
	Face value TL billions	Book value TL billions	Interest rate range %	Latest maturity	Book value TL billions	Book value TL billions
Government bonds in Turkish lira	1,232,044	1,070,091	40-147	2002	93,229	270,477
Gold	-	380,987	-	-	75,034	23
Bonds issued by foreign institutions	177,899	180,618	3.25-7.75	2000	102,585	102,465
Eurobonds	87,749	88,285	3-12.37	2009	94,486	113,478
Government bonds-indexed to consumer prices (a)	80,104	85,471	34-59	2002	436,070	21,006
Capital growth fund in Turkish lira	-	71,917	-	-	33,093	-
Treasury bills	66,223	65,049	61-270	2000	313,896	143,074
Emerging Europe growth fund	-	50,382	-	-	-	-
Euroyen	15,787	18,460	5.7-6	2002	15,521	16,981
Government bonds in foreign currency	17,056	18,320	11.88-12.38	2009	-	51,920
Profit sharing notes	4,321	4,336	-	2000	10,670	20,330
Bonds issued by foreign governments	2,592	2,592	5.75-63.75	2007	18,668	151,777
Capital growth fund in foreign currency	-	898	-	-	11,471	-
Others	-	10,068	-	-	9,133	439
		<u>2,047,474</u>			<u>1,213,856</u>	<u>891,970</u>

(a) The interest rate applied on these securities is the function of changes in consumer price index and a security coefficient described in the documents relating to the issuance of these bonds (1998: from Tüfex18.9 to Tüfex32).

Net profit on securities transactions amounting to TL168,232 billions (1998: TL64,518 billions and 1997: TL58,336 billions) in total is included in "trading account income".

Unmatured interest accrued on securities amounting to TL179,159 billions (1998: TL203,663 billions and 1997: TL79,752 billions) in total, is included in "other assets" (Note 9).

At 31 December 1999, the government bonds and treasury bills amounting, in total, to TL306,544 billions (1998: TL263,560 billions and 1997: TL129,336 billions) are deposited as security for interbank fund borrowings, foreign currency money market transactions at the Central Bank; and for security trading activities at Istanbul Stock Exchange.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

8 Loans, advances and discounts

Outstanding loans, advances and discounts are divided between economic sectors and loan types as follows:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Industrial	702,482	779,185	556,045
Foreign trade	374,796	330,193	799,431
Consumer loans	244,825	40,917	7,663
Construction	220,995	221,649	104,471
Financial institutions	194,353	345,597	22,571
Tourism	105,960	129,430	60,252
Agriculture	90,283	92,274	110,725
Service sector	77,282	73,353	6,495
Domestic commerce	24,994	40,666	354,321
Others	<u>173,531</u>	<u>156,328</u>	<u>3,189</u>
Total performing loans	2,209,501	2,209,592	2,025,163
Non-performing loans	<u>45,608</u>	<u>22,367</u>	<u>14,700</u>
Total gross loans	2,255,109	2,231,959	2,039,863
Allowance for possible losses	<u>(47,082)</u>	<u>(40,281)</u>	<u>(14,757)</u>
Loans – net	<u>2,208,027</u>	<u>2,191,678</u>	<u>2,025,106</u>

Loans given to customers have interest rates between 3.1-19% (1998: 4-18%) per annum for foreign currency loans and 61.7-108.45% (1998: 69.3-140%) per annum for Turkish lira loans.

Gross performing loans, advances and discounts comprise of collateralized and uncollateralized items as follows:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Collateralized loans	1,598,700	1,783,957	1,864,585
Uncollateralized loans	<u>610,801</u>	<u>425,635</u>	<u>160,578</u>
	<u>2,209,501</u>	<u>2,209,592</u>	<u>2,025,163</u>

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 specific allowance for possible losses is comprised of amounts for specifically identified problem and non-performing loans, advances and discounts 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 calculating the specific allowances, the Bank takes account of the rates of allowance for various categories of loans required by Turkish banking regulations.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 8 – (Continued)

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. The Bank's general provision level also meets the statutory requirement, valid since 1 January 1998 and revised in August 1999, for provision of %0.5 on loans and %0.1 on guarantees and commitments. Retroactive effect of such a change in legislation was calculated as TL9,456 billions as at 1 January 1998, as remeasured to reflect the effect of changes in the general purchasing power of the Turkish lira and fully reflected in the accompanying consolidated financial statements.

Movements in the allowance account during the years ended 31 December 1999, 1998 and 1997, are as follows:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Balance, beginning of year	40,281	14,757	10,541
Restatement effect of the beginning balance and current year provision	(20,652)	(9,753)	(10,411)
Allowance account balance per the balance sheets of new subsidiaries at the date of their acquisitions by the Bank	1,212	-	-
Allowance account balance of Bank Ekspres A.Ş. fully divested participation in March 1997	-	-	(1,745)
Write-offs	(1,390)	-	(1,027)
Recoveries (reversals related to collection of prior years' provisions credited to other income)	(1,757)	(924)	(668)
Provision for the year	<u>29,388</u>	<u>36,201</u>	<u>18,067</u>
Balance, end of year	<u>47,082</u>	<u>40,281</u>	<u>14,757</u>

While it is the Bank's policy to write-off loan balances against the allowance accounts when amounts become uncollectible; such write-offs are sometimes delayed or deferred when the amounts are immaterial. The Bank's management estimated that such write-offs are immaterial for 1998 and, in any event, believed that the allowance was adequate to absorb all potential write-offs inherent in the loan portfolios at 31 December 1998.

The provision of loan losses amounting to TL29,657 billions (1998: TL36,997 billions and 1997: TL18,067 billions) as shown in the accompanying consolidated statements of income, also includes allowances provided for guarantees and commitments of TL269 billions (1998: TL796 billions) as well as those relating to the loan balances.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

9 Accrued interest, prepaid expenses and other assets

Accrued interest, prepaid expenses and other assets comprise of the following items:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Accrued interest on securities	179,159	203,663	79,752
Assets held for resale	78,539	55,963	17,901
Deferred tax asset (a)	67,397	-	-
Miscellaneous receivables	30,841	16,006	11,056
Accrued interest on due from banks and similar items	28,378	21,863	16,993
Minimum lease payment receivables	26,847	112,858	101,108
Prepaid expenses, insurance claims and similar items	10,861	8,262	4,916
Accrued exchange gain on derivatives	9,944	-	5,295
Premium receivables	9,462	-	-
Cheques at clearing house	8,401	-	-
Purchased cheques	5,325	3,597	5,407
Advances for fixed asset purchases	3,274	1,080	-
Taxes and funds to be refunded (b)	704	31,731	24,673
Others	<u>57,548</u>	<u>36,564</u>	<u>17,465</u>
	<u>516,680</u>	<u>491,587</u>	<u>284,566</u>

(a) As at 31 December 1998, deferred tax assets of TL29,895 billions (Note 16) were presented in the accompanying balance sheets as netted off with deferred tax liabilities under "taxation".

(b) In accordance with the related legislation, the Bank and its affiliates made prepayments of taxes on income during the period to be deducted from statutory taxes payable computed on statutory tax base for the related period. Accordingly, such prepaid taxes amounting to TL44,222 billions as at 31 December 1999 were netted off against statutory taxes in the accompanying consolidated financial statements. Due to the level of statutory taxes payable on income, such prepaid taxes on income amounting to TL704 billions, TL31,731 billions and TL24,673 billions as at 31 December 1999, 1998 and 1997, respectively, remained in "accrued interest, prepaid expenses and other assets".

10 Investments in affiliated companies

The Bank holds investments in the following affiliates:-

	1999		1998		1997	
	Carrying value <u>TL billions</u>	Ownership %	Carrying value <u>TL billions</u>	Ownership %	Carrying value <u>TL billions</u>	Ownership %
Petrotrans Nakliyat ve Ticaret A.Ş.	15,166	100.00	15,166	100.00	15,166	100.00
Garanti Turizm ve Yatırım İşl. A.Ş.	12,940	44.89	12,914	44.89	10,300	44.89
Genoto General Otomotiv San.Tic.A.Ş.	9,633	40.00	9,633	40.00	9,633	40.00
Aktif Finans Factoring Hizmetleri A.Ş.	6,935	19.56	6,212	19.56	6,212	19.56
Sınai Yatırım Bankası A.O.	6,758	10.00	6,033	10.00	5,634	10.00
Others	<u>8,937</u>		<u>8,736</u>		<u>4,550</u>	
	<u>60,369</u>		<u>58,694</u>		<u>51,495</u>	

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 10 – (Continued)

Equity participations of 20% and over are equitised on the basis of their financial statements prepared in accordance with International Accounting Standards, if the Bank has any significant influence. Otherwise they are accounted for at cost.

The Bank had previously made available loans to Petrotrans Nakliyat Ticaret A.Ş. (Petrotrans) in an amount equal to USD29.5 millions. However due to fact that the financial condition of the company deteriorated, the Bank decided to takeover the shares of the company on 30 November 1997 at the same amount of TL equivalent of its outstanding loan receivable at that date.

Petrotrans is the landlord of a very large area along the Mediterranean coast in Adana region. This area is considered to become the transshipment area for the terminals of the oil pipelines coming from Iraq and the Caspian Sea area and their access to Mediterranean Sea. Consequently, it is the Bank's opinion that the value of the company's property exceeds the outstanding loan receivables. The financial statements of Petrotrans are not consolidated with those of the Bank because of the fact that Petrotrans is presently a dormant company.

11 Bank premises and equipment

Movement in bank premises and equipment for the period of 1 January – 31 December 1999 is as follows:-

	1 January TL billions	Balances related to newly consolidated subsidiaries at acquisition dates TL billions	Additions TL billions	Disposals TL billions	31 December TL billions
Costs					
Land and buildings	247,331	5,406	40,033	(3,417)	289,353
Furniture, fixture and equipments	169,632	45,416	43,230	(5,620)	252,658
Leasehold improvements	<u>32,994</u>	<u>20,785</u>	<u>12,700</u>	<u>(620)</u>	<u>65,859</u>
	449,957	71,607	95,963	(9,657)	607,870
Less: Accumulated depreciation					
Land and buildings	22,436	332	4,636	(249)	27,155
Furniture, fixture and equipments	95,139	23,010	25,402	(2,852)	140,699
Leasehold improvements	<u>18,537</u>	<u>10,095</u>	<u>7,970</u>	<u>(603)</u>	<u>35,999</u>
	136,112	33,437	38,008	(3,704)	203,853
Construction in progress	<u>17,505</u>	<u>230</u>			<u>40,436</u>
	<u>331,350</u>	<u>38,400</u>			<u>444,453</u>

Movement in bank premises and equipment for the period of 1 January - 31 December 1998 is as follows:-

	1 January TL billions	Additions TL billions	Disposals TL billions	31 December TL billions
Costs				
Land and buildings	178,824	69,636	(1,129)	247,331
Furniture, fixture and equipments	139,228	37,561	(7,157)	169,632
Leasehold improvements	<u>24,811</u>	<u>8,301</u>	<u>(118)</u>	<u>32,994</u>
	342,863	115,498	(8,404)	449,957
Less: Accumulated depreciation	118,010	26,956	(8,853)	136,112
Construction in progress	<u>14,016</u>			<u>17,505</u>
	<u>238,869</u>			<u>331,350</u>

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 11 – (Continued)

Depreciation expense in 1999 amounts to TL38,008 billions (1998: TL26,956 billions and 1997: TL22,708 billions.) Bank premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range from 8% to 25%.

12 Intangible asset

Intangible asset represents goodwill arising from the indirect acquisition of 100% ownership in Osmanlı Bankası A.Ş. in June 1996 and; the direct acquisitions of 29% ownership in and majority voting rights in the Board of Directors of Tansaş İzmir Büyükşehir Belediyesi İç ve Dış Ticaret A.Ş., 83.28% ownership in Doc Finance S.A., 75.78% ownership in Garanti Yatırım Menkul Kıymetler A.Ş. and 76.40% ownership in Doğu Hava Taşımacılığı A.Ş. in 1999, and consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

Goodwill is amortised on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL87,822 billions (1998: TL49,519 billions and 1997: TL50,846 billions), net of accumulated amortisation, in the accompanying consolidated balance sheets at 31 December 1999.

13 Deposits

Deposits comprise of the following:-

	1999			1998	1997
	Demand TL billions	Time TL billions	Total TL billions	Total TL billions	Total TL billions
Foreign currency	617,577	1,536,598	2,154,175	1,775,083	1,034,348
Interbank (a)	16,251	812,726	828,977	638,103	436,058
Saving	34,214	202,904	237,118	302,198	176,888
Commercial	144,581	42,270	186,851	189,351	138,397
Public and other	9,754	11,020	20,774	25,334	20,847
	<u>822,377</u>	<u>2,605,518</u>	<u>3,427,895</u>	<u>2,930,069</u>	<u>1,806,538</u>

(a) Interbank deposits include both TL accounts of TL574,346 billions (1998: TL348,162 billions and 1997: TL201,600 billions) and foreign currency accounts of TL254,631 billions (1998: TL289,941 billions and 1997: TL234,458 billions).

Interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 40-140% and 1.35-17% (1998: 75-138% and 1.35-18%), respectively.

14 Short-term borrowings

Short-term borrowings comprise of the following:-

	1999 TL billions	1998 TL billions	1997 TL billions
Domestic banks	134,069	52,189	219,648
Foreign banks	<u>796,417</u>	<u>508,429</u>	<u>569,797</u>
	<u>930,486</u>	<u>560,618</u>	<u>789,445</u>

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 14 – (Continued)

As at 31 December 1997, borrowings included three syndicated loan facilities; the first one was USD200 millions provided by twenty-nine international banks through the arrangement of Dresdner Bank Luxembourg SA and matured on 9 April 1998; the second one was USD65 millions provided by sixteen international banks through the co-arrangement of Standart Chartered Bank plc; Rabobank International and West Deutsche Landesbank and matured on 30 August 1998; and the third one was USD54.5 millions provided by seventeen international banks through the co-arrangement of ABN Amro Bank and Sumitomo Bank and matured on 27 January 1998.

As at 31 December 1998, borrowings from foreign banks included two syndicated pre-export credit facilities available to Turkish exporters; the first one was DEM325 millions provided by twentyseven international banks matured on 27 March 1999; and the second one was USD200 millions provided by thirtyfour banks matured on 4 June 1999. The first one was rollovered to 14 April 2000 for the equivalent of EUR180 millions in two different currencies as EUR 153 millions and JPY3,513 millions.

In addition to syndicated pre-export credit facilities mentioned above, as at 31 December 1998, borrowings included two more syndicated loan facilities; the first one was USD70 millions provided by twenty-six international banks through the arrangement of ABN Amro Bank Amsterdam and matured on 20 January 1999; and the second one was USD70 millions provided by sixteen international banks through the arrangement of Rabobank Amsterdam and matured on 27 August 1999.

As at 31 December 1998, short-term borrowings also included a loan in the amount of USD18 millions provided by Cargill Finance matured during the period of 22 January-12 March 1999; a loan in the amount of USD70.4 millions provided by UBS London matured during the period of 11-15 June 1999; and a club loan facility amounting to USD65 millions provided by thirteen international banks through the agency of Bank of New York matured on 29 December 1999, and rollovered to 4 April 2000.

Beside some of those borrowings mentioned above as rollovered to 2000 and accordingly, still outstanding as at 31 December 1999, there are two additional syndicated loan facilities; the first one is USD50 millions provided by sixteen international banks through the arrangement of ABN Amro Bank Amsterdam and maturing on 8 January 2000; and the second one is USD57.6 millions provided by sixteen international banks through the arrangement of Rabobank Amsterdam and maturing on 25 August 2000. There is also a one-year pre-export loan facility in the amount of USD250 millions provided by fortythree international banks as at 10 June 1999.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

15 Short-term bonds payable

Short-term bonds payable comprise of the following:-

	1999		1998	1997	
	Amount in original currency in millions	Interest rates %	TL billions	TL billions	TL billions
Commercial paper notes	USD 191.8	5.75-5.86	104,016	124,042	148,986
Bearer notes	DEM 125.2	8	34,829	-	-
Euro commercial papers	USD 45.3	1.65-13.5	24,544	49,016	238,392
Indenture notes	USD 28.8	Libor+2	15,593	14,736	10,195
Other bonds			<u>5,088</u>	<u>-</u>	<u>327</u>
			<u>184,070</u>	<u>187,794</u>	<u>397,900</u>
Less : Discounted portion			<u>(767)</u>	<u>(1,155)</u>	<u>-</u>
			<u>183,303</u>	<u>186,639</u>	<u>397,900</u>

Accrued interest on bonds payable amounting to TL2,582 billions (1998: TL1,389 billions and 1997: TL3,006 billions) in total is included in "other interest and expense accruals" (Note 17).

16 Taxation

The new act passed in the Parliament in July 1998 made significant changes on corporation tax charges effective for periods starting on or after 1 January 1999. Accordingly, the corporation tax rate is 30%; contribution to a state fund is 10% of this tax which results in effective corporation tax rate of 33%. In addition, there will be an income tax charge; Council of Ministers was authorised to determine this income tax rate up to the level of 25%, contribution to a state fund remained as 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.

By 31 December 1998, the corporation tax was charged at the rate of 25%. In addition, an income tax charge at the rate of maximum 10% (for companies of which shares are not publicly traded; 20%) on income after corporation tax was applied. Contribution to a state fund was levied at 10% of taxation payable, which result in maximum effective corporation tax, income tax and combined tax rates of 27.5%, 11% and 35.75%, respectively.

The investment tax credits are exempt from corporation tax and minimum taxes but are subject to an income tax charge at the rate of 15%; contribution to a state fund is levied at 10% which results in an effective income tax rate of 16.5%.

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.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 16 – (Continued)

The total provisions for taxes on income is different than the amount computed by applying the statutory tax rate to income before provision for taxes as shown in the following reconciliation for the years of 1999 and 1998:-

	1999		1998	
	TL billions	%	TL billions	%
Taxes on income per statutory tax rate	82,862	33.00	114,112	35.75
Effects of decrease in effective tax rate from 35.75% to 33% applied to taxable temporary differences-	-		(6,834)	(2.14)
Permanent differences relating to the restatement of non-monetary items per IAS29	78,785	31.38	69,490	21.77
Taxes losses carried forward	-	-	(16,597)	(5.20)
Income items exempt from tax or subject to different tax rates	(25,124)	(10.00)	(20,934)	(6.56)
Effect of different tax rates applicable to the consolidated affiliates	(8,709)	(3.47)	1,549	0.48
Effect of permanent differences on consolidation adjustments	15,308	6.10	12,082	3.79
Disallowable expenses	1,960	0.78	1,818	0.57
Tax saving on investment incentives,net	(12,068)	(4.82)	(7,080)	(2.22)
Provision for taxes on income	<u>133,014</u>	<u>52.97</u>	<u>147,606</u>	<u>46.26</u>

The provision for taxes on income comprise the following items:-

	1999	1998
	TL billions	TL billions
Current corporation and income taxes	128,036	97,749
Net increase in deferred tax on taxable temporary differences	<u>4,978</u>	<u>49,857</u>
Provision for taxes on income	<u>133,014</u>	<u>147,606</u>

In accordance with the related regulation for prepaid taxes on income, such advances 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 movements of current taxes payable on income in 1999 and 1998 are shown below:-

	1999	1998
	TL billions	TL billions
Provision for current taxes payable on income before deductions	133,014	147,606
Add: Taxes carried forward	59,232	22,433
Add: Deferred tax assets	53,019	-
Less: Corporation taxes paid in advance	(55,912)	(85,651)
Less: Deferred tax liabilities	(57,997)	(67,181)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 31 December 1999	<u>(16,574)</u>	<u>(4,083)</u>
Taxes payable on income	<u>114,782</u>	<u>13,124</u>

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 16 – (Continued)

Deferred tax assets and liabilities as at 31 December 1999 and 1998 are attributable to the items detailed in the table below:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>
Deferred tax assets		
Tax legislation effect on securities	34,753	-
Specific and general allowance for loan losses	12,051	12,959
Provision for extraordinary item (Note 20)	12,004	-
Reserve for retirement pay	4,052	2,293
General provision for banking and leasing risks	3,792	5,822
Other expense accruals, net	<u>745</u>	<u>8,821</u>
Total deferred tax assets	<u>67,397</u>	<u>29,895</u>
Deferred tax liabilities		
Restatement of bank premises and equipment per IAS29	35,214	25,826
Accrued interests and foreign exchange gains on securities	38,451	98,256
Others	<u>383</u>	<u>-</u>
Total deferred tax liabilities	<u>74,048</u>	<u>124,082</u>
Net deferred tax liabilities	<u>6,651</u>	<u>94,187</u>

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.

17 Accrued interest and other liabilities

The principal components of these captions are as follows:-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Accrued interest on deposits	101,853	68,226	38,994
Provision for earthquake taxes (Note 20)	36,306	-	-
Miscellaneous payables	34,639	10,523	29,895
Accrued interest on borrowings	33,648	23,297	21,403
Withholding taxes	19,429	12,059	9,639
Payables to suppliers relating to financial leasing activities	15,611	27,304	28,438
Reserve for severance payment	13,471	7,785	6,033
Insurance technical provisions	10,374	-	-
Transfer orders	10,271	11,377	11,903
General provisions for banking risks	10,000	16,282	-
Blocked accounts	7,733	21,311	14,983
Interest and expense accruals other than on deposits and borrowings	5,254	10,698	3,006
Payables to insurance and reinsurance companies relating to insurance operations	4,576	-	-
Accrued exchange loss on derivatives	-	2,815	-
Others	<u>29,255</u>	<u>25,613</u>	<u>10,961</u>
	<u>332,420</u>	<u>237,290</u>	<u>175,255</u>

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

18 Long-term debts

Long-term debts comprise of the following:-

	Interest rate%	Maturity	1999			1998	1997
			Amount in original currency in millions	Short term portion TL billions	Medium and long-term portion TL billions	Long-term debts TL billions	Long-term debts TL billions
Funds from financial institutions:							
Pera Financial Services Company	9.375	2002	USD 245.7	-	133,240	125,926	180,301
TPR Securitisation-I	10.81-Libor+4.40	2004	USD 200	15,805	92,665	-	-
Anatolia Finance Company	7.48	2004	USD 148.8	-	80,675	81,253	-
TPR Securitisation-II	7.46-8.75	2004	EUR 100	-	54,261	-	-
International Finance Corporation	8.59-Libor+2.5	2004	USD 104.5	11,340	45,360	53,588	59,099
International Finance Corporation	8.76	2005	USD 100	4,893	48,927	50,919	-
International Finance Corporation	Libor+3.375	2004	USD 5	540	2,160	2,547	1,542
First Fidelity Bank	7.83-9.75	2002	USD 62	10,895	22,716	31,701	-
First Fidelity Bank	7.83	2002	USD 11.5	1,259	5,001	5,917	49,795
ABN Amro Bank	4.05-5.80	2003	NLG 54.1	-	13,360	7,881	2,675
Demirhalkbank N.V.	11.25	2001	EUR 23	-	12,468	-	-
Royalbank of Canada	5.21-6.25	2002	USD 9.2	1,557	3,453	2,065	-
All Taffeek	Libor+4	2001	USD 6.6	1,800	1,800	3,958	-
DEG	Fibor+3.5	2002	DEM 6.2	693	1,039	1,907	2,768
Bankers Trust Co. London	7.00	2000	USD 150	80,730	-	76,378	-
UBS				-	-	102,515	116,461
Others				3,953	10,982	5,438	36,833
				<u>183,887</u>	<u>548,533</u>	<u>624,182</u>	<u>541,418</u>
Bonds:							
Indenture notes	Libor+2	2002	USD 66.4	15,593	20,426	34,042	48,903
Bearer notes	8	2000	DEM 125.2	34,829	-	38,147	43,041

Short-term portions of funds from financial institutions and bonds are classified under short-term borrowings (Note 14) and short-term bonds payable (Note 15), respectively.

The Bank borrowed USD350 millions from Pera Financial Services Company, being the proceeds of an issue of 9 3/8 per cent notes by Pera Financial Services Company. Such notes are secured, by among other things, an assignment of the loan agreement between the Bank and Pera Financial Services Company in favour of a trustee for the benefit of the holders of such notes.

The long-term borrowing through Union Bank of Switzerland (UBS) amounting to USD200 millions represented syndicated loan facility provided by several international banks through the arrangement of this bank. The syndicated loan facility through UBS was utilised for the indirect acquisition of Osmanlı Bankası A.Ş. as discussed in Note 3 and 12, and repaid in June 1999.

In February 1998, the Bank sold certain future credit card receivables due or to become due to the Bank from Visa International Service Association (Visa), MasterCard International Incorporated (MasterCard) and Europay International S.A. (Europay), to Anatolia Finance Company, a special purpose company organized under the laws of the Cayman Islands (SPC) for the amount of USD175 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 USD175 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. The property of the Trust includes, among other things, (i) the right to receive a specified amount of current and future US

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements

31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 18 – (Continued)

Dollar amounts owed or to be owed by Visa, MasterCard and Europay to or for the account of Türkiye Garanti Bankası A.Ş., 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.

The Bank borrowed USD115 millions as a 7-year private placement bond issue. The loan which was arranged by JP Morgan was established as a single asset securitisation under the IFC umbrella.

First Fidelity Bank (FFB) loans correspond to the obligation arising from the sale to FFB of the Bank's future receivables in connection with its credit card securitisation program in which FFB is the Trustee bank. The proceeds received from these transactions are classified as obligation under long-term debts.

Indenture notes amounting to USD115 millions represent Garanti Grantor Trust 1997- "A" Floating Rate Certificates Due 2002. These notes are secured by substantially all of the assets of Instruments Finance Company, a special purpose company (SPC) wholly owned by the Bank and organized under the laws of Cayman Islands, which consists primarily of the SPC's rights and interests in the obligation of the Bank to sell to the SPC all of its right, title and interest in and to certain instruments, primarily comprised of the traveller's checks, eurocheques and cashier's checks or other checks which are (i) drawn on financial institutions or money-transfer service organisations located in and denominated in currencies of the United States of America, the Federal Republic of Germany or the United Kingdom or (ii) drawn on financial institutions located in any other jurisdiction that has an investment grade rating on its foreign-currency denominated sovereign debt and whose currency is freely convertible into US Dollars and which, in each case, have been encashed by the branches of the Bank located in Turkey.

Bearer Notes amounting to DEM150 millions represent the 8% Deutsche Mark Notes maturing in 2000 issued by Ottoman Finance Company (OFC), a wholly owned subsidiary of Osmanlı Bankası A.Ş., a consolidated affiliate. These notes are secured by an assignment to a trustee for the holders of the Notes of the rights under a loan made with the proceeds of the Notes by OFC to the Bank.

In June 1998, the Bank borrowed a syndicated loan in the amount of USD100 millions of which 15% was provided by International Finance Corporation and the remaining by six investment institutions through the arrangement of JP Morgan.

An aggregate principle amount of USD100 millions was extended by International Finance Corporation (IFC) as a loan to Osmanlı Bankası A.Ş., a consolidated affiliate, in September 1998. This facility consisted of a direct loan by IFC (A Loan) in the amount USD15 millions and a B Loan in the amount of USD85 millions, which was securitised under the name of Osmanlı Bankası-IFC Trust I and II; were privately placed to United States insurance companies. Proceeds of this facility was used to on-lend to private Turkish companies for project finance, capital equipment financing, as well as short term trade financing. While the maturity of the facility is seven years, repayment terms involve a two-year grace period during which only interest is to be serviced.

In June 1999, the Bank obtained a fund in the amount of USD200 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 USD29 millions and USD171 millions, respectively. The TPR Securitisation-I securitises the Bank's collection and reimbursement rights related to export transactions, specifically letters of credits and cash against documents

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements

31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

Note 18 – (Continued)

transactions, and has a maturity of 5 years with an average life of 3.14 years. The TPR Securitisation-I was arranged by Bank of America Securities LLC, Bank of America International Limited and Credit Suisse First Boston Corporation (CSFB) was appointed as co-manager.

In December 1999, Osmanlı Bankası A.Ş., a consolidated affiliate, obtained a fund in the amount of EUR100 millions through its Trade Payment Rights Securitisation transaction (the "TPR Securitisation-II"). The TPR Securitisation-II consists of two tranches amounting to EUR81 millions and EUR19 millions. The TPR Securitisation-II securitises Osmanlı Bankası A.Ş.'s collection and reimbursement rights related to export transactions, specifically letters of credits and cash against documents transactions, and has a maturity of 5 years with an average life of 3.5 years. The TPR Securitisation-II was arranged under the management of Dresdner Bank AG and Banca d'Intermediazione Mobiliare IMI.

19 Shareholders' equity

The authorised and paid-in nominal share capital of the Bank is TL260,000 billions comprising 519.999.999.653 registered shares of five hundred Turkish liras each and 1.735 registered shares of one hundred Turkish liras each.

The portion of share capital arising from the amounts paid in by the shareholders and the transfers from retained earnings were restated for the effects of inflation; however, the transfers from revaluation surplus on fixed assets for statutory purposes are not restated. Accordingly, the share capital is reflected at restated amounts in the accompanying consolidated financial statements.

The legal reserve is established by annual appropriations amounting to 5% of income disclosed in the Bank's 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 reserve is restricted and is not available for distribution as dividends. In the accompanying consolidated financial statements, legal reserves are included in retained earnings at their historical amounts.

20 Extraordinary item

Turkish Government has imposed a one time only extraordinary tax measures to finance the public expenditures caused by the massive earthquakes on 17 August and 12 November 1999 in Marmara Region.

One of such tax measures is "additional income and corporate tax". In principal, all individuals, excluding wage earners, and corporate taxpayers are required to pay an additional income or corporate tax at 5% on their taxable bases filed for the year of 1998. The tax base for the 5% additional tax is just the same as the tax base on which the income or corporate tax was charged for the year 1998. The Bank fully provided for these taxes amounting to TL7,575 billions in the accompanying consolidated statements of income.

Another additional tax imposed by the Turkish Government is the withholding tax on interest income on government securities that will be held at maturity. The tax rate on such interest income changes from 4% to 19% according to maturities of the securities. Accordingly, the Bank fully provided for these taxes amounting to TL30,123 billions on accrued interest on government securities as "extraordinary item" in the accompanying consolidated statements of income.

Total such taxes were reflected as TL37,698 billions in the accompanying consolidated statements of income and; as at 31 December 1999, its unpaid portion of TL36,306 billions was classified under "accrued interest and other liabilities" as "provision for earthquake taxes" in the accompanying consolidated balance sheets (Note 17).

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

22 Commitments and contingencies

In the normal course of banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit, and resale and repurchase transactions on securities.

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

	1999	1998	1997
	<u>TL billions</u>	<u>TL billions</u>	<u>TL billions</u>
Letters of guarantee	1,321,445	1,670,395	1,122,945
Letters of credit	501,046	391,198	479,160
Acceptance credits	147,979	116,399	91,129
Other guarantees and endorsements	<u>50,558</u>	<u>63,154</u>	<u>4,971</u>
	<u>2,021,028</u>	<u>2,241,146</u>	<u>1,698,205</u>

As at 31 December 1999, commitment for uncalled capital of affiliated companies amounts approximately to TL15,106 billions (1998: TL601 billions and 1997: TL288 billions).

Commitment for purchase and sale of foreign currencies under spot, forward, swap or future rate agreements (FRA) and for gold trading amounts to TL1,941,462 billions (1998: TL1,474,512 billions and 1997: TL2,584,591 billions), almost all due within one year.

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

	1999		1998		1997	
	Purchases TL billions	Sales TL billions	Purchases TL billions	Sales TL billions	Purchases TL billions	Sales TL billions
Forward agreements for customer dealing activities	37,055	27,585	47,408	12,095	206,335	225,788
Forward agreements for hedging purposes	617,867	343,824	348,887	222,331	394,117	387,163
Currency swap agreements for hedging purposes	295,020	467,970	181,318	425,900	879,881	482,706
Interest rate swap agreements for hedging purposes	-	4,860	2,341	-	893	-
Spot foreign currency transactions	6,794	17,111	41,548	46,101	-	-
Forward agreements for gold trading	4,426	118,178	5,971	84,944	-	-
FRA's	-	-	51,411	-	-	-
Others	<u>-</u>	<u>772</u>	<u>2,099</u>	<u>2,158</u>	<u>-</u>	<u>7,708</u>
	<u>961,162</u>	<u>980,300</u>	<u>680,983</u>	<u>793,529</u>	<u>1,481,226</u>	<u>1,103,365</u>

Commitment arising from agreements for repurchase/resale of government securities at 31 December 1999 amounts to TL841,087 billions (1998: TL568,055 billions and 1997: TL981,775 billions).

Year 2000 issues

The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Bank's programs that have time-sensitive software may recognise a date using "00" as the year 1900 rather than the year 2000. Since the management of the Bank has considered the impact of year 2000 issues on its computer systems and applications, and implemented a comprehensive remediation plan; there have been no problem encountered relating to year 2000 issues at the turn of the millenium.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL units current at 31 December 1999 pursuant to IAS 29)

23 Currency structure of assets and liabilities

Substantial volumes of business are conducted in foreign currencies. Assets denominated in foreign currencies are funded by foreign currency customer deposits and by deposits or loans taken from foreign banks.

The Bank's foreign currency assets and liabilities may be analysed as follows (TL equivalents):-

	1999 <u>TL billions</u>	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Cash and due from banks	843,802	702,238	329,633
Blocked accounts at Central Bank	200,061	111,594	91,311
Securities	749,523	338,697	456,952
Loans, advances and discounts	1,650,880	1,721,961	1,523,352
Other assets	<u>264,034</u>	<u>277,080</u>	<u>247,776</u>
	3,708,300	3,151,570	2,649,024
Funding sources	4,131,343	3,488,918	2,962,005
Other liabilities	<u>105,710</u>	<u>101,770</u>	<u>80,900</u>
	4,237,053	3,590,688	3,042,905
Short position before derivative contracts	(528,753)	(439,118)	(393,881)
Derivative contracts (a)	<u>323,737</u>	<u>301,092</u>	<u>215,891</u>
Net short position	<u>(205,016)</u>	<u>(138,026)</u>	<u>(177,990)</u>

(a) The Bank hedged a portion of its short position amounting to 528,753 billions (1998: 439,118 billions and 1997: TL393,881 billions) at TL equivalents at 31 December by forward contracts maturing almost all in 2000 which represent total net commitment to buy approximately USD600 millions (US dollar equivalent of TL323,737 billions at exchange rate prevailing on 31 December 1999) (1998: USD587 millions and 1997: USD420 millions) at varying exchange rates indicated in the corresponding contracts.

The major currencies included above are US Dollar, Deutsche Mark, Pounds Sterling and Swiss Francs. However, for the purposes of the evaluation of the table above, special emphasis should be given to the assets and liabilities denominated in Russian Roubles which are considered as foreign currency items. Russia is a highly inflationary environment as evidenced by a very high cumulative inflation rate of %210.41 for the three years ended 31 December 1999. The Russian Roubles denominated net assets as included in the above table at their TL equivalents at 31 December 1999 amounted to 7,648 billions.

Volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to USD61,960 millions (1998: USD63,282 millions and 1997: USD 35,714 millions) for the year ended 31 December 1999.

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements

31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL unit current at 31 December 1999 pursuant to IAS 29)

24 Financial statements of consolidated affiliates

As discussed in greater detail in Notes 1 and 3, Osmanlı Bankası A.Ş. group of companies, United Garanti Bank International N.V., Garanti Finansal Kiralama A.Ş., Tansaş İzmir Büyükşehir Belediyesi İç ve Dış Ticareti A.Ş., Garanti Funding Corporation I, Garanti Funding Corporation II, Ana Konut Danışmanlık A.Ş., Instruments Finance Company, Garanti Bank Moscow, D.O.C Finance S.A., Clover Investment Ltd, Lasaş Lastik San. ve Tic.A.Ş., Doğu Hava Taşımacılığı A.Ş., Garanti Sigorta A.Ş., Garanti Financial Services plc., Garanti Yatırım Menkul Kıymetler A.Ş., Clover Bank Off-Shore Ltd, Garanti Hayat Sigorta A.Ş., Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş., Marm o S.A., Garanti Portföy Yönetimi A.Ş., Şahintur Şahinler Otelcilik A.Ş., Garanti Fund Management, CI Finance Ltd, CI Investment Ltd, Bosphorus Financial Services Ltd, are consolidated in the accompanying financial statements. The summarised balance sheets of these affiliates at 31 December 1999, 1998 and 1997 which are consolidated, are as follows:-

	31 December 1999												
	Osmanlı Bankası A.Ş. Consolidated TL billions	United Garanti Bank Int. N.V. TL billions	Garanti Finansal Kiralama A.Ş. TL billions	Tansaş İzmir B.Ş.B.İ.ve D.Tic. A.Ş. TL billions	Garanti Funding Corporation I TL billions	Garanti Funding Corporation II TL billions	Ana Konut Danışmanlık A.Ş. TL billions	Instruments Finance Company TL billions	Garanti Bank Moscow TL billions	D.O.C Finance S.A. TL billions	Clover Investment Ltd TL billions	Lasaş Lastik San ve Tic. A.Ş. TL billions	Doğu Hava Taşımacılığı A.Ş. TL billions
ASSETS													
Cash and due from banks	367,751	143,027	20,549	2,799	52,019	52,059	62	4,802	6,045	191	16,801	7	145
Interbank placings	40,044	-	-	-	-	-	-	-	-	-	-	-	-
Blocked accounts at Central Bank	48,150	-	-	-	-	-	-	-	-	-	-	-	-
Securities	401,834	34,617	18,376	1,263	-	-	4,338	-	12,406	274	-	131	40
Loans, net	327,113	497,990	-	-	-	-	-	31,833	12,563	29,565	-	-	-
Accrued interest, prepaid expenses and other assets	63,511	5,686	61,481	29,816	-	-	1,512	420	778	78	294	555	2,180
Investments in affiliated companies	11,544	31	804	387	-	-	7	-	-	-	5,876	610	2
Premises and equipment, net	113,794	6,446	1,031	27,176	-	-	33,561	-	578	14	-	16,365	14,302
Intangible assets, net	46,923	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	1,420,664	687,797	102,241	61,441	52,019	52,059	39,480	37,055	32,370	30,122	22,971	17,668	16,669
LIABILITIES AND SHAREHOLDERS' EQUITY													
Deposits	651,651	531,849	-	-	-	-	-	-	19,307	-	-	-	-
Interbank takings	51,758	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	282,085	59,497	60,404	493	-	-	23	-	-	27,471	492	-	4,642
Short-term bonds payable	34,829	-	-	-	51,988	52,028	-	15,593	-	-	-	-	-
Accrued interest and other liabilities	84,869	26,200	23,179	36,998	4	4	35	699	1,059	286	126	347	345
Long-term debts	123,123	25,707	6,854	7,006	-	-	9,583	20,426	-	-	20,274	-	3,213
Total Liabilities	1,228,315	643,253	90,437	44,497	51,992	52,032	9,641	36,718	20,366	27,757	20,892	347	8,200
Minority Interest	2,664	-	-	(26)	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-													
Share capital	104,263	18,493	12,944	8,010	27	27	35,769	14	13,850	4,069	163	13,519	28,004
Retained earnings	85,422	26,051	(1,140)	8,960	-	-	(5,930)	323	(1,846)	(1,704)	1,916	3,802	(19,535)
Total Shareholders' Equity	189,685	44,544	11,804	16,970	27	27	29,839	337	12,004	2,365	2,079	17,321	8,469
Total Liabilities and Shareholders' Equity	1,420,664	687,797	102,241	61,441	52,019	52,059	39,480	37,055	32,370	30,122	22,971	17,668	16,669

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL unit current at 31 December 1999 pursuant to IAS 29)

Note 24 - (Continued)

31 December 1999 (Continued)													
	Garanti Sigorta A.Ş. TL billions	Garanti Financial Services TL billions	Garanti Yatırım Menkul Kıymetler A.Ş. TL billions	Clover Bank Off-Shore Ltd. TL billions	Garanti Hayat Sigorta A.Ş. TL billions	Garanti Bilişim Teknolojisi ve Tic. T. A.Ş. TL billions	Marmo S.A. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Şahintur Şahinler Otelcilik A.Ş. TL billions	Garanti Fund Management TL billions	Çi Finance Ltd. TL billions	Çi Investment Ltd. TL billions	Bosphorus Financial Services Ltd. TL billions
ASSETS													
Cash and due from banks	1,458	61	9	5,510	1,747	297	3,845	690	164	280	37	37	37
Interbank placings	-	-	-	-	-	-	-	-	-	-	-	-	-
Blocked accounts at Central Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities	2,571	757	6,657	2,492	1,296	-	-	803	-	142	-	-	-
Loans, net	-	11,218	-	-	-	-	-	-	-	-	-	-	-
Accrued interest, prepaid expenses and other assets	9,617	42	1,097	93	2,957	2,717	-	996	16	17	39	39	39
Investments in affiliated companies	1,365	-	182	-	2	2,791	-	-	2	3	54	54	54
Premises and equipment, net	715	14	1,358	16	1,067	325	-	171	1,549	78	-	-	-
Intangible assets, net	-	-	-	-	-	8	-	-	-	-	-	-	-
Total Assets	15,726	12,092	9,303	8,111	7,069	6,138	3,845	2,660	1,731	520	130	130	130
LIABILITIES AND SHAREHOLDERS' EQUITY													
Deposits	-	11,059	-	-	-	-	-	-	-	-	-	-	-
Interbank takings	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	-	-	2,333	-	-	-	-	-	-	-	-	-	-
Short-term bonds payable	-	-	-	5,086	-	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	13,468	164	1,434	332	3,672	1,191	19	848	-	227	6	6	6
Long-term debts	-	-	-	-	-	-	-	-	-	136	-	-	-
Total Liabilities	13,468	11,223	3,767	5,418	3,672	1,191	19	848	0	363	6	6	6
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-													
Share capital	10,266	1,431	5,029	2,441	3,541	27,410	5,876	909	2,246	54	54	54	54
Retained earnings	(8,008)	(562)	507	252	(144)	(22,463)	(2,050)	903	(515)	103	70	70	70
Total Shareholders' Equity	2,258	869	5,536	2,693	3,397	4,947	3,826	1,812	1,731	157	124	124	124
Total Liabilities and Shareholders' Equity	15,726	12,092	9,303	8,111	7,069	6,138	3,845	2,660	1,731	520	130	130	130

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL unit current at 31 December 1999 pursuant to IAS 29)

Note 24 - (Continued)

	31 December 1998													
	Osmanlı Bankası A.Ş. Consolidated TL billions	United Garanti Bank Int. N.V. TL billions	Garanti Finansal Kiralama A.Ş. TL billions	Garanti Funding Corporation I TL billions	Garanti Funding Corporation II TL billions	Instruments Finance Company TL billions	Garanti Bank Moscow TL billions	Lasış Lastık San ve Tic. A.Ş. TL billions	Ana Konut Danışmanlık A.Ş. TL billions	Garanti Bilişim Teknolojisi ve Tic. T.A.Ş. TL billions	Garanti Financial Services TL billions	Sahintur Sahinler Otelcilik A.Ş. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Garanti Fund Management TL billions
ASSETS														
Cash and due from banks	159,921	86,892	780	62,050	62,048	4,722	2,700	204	11	36	21	195	99	197
Interbank placings	23,423	-	-	-	-	-	-	-	-	-	-	-	-	-
Blocked accounts at Central Bank	47,014	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities	348,638	39,767	-	-	-	-	-	-	-	62	-	18	754	156
Loans, net	303,071	385,434	-	-	-	44,422	35,459	-	-	-	2,056	-	-	-
Accrued interest, prepaid expenses and other assets	49,400	4,214	134,800	-	-	568	226	5,779	733	3,086	23	3	298	54
Investments in affiliated companies	2,952	10	355	-	-	-	-	515	-	2,786	-	-	-	3
Premises and equipment, net	88,009	3,968	1,207	-	-	-	710	16,590	19,835	363	16	1,578	130	137
Intangible assets, net	49,519	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	1,071,947	520,285	137,142	62,050	62,048	49,712	39,095	23,088	20,579	6,333	2,116	1,794	1,281	547
LIABILITIES AND SHAREHOLDERS' EQUITY														
Deposits	554,973	370,522	-	-	-	-	37,613	-	-	-	2,037	-	-	-
Interbank takings	39,301	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	124,863	77,196	51,559	-	-	-	-	5,092	-	-	239	-	-	-
Short-term bonds payable	-	-	-	62,022	62,020	14,736	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	67,267	14,871	43,724	2	2	814	1,221	891	256	652	29	39	322	236
Long-term debts	271,252	21,475	25,289	-	-	34,042	-	-	-	-	-	-	-	129
Total Liabilities	1,057,656	484,064	120,572	62,024	62,022	49,592	38,834	5,983	256	652	2,305	39	322	365
Minority Interest	636	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-														
Share capital	153	20,357	10,380	26	26	13	7,689	13,519	25,759	27,410	70	2,247	659	50
Retained earnings	13,502	15,864	6,190	-	-	107	(7,428)	3,586	(5,436)	(21,729)	(259)	(492)	300	132
Total Shareholders' Equity	13,655	36,221	16,570	26	26	120	261	17,105	20,323	5,681	(189)	1,755	959	182
Total Liabilities and Shareholders' Equity	1,071,947	520,285	137,142	62,050	62,048	49,712	39,095	23,088	20,579	6,333	2,116	1,794	1,281	547

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 December 1999, 1998 and 1997

(As adjusted for the effects of inflation in TL unit current at 31 December 1999 pursuant to IAS 29)

Note 24 - (Continued)

	31 December 1997								
	Osmanlı Bankası A.Ş. Consolidated TL billions	United Garanti Bank Int. N.V. TL billions	Garanti Finansal Kiralama A.Ş. TL billions	Garanti Funding Corporation I TL billions	Garanti Funding Corporation II TL billions	Instruments Finance Company TL billions	Garanti Bank Moscow TL billions	Garanti Bilişim Teknolojisi ve Tic. T.A.Ş. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions
ASSETS									
Cash and due from banks	164,873	57,396	982	74,260	74,778	1,299	25,316	46	-
Blocked accounts at Central Bank	32,264	-	-	-	-	-	-	-	-
Securities	210,401	4,870	1,037	-	-	-	20,247	389	319
Loans, net	282,044	263,663	-	-	-	56,745	2,823	-	-
Accrued interest, prepaid expenses and other assets	21,402	1,718	115,983	2,853	2,335	1,892	1,623	1,938	75
Investments in affiliated companies	2,087	-	55	-	-	-	-	1,399	-
Premises and equipment, net	59,379	2,259	788	-	-	-	469	376	191
Intangible assets, net	50,846	-	-	-	-	-	-	-	-
Total Assets	823,296	329,906	118,845	77,113	77,113	59,936	50,478	4,148	585
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits	463,861	65,549	-	-	-	-	4,735	-	-
Short-term borrowings	124,279	202,539	35,928	-	-	-	34,620	-	-
Short-term bonds payable	-	-	-	77,085	77,085	10,195	-	-	-
Accrued interest and other liabilities	40,394	8,669	35,949	3	3	1,006	148	458	191
Long-term debts	184,892	27,179	35,890	-	-	48,903	-	-	-
Total Liabilities	813,426	303,936	107,767	77,088	77,088	60,104	39,503	458	191
Shareholders' Equity:-									
Share capital	150	19,069	9,818	25	25	13	7,708	21,609	454
Retained earnings	9,720	6,901	1,260	-	-	(181)	3,267	(17,919)	(60)
Total Shareholders' Equity	9,870	25,970	11,078	25	25	(168)	10,975	3,690	394
Total Liabilities and Shareholders' Equity	823,296	329,906	118,845	77,113	77,113	59,936	50,478	4,148	585