

Interim report

TO : INVESTMENT COMMUNITY
FROM : GARANTI BANK / Investor Relations
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SUBJECT : 1999/Q3 FINANCIAL STATEMENTS
DATE : October 21, 1999

Garanti Bank reported TL143,846 Billion (US\$365 Million) of net earnings in 1999/Q3.

Net earnings grew 1.2%, while pre-tax earnings increased more substantially by 8.7% compared to 1998/Q3, both in real terms. On a quarterly basis, the Bank's net earnings were TL56,306 Billion, indicating a stronger growth of 26% in real terms over the third quarter of 1998.

Garanti's total assets reached TL3,949,205 Billion (US\$8,581 Million) with a 20.2% real increase year-over-year.

An overview of the developments in the Turkish economy is provided below, followed by the summary of 1999/Q3 results and financial statements.

I. Turkish economy during the third quarter of 1999

According to the latest officially announced figures, the Turkish economy shrank again in the second quarter of 1999. The contraction was milder than the figures announced in 1999/Q1. GDP in 1999/Q2 declined by 2%, while GNP fell 3.4% in real terms from last year's level. The declines may be traced back to two parts of aggregate demand, investment spending and net exports. Consumption expenditures have almost recovered to 1998 levels, but were still 0.1% lower in Q2. The recovery in the largest component of aggregate demand is the fundamental reason for milder national income results. Investment expenditures plummeted yet again in 1999/Q2 by 14.3% in a re-enactment of the first quarter performance of -18.1%. Economic uncertainty continued no doubt to cloud investment decisions. In fact, the lower second quarter plunge in investment spending in comparison to 1999/Q1 is completely due to an acceleration in public sector investment - up by 22%. In contrast, private sector investment spending slumped to new lows. It fell, showing perfect symmetry with public sector investment, by a stunning 22% in 1999/Q2, even more disappointing than the 20.7% decline in Q1. Net exports also tumbled in Q2, in a sign that domestic demand is recovering from February's nadir. Earlier, the improvement in the trade balance had come as a matter of course in the wake of a severe drop in imports.

The vexing issue at the moment is an apparent recovery in imports with exports still falling (due to feeble German and decrepit Russian growth). Balance of payments data for the first five months of 1999 still records a current account surplus cumulatively, but April and May both registered deficits. Data from the Exporters' Union (TIM) so far reveal an incessant decline in exports. TIM claims that Turkish exports dropped once again in August by 14.3% in comparison to the same month in 1998. Current account deficit does not pose a worry so long as it remains of manageable size.

Industrial output in July declined by 2.8% from a year earlier. Industrial output rose 0.7% in the second quarter of 1999 as the economy continued to recover from the effects of the Russian crisis last August. The half-year change was still -3.9% below 1998/H1. Furthermore, private sector industrial production continues to lag below 1998 levels, with a 1.8% decline in the second quarter compared to 1998Q2. The half-year figure was -7.6% in comparison to 1998H1.

An incipient economic recovery is likely to have ground to a halt in the third quarter in the aftermath of a devastating earthquake that struck the Marmara region. The August 17 earthquake had Izmit, an industrial city 50 miles from Istanbul, as its epicenter.

Just released April 1999 figures indicate that the rate of unemployment rose to 7.3% - from 6.4% in April 1998- of the labor force. Underemployment has also risen from 6% to 6.9% over the same period. The true scale of unemployment is believed to be 14.2% in April 1999.

The drop in exports in 1999, compared to a year earlier, in combination with the drop in domestic demand naturally affected capacity utilization and industrial production negatively. CBRT's survey on firms' capacity utilization (CUR) depicts an improvement following the April general election of this year, but then a steady drop again in the summer. The earthquake of August 17, 1999 will definitely mean that August capacity utilization levels (to be announced by the SIS early in the second half of October) will be far below 1998 levels. August of last year was still a period of economic expansion. The effects of the Russian turmoil were felt from September onwards. August industrial production data demonstrate a 13.2% decline from 1998 same month. Manufacturing sector production fell the most in August by a whopping 14.4%. Textile output was down by 9.4%, while every other sub-category under manufacturing fell as well. The sharp contraction in industrial activity in August is largely due to the quake of the same month.

A predictable consequence of the recession and high real interest rates resulted in a fall in the amount of new credits extended to firms by commercial banks. In September, outstanding credits were up 34.5% in nominal terms, but down from last year in real terms. Banks placed more emphasis on investing in Turkish government paper and less on extending loans. Turkish Lira deposits, have on the other hand, surged as banks have offered high interest rates mirroring yields (direction-wise) on government bonds.

The focus of the markets in recent weeks has been on the imminent signing of an agreement of some form with the IMF and a large sum of foreign currency influx to the economy in the form of IMF and World Bank funds as well as short term investments which supports expectations for lower interest rates. On October 15th, upon the announcement of preliminary budget figures for 2000, interest rates in the secondary market fell significantly. The rate on the popular August 2000 paper dipped below 90%.

II. GARANTİ BANK 1999/Q3 Operating Performance

Garanti Bank maintained its liquidity-focused strategy in the third quarter of 1999, which reinforced profitability. Accordingly, interest income posted a 32.4% real increase over 1998/Q3, reaching TL785,822 Billion (US\$1,996 Million). As a result, while interest on loans decreased 5.2%, other interest income, which largely consists of income from marketable securities grew 62.4%, both in real terms, over 1998/Q3.

Parallel to the decrease in loans as a percentage of total assets, and in real terms, the proportion of interest on loans in total interest income fell to 31.7% from 44.3% in 1998/Q3. On the other hand, this ratio is slightly lower than 32.7% in 1999/H1. In detail, the ratio of loans to total assets dropped from 43.1% as at September 30, 1998 to 31% as at September 30, 1999 (34.5% as at June 30, 1999).

Interest expense increased by 60.5% in real terms year over year, reaching TL401,666 Billion (US\$1,020 Million) for 1999/Q3. Interest paid on deposits made up a majority of interest expense, 84.5% compared to 73.1% in 1998/Q3. Interest paid on borrowed funds made up 12.7% of interest expense and shrank by 3.7% in real terms year-on-year. Consequently, Garanti was able to post 11.9% real growth in its net interest margin, which reached TL384,156 Billion (US\$976 Million) for the period.

Net interest margin increased to 37.5% in 1999/Q3, from 32.1% in 1998/Q3 (35.6% in 1999/H1). The improvement is attributable to lower cost of interest bearing liabilities, 15.4%, and higher return on interest bearing assets, 53% in 1999/Q3. Adjusted NIM also increased to 15.5% compared to 14.8% in 1999/H1, but was lower than 17.1% in 1998/Q3. Likewise, total interest expense to total interest income improved to 30.4%, compared to both 31.8% in 1999/H1, and 32.2% in 1998/Q3.

In 1999/Q3, Garanti succeeded in growing its fees and commission income (net) by 69.3% in real terms year-on-year basis. Total non-interest income including netted fees and commissions reached TL41,849 Billion (US\$106 Million).

Total operating expenses, including foreign exchange loss (net), grew 33.6% compared to 1998/Q3, and reached TL195,533 Billion (US\$497 Million). Foreign exchange loss (net) constitutes over 38.3% of the total and reported 42.6% increase during this period.

Personnel expenses showed a lower increase of 23.4% year-on-year and made up 29.7% of the total.

To sum it up, despite unfavorable domestic economic conditions including general slowdown in the economy, rising funding costs and uncertainty, Garanti increased its earnings both on pre-tax and after-tax basis in 1999/Q3. The respective growth rates are 8.7% and 1.2% in real terms compared to the same period in 1998.

The Bank's effective tax rate increased from 28.1% in 1998/Q3 to 33.0% (32.1% in 1999/H1). Tax provision increased by 27.9% in real terms compared to 1998/Q3.

Balance Sheet

Assets recorded 20.2% growth in real terms on year-on-year basis.

Garanti's total assets reached TL3,949,205 Billion (US\$8,581 Million) as at September 30,1999, up by 20.2% in real terms over the corresponding period of 1998. During 1998/Q3, total assets were TL2,127,731 Billion (US\$7,670 Million) and as at June 30, 1999, TL3,373,086 Billion (US\$8,008 Million). Asset growth in real terms was 2.3% between June 30 and September 30, 1999.

The largest components of assets were loans and investment securities, which separately made up 31% of assets. The ratio of cash loans to total assets fell slightly to 31% from 34.5% at June 30, 1999. Cash and due from banks were TL572,786 Billion (US\$1,245 Million), and constituted 15% of total balance sheet. As a result of Garanti's focus on liquidity and profitability under prevailing economic conditions, liquid assets to total assets increased to 40.47% at the end of the third quarter, from 38.80% at the end of 1999/H1 and 33.47% at the end of 1998/Q3. Cash loans, TL1,224,543 Billion (US\$2,661 Million), dropped by 7.6% in real terms over the previous quarter whereas the decline on a year-on-year basis was 13.5%. Foreign currency cash loans constituted 72% of the total and short-term loans made up 56.7% of the total loans. Investment securities (including short-term investments) were TL1,224,039 Billion (US\$2,660 Million) as at September 30, 1999. This translates to a 6.1% real increase over the previous quarter. Garanti continued to provide 100% provision for non-performing loans. Non-performing loans to total cash loans rose to 1.77%, from 1.11% in the first half as at June 30, 1999.

On the funding side, total deposits made up 48% of the total liabilities and stockholders' equity. Deposits, which were TL1,896,332 Billion (US\$4,121 Million), rose by 4.7% in real terms on a year-on-year basis. Demand deposits were TL565,624 Billion, making up 29.8% of total deposits. The Bank's low-cost funding source, demand deposits, rose by 6.0% in real terms over June 30, 1999 figure. TL deposits made up 39.9% of the total, 33.4%, which was demand. 28.3% of foreign currency deposits was also demand deposits. As another important funding source, funds borrowed, which constituted 24% of total liabilities and stockholders' equity rose by 24.1% in real terms year over year, reaching TL948,816 Billion (US\$2,062 Million). Securities issued were TL167 Billion (US\$363 Million), up by 54.8% in real terms as compared to 1999/Q2.

Provisions on the liability side was down by 43.3% in real terms to TL40,916 Billion (US\$89 Million) compared to 1998/Q3 which was largely due to decrease in tax provisions to TL18,754 Billion (US\$41 Million). In addition, there was a change in the regulation, which lowered the rate of general provision for loans from 1% of cash loans to 0.5% and from 0.2% for non-cash loans to 0.1%. Accordingly, Garanti's general provision for loans declined from TL12,277 Billion as at June 30, 1999 to TL7,480 Billion at the end of the third quarter of 1999.

Garanti's total stockholders' equity was TL482,569 Billion (US\$1,049 Million), up by 31.5% in real terms on a year-on-year basis, from TL237,660 Billion (US\$857 Million) at the end of 1998/Q3. Total stockholders' equity made up 12.2% of total assets in the current period, up from 11.8% in 1999/H1.

The short foreign currency position, which was US\$203 Million at the end of previous quarter declined to US\$160 million as of September 30, 1999, in line with the Central

Bank of Turkey's regulations, which calls to limit short position with 20% of capital base. Short FC position is 19.6% of the Bank's capital base.

Net repo position increased to TL480,877 Billion (US\$1,045 Million) reflecting the anticipated fall in T-bill yields. The ratio of repo portfolio to total assets was up from 6.8% at the end of 1999/Q2, to 10.9% at the end of 1999/Q3.

The capital adequacy ratio was 19.5% at the end of 1999/Q3, up from 18.81% in the previous quarter. After-tax return on average assets and return on average equity were 7.21% and 49.44% for the period. These were 7.17% and 49.39%, respectively, at the end of previous quarter. On a pre-tax basis, ROAA and ROAE are 10.8%, 73.8%, respectively.

Exchange Rates

US\$1= TL460,200	As of September 30, 1999	US\$1=TL393,728.53	1999 Jan.-Sept. Average
US\$1= TL277,400	As of September 30, 1998	US\$1=TL250,664,00	1998 Jan.-Sept. Average

Inflation Rate (WPI)

1998 September-1999 September	54.40%
1999 July – 1999 September	13.77%

TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ

**FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIODS ENDED
30 SEPTEMBER 1999 AND 1998**

TÜRKİYE GARANTİ BANKASI A.Ş.

BALANCE SHEETS-ASSETS (in millions TL)	Unaudited	
	30.09.99	30.09.98
Liquid assets	27,969,005	42,333,792
Cash, local currency	4,152,706	6,109,714
Cash, foreign currency	15,709,762	31,558,405
Others	8,106,537	4,665,673
Due from banks	532,112,734	390,604,470
Central Bank of Turkey	43,399,809	18,714,063
Other banks	488,712,925	371,890,407
-Domestic banks	11,165,197	98,242,538
-Foreign banks	477,547,728	273,647,869
Other financial institutions	-	-
Interbank funds sold	-	-
Securities (Net)	1,052,772,836	346,567,980
Government bonds and treasury bills	663,966,893	221,040,026
Other bonds	-	-
Equity shares	194,353	147,442
Other securities	388,611,590	125,380,512
Loans	1,224,542,576	917,090,388
Short-term	694,424,333	515,333,787
Medium and long-term	530,118,243	401,756,601
Non-performing loans (Net)	-	-
Loans under follow-up (Net)	-	-
-Uncollateralised	6,711,689	2,507,718
-Collateralised	14,944,980	2,813,199
-Provision (-)	21,656,669	5,320,917
Doubtful commissions and other receivables	-	-
-Gross receivables	-	-
-Provision (-)	-	-
Accrued interest and income	462,487,552	152,190,848
On loans	69,398,290	37,303,089
On securities	269,700,585	90,902,216
Others	123,388,677	23,985,543
Receivables from financial leasing activities (Net)	-	-
Receivables from financial leasing activities	-	-
Unearned income (-)	-	-
Reserve deposits	110,524,094	49,219,136
Government bonds funding legal reserves	12,704,116	12,704,115
Miscellaneous receivables	4,553,740	2,365,302
Investments (Net)	46,224,747	1,737,192
Financial companies	1,000,001	1,305,022
Non-financial companies	45,224,746	432,170
Affiliated companies (Net)	57,446,826	35,050,095
Financial companies	37,125,716	16,993,981
Non-financial companies	20,321,110	18,056,114
Other long-term investments (Net)	171,265,762	35,463,331
Equity shares	1,103,691	851,008
Others	170,162,071	34,612,323
Bank premises and equipment (Net)	171,872,858	71,436,700
Carrying value	204,035,497	86,922,315
Accumulated depreciation (-)	32,162,639	15,485,615
Other assets	74,728,367	70,968,128
TOTAL ASSETS	3,949,205,213	2,127,731,477

TÜRKİYE GARANTİ BANKASI A.Ş.

BALANCE SHEETS-LIABILITIES AND

SHAREHOLDERS' EQUITY (in millions TL)

	Unaudited	
	30.09.99	30.09.98
Deposits	1,896,331,834	1,172,760,899
Saving deposits	178,351,758	110,685,566
Certificate of deposits	440	440
Deposits of official authorities and organisations	15,299,431	9,868,230
Commercial deposits	97,325,132	70,522,254
Deposits of other organisations	15,710,402	9,199,036
Bank deposits	512,217,792	211,586,785
Foreign currency deposits	1,075,559,235	758,477,490
Gold deposits	1,867,644	2,421,098
Interbank funds borrowed	84,385,800	-
Funds borrowed	948,815,512	495,275,891
From Central Bank of Turkey	-	-
Others	948,815,512	495,275,891
-Domestic banks and organisations	116,057,049	16,620,888
-Foreign banks and organisations	832,758,463	478,655,003
-Subordinated debts	-	-
Funds	-	-
Securities issued (Net)	166,844,504	69,789,142
Notes	-	-
Asset backed securities	-	229,627
Bonds	166,844,504	69,559,515
Accrued interest and expense	163,913,601	39,722,935
On deposits	125,826,440	20,291,447
On funds borrowed	13,573,908	16,881,996
Others	24,513,253	2,549,492
Payables from financial leasing activities (Net)	-	-
Payables from financial leasing activities	-	-
Deferred expenses (-)	-	-
Taxes, stamps, premiums and other duties	7,843,233	4,977,591
Transfer orders	7,482	7,736
Other payables	42,083,669	16,576,268
Reserves	40,916,003	46,728,512
Reserve for retirement pay	3,668,205	2,168,205
General provision for loan losses	7,479,616	6,592,042
Reserve for taxes on income	18,753,678	23,735,217
Other provisions	11,014,504	14,233,048
Other liabilities	115,493,630	44,232,319
Shareholders' equity	338,724,140	145,587,482
Share capital	260,000,000	40,000,000
-Nominal capital	260,000,000	40,000,000
-Unpaid capital (-)	-	-
Legal reserves	27,738,536	63,381,892
Reserve for possible loan losses (Banking Act, article 32/1)	-	4,858,793
Revaluation surplus	35,099,693	37,200,353
Valuation increment	15,885,911	146,444
Loss	-	-
-Loss for the period	-	-
-Prior years' losses	-	-
Income	143,845,805	92,072,702
-Income for the period	143,845,805	92,072,702
-Prior years' income	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,949,205,213	2,127,731,477
COMMITMENTS AND CONTINGENCIES		
Guarantees and endorsements	1,356,288,255	973,044,820
Commitments	489,049,068	200,310,814
Derivative transactions	1,988,975,772	1,102,411,671
TOTAL	3,834,313,095	2,275,767,305

TÜRKİYE GARANTİ BANKASI A.Ş.

		Unaudited	
STATEMENTS OF INCOME (in millions TL)		30.09.99	30.09.98
I.	INTEREST INCOME	785,821,942	384,329,044
	Interest on loans	249,391,113	170,347,193
	On TL loans	161,197,475	121,134,012
	-On short-term loans	160,593,221	120,628,224
	-On medium and long-term loans	604,254	505,788
	On foreign currency loans	88,140,871	49,155,160
	-On short-term loans	37,293,340	19,941,151
	-On medium and long-term loans	50,847,531	29,214,009
	Interest on loans under follow-up	52,767	58,021
	Interest from banks	69,322,730	23,588,378
	Central Bank of Turkey	577,796	230,889
	Domestic banks	47,170,228	11,624,862
	Foreign banks	21,574,706	11,732,627
	Interest on interbank funds sold	173,387	3,427,997
	Interest on securities	451,396,832	177,345,232
	On government bonds and treasury bills	422,271,226	174,373,017
	On other securities	29,125,606	2,972,215
	Other interest income	15,537,880	9,620,244
II.	INTEREST EXPENSE	401,665,793	162,137,185
	Interest expense on deposits	339,503,776	118,460,182
	Saving deposits	82,245,923	34,638,139
	Certificate of deposits	-	3,986
	Deposits of official authorities and organisations	1,753,035	1,761,692
	Commercial deposits	10,246,703	4,766,089
	Deposits of other organisations	907,275	321,656
	Bank deposits	181,585,079	56,727,308
	Foreign currency deposits	62,765,761	20,241,312
	Interest on interbank funds borrowed	6,013,506	2,930,757
	Interest on funds borrowed	50,920,859	34,231,288
	Central Bank of Turkey	-	75,016
	Domestic banks	9,710,019	4,367,173
	Foreign banks	19,000,308	14,448,253
	Other organisations	22,210,532	15,340,846
	Interest on securities issued	4,708,327	6,185,743
	Other interest expense	519,325	329,215
III.	NET INTEREST MARGIN (I-II)	384,156,149	222,191,859
IV.	OTHER INCOME	404,525,795	80,974,661
	Commissions and fees received	42,493,796	18,930,820
	On loans	3,831,680	1,114,064
	On documentary credits and letters of guarantee	5,714,331	3,081,616
	Others	32,947,785	14,735,140
	Trading account income	22,259,671	13,431,573
	Foreign exchange gain	333,397,393	44,869,112
	Dividends received	1,013,680	852,649
	Others	5,361,255	2,890,507
V.	OPERATING EXPENSES	573,986,139	175,203,333
	Commissions and fees paid	26,713,029	12,893,186
	On funds borrowed	3,444,545	1,957,735
	On documentary credits	51,432	62,382
	Others	23,217,052	10,873,069
	Trading account loss	2,566,097	973,090
	Foreign exchange loss	408,334,986	78,916,452
	Personnel expenses	58,005,874	30,455,306
	Provision for retirement pay	1,200,000	950,000
	Rent expenses	4,606,836	1,979,876
	Depreciation and amortisation expenses	7,653,285	3,326,586
	Taxes, stamps and other duties	3,274,364	1,778,284
	Provision for possible loan losses	9,958,266	597,834
	Other provisions	4,618,111	20,130,799
	Others	47,055,291	23,201,920
VI.	NET OTHER INCOME/(EXPENSE) (IV-V)	(169,460,344)	(94,228,672)
VII.	INCOME BEFORE TAXES (III+VI)	214,695,805	127,963,187
VIII.	PROVISION FOR TAXES ON INCOME	70,850,000	35,890,485
IX.	NET INCOME FOR THE PERIOD (VII-VIII)	143,845,805	92,072,702

(Currency - Millions of Turkish Lira)**I- GENERAL NOTES ON THE BANK'S FINANCIAL POSITION****A. Notes to the current period operations**

(1) The financial statements were approved on 20 October 1999 (1998: 21 October 1998).

(2) Changes in the accounting policies and effects of such changes on the financial statements:-

There were no changes in the accounting policies.

(3) Application of the basic accounting principles; going-concern, accrual basis accounting and consistency concepts:-

The financial statements were prepared on the basis of going-concern, accrual basis accounting and consistency principles.

The components of statement of income are accounted for under accrual basis of accounting.

(4) Changes to the valuation policies, if any, and effects of such changes on the financial statements:-

There were no changes in the valuation policies.

(5) Valuation methods of securities (including investments, affiliated companies and other long-term investments):-

Treasury bills, government bonds and similar securities are valued on a "simple interest rate basis".

Securities quoted on the Istanbul Stock Exchange are marked to market. The valuation increments are booked under the "valuation increment" heading as a component of shareholders' equity.

(6) Method of depreciation applied, any changes in methodology and effects of such changes:-

Bank premises and equipment are depreciated on a "straight-line basis". No changes have been made in depreciation methods used during the current period.

(7) US dollar exchange rate for the Turkish lira (TL) at the date of balance sheet, 30 September 1999, used in the translation of foreign currency items in the financial statements and US dollar exchange rates for TL announced by the Bank applicable to its transactions for the last five working days of the period:-

The US dollar exchange rate for TL used for the preparation of the financial statements at 30 September 1999, was TL460,200 (1998: TL277,400).

The US dollar exchange rates for TL announced by the Bank for the last five working days of the current and previous periods were as follows:-

30.09.1999	458,900	30.09.1998	275,450
29.09.1999	460,000	29.09.1998	275,700
28.09.1999	461,200	28.09.1998	275,300
27.09.1999	460,400	25.09.1998	274,300
24.09.1999	457,800	24.09.1998	274,600

(Currency - Millions of Turkish Lira)**Note I - A- (Continued)**

- (8) US dollar equivalents of assets and liabilities denominated in foreign currencies and foreign currency open positions at the date of balance sheets were as follows:-

	1999	1998
Foreign currency denominated assets	USD 6,388 millions	USD 6,210 millions
Foreign currency denominated liabilities	USD 6,548 millions	USD 6,390 millions
Short position in foreign currency	USD 160 millions	USD 180 millions

- (9) Total insurance coverage on assets amounted to **TL184,120,696 (1998: TL112,248,635)**.

- (10) Significant commitments and contingencies from which probable gains/losses may occur, although amounts can not be reasonably estimated:-

There were no such cases.

- (11) Other matters which had significant effects on the financial statements and therefore should be disclosed for the purpose of presentation of fair and sufficient information on the financial statements:-

The reserve for retirement pay at 30 September 1999, amounted to **TL3,668,205 (1998: TL2,168,205)** of which **TL1,200,000 (1998: TL950,000)** was provided in the current period.

In the current period, there were also other provisions expensed. These were: deferred tax liability of **TL49,655,393 (1998: TL12,155,267)** on income and expense items reflected in the statement of income in the current period but will be taxable or tax deductible in the subsequent periods (taxable temporary differences), provision for non-performing loans of **TL9,958,265 (1998: TL597,834)** and general provision for loan losses of **TL.....-..... (1998: TL6,260,798)**.

- (12) The external audit firm is **Cevdet Suner Denetim ve Yeminli Mali Müşavirlik Anonim Şirketi (a member firm of KPMG)**.

B. Other disclosures

- (13) Significant events and matters arising subsequent to the date of balance sheet:-

There were no such events or matters.

(Currency - Millions of Turkish Lira)**II- NOTES TO BALANCE SHEETS AND OFF-BALANCE SHEET ACCOUNTS**

- (1) TL.....-..... (1998: TL.....-.....) of cash at the Central Bank was deposited under blocked accounts.
- (2) TL7,607,888 (1998: TL.....-.....) of cash at foreign banks was deposited under blocked accounts against the "securitisation" transactions on cheques and credit card receivables.
- (3) - TL53,682 (1998: TL12,497), of "securities" balance represents the "valuation increment" on securities.
- Total carrying value of equity shares, included in "securities", of which market values exceeded their costs and which were stated at cost in the balance sheet amounted to TL.....-..... (1998: TL.....-.....), total costs of securities recorded at their market values amounted to TL11,002 (1998: TL5,276).
 - Total carrying value of equity shares, included in "other long-term investments", of which market values exceeded their costs and which were stated at cost in the balance sheet amounted to TL.....-..... (1998: TL.....-.....), total costs of equity shares recorded at their market values amounted to TL250,143 (1998: TL193,037).
 - Total carrying value of investments and affiliated companies of which market values exceeded their costs and which were stated at cost in the balance sheet amounted to TL.....-..... (1998: TL.....-.....), total costs of equity shares recorded at their market values amounted to TL22,112,914 (1998: TL.....-.....).
 - TL32,629,260 (1998: TL23,445,319) of securities and long-term investments comprised of securities blocked in compliance with legal requirements.
 - Market values of bonds, bills and similar securities amounted to TL1,370,110,074 (1998: TL334,680,952) in total at the date of balance sheet (In the calculation, the profit sharing notes-indexed on foreign currency and some Eurobonds issued by the Republic of Turkey were stated at values announced by the Central Bank because of unavailability of market values for such securities. Turkish Lira bonds and bills not traded in the market on the date of balance sheet, were also stated at values announced by the Central Bank. In addition, bonds issued by some foreign financial institutions were stated at cost as they have no values announced by the Central Bank).
 - Values of bonds, bills and similar securities calculated at the rates announced by the Central Bank (Türkiye Cumhuriyeti Merkez Bankası) and published in the Official Gazette amounted to TL1,372,526,083 (1998: TL334,553,041) in total (Some Eurobonds issued by the "Republic of Turkey", government bonds in foreign currency and investment funds of Garanti Fund Management Co.Ltd were stated at market values in the calculation due to the absence of such values published in the Official Gazette. In addition, bonds issued by some foreign financial institutions were stated at cost as they have no values announced by the Central Bank).
- Bonds, bills and similar securities sold under repurchase (repo) agreements at the date of balance sheet, were not included in the calculation of market values and values per the Central Bank as explained in the above paragraphs. On the other hand, total accrued interest on such securities of TL122,141,038 (1998: TL28,122,235), reduced by interest expense on repo transactions, was included in "accrued interest on securities" as a component of "accrued interest and income" on the balance sheet.

(Currency - Millions of Turkish Lira)

Note II - (Continued)

- (4) - **TL4,100,569 (1998: TL502,530) and TL49,716,370 (1998: TL21,485,330) of total loans and advances, aggregating to TL53,816,939 (1998: TL21,987,860),** provided to the shareholders and personnel of the Bank, represented cash and non-cash loans (documentary credits, acceptances and similar items), respectively.
- Total of the loans granted for specialisation purposes included in the loan portfolio amounted to **TL.....-..... (1998: TL-.....)**.
- (5) - Total of the loans renewed or rescheduled, amounted to **TL1,899,152 (1998: TL955,780)**.
- As at 30 September 1999, detail of classified receivables by collateral and provisions against such receivables were as follows:-

<u>Collateral group</u>	<u>Classified receivables</u>	<u>Specific provision</u>
Uncollateralised	6,711,689	6,711,689
I st Group collateral	82,709	82,709
II nd Group collateral	8,924,332	8,924,332
III rd Group collateral	5,143,357	5,143,357
IV th Group collateral	794,580	794,580

- **TL537,448 (1998: TL760)** of the classified receivables comprised of foreign currency denominated receivables.
- (6) - Receivables arising from term sale of assets amounted to **TL.....-..... (1998: TL-.....)**.
- (7) - **TL15,832,229 (1998: TL133,946)** of investments and affiliated companies represented the "valuation increment" arising from the market value adjustments for such investments traded on the Istanbul Stock Exchange.
- Carrying values of investments and affiliated companies traded on the Istanbul Stock Exchange amounted to **TL38,195,286 (1998: TL321,707)** in total.
- Bonus shares received from investments and affiliated companies amounted to **TL5,234,568 (1998: TL3,343,673)**.
- At 30 September 1999 and 1998, receivables from and payables to affiliated companies and other investees, were as follows:-

	1999	
	<u>Financial investees and affiliated companies</u>	<u>Other investees and affiliated companies</u>
<u>RECEIVABLES:</u>		
-Due from banks and other financial institutions	21,785,729	-
-Loans (including overdue loans)	47,751,816	5,027,062
-Accrued interest and income	2,612,097	3,266,873
<u>PAYABLES:</u>		
-Deposits	14,088,596	1,039
- Accrued interest and expense	2,733	-
<u>DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS</u>	189,196,621	-

(Currency - Millions of Turkish Lira)

Note II - (Continued)

	1998	
	Financial investees and affiliated companies	Other investees and affiliated companies
RECEIVABLES:		
-Due from banks and other financial institutions	29,156,663	-
-Loans (including overdue loans)	18,379,111	2,771,500
-Accrued interest and income	751,641	474,639
PAYABLES:		
-Deposits	8,426,106	4,858
DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS		
	174,599,859	-

- At 30 September 1999 and 1998, investments and affiliated companies included the followings:-

	1999			
	% of ownership	Total capital	Net income for the period	Market value
INDUSTRIAL COMPANIES				
GENOTO GEN. OTO. SAN. TIC. A.Ş.	40.00	64,000	(134,441)*	-
MAN KAMYON VE OTO. SAN. A.Ş.	0.50	2,244,530	(1,020)**	-
LASAŞ LASTİK SAN.VE TIC. A.Ş.	99.99	2,500,000	64,000	-
BANKS				
SINAI YATIRIM BANKASI A.O.	10.00	10,000,000	6,825,971	-
T.SINAI KALKINMA BANKASI A.Ş.	0.78	16,000,000	5,886,881*	155,581****
İ.M.K.B. TAKASBANK A.Ş.	4.86	7,850,000	3,343,910**	-
COMMERCIAL COMPANIES				
GARANTİ BİLİŞİM TEKN. TIC. A.Ş.	100.00	994,000	8,000	-
BULL BİLGİSAYAR TEK. A.Ş.	0.02	10,000	(95,130)**	-
YATIRIM FİNANSMAN A.Ş.	0.28	1,000,000	206,879*	-
GENOTO GENERAL OTO. PAZ. A.Ş.	0.20	80,000	71,217**	-
BANKALARARASI KR. KART. MERKEZİ A.Ş.	9.98	97,500	545,178*	-
GARANTİ FİNANSAL KİR. A.Ş.	80.00	2,000,000	1,339,000	-
AKTİF FİN. FACTORİNG HİZ. A.Ş.	9.78	1,256,850	2,078,678*	519,956****
TÜRK SUUDİ YATIRIM HOL. A.Ş.	0.06	400,000	28,886*	-
T. KREDİ KAYIT BÜROSU A.Ş.	9.09	275,000	7,779*	-
GARANTİ MENKUL KIYM. A.Ş.	51.67	1,000,000	907,000	-
GARANTİ PORTFÖY YÖNETİMİ A.Ş.	70.00	250,000	937,000	-
PETROTRANS NAKLİYAT TIC. A.Ş.	100.00	5,000	(331)	-
ANA KONUT DANIŞMANLIK A.Ş.	100.00	4,250,000	-	-
DOĞUŞ HAVA TAŞIMACILIĞI A.Ş.	49.91	11,000,000	(3,188,000)	-
TANSAŞ İZMİR B. Ş. B. İÇ VE DIŞ TIC. A.Ş.	29.00	3,000,000	(568,000)	37,519,749****
GARANTİ ÖDEME SİSTEMLERİ A.Ş.	99.92	5,000	-	-
ORION ULUSLARARASI EL.TIC.BİLG.VE HABERL.HİZ.A.Ş.	38.00	5,000	-	-
TOURISM COMPANIES				
GARANTİ TURİZM YAT.VE İŞL. A.Ş.	43.33	950,000	(227,594)**	-
ŞAHİNTUR ŞAHİNLER O. TURZ. YAT. İŞL. A.Ş.	100.00	262,500	34,000	-
INVESTMENTS IN FOREIGN CURRENCY				
UNITED GARANTİ BANK INT. N.V.	100.00	NLG75 millions	NLG16,829	-
DOC FINANCE S.A.	50.27	CHF12 millions	CHF(2,525,000)	-
CI FINANCE LTD.	100.00	USD500,000	USD(1,351,761)	-
CI INVESTMENTS LTD.	100.00	USD500,000	USD(1,351,761)	-
BOSPHORUS FINANCE SER. LTD.	100.00	USD500,000	USD(1,351,761)	-
GARANTİ FUNDING CORP. I	100.00	USD50,000	-	-
GARANTİ FUNDING CORP. II	100.00	USD50,000	-	-
GARANTİ BANK MOSCOW	99.33	USD25.5 millions	USD1,946,000	-
INSTRUMENTS FINANCE COMPANY	100.00	USD25,000	USD239,860	-
GARANTİ FINANCIAL SERVICES PLC	99.99	USD138,100	USD(393,055)	-
GARANTİ FUND MANAGEMENT CO. LTD.	99.00	USD100,000	USD4,502	-
CLOVER BANK OFF-SHORE LTD.	99.10	USD4.5 millions	-	-

(Currency - Millions of Turkish Lira)

Note II - (Continued)

- (*) Net income for the six-month period ended 30 June 1999.
(**) Net income for the three-month period ended 31 March 1999.
(***) Net income for the year ended 31 December 1998.
(****) Quoted shares are valued at the weighted average market rates for the last five working days.

	1998			
	<u>% of ownership</u>	<u>Total capital</u>	<u>Net income for the period</u>	<u>Market value</u>
<u>INDUSTRIAL COMPANIES</u>				
GENOTO GEN. OTO. SAN. TİC. A.Ş.	40.00	64,000	49,717***	-
MAN KAMYON VE OTO. SAN. A.Ş.	0.50	2,244,530	219,927*	-
LASAŞ LASTİK SAN.VE TİC. A.Ş.	99.99	2,500,000	31,961*	-
<u>BANKS</u>				
SİNAİ YATIRIM BANKASI A.O.	10.00	5,000,000	3,285,389*	-
T.SİNAİ KALKINMA BANKASI A.Ş.	0.78	8,000,000	1,530,107*	107,747****
İ.M.K.B. TAKASBANK A.Ş.	4.86	2,750,000	6,326,199*	-
<u>COMMERCIAL COMPANIES</u>				
GARANTİ TİCARET A.Ş.	100.00	994,000	203,859*	-
BULL BİLGİSAYAR TEK. A.Ş.	0.02	10,000	22,687*	-
YATIRIM FİNANSMAN A.Ş.	0.28	500,000	238,100*	-
GENOTO GENERAL OTO. PAZ. A.Ş.	0.20	80,000	146,596*	-
BANKALARARASI KRD. KARTLARI MERKEZİ A.Ş.	9.98	97,500	295,102	-
GARANTİ FİNANSAL KİR. A.Ş.	80.00	2,000,000	969,051**	-
AKTİF FİN. FACTORİNG HİZ. A.Ş.	9.78	1,256,850	271,587**	220,960****
TÜRK SUUDİ YATIRIM HOL. A.Ş.	0.06	400,000	(3,612)***	-
T. KREDİ KAYIT BÜROSU A.Ş.	9.09	275,000	(74,063)*	-
GARANTİ MENKUL KIYM. A.Ş.	21.67	1,000,000	993,073*	-
GARANTİ PORTFÖY YÖNETİMİ A.Ş.	70.00	125,000	114,072*	-
PETROTRANS NAKLİYAT TİC. A.Ş.	100.00	5,000	(1,844)*	-
ANA KONUT DANIŞMANLIK A.Ş.	100.00	4,250,000	(16,640)*	-
DOĞUŞ HAVA TAŞIMACILIĞI A.Ş.	6.14	5,700,000	530,390*	-
<u>TOURISM COMPANIES</u>				
GARANTİ TURİZM YAT.VE İŞL. A.Ş.	43.33	950,000	227,817****	-
ŞAHİNTUR ŞAHİNLER OTELCİLİK TURZ. YAT. İŞL. A.Ş.	100.00	262,500	22,329*	-
<u>INVESTMENTS IN FOREIGN CURRENCY</u>				
UNITED GARANTİ BANK INT. N.V.	100.00	NLG75 millions	NLG12,268,000*	-
DOC FINANCE S.A.	16.67	CHF12 millions	CHF1,976,999***	-
CI FINANCE LTD.	100.00	USD500,000	USD(230,338)*	-
CI INVESTMENTS LTD.	100.00	USD500,000	USD(230,338)*	-
BOSPHORUS FINANCE SER. LTD.	100.00	USD500,000	USD(230,338)*	-
GARANTİ FUNDING CORP. I	100.00	USD50,000	-	-
GARANTİ FUNDING CORP. II	100.00	USD50,000	-	-
GARANTİ BANK MOSCOW	99.33	USD15 millions	USD6,608,000*	-
INSTRUMENTS FINANCE COMPANY	100.00	USD25,000	USD251,990*	-
GARANTİ FINANCIAL SERVICES PLC	99.99	USD138,100	USD(176,732)*	-
GARANTİ FUND MANAGEMENT CO. LTD.	99.00	USD100,000	USD(15,740)*	-

(Currency - Millions of Turkish Lira)**Note II - (Continued)**

- (*) Net income for the six-month period ended 30 June 1998.
(**) Net income for the three-month period ended 31 March 1998.
(***) Net income for the year ended 31 December 1997.
(****) Quoted shares are valued at the weighted average market rates for the last five working days.

- (8) Other long-term investments comprised of government bonds, long-term profit sharing notes-indexed on foreign currency, government bonds in foreign currency, and equity shares in the amount of TL133,531,548 (1998: TL25,141,947), TL701,151 (1998: TL1,890,479), TL35,929,371 (1998: TL7,579,898) and TL1,103,691 (1998: TL851,006), respectively.
- (9) In accordance with the Banking Law, assets held for resale amounted to TL34,190,137 (1998: TL2,108,737).
- (10) Items comprising 20%, at minimum, of the other assets and other liabilities representing 10%, at minimum, of the balance sheet total (excluding commitments and contingencies):-

There were no such items.

- (11) - Deposits comprised of demand accounts of TL565,623,830 (1998: TL435,443,973) and time accounts of TL1,330,708,004 (1998: TL737,316,926), respectively.
- All saving deposits and gold deposit accounts were insured up to TL925,342,138 (1998: TL677,363,933) under "Saving Deposit Insurance Fund".
- (12) - Issuance premiums for securities issued amounted to TL2,591,617 (1998: TL1,462,526).
- Bonds convertible to the capital shares amounted to TL.....-..... (1998: TL.....-.....).
- (13) Cash collateral received amounted to TL234,979 (1998: TL184,760).
- (14) - A portion of the "valuation increment" on securities (including equity shares classified in securities, investments, affiliated companies and other long-term investments) amounting to TL.....-..... (1998: TL.....-.....), was related to securities denominated in foreign currencies. TL.....-..... (1998: TL.....-.....) of this portion represented the foreign exchange gain accrual on such equity shares classified in investments, affiliated companies and other long-term investments.
- Presentation of accrued foreign exchange gains on equity shares classified as investments, affiliated companies and other long-term investments in financial statements:-

Foreign exchange gains on equity shares included in investments, affiliated companies and other long-term investments denominated in foreign currencies, were classified under "foreign exchange gain" in the statement of income for the period.

(Currency - Millions of Turkish Lira)

Note II - (Continued)

(15) At 30 September 1999 and 1998, maturity structures of some assets and liabilities were as follows:-

	1999			
	<u>Demand</u>	<u>Up to 3 months</u>	<u>3 to 12 months</u>	<u>Over 1 year</u>
<u>ASSETS:</u>				
Liquid assets	27,969,005	-	-	-
Due from banks and other financial institutions	62,923,609	469,189,125	-	-
Securities (Net)	-	414,040,895	638,731,941	170,162,072
Performing loans	-	453,774,047	606,544,937	164,223,590
Accrued interest and income	-	353,101,729	91,101,732	18,284,092
Reserve deposits	110,524,094	-	-	-
<u>LIABILITIES:</u>				
Deposits	565,623,830	1,226,952,164	103,507,716	248,123
Interbank funds borrowed	2,500,000	81,885,800	-	-
Funds borrowed	1,786,223	303,653,570	412,752,619	230,623,100
Securities issued (Net)	-	144,103,599	22,740,906	-
Accrued interest and expense	-	158,297,221	5,441,028	175,352
Taxes, stamps, premiums and other duties	-	7,843,233	-	-
1998				
	<u>Demand</u>	<u>Up to 3 months</u>	<u>3 to 12 months</u>	<u>Over 1 year</u>
<u>ASSETS:</u>				
Liquid assets	42,333,791	-	-	-
Due from banks and other financial institutions	19,042,053	371,562,418	-	-
Securities (Net)	-	81,630,597	264,937,383	34,612,323
Performing loans	-	288,148,754	417,797,024	211,144,610
Accrued interest and income	-	94,286,521	47,117,827	10,786,500
Reserve deposits	49,219,136	-	-	-
<u>LIABILITIES:</u>				
Deposits	435,443,973	684,267,489	50,416,718	2,632,720
Funds borrowed	-	67,048,208	197,274,248	230,953,435
Securities issued (Net)	-	48,608,270	21,180,872	-
Accrued interest and expense	-	37,045,745	2,609,202	67,987
Taxes, stamps, premiums and other duties	-	4,977,591	-	-

(16) Commitments arising from outstanding agreements for resale and repurchase of government securities at the balance sheet date, amounted to TL..... (1998: TL.....) and TL480,876,544 (1998: TL195,373,849), respectively.

(17) - If the Bank applies registered share capital system, ceiling of the registered share capital:-

In accordance with the permission of the Turkish Capital Market Board with resolution no.83/1049 on 25 August 1999, the Bank accepted to apply the registered share capital system. The ceiling of the registered share capital is TL1,000,000,000 millions and the existing paid-capital is TL260,000,000 millions. The registered share capital was approved by the Turkish Treasury on 2 September 1999 by permission no.63317 and by the Turkish Industry and Commerce Ministry on 3 September 1999 by permission no.7538.

(Currency - Millions of Turkish Lira)

Note II - (Continued)

- Capital increases during the period:-

In accordance with the resolution of the Board of Directors Meeting no. 1846 held on 5 April 1999, on the Extraordinary General Shareholders' Meeting held on 17 May 1999 it was decided to increase the share capital by TL210,000,000 (1998: TL10,000,000) from TL50,000,000 (1998: TL40,000,000) to TL260,000,000 (1998: TL50,000,000) provided for as follows:-

	<u>1999</u>	<u>1998</u>
Transfer from revaluation surplus		
on bank premises and equipment	39,353,300	4,532,476
Transfer from retained earnings	170,557,054	-
Transfer from gain on sale of investments	-	4,933,042
Transfer from gain on sale of fixed assets	<u>89,646</u>	<u>534,482</u>
	<u>210,000,000</u>	<u>10,000,000</u>

Capital increase of the current period was registered by Istanbul Commercial Registration Office on 17 May 1999. Shares presenting a capital of TL210,000 billions were listed by Capital Markets Board on 3 June 1999 through Resolution Number 79/637.

- Transfer from revaluation surplus to contribute the capital increase:-

As explained above.

- Priority rights assigned to certain capital shares: **None**.

- Shareholders holding 10% or more interest in the share capital:-

None of the shareholders has 10% or more interest in the issued share capital, except for Doğuş Holding A.Ş. which currently holds 44.83% of the issued share capital.

(18) Basis of presentation of financial leasing activities in financial statements and disclosures on such transactions in accordance with International Accounting Standard 17 (IAS 17):-

Financial leasing transactions are accounted for in accordance with Turkish legislation, not IAS17. Per Turkish legislation, financial leasing transactions are accounted for as if they were operating leases. Accordingly, fixed assets acquired through financial leases and the related payables are not reflected in the financial statements; instead the periodic payments of installments, with no distinction between principal and interest portions, were initially recorded as "prepaid expense" to be charged to expense throughout the lease period. During the nine-month period ended 30 September 1999, such payments charged to statement of income as expense accumulated to TL711,056 (1998: TL181,323) and the remaining balance recorded as "prepaid expense" in the balance sheet, amounted to TL3,125,925 (1998: TL569,614).

(Currency - Millions of Turkish Lira)

Note II - (Continued)

(19) - Other significant matters:-

- Wholly-owned affiliates of the Bank, incorporated in Malta; namely CI Finance Ltd., CI Investments Ltd. and Bosphorus Financial Services Ltd. own all the shares of Clover Investments Co. Limited, also incorporated in Malta. In September 1996, Clover Investments Co. acquired all the shares of Compagnie Ottomane d'Investissements B. V. (COI) incorporated in the Netherlands; COI owns all the shares of Osmanlı Bankası A.Ş., a major bank incorporated in Turkey. The Bank provided loans amounting to TL22,557,163 (TL equivalent at the exchange rates prevailing on 30 September 1999) to its affiliates in Malta to finance the acquisition of the shares in COI. At the date of balance sheet, the Bank accrued interest income in the amount of TL548,217 on such loans (TL equivalent at the exchange rates prevailing on 30 September 1999). In 1998, Clover Investments Co. Limited transferred all its shares in COI to Marmo S.A.; its wholly owned subsidiary incorporated in Luxembourg. The Bank purchased the bonds issued by Clover Investments Co. incorporated in Malta at their nominal values of USD50 millions and USD150 millions on 25 June and 3 September 1999. Such bonds were included in "securities" in the accompanying financial statements with annual interest rates of 7.47938% for the bond of USD50 millions and 7.7875% for the bond of USD150 millions. The company repaid back the funds borrowed from UBS for the acquisition of Osmanlı Bankası A.Ş., by the proceeds of these bonds.
- The full amount of deferred tax liability calculated on items included in the statement of income, but to be taxable or tax deductible in the subsequent periods, was reflected in the accompanying financial statements. Detail of deferred tax liability was as follows:-

<u>Deferred tax liability</u>	<u>Percentage of amount reflected in the financial statements</u>	<u>Amount reflected in the financial statements</u>
1- Amount related to current period TL49,655,393	%100	49,655,393
2- Amount related to prior years TL34,696,878	%100	<u>34,696,878</u>
3- Total amount TL84,352,271		<u>84,352,271</u>
Deferred tax liability (balance sheet)		: TL <u>84,352,271</u>
Deferred tax charge (statement of income)		: TL <u>49,655,393</u>

(Currency - Millions of Turkish Lira)**III- NOTES TO STATEMENTS OF INCOME**

- (1) - Interests received from the investee companies amounted to **TL7,581,303 (1998: TL1,415,231)**. Fees and commissions received from such companies aggregated to TL..... (1998: TL).
- Interests paid to the investee companies amounted to **TL408,100 (1998: TL468,794)**. Fees and commissions paid to such companies aggregated to TL..... (1998: TL).
- (2) Income on financial leasing transactions amounted to **TL..... (1998: TL.....)**.
- (3) Expenses paid on financial leasing transactions amounted to **TL711,056 (1998: TL181,323)**.
- (4) - General provision for loan losses amounted to **TL..... (1998: TL6,260,798)**.
- Provision for valuation allowance on securities amounted to **TL4,602,000 (1998: TL)**.
- (5) Items comprising 20%, at minimum, of the other expenses and income classified in groups I, II, IV and V, and representing 10%, at minimum, of the total of the related group that they are included in:-
- None.**
- (6) Other significant matters:-
- None.**
-

(Currency - Millions of Turkish Lira)