



Interim report

TO : INVESTMENT COMMUNITY
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SUBJECT : 1999/Q4 FINANCIAL STATEMENTS
DATE : January 31, 2000

I. Turkish Economy During 1999

Suffering from the 1998 Russian crisis, Turkish Economy was struck by two major earthquakes in 1999. Although the economy shrank during the first three quarters of 1999, latest forecasts indicate a remarkable slow-down in the contraction in 1999/Q4. The GNP and GDP growth figures announced for 1999/Q3 are -6.6% and -5.6% respectively. Forecasts show that both figures have shrunk approximately by 0.5-1% in 1999/Q4 which indicate that for 1999, GDP may be 3.99% below its 1998 level, while GNP may have fallen by as much as 5.29%. Expected quake cost is 0.8% of GNP in 1999 (TL 700 tr.) and 1.5% of GNP in 2000.

Industrial Output

The 2.8% rise of the industrial output during the second quarter of 1999, which was a sign of recovery from the Russian crisis, came to an end after the earthquake as expected. Output declined by 6.7% in 1999/Q3. However, a quick upturn is expected in the last quarter. Forecasted growth for December industrial output is 0.98%. Capacity utilization rates (CUR) for November show that there no longer is a big gap between the public sector and private sector utilization rates. They stood at 72.2% and 70.2%, respectively. The overall CUR of 71% is still below last year's 79.2%. However, the CUR for December has risen to 75.5% which is slightly a better than 74.4% in December 1998.

Consumption

For the time being, almost all the portents are positive. An improved outlook in leading indicators, such as higher auto sales, reflect both the drop in interest rates across the board and the diminished political and economic uncertainty. While there is no doubt that consumption spending – the most important component of national income– will rise (output of refrigerators was up 20.7% in November, washing machines 8.6%, TV sets 30.6%, and cars 31.2%), the sharp pick-up in the last two months of 1999 may have, in part, been attributable to an attempt by consumers to beat anticipated price hikes (for instance, the supplemental vehicle purchase tax rose from 6% to 12% in January 2000). The plethora of taxes introduced at the end of November will, of course, moderate the increase in consumption spending, but one should also note that marginal income tax rates were actually higher in 1998. The frequent changes in tax laws and the drop in tax revenues due to the 1998Q4-1999Q4 recession (precipitated by an external shock) have

made the overall effect of the tax measures harder to glean. Despite tighter fiscal policy, forecasts suggest GDP growth of around 5.78% in 2000. GDP growth may accelerate further in 2001, but initiation of new taxes may temper the expansion rate.

Exports

Turkish Union of Exporters' (TIM) records shows that cumulative exports for the period from January to December inclusive was US\$ 26,992 million. According to TIM records, exports in 1998 were US\$ 28,055 million, around US\$ 1bn higher than the 1999 level. Official (SIS) data, excluding shuttle trade, for 1998 had been US\$ 26,974 million. So, if we compare TIM's 1999 figure to the 1998 SIS figure, we find that Turkish exports actually rose by around US\$ 20 million. However, SIS data will probably show a shortfall of US\$ 500 million for 1999 in comparison to 1998. Regardless of the precise figure, non-shuttle trade exports have held up in 1999. Export weakness is traceable to the upheavals in Russia (sales to Russia were off by US\$ 750 million in January-October 1999 period). The statistics on shuttle trade were first compiled in 1996, suddenly boosting total exports. They have since become almost insignificant, and are unlikely to pick up in 2000 because of the strong Turkish Lira. Another crucial point to note is that during 1999 the change in the price index for exported goods exceeded the decline in the quantity index (value of exports = Price x quantity). Thus, quantity of exported goods in the period from January to September roughly stayed constant (quantity was down 1.9%, price down by 6.2%). This is quite an achievement in light of the significant economic impact of the August earthquake.

IMF Standby Agreement and International Source of Funds

Turkey finally signed a stand-by arrangement with the IMF at the end of December and started implementing a disinflation program. Total IMF stand-by credit is US\$ 4billion. The previously stated US\$500 million will be treated as a separate facility (under "emergency assistance") from the currency stabilization fund facility that Turkey will now access.

The IMF package is supported with an additional US\$3 billion from the World Bank. Further, JBIC (Japan Bank for International Cooperation) approved credits of US\$200 million (¥ 23.6 billion) for small and medium sized firms in the region affected by the August quake.

IMF has set various targets in order to steer the Turkish economy through its adjustment period from a chronic inflationary climate to one with stable prices. It is illuminating to note that the consolidated central government cumulative primary surplus including privatization receipts is an indicative target until 2000Q4, but then becomes a performance criterion. In sum, IMF has given Turkey 9-12 months to undertake major sales of public sector assets.

The other source of financing for the government will be foreign borrowing. The government seemed to have no difficulties in borrowing in two issuance completed after the stand-by agreement. The Turkish Treasury successfully issued US\$ bonds of 1,5 billion on 10 January 2000 with a 30 year maturity for the first time. On 26 January 2000, a ten-year Eurobond issue of 750 million Euros was also finalized.

1999 Inflation and Targets

According to yearly figures the WPI increased by 62.9% in 1999 and CPI by 68.8%. The same figures were 54.3% and 69.7% in 1998 respectively. The disinflation program aims to reduce WPI inflation to 20% yoy in December 2000. The government will continue to implement strong Lira policy, which will depress the prices of the imported goods that have a significant weight in the WPI. The exchange rate, civil servant wages, agricultural

prices, and interest rate developments will be significant in the program. The program requires that the exchange rate will depreciate at of 20% for the year, civil servant wages will rise 25-30% and modifications to the agricultural price regime will be made

Putting the IMF stand-by agreement into practice, Turkey adopted a crawling peg exchange mechanism that is expected to be in place at least until December 2002. Once the inflation falls and is perceived to be sustainable, it is expected that the regime will be abandoned for a freely floating exchange rate regime. The band that will be instituted gradually from July 2001 will widen to 7.5% in December 2001 and then gradually to 22.5% by December 2002. Consistent with the monthly targets, the exchange rate (dollar-euro basket) will have a daily depreciation that indicates a nominal devaluation of the Turkish Lira of 6.43% over the first quarter of 2000, followed by 5.19% in Q2, 3.95% in Q3 and 3.03% in Q4.

Developments in the Banking Sector

Central Bank Savings Deposit Insurance Fund (SDIF) took over the control of five medium-sized banks on December 22, 1999. The banking license of an investment bank, Birlesik Yatirim, (which had not been active for some time) was also revoked. Currently, the deposit insurance scheme covers 100% of the domestic deposit accounts for individuals (except for bank owners).

The aim is to have a healthy banking system which will promote efficiency and a leveled playing field for the banks. Turkish officials are touting the possibility of tax breaks in order to encourage mergers between banks (in a bid to render weak banks attractive to those with stronger financial positions).

On these lines, the banking reform is on course with the official announcement that members of the new banking regulatory body are to be nominated by March 31st, 2000. The agency will be operational starting from August 31st, 2000. The new banking law also includes a tightening of the requirements for the establishment of a new bank, a 25% limit on the proportion of a bank's equity that can be lent to a single borrower and a broadening of the definition of the concept of loan. One bright spot for the banking sector is the drop in the ratio of bad loans to outstanding cash loans from 10.2% in August to 8.4% in October. The drop is due to the slight rise in outstanding loans rather than an absolute decline in bad loans. The ratio should improve genuinely because of higher economic growth in 2000, but also superficially due to a change in legislation after the August earthquake allowing banks more time until overdue loans are actually classified as bad loans.

The Treasury will nominate several large banks (yet to be named) to act as middlemen with the rest of the financial system. The primary dealer system, as it is known, will start in April, 2000. The authorities believe that the secondary markets will become more liquid as a result of this change. The chosen banks will be privileged both in terms of the cost of their transactions and the ready access that they will have to official sources of information. A similar system appears to be in use in many countries around the globe.

The Stock Market

Since mid-October 1999, the Turkish market has been rallying strongly. The ISE-100 Index was up by 242% in US\$ terms in 1999 and closed the year at 15208.78. The average daily trading volume for the year was US \$351 million. It is not unlikely that the stock market may rally further which will be mostly led by retail demand. Since the high real returns of the fixed income market will no longer be available, domestic retail investors are expected to shift much of their investments towards equities. Compounding

this factor, the pension reforms passed last year will lead to much larger institutional investor base and further increase in domestic funds available for investment.

Ratings

It is noteworthy that on November 30th, 1999 Moody's announced that it had changed the outlook on Turkey's B1/B2 country ceilings for foreign currency bonds and bank deposits to positive from stable. Standard & Poor's issued a similar statement soon afterwards.

II. Garanti Bank during 1999

Due to poor economic conditions in Turkey and repercussions of crisis in international markets, Garanti Bank maintained a liquidity-focused strategy with an emphasis on profitability and asset quality. Garanti was able to expand its assets and continue to invest in projects to increase efficiency and prepare the bank for a low-inflation environment.

Operating Performance

Overall, in addition to economic contraction, Turkey also experienced two devastating earthquakes in August and September. Besides costing many lives, the disaster had also influenced the economy leading to further contraction, loss of income and overall efficiency. In late November 1999, the government passed a new legislation that put one-time taxes due to the earthquake. The effect of this is on Garanti Bank's 1999 results is shown under "extraordinary expenses" in the income statement as TL 24,323 Billion or US\$58 million. Had there not been for the extraordinary expenses, 1999 net income, which has posted a 9% real decline, would have shown a 3% real increase over 1998 net income.

Interest income posted a 21% increase over 1998 in real terms (15% in US\$ terms), reaching TL1,099,878 Billion (US\$2,617 Million). While interest on loans decreased 4% (8% in US\$ terms) parallel to the decrease in loan book, interest on securities which largely consists of government bonds and bills grew 48% in real terms (41% in US\$ terms).

Year-over-year, interest expenses increased 52% in real terms (44% in US\$ terms) and reached TL606,098 (US\$1,442 Million). As such, interest paid on deposits made up a majority of interest expense, 82% compared to 76% in 1998, increasing 64% in real terms (56% in US\$ terms). Other interest expense, majority of which is interest paid on borrowed funds, made up 18% of total interest expense. Consequently, net interest margin reached TL493,779 Billion (US\$1,175 Million) and posted a slight, 4%, fall.

Interest Margin Ratio for 1999 was 38.27% that improved from 33.83% in 1998. This was a result of higher return on interest earning assets (53% in 1999 versus 49% in 1998) while the cost of interest bearing liabilities remained unchanged at 15%. Adjusted for net foreign exchange losses, Adjusted Net Interest Margin Ratio declined from 17.8% to 13.1% mainly due to faster depreciation.

In 1999, despite unfavorable economic conditions, Garanti succeeded in growing its fee and commission income (net) by 30% in real terms. Net fees and commissions reached TL22,068 Billion (US\$52.5 Million). Similarly, total non-interest income which mainly consists of fee and

commission, trading, and dividend income reached TL114,736 Billion (US\$273 Million). Separately, net trading income expanded 99% in real terms or 89% in US\$ terms.

Net foreign exchange loss increased 55% in real terms year-on-year in 1999 growing larger in the last quarter of 1999 as a result of faster depreciation of the TL against the basket. Further, the effect of the earthquake taxes is classified under “extraordinary expenses” which amounted TL24,323 billion or US\$58 million. The Bank’s effective tax rate decreased from 35.3% in 1998 to 25.5% (32.1% in 1999/H1).

Balance Sheet

Assets recorded 18% growth in real terms (12% in US\$ terms) in 1999

Garanti’s total assets reached TL4,532,402 Billion (US\$8,336 Million) as at December 31,1999, up by 18% in real terms (12% in US\$ terms) over 1998.

The largest components of assets were loans (31%) and investment securities (25%), which mainly consist of government securities and other securities. The ratio of cash loans to total assets fell to 31% as compared to 39% at year-end 1998. As explained earlier, this is due to faster asset growth than loans which actually declined 5% in real terms (10% in US\$ terms) over this period as a result of the economic contraction and Garanti’s deliberate effort to conservatively maintain high asset quality.

Cash and due from banks were TL504,789 Billion (US\$928 Million), and constituted 11% 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 39.57% at fiscal year-end, from 33.61% at the end of 1998. Cash loans were TL1,421,857 Billion (US\$2,615 Million). Foreign currency denominated loans constituted 72% of the total and short-term loans made up 61% of the total loans. Garanti continued to provide 100% provision for non-performing loans. Non-performing loans to total cash loans rose to 1.94% at FYE 1999 as compared to 1.34% at FYE 1998. The increase is due to poor economic conditions in 1999, yet is still one of the lowest in the sector.

On the funding side, total deposits made up 53% of the total liabilities and stockholders’ equity. Deposits, which were TL2,393,913 Billion (US\$4,403 Million), rose by 13% in real terms on a year-on-year basis. Demand deposits were TL520,790 Billion, making up 22% of total deposits as compared to 26% as at December 31, 1998. The Bank’s low-cost funding source, demand deposits, actually declined by 5% in real terms on year-on-year basis. TL deposits made up 38% of the total while the rest is foreign currency denominated deposits. As another important

funding source, funds borrowed which constituted 24% of total liabilities and stockholders' equity (22% as at FYE 1998) reached TL1,103,947 (US\$2,030 Million).

Garanti's total stockholders' equity (including profit) was TL586,554 Billion (US\$1,079 Million), up by 25% in real terms on a year-on-year basis. Total stockholders' equity made up 13% of total assets, up from 12% at FYE 1998.

The net short foreign currency position was US\$157 Million at the end of 1999 compared to US\$270 Million at the end of 1998. 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 19.5% of the Bank's capital base.

Net repo position increased to TL678,705 Billion (US\$1,248 Million) reflecting expectations for falling T-bill yields. It corresponds to 14.98% of total assets as at December 31, 1999.

The capital adequacy ratio was 14.60% falling from 18.3% at the end of 1998. This is primarily a result of classifying Osmanli Bank as a financial participation based upon the transaction announced in October 1999.

After-tax return on average assets and return on average equity were 6.2% and 43.3% for the period.

Exchange Rates

US\$1= TL543,700	As of December 31, 1999	US\$1=TL420,328	1999 Average
US\$1= TL314,800	As of December 31, 1998	US\$1=TL261,695	1998 Average

Inflation Rate (WPI)

1999 Average	53.1%
1999 Year-end	62.9%

Türkiye Garanti Bankası Anonim Şirketi

Financial Statements
31 December 1999 and 1998
With Independent
Auditor's Report Thereon

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
TÜRKİYE GARANTİ BANKASI A.Ş.

We have audited the accompanying balance sheets of Türkiye Garanti Bankası Anonim Şirketi (the Bank) as of 31 December 1999 and 1998 and the related statements of income for the years then ended. Our audit is based on the generally accepted auditing principles, standards and rules and therefore, includes such tests and examination of the accounting data and other audit procedures necessary under circumstances.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Türkiye Garanti Bankası Anonim Şirketi as of 31 December 1999 and 1998 and the results of its operations for the years then ended, in accordance with Turkish Commercial Code, Banking Law and generally accepted accounting principles promulgated by the Capital Markets Board of Turkey (Sermaye Piyasası Kurulu).

İstanbul,
28 January 2000

TÜRKİYE GARANTİ BANKASI A.Ş.

BALANCE SHEETS-ASSETS (in millions TL)	Audited	
	31.12.99	31.12.98
Liquid assets	43,743,282	20,836,791
Cash, local currency	14,399,437	4,834,630
Cash, foreign currency	24,019,767	13,793,446
Others	5,324,078	2,208,715
Due from banks	461,045,971	408,502,095
Central Bank of Turkey	63,432,326	21,147,822
Other banks	397,613,645	387,354,273
-Domestic banks	51,382,688	116,831,034
-Foreign banks	346,230,957	270,523,239
Other financial institutions	-	-
Interbank funds sold	-	-
Securities (Net)	1,152,073,737	463,568,171
Government bonds and treasury bills	639,433,906	352,480,587
Other bonds	-	-
Equity shares	297,932	150,411
Other securities	512,341,899	110,937,173
Loans	1,421,857,237	917,863,895
Short-term	868,269,566	489,945,718
Medium and long-term	553,587,671	427,918,177
Non-performing loans (Net)	-	-
Loans under follow-up (Net)	-	-
-Uncollateralised	15,277,430	3,899,226
-Collateralised	12,332,856	8,392,141
-Provision (-)	27,610,286	12,291,367
Doubtful commissions and other receivables	-	-
-Gross receivables	-	-
-Provision (-)	-	-
Accrued interest and income	458,014,129	189,753,665
On loans	69,143,335	42,330,279
On securities	316,946,219	129,057,885
Others	71,924,575	18,365,501
Receivables from financial leasing activities (Net)	-	-
Receivables from financial leasing activities	-	-
Unearned income (-)	-	-
Reserve deposits	167,820,324	61,294,209
Government bonds funding legal reserves	-	12,704,115
Miscellaneous receivables	4,233,505	1,973,865
Investments (Net)	104,277,797	1,794,232
Financial companies	3,590,001	1,362,062
Non-financial companies	100,687,796	432,170
Affiliated companies (Net)	242,893,753	38,005,830
Financial companies	215,362,640	19,176,216
Non-financial companies	27,531,113	18,829,614
Other long-term investments (Net)	197,903,473	51,125,866
Equity shares	2,173,595	859,022
Others	195,729,878	50,266,844
Bank premises and equipment (Net)	201,739,142	117,111,971
Carrying value	240,123,602	137,123,214
Accumulated depreciation (-)	38,384,460	20,011,243
Other assets	76,799,322	67,770,811
TOTAL ASSETS	4,532,401,672	2,352,305,516

TÜRKİYE GARANTİ BANKASI A.Ş.

BALANCE SHEETS-LIABILITIES AND

SHAREHOLDERS' EQUITY (in millions TL)

Audited

	31.12.99	31.12.98
Deposits	2,393,913,492	1,297,322,993
Saving deposits	173,488,205	132,364,006
Certificate of deposits	416	440
Deposits of official authorities and organisations	3,655,957	1,498,563
Commercial deposits	117,327,405	72,874,803
Deposits of other organisations	9,215,059	8,711,365
Bank deposits	598,856,208	294,454,771
Foreign currency deposits	1,488,210,424	786,187,489
Gold deposits	3,159,818	1,231,556
Interbank funds borrowed	116,584,300	11,000,000
Funds borrowed	1,103,947,359	510,169,151
From Central Bank of Turkey	-	-
Others	1,103,947,359	510,169,151
-Domestic banks and organisations	102,038,782	23,619,998
-Foreign banks and organisations	1,001,908,577	486,549,153
-Subordinated debts	-	-
Funds	-	-
Securities issued (Net)	23,777,359	50,023,922
Notes	-	-
Asset backed securities	-	-
Bonds	23,777,359	50,023,922
Accrued interest and expense	101,096,714	42,362,838
On deposits	79,686,252	29,963,597
On funds borrowed	12,716,611	7,335,579
Others	8,693,851	5,063,662
Payables from financial leasing activities (Net)	-	-
Payables from financial leasing activities	-	-
Deferred expenses (-)	-	-
Taxes, stamps, premiums and other duties	12,084,558	4,939,966
Transfer orders	1,672,943	1,168,509
Other payables	33,140,212	16,920,153
Reserves	125,878,827	69,139,054
Reserve for retirement pay	4,668,205	2,468,205
General provision for loan losses	8,719,718	7,647,655
Reserve for taxes on income	78,713,836	48,187,740
Other provisions	33,777,068	10,835,454
Other liabilities	33,751,492	60,905,923
Shareholders' equity	405,455,768	158,278,186
Share capital	260,000,000	50,000,000
-Nominal capital	260,000,000	50,000,000
-Unpaid capital (-)	-	-
Legal reserves	32,202,077	63,155,962
Reserve for possible loan losses (Banking Act, article 32/1)	-	4,858,793
Revaluation surplus	44,494,940	40,137,821
Valuation increment	68,758,751	125,610
Loss	-	-
-Loss for the period	-	-
-Prior years' losses	-	-
Income	181,098,648	130,074,821
-Income for the period	181,098,648	130,074,821
-Prior years' income	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,532,401,672	2,352,305,516
COMMITMENTS AND CONTINGENCIES		
Guarantees and endorsements	1,569,161,601	1,030,470,518
Commitments	701,845,971	252,769,125
Derivative transactions	2,381,506,043	1,097,180,422
TOTAL	4,652,513,615	2,380,420,065

TÜRKİYE GARANTİ BANKASI A.Ş.

		Audited	
STATEMENTS OF INCOME (in millions TL)		31.12.99	31.12.98
I.	INTEREST INCOME	1,099,877,737	595,977,335
	Interest on loans	361,268,981	244,941,428
	On TL loans	232,465,938	169,898,505
	-On short-term loans	231,584,732	169,226,300
	-On medium and long-term loans	881,206	672,205
	On foreign currency loans	128,597,222	74,921,405
	-On short-term loans	54,615,363	29,352,220
	-On medium and long-term loans	73,981,859	45,569,185
	Interest on loans under follow-up	205,821	121,518
	Interest from banks	79,489,913	49,765,410
	Central Bank of Turkey	1,802,091	368,267
	Domestic banks	50,645,776	24,819,990
	Foreign banks	27,042,046	24,577,153
	Interest on interbank funds sold	212,381	3,755,503
	Interest on securities	639,224,873	281,524,071
	On government bonds and treasury bills	580,002,173	255,325,480
	On other securities	59,222,700	26,198,591
	Other interest income	19,681,589	15,990,923
II.	INTEREST EXPENSE	606,098,324	261,222,660
	Interest expense on deposits	500,012,215	199,257,182
	Saving deposits	104,588,439	56,723,012
	Certificate of deposits	-	3,986
	Deposits of official authorities and organisations	2,431,667	1,929,960
	Commercial deposits	11,026,044	7,757,699
	Deposits of other organisations	1,219,644	633,687
	Bank deposits	290,924,896	96,499,317
	Foreign currency deposits	89,821,525	35,709,521
	Interest on interbank funds borrowed	10,466,445	3,269,532
	Interest on funds borrowed	85,018,382	49,518,496
	Central Bank of Turkey	-	8,632
	Domestic banks	14,398,311	5,998,977
	Foreign banks	38,929,610	20,636,999
	Other organisations	31,690,461	22,873,888
	Interest on securities issued	9,629,349	8,736,723
	Other interest expense	971,933	440,727
III.	NET INTEREST MARGIN (I-II)	493,779,413	334,754,675
IV.	OTHER INCOME	631,449,528	133,808,084
	Commissions and fees received	61,836,519	28,891,334
	On loans	4,197,998	2,243,746
	On documentary credits and letters of guarantee	8,017,623	4,503,187
	Others	49,620,898	22,144,401
	Trading account income	74,790,114	24,887,532
	Foreign exchange gain	472,676,099	75,110,949
	Dividends received	13,742,337	374,805
	Extraordinary income	-	-
	Others	8,404,459	4,543,464
V.	OPERATING EXPENSES	882,140,755	267,447,453
	Commissions and fees paid	39,768,999	17,817,706
	On funds borrowed	4,279,882	2,277,905
	On documentary credits	86,669	72,035
	Others	35,402,448	15,467,766
	Trading account loss	4,268,509	1,708,348
	Foreign exchange loss	598,680,642	128,242,033
	Personnel expenses	79,812,025	42,895,284
	Provision for retirement pay	2,200,000	1,250,000
	Rent expenses	6,702,014	2,998,214
	Depreciation and amortisation expenses	12,813,907	6,186,805
	Taxes, stamps and other duties	5,432,029	2,466,346
	Extraordinary expenses	24,323,081	-
	Provision for loan losses	16,448,572	7,539,740
	Other provisions	17,374,772	17,765,070
	Others	74,316,205	38,577,907
VI.	NET OTHER INCOME/(EXPENSE) (IV-V)	(250,691,227)	(133,639,369)
VII.	INCOME BEFORE TAXES (III+VI)	243,088,186	201,115,306
VIII.	PROVISION FOR TAXES ON INCOME	61,989,538	71,040,485
IX.	NET INCOME FOR THE PERIOD (VII-VIII)	181,098,648	130,074,821

(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 **28 January 2000 (1998: 11 February 1999)**.

(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, 31 December 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 31 December 1999, was TL542,350 (1998: TL314,800).

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:-

30.12.1999	539,900	31.12.1998	314,000
29.12.1999	538,800	30.12.1998	312,650
28.12.1999	536,900	29.12.1998	312,000
25.12.1999	535,500	28.12.1998	312,400
24.12.1999	533,100	25.12.1998	311,000

(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 6,456 millions	USD 5,598 millions
Foreign currency denominated liabilities	USD 6,613 millions	USD 5,868 millions
Short position in foreign currency	USD 157 millions	USD 270 millions

- (9) Total insurance coverage on assets amounted to TL161,554,147 (1998: TL112,165,367).
- (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 31 December 1999, amounted to TL4,668,205 (1998: TL2,468,205) of which TL2,200,000 (1998: TL1,250,000) was provided in the current period. Furthermore, the provision made in the current period against non-performing loans, amounted to TL16,448,572 (1998: TL7,539,740), and accordingly total provision for non-performing loans reached to TL27,610,286 (1998: TL12,291,367) as at 31 December 1999 considering the effects of loans written-off or collected during the period; and the general provision made for cash and non-cash loan portfolios in 1999, amounted to TL1,123,761 (1998: TL7,647,655) and accordingly total general provision reached to TL8,719,718 (1998: TL7,647,655) considering the effect of changes in the related legislation during the year.

The following provisions for the taxes on the reported income were also made as at 31 December 1999:-

- a) Provision for deferred taxes in the amount of TL15,327,888 (1998: TL22,852,745) for the 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),
- b) Provision for corporate taxes on the current period statutory corporate tax base in the amount of TL38,411,650 (1998: TL48,187,740),
- c) Provision for income tax in the amount of TL8,250,000 (1998: TL.....-.....) for the investment incentives deducted from the statutory corporate tax base.

Moreover, in compliance with the Tax Law no.4481 and the related articles, there were provisions for additional corporate, real-estate and motor vehicles taxes in the amount of TL7,575,423 and for interest income taxes in the amount of TL16,747,658. These special taxes as they were planned to finance the losses arose due to earthquakes on 17 August and 12 November 1999, were considered as extraordinary expenses and classified in the statement of income accordingly under "extraordinary expenses". TL1,320,871 of these amounts were paid up to the end of 1999 in accordance with the related legislation, and the remaining balance, TL23,002,210 was classified as payable under "other provisions" in the accompanying balance sheet.

- (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) TL9,062,492 (1998: TL.....-.....) of cash at foreign banks was deposited under blocked accounts against the "securitisation" transactions on cheques and credit card receivables.
- (3) - TL157,260 (1998: TL14,351), 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: TL6,392).
 - 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 TL616,116 (1998: TL187,761).
 - 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.....-.....).
 - TL50,974,968 (1998: TL17,404,388) 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 TL1,606,609,650 (1998: TL471,379,042) 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.)
 - 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 TL1,605,046,603 (1998: TL471,281,001) 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.)

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 TL131,966,781 (1998: TL38,051,027), 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) - TL5,561,841 (1998: TL10,028,430) and TL43,584,397 (1998: TL30,974,957) of total loans and advances, aggregating to TL49,146,238 (1998: TL41,003,387), 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 TL20,177 (1998: TL31,197).
- As at 31 December 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	15,277,430	15,277,430
I st Group collateral	82,750	82,750
II nd Group collateral	6,589,056	6,589,056
III rd Group collateral	5,403,238	5,403,238
IV th Group collateral	257,812	257,812

- TL758 of the classified receivables comprised of foreign currency denominated receivables.
- (6) - Receivables arising from term sale of assets amounted to TL.....-..... (1998: TL-.....).
- (7) - TL67,472,165 (1998: TL.....-.....) 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 TL89,585,079 (1998: TL.....-.....) in total.
- Bonus shares received on investments and affiliated companies amounted to TL5,725,702 (1998: TL3,372,442).
- At 31 December 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	15,148,111	-
-Loans (including overdue loans)	38,188,259	5,464,177
-Accrued interest and income	2,198,595	259,565
<u>PAYABLES:</u>		
-Deposits	14,227,464	-
-Funds borrowed	104,023,804	-
-Accrued interest and expenses	2,633,154	-
<u>DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS</u>	133,348,602	2,990,948

(Currency - Millions of Turkish Lira)

Note II - (Continued)

	1998	
	<u>Financial investees and affiliated companies</u>	<u>Other investees and affiliated companies</u>
RECEIVABLES:		
-Due from banks and other financial institutions	28,398,756	-
-Loans (including overdue loans)	13,964,251	3,148,000
-Accrued interest and income	1,537,400	522,917
PAYABLES:		
-Deposits	8,339,534	10,893
-Funds borrowed	76,181,600	-
-Accrued interest and expenses	1,873,710	-
DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS		
	145,650,675	-

- At 31 December 1999 and 1998, investments and affiliated companies included the followings:-

	1999			
	<u>% of ownership</u>	<u>Total capital</u>	<u>Net income for the period</u>	<u>Market value</u>
INDUSTRIAL COMPANIES				
GENOTO GEN. OTO. SAN. TİC. A.Ş.	40.00	64,000	(40,148)	-
MAN KAMYON VE OTO. SAN. A.Ş.	0.50	2,244,530	(2,125,012)***	-
LASAŞ LASTİK SAN.VE TİC. A.Ş.	99.99	2,500,000	65,797****	-
BANKS				
SINAI YATIRIM BANKASI A.O.	10.00	10,000,000	6,534,480	-
T.SINAI KALKINMA BANKASI A.Ş.	0.78	16,000,000	9,441,304****	404,487*
İ.M.K.B. TAKASBANK A.Ş.	4.86	7,850,000	9,960,702	-
COMMERCIAL COMPANIES				
GARANTİ BİLİŞİM TEKN. TİC. A.Ş.	100.00	994,000	8,170****	-
BULL BİLGİSAYAR TEK. A.Ş.	0.02	10,000	(286,745)****	-
YATIRIM FİNANSMAN A.Ş.	0.28	1,000,000	358,816****	-
GENOTO GENERAL OTO. PAZ. A.Ş.	0.20	80,000	71,217**	-
BANKALARARASI KR. KART. MERKEZİ A.Ş.	9.98	97,500	842,346****	-
GARANTİ FİNANSAL KİR. A.Ş.	80.00	4,400,000	134,288****	-
AKTİF FİN. FACTORİNG HİZ. A.Ş.	9.78	4,999,749	3,891,652	1,340,955*
TÜRK SUUDİ YATIRIM HOL. A.Ş.	0.06	400,000	8,753	-
T. KREDİ KAYIT BÜROSU A.Ş.	9.09	275,000	33,902	-
GARANTİ YATIRIM MENKUL KIYM. A.Ş.	51.67	1,000,000	909,084****	-
GARANTİ PORTFÖY YÖNETİMİ A.Ş.	70.00	500,000	1,727,005	-
PETROTRANS NAKLİYAT TİC. A.Ş.	100.00	5,000	(1,089)	-
ANA KONUT DANIŞMANLIK A.Ş.	100.00	25,000,000	(167,923)	-
DOĞUŞ HAVA TAŞIMACILIĞI A.Ş.	49.91	17,000,000	(3,240,525)****	-
TANSAŞ İZMİR B. Ş. B. İÇ VE DIŞ TİC. A.Ş.	29.00	3,000,000	(623,342)****	89,585,079*
GARANTİ ÖDEME SİSTEMLERİ A.Ş.	99.92	5,000	(735)****	-
İKSİR ULUSLARARASI ELEKTRONİK TİC. BİLGİLENDİRME VE HABERLEŞME HİZ.A.Ş.	38.00	1,000,000	-	-
GARANTİ SİGORTA A.Ş.	100.00	2,740,000	(466,112)****	-
GARANTİ HAYAT SİGORTA A.Ş.	99.13	1,600,000	747,120****	-
WOLGSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI A.Ş.	37.00	7,000,000	-	-
TOURISM COMPANIES				
GARANTİ TURİZM YAT.VE İŞL. A.Ş.	43.33	950,000	(477,122)****	-
ŞAHİNTUR ŞAHİNLER O. TURZ. YAT. İŞL. A.Ş.	100.00	262,500	80,942	-
INVESTMENTS IN FOREIGN CURRENCY				
UNITED GARANTİ BANK INT. N.V.	100.00	NLG75 millions	EUR21,390,000	-
DOC FINANCE S.A.	50.27	CHF12 millions	CHF(1,219,263)	-
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 FUNDİNG CORP. I	100.00	USD50,000	-	-
GARANTİ FUNDİNG CORP. II	100.00	USD50,000	-	-
GARANTİ BANK MOSCOW	99.61	USD25.5 millions	USD11,087,000	-
INSTRUMENTS FINANCE COMPANY	100.00	USD25,000	USD388,548	-
GARANTİ FINANCIAL SERVICES PLC	100.00	USD2,638,100	USD(531,516)	-
GARANTİ FUND MANAGEMENT CO. LTD.	99.00	USD100,000	USD(69,248)	-
CLOVER BANK OFF-SHORE LTD.	99.10	USD4.5 millions	-	-
COMPAGNIE OTTOMANE D'INVESTMENT B.V.	100.00	NLG165 millions	-	-

(Currency - Millions of Turkish Lira)

Note II - (Continued)

(*) Quoted shares are valued at the weighted average market rates for the last five working days of 1999.

(**) Net income for the three-month period ended 31 March 1999.

(***) Net income for the six-month period ended 30 June 1999.

(****) Net income for the nine-month period ended 30 September 1999.

	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	219,355	-
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	96,303	-
<u>BANKS</u>				
SİNAİ YATIRIM BANKASI A.O.	10.00	5,000,000	4,430,047	-
T.SİNAİ KALKINMA BANKASI A.Ş.	0.78	8,000,000	1,530,107***	112,101*
İ.M.K.B. TAKASBANK A.Ş.	4.86	2,750,000	5,875,400	-
<u>COMMERCIAL COMPANIES</u>				
GARANTİ TİCARET A.Ş.	100.00	994,000	(4,079)	-
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	2,667,748*****	-
AKTİF FİN. FACTORİNG HİZ. A.Ş.	9.78	1,256,850	271,587***	186,919*
TÜRK SUUDİ YATIRIM HOL. A.Ş.	0.06	400,000	(6,327)	-
T. KREDİ KAYIT BÜROSU A.Ş.	9.09	275,000	(47,819)	-
GARANTİ MENKUL KIYM. A.Ş.	21.67	1,000,000	993,073****	-
GARANTİ PORTFÖY YÖNETİMİ A.Ş.	70.00	250,000	257,491	-
PETROTRANS NAKLİYAT TİC. A.Ş.	100.00	5,000	55,000	-
ANA KONUT DANIŞMANLIK A.Ş.	100.00	4,250,000	21,392	-
DOĞUŞ HAVA TAŞIMACILIĞI A.Ş.	6.14	6,700,000	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	39,880	-
<u>INVESTMENTS IN FOREIGN CURRENCY</u>				
UNITED GARANTI 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)****	-
GARANTI FUNDING CORP. I	100.00	USD50,000	-	-
GARANTI FUNDING CORP. II	100.00	USD50,000	-	-
GARANTI BANK MOSCOW	99.33	USD15 millions	USD6,608,000*****	-
INSTRUMENTS FINANCE COMPANY	100.00	USD25,000	USD563,000	-
GARANTI FINANCIAL SERVICES PLC	99.99	USD138,100	USD(505,089)	-
GARANTI FUND MANAGEMENT CO. LTD.	99.00	USD100,000	USD258,529	-

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

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

(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 **TL136,760,683 (1998: TL38,331,191), TL701,152 (1998: TL1,890,479), TL58,268,043 (1998: TL10,045,176) and TL2,173,595 (1998: TL859,022)**, respectively.

(9) In accordance with the Banking Law, assets held for resale amounted to **TL42,741,120 (1998: TL23,537,846)**.

(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 **TL520,789,686 (1998: TL335,688,215)** and time accounts of **TL1,873,123,806 (1998: TL961,634,778)**, respectively.

- All saving deposits and gold deposit accounts were insured up to **TL1,191,617,442 (1998: TL495,990,849)** under "Saving Deposit Insurance Fund".

(12) - Issuance premiums for securities issued amounted to **TL766,972 (1998: TL708,061)**.

- Bonds convertible to the capital shares amounted to **TL..... (1998: TL.....)**.

(13) Cash collateral received amounted to **TL268,266 (1998: TL491,240)**.

(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 31 December 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	43,743,282	-	-	-
Due from banks and other financial institutions	123,379,043	337,666,928	-	-
Securities (Net)	-	860,906,267	186,914,949	299,982,399
Performing loans	-	330,221,237	704,727,000	386,909,000
Accrued interest and income	6,828,000	102,020,654	225,823,475	123,342,000
Reserve deposits	167,820,324	-	-	-
<u>LIABILITIES:</u>				
Deposits	903,252,732	1,153,142,067	253,093,940	84,424,753
Interbank funds borrowed	78,111,300	38,473,000	-	-
Funds borrowed	-	242,869,000	375,341,650	485,736,709
Securities issued (Net)	-	21,399,359	2,378,000	-
Accrued interest and expense	79,598,060	15,504,654	5,994,000	-
Taxes, stamps, premiums and other duties	-	12,084,558	-	-
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	20,836,791	-	-	-
Due from banks and other financial institutions	38,933,497	369,568,598	-	-
Securities (Net)	-	238,924,790	224,643,381	50,266,844
Performing loans	-	298,953,368	428,427,926	190,482,601
Accrued interest and income	-	112,203,568	66,841,352	10,708,745
Reserve deposits	61,294,209	-	-	-
<u>LIABILITIES:</u>				
Deposits	335,688,213	913,567,706	46,476,515	1,590,559
Interbank funds borrowed	11,000,000	-	-	-
Funds borrowed	-	130,372,151	147,256,000	232,541,000
Securities issued (Net)	-	42,760,449	7,263,473	-
Accrued interest and expense	-	40,777,750	1,555,409	29,679
Taxes, stamps, premiums and other duties	-	4,939,966	-	-

- (16) Commitments arising from outstanding agreements for resale and repurchase of government securities at the balance sheet date, amounted to TL.....-..... (1998: TL92,701,396) and TL678,704,593 (1998: TL154,438,084), 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 Markets 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:-

Following 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 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 Doğu Holding A.Ş. which currently holds 45.38% 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 year ended 31 December 1999, such payments charged to statement of income as expense accumulated to TL1,372,576 (1998: TL301,116) and the remaining balance recorded as "prepaid expense" in the balance sheet, amounted to TL4,759,034 (1998: TL633,083).

(Currency - Millions of Turkish Lira)

Note II - (Continued)

If the Bank would have applied IAS17, TL1,276,001 of the prepayments related to leasing activities incurred till 31 December 1999 would not be charged to income, instead retained earnings would be less by TL2,859,649, prepaid expenses by TL4,716,781 and the following items of the financial statements would be higher by the amounts below:-

Bank premises and equipment, net	4,259,300
Payables from financial leasing activities, net	6,599,070
Depreciation expense	1,006,276
Interest expense	940,000
Foreign exchange losses	3,526,627

(19) - Other significant matters:-

- The Bank acquired Compagnie Ottomane d'Investments B.V. for the amount of USD 310 millions on 20 October 1999 in accordance with the resolution of Board of Directors meeting no.1868 held on 10 September 1999 and the approval of the Turkish Treasury on 10 April 1996 by permission no.15972. This company used to be an indirect participation of the Bank through its subsidiaries in Malta and Luxembourg before this recent acquisition.
- 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 TL15,327,888	100%	TL 15,327,888
2- Amount related to prior years TL32,052,186	100%	TL 32,052,186
3- Amount covered in current period statutory corporate taxes TL32,052,186	100%	<u>(32,052,186)</u>
Deferred tax liability (balance sheet)	100%	: TL <u>15,327,888</u>

- Details on assets and liabilities indexed on foreign exchange rates, gold prices and other financial indicators were as follows:-

<u>Assets indexed on foreign exchange rates</u>	<u>Principal</u>	<u>Current period accruals for interests and foreign exchange gains</u>
Loans	50,705,872	18,363,777
Interbank funds sold	450,660	1,079,118
Profit sharing notes	701,152	2,967,889

- Year 2000 issue

The Bank did not experience any system problems in 2000, as the satisfactory preparations on its information technology were made to prevent possible year 2000 problems.

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

- (1) - Interests received from the investee companies amounted to **TL5,887,961 (1998: TL3,533,137)**. Fees and commissions received from such companies aggregated to **TL..... (1998: TL)**.
- Interests paid to the investee companies amounted to **TL4,143,825 (1998: TL2,328,636)**. 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 **TL1,327,576 (1998: TL301,116)**.
- (4) - General provision for loan losses amounted to **TL1,123,761 (1998: TL7,647,655)**.
- Provision for valuation allowance on securities amounted to **TL15,928,738 (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:-

In compliance with the Tax Law no.4481 and the related articles published on the Official Gazette dated 26 November 1999, there were provisions for additional corporate, real-estate and motor vehicles taxes in the amount of TL7,575,423 and for interest income taxes in the amount of TL16,747,658. These special taxes as they were planned to finance the losses arose due to earthquakes on 17 August and 12 November 1999, were considered as extraordinary expenses and classified in the statement of income accordingly under "extraordinary expenses". TL1,320,871 of these amounts were paid up to the end of 1999 in accordance with the related legislation, and the remaining balance, TL23,002,210 was classified as payable under "other provisions" in the accompanying balance sheet.

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