

Year-end Financial Statements

TO : INVESTMENT COMMUNITY
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SUBJECT : 1998 YEAR-END FINANCIAL STATEMENTS
DATE : February 12, 1999

Net earnings up 40% reaching US\$497 million

Garanti Bank's net earnings for fiscal year 1998 grew by 40% in real terms to reach US\$497 million or 116% in nominal terms at TL130,074 billion, compared to 1997 year end figures of US\$395 million (TL60,206 billion).

1998 Turkish Economic Environment

The global economic crisis, which started in Asia and continued across Russia and the Latin America, has led to a global slowdown, sending emerging market interest rates higher and growth prospects lower. Deflationary pressures and Western bank's exposure to emerging market portfolios and lending had led to the constraint or curtailment of lending. This set the stage for the widening of credit spreads, increase in domestic interest rates, and conversion to liquidity on the balance sheets.

Against this background, GNP grew by only 1.9% in 3rd Q1998, compared to 8.5% in 3rd Q1997. The overall nine-month GNP growth declined to 4.4% in 1998, down from 8.2% growth during the same period in 1997. Industrial production went down by 9.1% in December 1998 when compared to December 1997 figures. Therefore, the cumulative industrial production figures were up by only 2.8% on average during 1998, compared to 1997's average of 10.8%. WPI declined to 54.3% by year-end, down from 91.1% in 1997. Imports were down 3% YOY, at US\$46,601 million, due to this decrease the coverage ratio of imports rose to 62.3%. Exports declined slightly by %0.3 to US\$26,163 million as of November 1998, resulting in a trade deficit of US\$20,438 million during this period.

The consolidated budget revenues and expenditures were US\$36.2 billion (TL11,373 trillion) and US\$47.4 billion (TL14,879 trillion), respectively. The budget deficit was US\$11.2 billion (TL3,506 trillion), while the primary surplus figures were at US\$8.5 billion (TL2,679 trillion) or about 4.2% of GNP during 1998.

In line with global credit restraints, the average domestic borrowing maturity of the Turkish Treasury was 239 days, compared to 341 days maturity, a year ago.

The average interest on domestic borrowing was up to 115.2% from 1997 rates of 108.1%, representing real interest rate increases from 9% in 1997 to 39% in 1998. Increase in both domestic and foreign borrowing costs by Turkish banks has prompted them to raise their lending rates.

Interest revenues up by 75% in real terms

Interest income increased by 75% to US\$2,277 million (TL595,977 billion) or 170% in nominal terms. Of this, interest earned on loans was TL244,819 billion, which constitutes 41% of the total interest revenues. The share of interest earned on securities rose to 47% from previous year's 40%. The nominal interest earned from securities was up 218%, reaching TL281,524 billion. Interest expenses increased to TL261,223 billion, up by 236% in nominal terms over 1997. The share of interest paid to deposits was 76%, up from 66% in 1997, due to the significant increase in deposits. Net interest margin increased by 135% in nominal terms to TL334,754 billion or US\$1,279 million.

Non-interest income showed an increase of 82% in nominal terms reaching TL39,191 billion. Net commission and fees were TL11,074 billion, up by 113% in nominal terms. Operating expenses increased by 68% in nominal terms to TL146,256 billion. Earnings before taxes were US\$769 million (TL201,115 billion), up by 63% in US\$ terms. At the end of 1997, pretax income was US\$472 million. Tax provisions rose by 503% in nominal terms, to reach TL71,040 billion in 1998, as compared to TL11,778 billion in 1997.

Garanti Bank's asset size reached US\$7,472 million

Garanti Bank's total assets increased 28% in real terms to reach US\$7,472 million or 97% in nominal terms to TL2,352,305 billion. Assets in 1997 totaled TL1,192,703 billion in 1997. Securities increased by 133% in nominal terms, reaching TL514,694 billion (US\$1,635 million). Cash and due from banks were TL429,338 billion and made up 18% of total assets.

More liquid balance sheet, decreased lending

Due to the effects of the global economy, Turkey experienced slower growth in 1998. Based upon the current global environment, like Western banks, Garanti opted for a more liquid balance sheet by decreasing the percentage share of loans to assets.

At the end of 1997, cash and due from banks were 13.2% of total assets. As a result of shifting to more liquid assets, the liquid assets to total assets ratio increased to 34% at year end 1998, from a ratio of 28% in 1997. The share of loans to asset declined to 39% level at TL917,864 billion (US\$2,916 million). Therefore, the nominal increase of loans was parallel to the inflation rate. Turkish Lira loans made up 23% of total cash loans, foreign currency loans account for a larger share. Non-performing loans to cash loans rose to 1.34%, up from 0.8% in 1997 and NPLs to total loans ratio was 0.63%. The bank provided 100% of the allowances for non-performing loans or TL12,291 billion. Preference of a more liquid balance sheet to avoid potential risks in the real sector led to slower loan growth in 1998.

Deposits consist of 55.2% of total liabilities and shareholders' equity

Deposits constituted 55% of total liabilities and shareholders' equity, compared to 43% in 1997. Deposits grew by 63% in real terms to US\$4,121 million (TL1,297,323 billion). Change in the bank's funding policy raised deposits considerably, while the share of foreign borrowings was decreased. Turkish Lira deposits were 29% and low cost TL demand deposits were 25% of the total TL deposits. Foreign currency deposits rose by 153% in nominal terms to TL786,187 billion. Foreign currency demand deposits were 30% of total FC deposits.

Funding through borrowed funds decreased

The share of borrowed funds shrank to 22% at year-end 1998, from 33% in 1997 of total liabilities and shareholders' equity. Amounts due to banks figure rose 32% in nominal terms totaling TL521,169 billion. The bank's net Repo position shrank by 81% to TL59,911 billion representing only 2% of total assets in 1998, compared to 21% during 1997. The effective tax rate rose to 35% at year-end 1998. The leverage rate declined to 10.64 from 11.51 in 1997.

The bank increased its general loan and tax provisions significantly as a response to the effects of the global crisis. Therefore, total provisions on the liability side jumped by 1,828% in real terms or TL69,139 billion.

Total shareholders' equity increased 47% in US\$ terms to US\$916 million or TL288,353 billion at the end of fiscal year 1998. The share of total equity to assets was 16%. At the end of 1998, Garanti's net foreign currency short position was US\$270 million, up from last year's figure of US\$180 million. Net position to total shareholders' equity remained stable at 29%.

Despite high provisions, display of excellent profitability ratios

It was another successful year for Garanti. Although the financial crisis storm swept through the continents in 1998, Garanti Bank's experience and flexibility enabled it to act quickly to the changes in the economy. The Return on Average Assets (ROAA) ratio was 8.23% and the Return on Average Equity (ROAE), profit included, was 66.79% for 1998. Comparatively, these ratios were 9.01% and 63.48%, respectively in 1997.

The slight decrease in the ROAA ratio stemmed from the increase in tax provisions. Nonetheless, Garanti Bank's pre-tax profitability ratios were above those of 1997, since the tax provisions for 1998 jumped by 503% in nominal terms. Pre-tax ROAA rose to 12.73% in 1998 from 10.77% in 1997. Likewise, pre-tax ROAE (profit included) increased to 98.14% from 1997 figures of 79.86%.

The capital adequacy ratio was 16.39% during 1998, compared to 12.33% a year ago. The increase in capital adequacy is attributable to a faster increase in the capital base than the risk weighted assets, which were lower due to an increase in liquid assets. The rise in the capital base evolved from retained earnings and higher disclosed reserves.

Interest margin during 1998 was 29.03%. Total expenses to total income rose to 80.97% from 78.55% in 1997, resulting from increased provisioning. Operating expenses to total assets was down to 2.38% during 1998, from 2.56% in 1997.

Overall, the bank displayed another year of growth and profitability despite the adverse conditions within Turkey and the global economy. In 1998, Garanti Bank substantially improved its liquidity position, maintained its relatively low-cost source of medium term funding, and increased its deposit base as customers placed greater importance to security of capital at Garanti Bank, rather than returns.

Türkiye Garanti Bankası Anonim Şirketi

Financial Statements
December 31,1998 and 1997
With Independent
Auditor's Report Thereon

Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik A.Ş.
February 11, 1999
This report contains 15 pages.

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 December 31, 1998 and 1997 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 December 31, 1998 and 1997 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,
February 11, 1999

KPMG Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik Anonim Şirketi

TÜRKİYE GARANTİ BANKASI A.Ş.

BALANCE SHEETS-ASSETS (In millions TL)	Audited	
	31.12.98	31.12.97
Liquid assets	20,836,791	17,804,032
Cash, local currency	4,834,630	3,765,026
Cash, foreign currency	13,793,446	11,886,296
Others	2,208,715	2,152,710
Due from banks	408,502,095	140,717,048
Central Bank of Turkey	21,147,822	24,840,931
Other banks	387,354,273	115,876,117
-Domestic banks	116,831,034	30,675,397
-Foreign banks	270,523,239	85,200,720
Other financial institutions	-	-
Interbank funds sold	-	-
Securities (Net)	463,568,171	169,168,522
Government bonds and treasury bills	352,480,587	77,198,150
Other bonds	-	-
Equity shares	150,411	17,636
Other securities	110,937,173	91,952,736
Loans	917,863,895	592,185,824
Short-term	489,945,718	588,223,539
Medium and long-term	427,918,177	3,962,285
Non-performing loans (Net)	-	-
Loans under follow-up (Net)	-	-
-Uncollateralised	3,899,226	2,130,282
-Collateralised	8,392,141	2,594,571
-Provision (-)	12,291,367	4,724,853
Doubtful commissions and other receivables	-	-
-Gross receivables	-	-
-Provision (-)	-	-
Accrued interest and income	189,753,665	98,448,987
On loans	42,330,279	20,233,176
On securities	129,057,885	70,589,156
Others	18,365,501	7,626,655
Receivables from financial leasing activities (Net)	-	-
Receivables from financial leasing activities	-	-
Unearned income (-)	-	-
Reserve deposits	61,294,209	29,421,540
Government bonds funding legal reserves	12,704,115	6,683,507
Miscellaneous receivables	1,973,865	634,091
Investments (Net)	1,794,232	1,285,283
Financial companies	1,362,062	531,254
Non-financial companies	432,170	754,029
Affiliated companies (Net)	38,005,830	21,542,736
Financial companies	19,176,216	12,055,164
Non-financial companies	18,829,614	9,487,572
Other long-term investments (Net)	51,125,866	51,763,237
Equity shares	859,022	542,974
Others	50,266,844	51,220,263
Bank premises and equipment (Net)	117,111,971	43,921,819
Carrying value	137,123,214	53,810,681
Accumulated depreciation (-)	20,011,243	9,888,862
Other assets	67,770,811	19,126,780
TOTAL ASSETS	2,352,305,516	1,192,703,406

TÜRKİYE GARANTİ BANKASI A.Ş.

BALANCE SHEETS-LIABILITIES AND SHAREHOLDERS' EQUITY (In millions TL)

	Audited	
	31.12.98	31.12.97
Deposits	1,297,322,993	514,690,449
Saving deposits	132,364,006	35,507,194
Certificate of deposits	440	480
Deposits of official authorities and organisations	1,498,563	606,835
Commercial deposits	72,874,803	33,110,731
Deposits of other organisations	8,711,365	5,992,996
Bank deposits	294,454,771	127,601,777
Foreign currency deposits	786,187,489	310,174,528
Gold deposits	1,231,556	1,695,908
Interbank funds borrowed	11,000,000	-
Funds borrowed	510,169,151	394,910,046
From Central Bank of Turkey	-	-
Others	510,169,151	394,910,046
-Domestic banks and organisations	23,619,998	76,520,619
-Foreign banks and organisations	486,549,153	318,389,427
-Subordinated debts	-	-
Funds	-	-
Securities issued (Net)	50,023,922	95,040,974
Notes	-	-
Asset backed securities	-	129,613
Bonds	50,023,922	94,911,361
Accrued interest and expense	42,362,838	24,078,036
On deposits	29,963,597	12,152,972
On funds borrowed	7,335,579	5,705,898
Others	5,063,662	6,219,166
Payables from financial leasing activities (Net)	-	-
Payables from financial leasing activities	-	-
Deferred expenses (-)	-	-
Taxes, stamps, premiums and other duties	4,939,966	2,717,258
Transfer orders	1,168,509	2,759,423
Other payables	16,920,153	9,209,419
Reserves	69,139,054	2,324,283
Reserve for retirement pay	2,468,205	1,218,205
General provision for loan losses	7,647,655	-
Reserve for taxes on income	48,187,740	-
Other provisions	10,835,454	1,106,078
Other liabilities	60,905,923	18,895,714
Shareholders' equity	158,278,186	67,871,717
Share capital	50,000,000	40,000,000
-Nominal capital	50,000,000	40,000,000
-Unpaid capital (-)	-	-
Retained earnings	63,155,962	6,099,477
Reserve for possible loan losses (Banking Act, article 32/1)	4,858,793	1,848,488
Revaluation surplus	40,137,821	19,627,351
Valuation increment	125,610	296,401
Loss	-	-
-Loss for the year	-	-
-Prior years' losses	-	-
Income	130,074,821	60,206,087
-Income for the year	130,074,821	60,206,087
-Prior years' income	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,352,305,516	1,192,703,406
COMMITMENTS AND CONTINGENCIES		
Guarantees and endorsements	1,030,470,518	627,218,260
Commitments	252,769,125	318,389,545
Derivative transactions	1,097,180,422	682,371,649
TOTAL	2,380,420,065	1,627,979,454

TÜRKİYE GARANTİ BANKASI A.Ş.

STATEMENTS OF INCOME (In millions TL)

	Audited	
	31.12.98	31.12.97
I. INTEREST INCOME	595,977,335	220,445,906
Interest on loans	244,941,428	113,391,497
On TL loans	169,898,505	82,372,927
-On short-term loans	169,226,300	81,588,550
-On medium and long-term loans	672,205	784,377
On foreign currency loans	74,921,405	30,754,939
-On short-term loans	29,352,220	30,483,470
-On medium and long-term loans	45,569,185	271,469
Interest on loans under follow-up	121,518	263,631
Premiums from Resource Utilisation Support Fund	-	-
Interest on reserve deposits	-	-
Interest from banks	49,765,410	12,029,081
Central Bank of Turkey	368,267	329,858
Domestic banks	24,819,990	6,400,548
Foreign banks	24,577,153	5,298,675
Interest on interbank funds sold	3,755,503	112,219
Interest on securities	281,524,071	88,406,897
On government bonds and treasury bills	255,325,480	75,098,552
On other securities	26,198,591	13,308,345
Other interest income	15,990,923	6,506,212
II. INTEREST EXPENSE	261,222,660	77,764,359
Interest expense on deposits	199,257,182	51,629,244
Saving deposits	56,723,012	17,452,224
Certificate of deposits	3,986	33,300
Deposits of official authorities and organisations	1,929,960	339,256
Commercial deposits	7,757,699	426,820
Deposits of other organisations	633,687	277,852
Bank deposits	96,499,317	22,717,455
Foreign currency deposits	35,709,521	10,379,932
Gold deposits	-	2,405
Interest on interbank funds borrowed	3,269,532	4,010,070
Interest on funds borrowed	49,518,496	16,238,054
Central Bank of Turkey	8,632	2,605
Domestic banks	5,998,977	2,952,948
Foreign banks	20,636,999	9,251,083
Other organisations	22,873,888	4,031,418
Interest on securities issued	8,736,723	5,690,875
Other interest expense	440,727	196,116
III. NET INTEREST MARGIN (I-II)	334,754,675	142,681,547
IV. OTHER INCOME	133,808,084	45,991,961
Commissions and fees received	28,891,334	12,830,834
On loans	2,243,746	1,462,735
On documentary credits and letters of guarantee	4,503,187	2,761,394
Others	22,144,401	8,606,705
Trading account income	24,887,532	11,382,815
Foreign exchange gain	75,110,949	16,075,494
Dividends received	374,805	1,302,433
Extraordinary income	-	-
Others	4,543,464	4,400,385
V. OPERATING EXPENSES	267,447,453	116,688,870
Commissions and fees paid	17,817,706	7,611,331
On funds borrowed	2,277,905	602,088
On documentary credits	72,035	524
Others	15,467,766	7,008,719
Trading account loss	1,708,348	739,078
Foreign exchange loss	128,242,033	62,206,142
Personnel expenses	42,895,284	17,732,641
Provision for retirement pay	1,250,000	612,089
Rent expenses	2,998,214	1,227,259
Depreciation and amortisation expenses	6,186,805	3,132,606
Taxes, stamps and other duties	2,466,346	1,333,279
Extraordinary expenses	-	-
Provision for possible loan losses	7,539,740	3,628,440
Other provisions	17,765,070	1,035,492
Others	38,577,907	17,430,513
VI. NET OTHER INCOME/(EXPENSE) (IV-V)	(133,639,369)	(70,696,909)
VII. INCOME BEFORE TAXES (III+VI)	201,115,306	71,984,638
VIII. PROVISION FOR TAXES ON INCOME	71,040,485	11,778,551
IX. NET INCOME FOR THE YEAR (VII-VIII)	130,074,821	60,206,087

I- GENERAL NOTES ON THE BANK'S FINANCIAL POSITION

A. Notes to the current period operations

(1) The financial statements were approved on 11 February 1999 (1997: 12 February 1998).

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

There were no changes in the accounting policies except for those required by the amendments to the Uniform Chart of Accounts during the year.

(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.

The balance sheets and statements of income were prepared on the basis of consistency principle and no changes to the accounting principles were made except for those required by the amendments in the Uniform Chart of Accounts.

(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 1998, 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 1998, was TL 314,800 (1997: TL204,600).

Note I - A- (Continued)

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

30.12.1998	312,650	30.12.1997	204,200
29.12.1998	312,000	29.12.1997	203,080
28.12.1998	312,400	26.12.1997	202,180
25.12.1998	311,000	25.12.1997	202,050
24.12.1998	310,000	24.12.1997	201,960

- (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:-

	1998	1997
Foreign currency denominated assets	USD 5,598 millions	USD 5,242 millions
Foreign currency denominated liabilities	USD 5,868 millions	USD 5,422 millions
Short position in foreign currency	USD 270 millions	USD 180 millions

- (9) Total insurance coverage on assets amounted to TL112,165,367 (1997: TL38,611,985).
- (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 1998, amounted to TL2,468,205 (1997: TL1,218,205) of which TL1,250,000 (1997: TL612,089) was provided in the current year.

In the current year, there were also other provisions expensed. These were: deferred tax liability of TL22,852,745 (1997: TL11,778,551) on income and expense items reflected in the statement of income in the current year but will be taxable or tax deductible in the subsequent periods (taxable temporary differences), provision for non-performing loans of TL7,539,740 (1997: TL3,628,440), general provision for loan losses of TL 7,647,655 and general provision for possible banking risks of TL10,117,415 (1997: TL601,427).

- (12) The external audit firm was 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.

II- NOTES TO BALANCE SHEET AND OFF-BALANCE SHEET ACCOUNTS

- (1) TL.....-..... (1997: TL.....-.....) of cash at the Central Bank was deposited under blocked accounts.
- (2) TL.....-..... (1997: TL.....-.....) of cash at foreign banks was deposited under blocked accounts.
- (3) - TL14,351 (1997: TL14,408), of "securities" balance represents the "valuation increment" on securities.
- Total carrying value of securities of which market values exceeded their costs and which were stated at cost in the balance sheet amounted to TL.....-..... (1997: TL.....-.....), total costs of securities recorded at their market values amounted to TL194,153 (1997: TL167,592).
- TL17,404,388 (1997: TL9,323,794) 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 TL471,379,042 (1997: TL252,746,703) 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. In addition, 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 TL471,281,001 (1997: TL253,030,315) in total. **The Eurobonds-indexed on foreign currency issued by the "Republic of Turkey" and government bonds in foreign currency were stated at market values in the calculation due to the absence of such values announced by the "Central Bank" and 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 TL38,051,027 (1997: TL28,563,420), 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.**
- (4) - TL10,028,430 (1997: TL378,580) and TL30,974,957 (1997: TL15,939,327) of total loans and advances, aggregating to TL41,003,387 (1997: TL16,317,907), provided to the shareholders and personnel of the Bank, represented loans 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.....-..... (1997: TL-.....).
- (5) - Total of the loans renewed or rescheduled, amounted to TL31,197 (1997: TL.....-.....).

(Currency-Millions of Turkish Lira)

Note II - (Continued)

- 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	3,899,226	3,899,226
I st Group collateral	5,295	5,295
II nd Group collateral	3,023,495	3,023,495
III rd Group collateral	4,684,352	4,684,352
IV th Group collateral	678,999	678,999

- **TL769** of the classified receivables comprised of foreign currency denominated receivables.

(6) - Receivables arising from term sale of assets amounted to **TL.....-..... (1997: TL-.....)**.

(7) - **TL111,258 (1997: TL281,991)** 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 **TL299,020 (1997: TL446,359)** in total.

- Bonus shares received from investments and affiliated companies amounted to **TL3,372,442 (1997: TL3,277,676)**.

- At 31 December 1998 and 1997, receivables from and payables to affiliated companies and other investees, were as follows:-

	<u>1998</u>	
	<u>Financial investees and affiliated companies</u>	<u>Other investees and affiliated companies</u>
<u>RECEIVABLES:</u>		
-Due from banks and other financial institutions	28,398,756	-
-Loans (including overdue loans)	13,964,251	3,148,000
-Accrued interest and income	745,030	568,965
<u>PAYABLES:</u>		
-Deposits	8,339,534	10,893
<u>DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS</u>		
	145,650,675	-
	<u>1997</u>	
	<u>Financial investees and affiliated companies</u>	<u>Other investees and affiliated companies</u>
<u>RECEIVABLES:</u>		
-Due from banks and other financial institutions	22,877,775	-
-Loans (including overdue loans)	8,022,422	2,046,993
-Accrued interest and income	272,089	497,744
<u>PAYABLES:</u>		
-Deposits	52,849	319
<u>DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS</u>		
	83,116,885	3,075

Note II - (Continued)

- At 31 December 1998 and 1997, investments and affiliated companies included the followings:-

		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>				
SINAI YATIRIM BANKASI A.O.	10.00	5,000,000	4,430,047	-
T.SINAI 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	-

(*) Net income for the nine-month period ended 30 September 1998.

(**) 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.

Note II - (Continued)

	1997			
	<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	(2,466)***	-
MAN KAMYON VE OTO. SAN. A.Ş.	0.50	2,244,530	325,641*	-
LASAŞ LASTİK SAN.VE TİC. A.Ş.	99.99	2,500,000	(80,447)***	-
<u>BANKS</u>				
SINAI YATIRIM BANKASI A.O.	10.00	2,500,000	2,177,062	-
T.SINAI KALKINMA BANKASI A.Ş.	0.78	5,000,000	2,888,534***	112,093*****
İ.M.K.B. TAKASBANK A.Ş.	4.86	1,050,000	1,738,657	-
<u>COMMERCIAL COMPANIES</u>				
GARANTİ TİCARET A.Ş.	100.00	994,000	910	-
BULL BİLGİSAYAR TEK. A.Ş.	0.02	10,000	623*	-
YATIRIM FİNANSMAN A.Ş.	0.28	500,000	165,333**	-
GENOTO GENERAL OTO. PAZ. A.Ş.	0.20	80,000	355,062	-
BANKALARARASI KRD. KARTLARI MERKEZİ A.Ş.	9.98	97,500	205,776***	-
GARANTİ FİNANSAL KİR. A.Ş.	80.00	2,000,000	439,933***	-
AKTİF FİN. FACTORİNG HİZ. A.Ş.	9.78	1,256,850	411,335**	334,266*****
TÜRK SUUDİ YATIRIM HOL. A.Ş.	0.04	400,000	119,348	-
T. KREDİ KAYIT BÜROSU A.Ş.	9.09	275,000	63,865***	-
GARANTİ MENKUL KIYM. A.Ş.	21.67	1,000,000	340,973***	-
GARANTİ PORTFÖY YÖNETİMİ A.Ş.	70.00	125,000	42,245	-
PETROTRANS NAKLİYAT TİC. A.Ş.	100.00	5,000	55,000	-
<u>TOURISM COMPANIES</u>				
GARANTİ TURİZM YAT.VE İŞL. A.Ş.	43.33	950,000	464,643****	-
ŞAHİNTUR ŞAHİNLER OTELCİLİK TURZ. YAT. İŞL. A.Ş.	100.00	262,500	9,098***	-
<u>INVESTMENTS IN FOREIGN CURRENCY</u>				
UNITED GARANTİ BANK INT. N.V.	100.00	NLG75 millions	NLG8,057,000***	-
DOC FINANCE S.A.	16.67	CHF12 millions	CHF172,735**	-
CI FINANCE LTD.	100.00	USD500,000	USD389,564**	-
CI INVESTMENTS LTD.	100.00	USD500,000	USD489,606**	-
BOSPHORUS FINANCE SER. LTD.	100.00	USD500,000	USD389,621**	-
GARANTİ FUNDING CORP. I	100.00	USD50,000	-	-
GARANTİ FUNDING CORP. II	100.00	USD50,000	-	-
GARANTİ BANK MOSCOW	99.33	USD15 millions	USD4,353,000***	-
INSTRUMENTS FINANCE COMPANY	100.00	USD25,000	USD402,759***	-

(*) Net income for the year ended 31 December 1996.

(**) Net income for the six-month period ended 30 June 1997.

(***) Net income for the nine-month period ended 30 September 1997.

(****) Net income for the eleven-month period ended 30 November 1997.

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

Note II - (Continued)

- (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 TL38,331,191 (1997: TL9,172,864), TL1,890,479 (1997: TL1,890,000), TL10,045,176 (1997: TL14,527,000) and TL859,021 (1997: TL542,974), respectively.
- (9) In accordance with the Banking Law, assets held for resale amounted to TL23,537,846 (1997: TL1,416,376).
- (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 TL335,688,215 (1997: TL192,534,634) and time accounts of TL961,634,777 (1997: TL322,155,815), respectively.
- All saving deposits and gold deposit accounts were insured up to TL495,990,849 (1997: TL217,079,554) under "Saving Deposit Insurance Fund".
- (12) - Issuance premiums for securities issued amounted to TL708,061 (1997: TL1,066,289).
- Bonds convertible to the capital shares amounted to TL.....-..... (1997: TL.....-.....).
- (13) Cash collateral received amounted to TL491,240 (1997: TL85,878).
- (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.....-..... (1997: TL.....-.....), was related to securities denominated in foreign currencies. TL.....-..... (1997: 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 year.

Note II - (Continued)

(15) At 31 December 1998 and 1997, maturity structures of some assets and liabilities were as follows:-

	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	-	-
1997				
	<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	17,804,032	-	-	-
Due from banks and other financial institutions	60,867,063	51,844,164	28,005,821	-
Securities (Net)	-	117,599,155	60,524,143	42,265,487
Performing loans	-	172,822,959	417,783,454	1,579,408
Accrued interest and income	-	57,894,466	35,252,829	5,301,692
Reserve deposits	29,421,540	-	-	-
<u>LIABILITIES:</u>				
Deposits	192,534,633	303,527,421	18,596,179	32,216
Funds borrowed	-	133,862,700	107,630,650	153,416,696
Securities issued (Net)	-	79,105,357	15,953,617	-
Accrued interest and expense	-	22,951,969	1,123,660	2,407
Taxes, stamps, premiums and other duties	-	2,717,258	-	-

(16) Commitments arising from outstanding agreements for resale and repurchase of government securities at the balance sheet date, amounted to **TL92,701,396 (1997: TL.....-....)** and **TL154,438,084 (1997: TL314,297,697)**, respectively.

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

The Bank does not apply registered share capital system.

Note II - (Continued)

- Capital increases during the year:-

In accordance with the resolution of the Board of Directors Meeting no. 1796 held on 17 April 1998, share capital was increased by TL10,000,000 (1997: TL22,000,000) from TL40,000,000 (1997: TL18,000,000) to TL50,000,000 (1997: TL40,000,000) provided for as follows:-

	<u>1998</u>	<u>1997</u>
Cash contributed by shareholders	-	14,156,000
Transfer from revaluation surplus on bank premises and equipment	4,532,476	5,047,000
Transfer from revaluation surplus on investments	-	1,911,000
Transfer from retained earnings	-	841,000
Transfer from gain on sale of investments	4,933,042	-
Transfer from gain on sale of fixed assets	<u>534,482</u>	<u>45,000</u>
	<u>10,000,000</u>	<u>22,000,000</u>

Application for capital increase was presented to Capital Markets Board on 22 April 1998 through Resolution Number 13508. At the Extraordinary General Board meeting held on 28 July 1998, capital increase was accepted, and it was registered on 14 October 1998.

- (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 1998, such payments charged to statement of income as expense accumulated to TL301,116 (1997: TL167,769) and the remaining balance recorded as "prepaid expense" in the balance sheet, amounted to TL633,083 (1997: TL259,919).

If the Bank would have applied IAS17, TL167,000 of the prepayments related to leasing activities incurred till 31 December 1998 would not be charged to income, instead retained earnings would be less by TL525,498, prepaid expenses by TL581,781 and the following items of the financial statements would be higher by the amounts below:-

Bank premises and equipment, net	3,665,203
Payables from financial leasing activities, net	5,943,070
Depreciation expense	528,571
Interest expense	158,057
Foreign exchange losses	1,814,523

- (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 June 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

Note II - (Continued)

bank incorporated in Turkey. The Bank provided loans amounting to TL15,442,513 (TL equivalent at the exchange rates prevailing on 31 December 1998) to its affiliates in Malta to finance the acquisition of the shares in COI. During 1998, Clover Investments Co. transferred all its shares in COI to Marmo SA; its wholly owned subsidiary incorporated in Luxembourg.

- Detail of deferred tax liability fully booked in the financial statements was as follows:-

<u>Deferred tax liability</u>	Percentage of amount reflected in the financial statements	Amount reflected in the financial statements
1- Amount related to current period TL 22,852,745	%100	TL 22,852,745
2- Amount related to prior years TL 11,844,133	%100	<u>TL 11,844,133</u>
TOTAL AMOUNT TL 34,696,878	%100	<u>TL 34,696,878</u>
Deferred tax liability (balance sheet)		: <u>TL 34,696,878</u>
Deferred tax charge (statement of income)		: <u>TL 22,852,745</u>

III- NOTES TO STATEMENT OF INCOME

- (1) - Interests received from the investee companies amounted to **TL3,533,137 (1997: TL1,358,291)**. Fees and commissions received from such companies aggregated to **TL.....-..... (1997: TL-.....)**.
- Interests paid to the investee companies amounted to **TL722,847 (1997: TL.....-.....)**. Fees and commissions paid to such companies aggregated to **TL.....-..... (1997: TL-.....)**.
- (2) Income on financial leasing transactions amounted to **TL.....-..... (1997: TL.....-.....)**.
- (3) Expenses paid on financial leasing transactions amounted to **TL301,116 (1997: TL167,769)**.
- (4) - General provision for loan losses amounted to **TL7,647,655 (1997: TL.....-.....)**.
- Provision for valuation allowance on securities amounted to **TL.....-..... (1997: 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:-

Details of the items comprising 20%, at minimum, of the expense component classified in group V, were as follows:-

	<u>1998</u>	<u>1997</u>
Computer expenses	6,214,414	2,659,430
Saving deposit insurance fund	4,020,590	1,568,429

- (6) Other significant matters:-

The Bank management accrued a general provision amounting to TL10,117,415 for possible banking risks which are not specifically related to an individual transaction or item.

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