

**Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates**

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

Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik
Anonim Şirketi
4 March 1999

This report contains 28 pages.

**Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates**

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Independent Auditor's Report

To the Board of Directors of
Türkiye Garanti Bankası A.Ş.,

We have audited the accompanying consolidated balance sheets of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 31 December 1998 and 1997; and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Garanti Bankası Anonim Şirketi and its affiliates as of 31 December 1998 and 1997; and the consolidated results of their operations and their consolidated cash flows for the years then ended, in accordance with statements of International Accounting Standards issued by the International Accounting Standards Committee.

İstanbul,
4 March 1999

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES
CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 1998 AND 1997

		1998	1997		1998	1997
		<u>TL billions</u>	<u>TL billions</u>		<u>TL billions</u>	<u>TL billions</u>
<u>ASSETS</u>				<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Cash and due from banks	(Note 5)	519,010	318,525	Deposits	(Note 13)	
Interbank placings		14,385	6,644	Demand		465,564
Blocked accounts at Central Bank	(Note 6)	102,872	77,740	Time		<u>1,370,381</u>
Securities	(Note 7)	745,492	547,805			1,835,945
Loans, advances and discounts, less allowance for possible losses	(Note 8)	1,336,896	1,243,723	Interbank takings		35,137
Accrued interest, prepaid expenses and other assets	(Note 9)	301,909	174,767	Short-term borrowings	(Note 14)	344,305
Investments in affiliated companies	(Note 10)	36,047	31,626	Short-term bonds payable	(Note 15)	114,625
Bank premises and equipment, net	(Note 11)	203,499	146,702	Taxation	(Note 16)	50,044
Intangible assets, net	(Note 12)	30,412	31,227	Accrued interest and other liabilities	(Note 17)	145,732
				Long-term debts	(Note 18)	<u>383,343</u>
				Total liabilities		2,909,131
				Minority interest		2,482
				Shareholders' equity (Note 19) :-		
				Share capital; authorized, issued and fully paid		235,993
				Retained earnings		<u>142,916</u>
				Total shareholders' equity		274,355
TOTAL ASSETS		<u>3,290,522</u>	<u>2,578,759</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>3,290,522</u>
				Commitments and contingencies	(Note 20)	<u>2,578,759</u>

The accompanying notes form an integral part of these financial statements.

TURKİYE GARANTİ BANKASI A.Ş. AND AFFILIATES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

	<u>1998</u>	<u>1997</u>
	<u>TL billions</u>	<u>TL billions</u>
Interest income:-		
Interest on securities	433,759	243,970
Interest on loans	372,017	277,333
Interest on deposits at banks	88,664	41,830
Interest on blocked accounts with Central Bank	16,026	12,736
Interest on financial leases	10,959	8,241
Others	<u>5,478</u>	<u>3,269</u>
Total interest income	926,903	587,379
Interest expenses:-		
Interest on saving, commercial and public deposits	165,370	93,242
Interest on bank deposits	153,492	51,753
Interest on borrowings	73,210	73,177
Interest on bonds	21,405	15,906
Others	<u>11,605</u>	<u>1,586</u>
Total interest expenses	425,082	235,664
Net interest income	501,821	351,715
Provision for possible loan losses (Note 8)	<u>22,722</u>	<u>11,096</u>
Net interest income after provision for possible loan losses	479,099	340,619
Other operating income:-		
Fees and commissions	44,147	21,859
Trading account income, net	39,624	35,827
Dividends received from affiliated companies	592	748
Income on sale of participations (Note 1)	-	12,617
Other operating income	<u>4,041</u>	<u>5,172</u>
Total other operating income	88,404	76,223
Other operating expenses:-		
Foreign exchange loss, net	110,889	121,653
Salaries and wages	59,698	37,391
Fees and commissions	25,523	10,864
Employee benefits	21,215	16,314
Depreciation and amortization	16,646	14,767
Advertising expenses	11,543	3,713
General provisions for banking risks	10,280	-
EDP expenses	8,129	4,856
Taxes and duties other than on income	6,083	6,255
Research and development expenses	5,811	4,393
Rent expenses	5,032	2,516
Repair and maintenance expenses	4,703	1,450
Stationary expenses	2,401	1,061
Miscellaneous assets written-off	1,098	-
Other operating expenses	<u>25,150</u>	<u>25,768</u>
Total other operating expenses	314,201	251,001
Income before taxes	<u>253,302</u>	<u>165,841</u>
Provision for taxes on income (Note 16)	<u>91,377</u>	<u>30,631</u>
Net income for the year	<u>161,925</u>	<u>135,210</u>
Minority interest	<u>651</u>	<u>256</u>
Net income after minority interest	<u>161,274</u>	<u>134,954</u>
Loss on net monetary position	<u>56,618</u>	<u>65,136</u>
Net income after monetary loss	<u>104,656</u>	<u>69,818</u>
Weighted average number of shares with TL 500 value each; including those with TL 100 face value as expressed in terms of TL 500 face value (Notes 3.18 and 19)	<u>100,000,000,000</u>	<u>88,203,333,333</u>
Earning per share (Full TL amount)	<u>1,046.56</u>	<u>791.56</u>

The accompanying notes form an integral part of these financial statements.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

	Share capital TL billions	Retained earnings		Total TL billions	Shareholders' equity TL billions
		Legal reserves TL billions	Unappropriated earnings TL billions		
Balances, 1 January 1997	195,064	3,331	12,357	15,688	210,752
Increase in capital:					
Cash contributed by shareholders	29,848				29,848
Transfer from retained earnings	5,288		(5,288)	(5,288)	
Appropriation of retained earnings:					
Dividends paid			(35,079)	(35,079)	(35,079)
Transfer to legal reserves		4,377	(4,377)		
Decrease in legal reserves due to sale of a consolidated affiliate		(150)	(834)	(984)	(984)
Net income for the year			69,818	69,818	69,818
Balances, 31 December 1997	230,200	7,558	36,597	44,155	274,355
Increase in capital:					
Transfer from retained earnings	5,793		(5,793)	(5,793)	
Appropriation of retained earnings:					
Transfer to legal reserves and minority interest		8,554	(8,656)	(102)	(102)
Net income for the year			104,656	104,656	104,656
Balances, 31 December 1998	235,993	16,112	126,804	142,916	378,909

The accompanying notes form an integral part of these financial statements.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

	1998	1997
	TL billions	TL billions
Cash flows from operating activities:-		
Income before tax and minority interest for the year	196,762	100,705
Components of net income not generating or using liquidity:-		
Provision for possible loan losses	22,722	11,096
General provisions for banking risks	10,280	-
Provision for severance payment	2,874	(103)
Depreciation and amortization	16,646	14,767
Change in accrued interest and other income	(60,455)	(37,621)
Change in accrued interest and other expense	25,535	20,794
Decrease in value of investments	303	-
Monetary loss effect of above corrections	<u>(17,537)</u>	<u>(11,867)</u>
Operating profit before changes in operating assets and liabilities	197,130	97,771
Increase in deposits	726,456	206,569
Increase in gross loans, advances and discounts	(92,273)	(371,304)
Increase in securities	(216,028)	(6,463)
Increase in term placements at banks	(46,451)	-
Increase in prepaid expenses and other assets	(51,411)	(33,536)
(Increase)/decrease in blocked accounts at Central Bank	(25,132)	3,981
Income taxes paid	<u>(56,908)</u>	<u>(7,373)</u>
Net cash provided by/(used in) operating activities	435,383	(110,355)
Cash flows from investing activities:-		
Increase in investments in affiliated companies-net	4,724	10,510
Increase in bank premises and equipment-net	72,632	30,011
Decrease in goodwill	<u>-</u>	<u>(5,791)</u>
Net cash used in investing activities	77,356	34,730
Cash flows from financing activities:-		
Increase in interbank takings	35,137	-
(Decrease)/increase in short-term borrowings	(140,535)	125,226
(Decrease)/increase in short-term bonds payable	(129,746)	122,338
Increase in long-term debts	50,830	207,545
(Decrease)/increase in other liabilities	(472)	8,828
Proceeds from capital increase in cash	-	29,848
Dividends paid	-	(35,079)
Proceeds from issuance of share capital to minorities	452	-
Disposal of minority interest	-	(2,067)
Disposal of legal reserves on a consolidated affiliate	<u>-</u>	<u>(984)</u>
Net cash (used in)/provided by financing activities	(184,334)	455,655
Net increase in cash and cash equivalents	173,693	310,570
Cash and cash equivalents at beginning of year	<u>562,832</u>	<u>252,262</u>
Cash and cash equivalents at end of year (Note 3.19)	<u>736,525</u>	<u>562,832</u>

The accompanying notes form an integral part of these financial statements.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

1 Activities and ownership

Türkiye Garanti Bankası A.Ş. (the Bank) is principally engaged in wholesale and retail banking operations in Turkey. The Bank's head office is located in Istanbul. The Bank presently has 242 (1997: 177) branches dispersed throughout the country; 3 branches in Luxembourg, Malta and Düsseldorf; and 19 "Open (Clover) Branches" (1997: 18) which operate solely in credit card business. The Bank has 100% ownership in United Garanti Bank International N.V., a bank established in late 1990 in Amsterdam; 80% ownership in Garanti Finansal Kiralama A.Ş., a leasing company also established in late 1990; 100% ownership in Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş., formerly named as Garanti Ticaret T.A.Ş.; a company engaged in EDP services mainly for banks; 100% ownership in Garanti Bank Moscow, a bank established in late 1996; 100% ownership in Garanti Funding Corporation I and Garanti Funding Corporation II, both engaged in issuing debt securities and investing the proceeds and established in July 1996; 100% indirect ownership in Osmanlı Bankası A.Ş.; a very well-known bank originally established as Imperial Ottoman Bank in 1863, acted as the State Bank until the formation of the Central Bank of Turkey and of which shares were acquired indirectly by the Bank in June 1996 by transferring all the shares of Compagnie Ottomane d'Investissement B.V., the Dutch parent of Osmanlı Bankası A.Ş., through the Bank's newly established subsidiaries in Malta; together with Osmanlı Bankası A.Ş.; 95% ownership in Garanti Portföy Yönetimi A.Ş., a company established in July 1997 and engaged mainly in providing management and consultancy services to the customers for their investment portfolios including mutual funds; and 100% ownership in Instruments Finance Company, a special purpose company organised under the laws of Cayman Islands in February 1997, for the purpose of issuance of the Floating Rate Certificates as explained in more detail in Note 18; 99.99% ownership in Garanti Financial Services plc, a company established in December 1997 and engaged in providing financial services to the customers in Ireland, it was not subject to consolidation in prior periods due to its small size; 100% ownership in Garanti Fund Management Co Ltd, a fund managing company established in Malta in February 1998; 100% ownership in Ana Konut Danışmanlık A.Ş. a company acquired in February 1998; 100% ownership in Şahintur Şahinler Otelcilik Turz. Yat. İşl. A.Ş. and 99.99% ownership in Lasaş Lastikleri San. ve Tic. A.Ş., both companies were acquired before 1998, but not subject to consolidation in prior periods due to their small sizes. The financial statements of these affiliates are consolidated in the accompanying financial statements. The principal stockholders of the Bank are the Doğuş Group and its holding company, Doğuş Holding A.Ş., which currently holds 44.83% (1997: 47.30%) of the issued capital.

By March 1997, the Bank had 85.54% ownership in Bank Ekspres A.Ş., a bank established during late 1991 and of which shares were acquired by the Bank in 1994. In March 1997, the Bank fully divested all its interest in Bank Ekspres A.Ş. for USD85 millions. The net profit amounting to TL12,318 billions arising from this transaction was included in 'income on sale of participations' in the accompanying consolidated financial statements as at 31 December 1997.

2 Basis of presentation of the financial statements

The consolidated entities in Turkey, maintain their books of account and prepare their statutory financial statements in Turkish Lira in accordance with the Turkish Uniform Chart of Accounts, the Turkish Commercial Code (the "TCC") and tax legislation (collectively, "Turkish Practices"). The accompanying consolidated financial statements (the IAS Financial Statements) are based on the statutory records, which are maintained under the historical cost convention, (except for the revaluation of tangible assets) with adjustments and reclassification including restatement for the changes in the general purchasing power of the Turkish lira, for the purpose of fair presentation in accordance with Statements of International Accounting Standards ("IAS") issued by the International Accounting Standards Committee.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 2 – (Continued)

The restatement for the changes in the general purchasing power of the Turkish lira as at 31 December 1998 is based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms.

One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index (“WPI”) published by the State Institute of Statistics (“SIS”). Such indices and conversion factors used to restate the accompanying financial statements at 31 December 1998, 1997 and 1996, are given below:-

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
31 December 1998	1,215.1	1.000
31 December 1997	787.7	1.543
31 December 1996	412.5	2.946

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

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date, and components shareholders’ equity are restated by applying the relevant (monthly, yearly average, year end) conversion factors. Additions to premises and equipment in the year of acquisition are restated using the relevant conversion factors.
- All items in the statements of income are restated by applying the monthly conversion factors except for those amounts deriving from non-monetary items, which are calculated based on the restated values of the related items.
- The effect of general inflation on the consolidated entities’ net monetary position is included in the statements of income as monetary gain or loss.

3 Significant accounting policies

3.1 Income and expense recognition

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 3 – (Continued)

3.2 Securities

Equity share certificates that are quoted at the stock exchange are reflected at market values ruling at period end; others are reflected at their cost values in the accompanying consolidated financial statements. Earned interest and gains or losses on the sales of securities are included in current operations (Note 7).

3.3 Securities under repurchase and resale transactions

These types of transactions of the Bank are short-term and entirely involve government securities. Securities sold under repurchase agreements are deducted from the security portfolio. Any gain or loss at the time of sale is reflected in trading account income or trading account loss, respectively, in the statement of income.

3.4 Loans, advances and discounts

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

3.5 Allowance for possible loan losses

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

In addition to the allowance for specific loan losses explained in the above paragraph, the Bank also provides a general provision of %1 on loans and %0.2 on guarantees and commitments in accordance with the new statutory provisioning legislation valid since 1 January 1998. Retroactive effect of such a change in legislation was calculated as TL11,616 billions as at 1 January 1998, as remeasured to reflect the effect of changes in the general purchasing power of the Turkish lira. In accordance with the legislation, this retroactive effect will be reflected in the income within two years, in eight equal instalments.

3.6 Investments in affiliated companies

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 3 – (Continued)

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

3.7 Depreciation

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

3.8 Leased assets

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

3.9 Goodwill

Positive and negative goodwills resulting from the indirect acquisition of 100% ownership in Osmanlı Bankası A.Ş. in 1996 and the direct acquisition of 100% ownership in Ana Konut Danışmanlık A.Ş. in 1998, consist of the excess/shortage of the total acquisition costs over the net assets of these consolidated entities at the dates of acquisitions. Such goodwill amounts are amortised on a straight line basis over 40 and 20 years, respectively. Negative goodwill on the acquisition of Ana Konut Danışmanlık A.Ş. is included under other liabilities in the accompanying consolidated financial statements.

3.10 Foreign currency transactions

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

3.11 Items held in trust

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 3 – (Continued)

3.12 Retirement plan

The Bank has a trustee retirement plan covering all employees. Annual contributions are computed as a percentage of qualifying compensation. Deficits, if any, are to be borne by the Bank.

3.13 Reserve for severance payments

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

3.14 Income taxes

Income tax expense is based on reported income before income tax using the liability method. It, thus, includes the effects of taxable temporary differences between reported and taxable income that arise because certain items of income and expense are taxable in periods different than those in which they are recognized in the financial statements (taxable temporary differences), unless there is uncertainty as to future liability or realization (Note 16).

3.15 Forward foreign exchange contracts

Forward foreign exchange contracts which are entered into in connection with loans and borrowings for hedging purposes are treated as spot exchange contracts and, consequently, are valued at the spot rate; discounts or premiums recorded at the date of transaction are posted to the statement of income over the life of the contract (Note 20).

3.16 Fair value of financial instruments

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

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

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

Financial assets

Monetary assets for which fair value approximates carrying value:-

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 3 – (Continued)

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

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

Financial liabilities

Monetary liabilities for which fair value approximates carrying value:-

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

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

3.17 Capital increase

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

3.18 Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of income are determined by dividing net income by the weighted average number of shares that have been outstanding during the period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings and revaluation surplus. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares. Additionally, considering the fact that the number of issued shares through bonus share issuances is increased without an increase in resources contributed by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

3.19 Reporting of cash flows

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

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Cash and due from banks	486,944	325,169
Securities	<u>249,581</u>	<u>237,663</u>
	<u>736,525</u>	<u>562,832</u>

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

4 Related parties

For the purpose of this report, the Doğuş Group's (Note 1) non-financial and financial companies and its principal shareholders are referred to as related parties. During the course of the business, the Bank has granted loans to related parties and also received deposits from them at various terms. Interest rates applicable to Turkish lira and foreign currency loans, and Turkish lira and foreign currency deposits vary at ranges of 85%, 5-18.5%, 70-75% and 2.7-14.1% (1997: 70-105%, 12-13% and 5-75%), respectively. Various commission rates are applied to transactions involving guarantees and commitments. The Bank has the following balances outstanding from related parties at 31 December 1998 and 1997:-

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Loans	<u>46,683</u>	<u>27,514</u>
Deposits	<u>20,968</u>	<u>3,421</u>
Commitments and contingencies	<u>42,277</u>	<u>42,861</u>
Interest income	<u>10,620</u>	<u>11,768</u>
Fixed asset purchases	<u>2,768</u>	<u>-</u>

5 Cash and due from banks

At 31 December 1998 and 1997, cash and due from banks comprise of the following:-

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Cash at branches	<u>25,739</u>	<u>31,364</u>
Due from banks-demand		
Domestic banks	26,748	57,144
Foreign banks	<u>24,825</u>	<u>22,082</u>
	51,573	79,226
Due from banks-time		
Domestic banks	107,362	95,233
Foreign banks	<u>334,336</u>	<u>112,702</u>
	<u>441,698</u>	<u>207,935</u>
	<u>519,010</u>	<u>318,525</u>

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

6 Blocked accounts at Central Bank

At 31 December 1998 and 1997, blocked accounts at the Central Bank of Turkey (the Central Bank) comprise of the following:-

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Reserve deposits	87,487	65,201
Government bond account funding legal reserves	<u>15,385</u>	<u>12,539</u>
	<u>102,872</u>	<u>77,740</u>

Reserve deposits represent the minimum cash reserve maintained with the Central Bank, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank.

In accordance with the Decree of the Central Bank dated 22 July 1996, the reserve deposit rates for Turkish Lira and foreign currency deposits are 8% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

According to the Turkish Banking Law, banks are required to deposit an amount equal to their legal reserves with the Central Bank in a special government bond account. This account earns interest at the rate of 141.46% (1997: 108.44% to 135.52%) per annum.

7 Securities

At 31 December 1998 and 1997, securities portfolios comprise of the following:-

	1998				1997
	Face value <u>TL billions</u>	Book value <u>TL billions</u>	Interest rate range %	Latest maturity	Book value <u>TL billions</u>
Government bonds-indexed to consumer prices (a)	388,923	267,813	Tüfex18.9-32	1999	12,901
Treasury bills	230,606	192,780	76-149	1999	87,869
Bonds issued by foreign institutions	63,003	63,003	3.25-5.75	2003	62,929
Eurobonds	57,851	58,029	5.5-11.5	2007	69,693
Government bonds in Turkish lira	77,059	57,257	90-668.64	1999	166,114
Gold	-	46,082	-	-	14
Capital growth fund	-	27,369	-	-	-
Bonds issued by foreign governments	11,466	11,466	7.5-12	1999	93,214
Euroyen	8,152	9,532	5.76	2002	10,429
Profit sharing notes	6,800	6,552	2.23-5.08	2000	12,486
Government bonds in foreign currency	-	-	-	-	31,887
Others	-	<u>5,609</u>	-	-	<u>269</u>
	-	<u>745,492</u>	-	-	<u>547,805</u>

(a) The interest rate applied on these securities is the function of changes in consumer price index and multiplied by rates from 18.9 to 32 .

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 7 – (Continued)

Profit on securities transactions amounting to TL39,624 billions (1997: TL35,827 billions) in total is included in trading account income-net.

Unmatured interest accrued on securities amounting to TL125,080 billions (1997: TL48,980 billions) in total is included in other assets (Note 9).

At 31 December 1998, the government bonds and treasury bills amounting in total to TL161,866 billions (1997: TL79,432 billions) are deposited as security for interbank fund borrowings, foreign currency money market transactions at the Central Bank; and for marketable security trading activities at Istanbul Stock Exchange.

8 Loans, advances and discounts

At 31 December 1998 and 1997, outstanding loans, advances and discounts are divided between economic sectors and loan types as follows:-

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Industrial	478,538	341,496
Financial institutions	212,249	13,862
Foreign trade	202,789	490,972
Construction	136,126	64,161
Tourism	79,490	37,004
Agriculture	56,670	68,002
Service sector	45,050	3,989
Consumer loans	25,129	4,706
Domestic commerce	24,975	217,607
Others	<u>85,285</u>	<u>1,958</u>
Total performing loans	1,346,301	1,243,757
Non-performing loans	<u>13,737</u>	<u>9,029</u>
Total gross loans	1,360,038	1,252,786
Allowance for possible losses	<u>(23,142)</u>	<u>(9,063)</u>
Loans – net	<u>1,336,896</u>	<u>1,243,723</u>

Maturity structure of the portfolio at 31 December 1998 is as follows:-

	Upto 1 month <u>TL billions</u>	1 to 3 months <u>TL billions</u>	3 to 6 months <u>TL billions</u>	6 to 12 months <u>TL billions</u>	Between 1-5 years <u>TL billions</u>	Total <u>TL billions</u>
Loans	<u>228,532</u>	<u>224,110</u>	<u>328,328</u>	<u>282,362</u>	<u>282,969</u>	<u>1,346,301</u>

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 8 – (Continued)

Loans given to customers have interest rates between 4-18% per annum for foreign currency loans and 69.3-140% per annum for Turkish lira loans.

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

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Collateralized loans	1,095,621	1,145,139
Uncollateralized loans	<u>250,680</u>	<u>98,618</u>
	<u>1,346,301</u>	<u>1,243,757</u>

The Bank generally seeks collateral security comprising real estate and other mortgages of varying ranking, charges on commodity inventories, letters of guarantee, promissory notes and similar items.

The specific allowance for possible losses is comprised of amounts for specifically identified problem and non-performing loans, advances and discounts plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. In calculating the allowance, the Bank takes account of the rates of allowance for various categories of loans required by Turkish banking regulations.

In addition to the allowance for specific loan losses explained in the above paragraph, the Bank also provides a general provision of %1 on loans and %0.2 on guarantees and commitments in accordance with the new statutory provisioning legislation valid since 1 January 1998. Retroactive effect of such a change in estimations is calculated as TL11,616 billions as at 1 January 1998, as remeasured to reflect the effect of changes in the general purchasing power of the Turkish lira. In accordance with the legislation, this retroactive effect will be reflected in the income within two years, in eight equal instalments.

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

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Balance, beginning of period	9,063	6,474
Restatement effect of the beginning balance and current year provision	(5,990)	(6,394)
Allowance account balance of Bank Ekspres A.Ş., fully divested participation in March 1997	-	(1,072)
Write-offs	-	(631)
Recoveries	(568)	(410)
Provision for the period	<u>20,637</u>	<u>11,096</u>
Balance, end of period	<u>23,142</u>	<u>9,063</u>

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

9 Accrued interest, prepaid expenses and other assets

At 31 December 1998 and 1997, accrued interest, prepaid expenses and other assets comprise of the following items:-

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Accrued interest on marketable securities	125,080	48,980
Minimum lease payment receivables	69,312	62,096
Assets held for resale	34,370	10,994
Taxes and funds to be refunded	19,488	15,153
Accrued interest on due from banks and similar items	13,427	10,436
Miscellaneous receivables	9,830	6,790
Prepaid expenses, insurance claims and similar items	5,074	3,019
Purchased cheques	2,209	3,321
Others	<u>23,119</u>	<u>13,978</u>
	<u>301,909</u>	<u>174,767</u>

10 Investments in affiliated companies

At 31 December 1998 and 1997, the Bank holds investments in the following affiliates:-

	1998		1997	
	Carrying value <u>TL billions</u>	Ownership _____%	Carrying value <u>TL billions</u>	Ownership _____%
Petrotrans Nakliyat ve Ticaret A.Ş.	9,314	100.00	9,314	100.00
Garanti Turizm ve Yatırım İşl. A.Ş.	7,931	44.89	6,326	44.89
Genoto General Otomotiv San.Tic.A.Ş.	5,916	40.00	5,916	40.00
Aktif Finans Factoring Hizmetleri A.Ş.	3,815	19.56	3,815	19.56
Sınai Yatırım Bankası A.O.	3,705	10.00	3,460	10.00
Garanti Menkul Kıymetler A.Ş.	1,075	30.78	1,115	30.78
Doğuş Hava Taşımacılığı A.Ş.	946	13.59	-	-
Doc Finance SA	640	23.34	275	23.34
Others	<u>2,705</u>		<u>1,405</u>	
	<u>36,047</u>		<u>31,626</u>	

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

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 10 – (Continued)

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

11 Bank premises and equipment

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

	1998			
	1 January TL billions	Additions TL billions	Disposals TL billions	31 December TL billions
Costs				
Land and buildings	109,825	42,767	(692)	151,900
Furniture, fixture and equipments	85,507	23,068	(4,395)	104,180
Leasehold improvements	15,238	5,098	(74)	20,262
	210,570	70,933	(5,161)	276,342
Less: Accumulated depreciation	(72,476)	(16,555)	5,437	(83,594)
Construction in progress	<u>8,608</u>	<u>16,280</u>	<u>(14,137)</u>	<u>10,751</u>
	<u>146,702</u>	<u>70,658</u>	<u>(13,861)</u>	<u>203,499</u>

Depreciation expense in 1998 amounts to TL16,555 billions (1997:TL13,946 billions). Bank premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range from 8% to 25%.

12 Intangible asset

Intangible asset represents goodwill arising from the indirect acquisition of 100% ownership in Osmanlı Bankası A.Ş. in June 1996 and consists of the excess of the total acquisition cost over net asset of this consolidated entity at the date of acquisition.

Goodwill is amortised on a straight line basis over 40 years and reflected as TL30,412 billions (1997: TL31,227 billions), net of accumulated amortisation, in the accompanying consolidated balance sheets at 31 December 1998 and 1997.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

13 Deposits

At 31 December 1998 and 1997, deposits comprise of the following:-

	1998			1997
	Demand TL billions	Time TL billions	Total TL billions	Total TL billions
Foreign currency	324,671	765,500	1,090,171	635,247
Interbank (a)	17,717	410,614	428,331	267,806
Saving	18,560	167,035	185,595	108,636
Commercial	94,541	21,749	116,290	84,997
Public and other	<u>10,075</u>	<u>5,483</u>	<u>15,558</u>	<u>12,803</u>
	<u>465,564</u>	<u>1,370,381</u>	<u>1,835,945</u>	<u>1,109,489</u>

(a) Interbank deposits include both TL accounts of TL213,824 billions (1997: TL123,813 billions) and foreign currency accounts of TL214,507 billions (1997: TL143,993 billions).

Interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 75-138% and 1.35-18%, respectively.

Maturity structure of time deposits at 31 December 1998, is as follows :-

	1998					1997
	Upto 1 month TL billions	1 to 3 months TL billions	3 to 6 months TL billions	6 to 12 months TL billions	Between 1-5 years TL billions	Total TL billions
Time deposits	<u>1,021,919</u>	<u>234,838</u>	<u>58,237</u>	<u>31,909</u>	<u>23,478</u>	<u>1,370,381</u>
						<u>735,411</u>

14 Short-term borrowings

At 31 December 1998 and 1997, short-term borrowings comprise of the following:-

	1998 TL billions	1997 TL billions
Domestic banks	32,052	134,897
Foreign banks	<u>312,253</u>	<u>349,943</u>
	<u>344,305</u>	<u>484,840</u>

As at 31 December 1998, borrowings from foreign banks include two syndicated pre-export credit facilities available to Turkish exporters; the first one is DEM325 millions provided by twentyseven international banks maturing on 27 March 1999; and the second one is USD200 millions provided by thirtyfour banks maturing on 29 May 1999.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 14– (Continued)

In addition to syndicated pre-export credit facilities mentioned above, as at 31 December 1998, borrowings include two more syndicated loan facilities; the first one is USD 70 millions provided by twenty-six international banks through the arrangement of ABN AMRO Bank Amsterdam and maturing on 20 January 1999; and the second one is USD 70 millions provided by sixteen international banks through the arrangement of Rabobank Amsterdam and maturing on 27 August 1999.

Short-term borrowings also include a loan in the amount of USD18 millions provided by Cargill Finance maturing in 12 March 1999-22 January 1999; a loan in the amount of USD70.4 millions provided by UBS London maturing during the period of 11 June 1999-15 June 1999; and a club loan facility amounting to USD65 millions provided by thirteen international banks through the agency of Bank of New York maturing on 29 December 1999; this facility is the rollover of the previous facility.

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

15 Short-term bonds payable

At 31 December 1998 and 1997, short-term bonds payable comprise of the following:-

	1998							1997
	Nominal values in millions	Interest rates %	Upto 1month TL billions	1 to 3 months TL billions	3 to 6 months TL billions	6 to 12 months TL billions	Total TL billions	Book value TL billions
Euro commercial papers	USD 161	4.25-10	6,745	15,882	5,093	2,383	30,103	146,409
Commercial paper notes	USD 250	5.46-5.57	-	35,043	41,138	-	76,181	91,500
Indenture notes	USD 26.5	Libor+2	-	724	2,082	6,244	9,050	6,261
Asset backed securities	-	-	-	-	-	-	-	201
			6,745	51,649	48,313	8,627	115,334	244,371
Less : Discounted portion							709	-
							<u>114,625</u>	<u>244,371</u>

Accrued interest on bonds payable amounting to TL853 billions (1997: TL1,846 billions) in total is included in accrued interest and other liabilities.

16 Taxation

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 16– (Continued)

A new act passed in the Parliament in July 1998, made significant changes on corporation tax charges effective for periods starting on or after 1 January 1999. Accordingly, the corporation tax was amended as 30%; contribution to state fund is remained as 10% of this tax which results in effective corporation tax rate of 33%. In addition, there will be an income tax charge. Council of Ministers was authorised to determine income tax rate up to the level of 25%; contribution to state fund remained as 10% on this tax as well. However, pursuant to this new legislation, income tax charge is computed only on the amounts of dividend distribution and is accrued only at the time of such payments.

At 31 December 1998 and 1997, provisions for taxes on income include the following:-

	1998 TL billions	1997 TL billions
<u>Türkiye Garanti Bankası A.Ş.</u>		
Provision for corporation tax	42,032	-
Provision for income tax	11,223	1,228
Deferred tax on taxable temporary differences	<u>24,878</u>	<u>24,717</u>
	78,133	25,945
<u>Consolidated affiliates</u>		
Provision for taxes on income	4,962	1,519
Deferred tax on taxable temporary differences	<u>8,282</u>	<u>3,167</u>
	<u>13,244</u>	<u>4,686</u>
Provision for taxes on income	<u>91,377</u>	<u>30,631</u>

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

17 Accrued interest and other liabilities

At 31 December 1998 and 1997, the principal components of these captions are as follows:-

	1998 TL billions	1997 TL billions
Accrued interest on deposits	41,901	23,948
Payables to suppliers relating to financial leasing activities	16,769	17,465
Accrued interest on borrowings	14,308	13,145
Blocked accounts	13,088	9,202
General provisions for banking risks	10,000	-
Withholding taxes	7,406	5,920
Transfer orders	6,987	7,310
Other interest and expense accruals	6,570	1,846
Miscellaneous payables	6,463	18,360
Reserve for severance payment	4,781	3,705
Accrued exchange loss on derivatives	1,729	-
Cash guarantees obtained	1,183	2,808
Others	<u>14,547</u>	<u>3,924</u>
	<u>145,732</u>	<u>107,633</u>

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

18 Long-term debts

At 31 December 1998 and 1997, long-term debts comprise of the following:-

	1998					1997
	Interest rate%	Maturity	Original amount in millions	Short term portion TL billions	Medium and long-term portion TL billions	Long-term debts TL billions
Funds from financial institutions:						
Pera Financial Services Company	9.375	2002	USD 245.6	-	77,338	110,732
UBS	Libor+1.6	2005	USD 200	-	62,960	71,525
Citibank	7.48	2004	USD 168	2,984	49,902	-
Bankers Trust Co. London	7	2000-2001	USD 150	-	46,908	-
International Finance Corporation	8.59-Libor+2.5	2004	USD 115	3,291	32,911	36,296
International Finance Corporation	8.76	2005	USD 100	-	31,272	-
International Finance Corporation	Libor+3.375	2004	USD 5	-	1,564	947
International Finance Corporation	Libor+3.5	2000	USD 3	625	313	-
First Fidelity Bank	7.83-10.29	2002	USD 80	5,786	19,469	-
ABN Amro Bank	4.9-5.44	2000-2002	NLG 29	-	4,840	1,643
First Fidelity Trust	7.76	2002	USD 14	675	3,634	30,582
All Taffeek	Libor+4	2001	USD 10	613	2,431	-
Royalbank of Canada	5.15-5.95	2000-2001	USD 6.5	751	1,268	-
DEG	Fibor+3.5	2002	DEM 9	468	1,171	1,700
FMO	Fibor+3.5	2000	DEM 5	468	468	1,194
Bank of Newyork	5.97	2001	USD 2	223	444	-
Others	-	-	-	576	2,115	21,426
Bonds:						
Indenture notes	Libor+2%	2002	USD 95	9,050	20,907	30,034
Bearer notes	8	2000	DEM 125	-	23,428	26,434
				<u>25,510</u>	<u>383,343</u>	<u>332,513</u>

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

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

The long-term borrowing through Union Bank of Switzerland (UBS) amounting to USD200 millions represents syndicated loan facility provided by several international banks through the arrangement of this bank. The syndicated loan facility through UBS is utilised for the indirect acquisition of Osmanlı Bankası A.Ş. as discussed in Note 3 and 12, repayable between June 1999 and June 2005.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 18 – (Continued)

In February 1998, the Bank sold certain future credit card receivables due or to become due to the Bank from Visa International Service Association (Visa), MasterCard International Incorporated (MasterCard) and Europay International S.A. (Europay), to Anatolia Finance Company, a special purpose company organized under the laws of the Cayman Islands (SPC) for the amount of USD175 millions. The SPC sold to the Bank of New York, as trustee of the Credit Cards Receivables Trust 1998 - I (the Trust), which issued the trust certificates amounting to USD175 millions in total pursuant to the Trust Agreement dated 3 February 1998 between the SPC and the Bank of New York as trustee. The trust certificates will be repaid in the period from March 1998 to December 2004 on a quarterly basis. The property of the Trust includes, among other things, (i) the right to receive a specified amount of current and future US Dollar amounts owed or to be owed by Visa, MasterCard and Europay to or for the account of Türkiye Garanti Bankası A.Ş., in respect of credit and debit card merchant voucher receivables generated by the usage in Turkey of Visa, MasterCard and Europay credit cards issued by non-Turkish financial institutions and acquisition of such voucher receivables by the Bank for processing and payment by Visa, MasterCard and Europay in accordance with their respective collection and settlement systems, subject to the pari-passu rights of the holders of the Prior Certificates, (ii) or funds collected or to be collected in respect of such receivables, (iii) or other payments by any other person in respect thereof and (iv) certain money on the deposit in certain accounts of the Trust.

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

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

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

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

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

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

19 Shareholders' equity

The authorised and paid-in share capital of the Bank is TL50,000 billions comprising 99.999.999.647 registered shares of five hundred Turkish liras each and 1.765 registered shares of one hundred Turkish liras each.

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

The legal reserve is established by annual appropriations amounting 5% of income disclosed in the Bank's statutory accounts until it reaches 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital are to be appropriated to increase legal reserves (second legal reserves). In addition to the foregoing reserves provided in the Turkish Commercial Code, the Banking Law requires annual appropriations amounting 5% of net statutory income until it reaches paid-in capital. Such appropriations are suspended until the accumulated deficit has been covered by available profits. The legal reserve is restricted and is not available for distribution as dividends. In the accompanying consolidated financial statements, legal reserves are included in retained earnings at their historical amounts.

20 Commitments and contingencies

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

Commitments and contingent liabilities arising in the ordinary course of business comprise of the following items as at 31 December 1998 and 1997:-

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Guarantees and endorsements	1,136,148	748,679
Letters of credit	<u>240,255</u>	<u>294,277</u>
	<u>1,376,403</u>	<u>1,042,956</u>

Commitment for uncalled capital of affiliated companies amounts approximately to TL369 billions (1997: TL177 billions).

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

Note 20 – (Continued)

Commitment for purchase and sale of foreign currencies under spot, forward, swap or future rate agreements(FRA) and for gold trading amounts to TL905,577 billions(1997:TL1,587,332 billions), all due within one year. The breakdown of such commitments outstanding at 31 December 1998 and 1997 by types, are presented as follows:-

	1998		1997	
	Purchase TL billions	Sale TL billions	Purchase TL billions	Sale TL billions
Forward agreements for customer dealing activities	29,116	7,427	126,721	138,668
Forward agreements for hedging purposes	214,270	136,545	242,048	237,777
Currency swap agreements for hedging purposes	111,357	261,569	540,381	296,455
Interest rate swap agreements for hedging purposes	1,438	-	548	-
Spot foreign currency transactions	25,517	28,313	-	-
Forward agreements for gold trading	3,667	52,168	-	-
FRA's	31,574	-	-	-
Others	<u>1,289</u>	<u>1,327</u>	-	<u>4,734</u>
Others	<u>418,228</u>	<u>487,349</u>	<u>909,698</u>	<u>677,634</u>

Commitment arising from agreements for repurchase/resale of government securities at 31 December 1998 amounts to TL348,872 billions (1997: TL602,959 billions).

Year 2000 issues

The management of the Bank has considered the impact of Year 2000 issues on the Bank's computer systems and applications and is in the process of developing a remediation plan. The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Bank's programs that have time-sensitive software may recognise a date using "00" as the year 1900 rather than the year 2000. Failure to complete the remediation plan in a timely manner may result in a material adverse effect on the financial position and results of operations. It should also be noted that in the banking business, failure to manage Year 2000 issues by the Bank's customers and other financial institutions through which numerous transactions are made on daily basis may have similar detrimental effects on the Bank's operations even in case of successful completion of this remediation plan by the Bank.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

21 Currency structure of assets and liabilities

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

At 31 December 1998 and 1997, the Bank's foreign currency assets and liabilities may be analysed as follows (TL equivalents):-

	1998 <u>TL billions</u>	1997 <u>TL billions</u>
Cash and due from banks	440,408	202,445
Blocked accounts at Central Bank	68,536	56,079
Securities	207,915	280,638
Loans, advances and discounts	1,048,410	935,570
Other assets	<u>170,169</u>	<u>152,172</u>
	1,935,438	1,626,904
Funding sources	2,142,228	1,819,122
Other liabilities	<u>62,895</u>	<u>49,685</u>
	2,205,123	1,868,807
Short position before derivative contracts	(269,685)	(241,903)
Derivative contracts (a)	<u>184,916</u>	<u>132,590</u>
Net short position	<u>(84,769)</u>	<u>(109,313)</u>

(a) The Bank hedged a portion of its short position amounting to 269,685 billions (1997: 241,903 billions) at TL equivalents at 31 December by forward contracts maturing almost all in 1998 which represent total net commitment to buy approximately USD587 millions (US dollar equivalent of TL184,916 billions at exchange rate prevailing on 31 December 1998) (1997: USD420 millions) at varying exchange rates indicated in the corresponding contracts.

The major currencies included above are US Dollars, Deutsche Mark, Pounds Sterling and Swiss Francs.

Volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to USD63,282 millions (1997: USD35,713.7 millions) for the year ended 31 December 1998.

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998, 1997 AND 1996

22 Financial statements of consolidated affiliates

As discussed in greater detail in Notes 1 and 3, Osmanlı Bankası A.Ş. group of companies, United Garanti Bank International N.V., Garanti Finansal Kiralama A.Ş., Garanti Funding Corporation I, Garanti Funding Corporation II, Instruments Finance Company, Garanti Bank Moscow, Lasas Lastik San.ve Tic.A.Ş., Ana Konut Danışmanlık A.Ş., Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş., Garanti Financial Services plc., Şahintur Şahinler Otelcilik A.Ş., Garanti Portföy Yönetimi A.Ş. and Garanti Fund Management are consolidated in the accompanying financial statements. The summarised balance sheets of these affiliates at 31 December 1998 and 1997 which are consolidated, are as follows:-

	1998													
	Osmanlı Bankası A.Ş. Consolidated TL billions	United Garanti Bank Int. N.V. TL billions	Garanti Finansal Kiralama A.Ş. TL billions	Garanti Funding Corporation I TL billions	Garanti Funding Corporation II TL billions	Instruments Finance Company TL billions	Garanti Bank Moscow TL billions	Lasas Lastik San ve Tic. A.Ş. TL billions	Ana Konut Danışmanlık A.Ş. TL billions	Garanti Bilişim Teknolojisi ve Tic. T.A.Ş. TL billions	Garanti Financial Services TL billions	Şahintur Şahinler Otelcilik A.Ş. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Garanti Fund Management TL billions
ASSETS														
Cash and due from banks	98,216	53,365	479	38,108	38,107	2,900	1,658	125	7	22	13	120	61	121
Interbank placings	14,385	-	-	-	-	-	9,127	-	-	-	-	-	-	-
Blocked accounts at Central Bank	28,874	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities	214,117	24,423	-	-	-	-	-	-	-	38	-	11	463	96
Loans, net	186,132	236,715	-	-	-	27,282	12,650	-	-	-	1,263	-	-	-
Accrued interest, prepaid expenses and other assets	30,339	2,588	82,788	-	-	349	139	3,549	450	1,895	14	2	183	33
Investments in affiliated companies	1,813	6	218	-	-	-	-	316	-	1,711	-	-	-	2
Property and equipment, net	54,051	2,437	741	-	-	-	436	10,189	12,182	223	10	969	80	84
Goodwill, net	30,412	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	658,339	319,534	84,226	38,108	38,107	30,531	24,010	14,179	12,639	3,889	1,300	1,102	787	336
LIABILITIES AND SHAREHOLDERS' EQUITY														
Deposits	340,838	227,557	-	-	-	-	23,100	-	-	-	1,251	-	-	-
Interbank takings	24,137	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	76,685	47,410	31,665	-	-	-	-	3,127	-	-	147	-	-	-
Short-term bonds payable	-	-	-	38,091	38,090	9,050	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	41,312	9,133	26,853	1	1	500	750	547	157	400	18	24	198	145
Long-term debts	166,590	13,189	15,531	-	-	20,907	-	-	-	-	-	-	-	79
Total Liabilities	649,562	297,289	74,049	38,092	38,091	30,457	23,850	3,674	157	400	1,416	24	198	224
Minority Interest	391	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-														
Share capital	94	12,502	6,375	16	16	8	4,722	8,303	15,820	16,834	43	1,380	405	31
Legal reserves and retained earnings	8,292	9,743	3,802	-	-	66	(4,562)	2,202	(3,338)	(13,345)	(159)	(302)	184	81
Total Shareholders' Equity	8,386	22,245	10,177	16	16	74	160	10,505	12,482	3,489	(116)	1,078	589	112
Total Liabilities and Shareholders' Equity	658,339	319,534	84,226	38,108	38,107	30,531	24,010	14,179	12,639	3,889	1,300	1,102	787	336

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1998 AND 1997

Note 22 - (Continued)

	1997								
	Osmanlı Bankası A.Ş. Consolidated TL billions	United Garanti Bank Int. N.V. TL billions	Garanti Finansal Kiralama A.Ş. TL billions	Garanti Funding Corporation I TL billions	Garanti Funding Corporation II TL billions	Instruments Finance Company TL billions	Garanti Bank Moscow TL billions	Garanti Bilişim Teknolojisi ve Tic. T.A.Ş. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions
ASSETS									
Cash and due from banks	101,257	35,250	603	45,607	45,925	798	15,548	28	-
Blocked accounts at Central Bank	19,815	-	-	-	-	-	-	-	-
Securities	129,218	2,991	637	-	-	-	12,435	239	196
Loans, net	173,218	161,929	-	-	-	34,850	1,734	-	-
Accrued interest, prepaid expenses and other assets	13,144	1,055	71,231	1,752	1,434	1,162	997	1,190	46
Investments in affiliated companies	1,282	-	34	-	-	-	-	859	-
Property and equipment, net	36,468	1,387	484	-	-	-	288	231	117
Goodwill, net	31,227	-	-	-	-	-	-	-	-
Total Assets	505,629	202,612	72,989	47,359	47,359	36,810	31,002	2,547	359
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits	284,881	40,257	-	-	-	-	2,908	-	-
Short-term borrowings	76,326	124,390	22,065	-	-	-	21,262	-	-
Short-term bonds payable	-	-	-	47,342	47,342	6,261	-	-	-
Accrued interest and other liabilities	24,808	5,324	22,078	2	2	618	91	281	117
Long-term debts	113,552	16,692	22,042	-	-	30,034	-	-	-
Total Liabilities	499,567	186,663	66,185	47,344	47,344	36,913	24,261	281	117
Shareholders' Equity:-									
Share capital	92	11,711	6,030	15	15	8	4,734	13,271	279
Legal reserves and retained earnings	5,970	4,238	774	-	-	(111)	2,007	(11,005)	(37)
Total Shareholders' Equity	6,062	15,949	6,804	15	15	(103)	6,741	2,266	242
Total Liabilities and Shareholders' Equity	505,629	202,612	72,989	47,359	47,359	36,810	31,002	2,547	359

TÜRKİYE GARANTİ BANKASI A.Ş. AND ITS AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998 AND 1997

23 Subsequent event

The Bank purchased A Group shares of İzmir Büyükşehir Belediyesi İç ve Dış Ticaret A.Ş. ("Tansaş") from İzmir Büyükşehir Belediyesi representing 29% of the issued capital of Tansaş as per the terms of the share purchase agreement dated 8 January 1999. Under the terms of the Articles of Association of Tansaş, total A Group shares represents 39% of the issued capital of Tansaş and the majority of A Group shares is entitled to nominate 5 candidates for the membership in the Board of Directors to be appointed by the general assembly of shareholders of Tansaş. Accordingly, the 29 % shareholding of the Bank in Tansaş A Group shares provides majority voting rights in the Board of Directors of Tansaş which consists of 7 members.

Following the above mentioned purchase, Doğu Holding A.Ş. has purchased from Fiba Group and the Bank has purchased on the Istanbul Stock Exchange, Tansaş shares representing 22% and 6.5% of the issued capital respectively. After those purchases, the Doğu Group's shareholding in Tansaş increased to 57.5%.

Tansaş is currently engaged in the sale of consumer products in the Aegean region through its distribution network consisting of 94 supermarkets. Its sales turnover in 1998 amounted to approximately TL 100 trillions.

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