



# **Interim report**

**TO :** INVESTMENT COMMUNITY  
**FROM :** GARANTI BANK / Investor Relations  
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**SUBJECT :** 1999 Q1 FINANCIAL STATEMENTS  
**DATE :** April 27, 1999

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## **Net earnings rose by 28% in US\$ terms to reach US\$127 Million**

During the first quarter of 1999, Garanti Bank's net earnings were TL43,571 Trillion (US\$127 Million), up by 32% in real terms as compared to the same period of 1998. On March 31, 1998, net income was TL22,244 Billion (US\$99 Million).

## **Turkish economy during the first quarter**

The economy continued to cool down in the first quarter of 1999. This was a period of transition for the Turkish economy. Political uncertainty due to the April 18 general elections translated into economic uncertainty. In the aftermath, the likely scenario is a three party coalition headed by the ruling Democratic Left Party (DSP). The prospect of another coalition did not dishearten financial markets. On the contrary, nominal interest rates fell below triple digits and capital markets rejoiced. Low consumption spending in the first quarter is likely to increase as 1999 progresses, in step with falling interest rates.

In 1998, real GNP growth slowed down to 3.8% compared to 8% a year earlier. The lower growth rate is due to external developments, especially in East Asia and Russia. Consumption expenditure increased by a mere 0.05%, while private sector investment spending declined by about 2.4%. The slowdown continued in the first quarter with industrial production falling by 6.5 % in January. Private sector capacity utilisation fell to one of its lowest levels at 68% in the first month of the year. The silver-lining in the cloud was the continued decline in the rate of inflation. March figures reveal that the change in CPI was 63.5% (6.2 points lower than 1998) on a 12 month basis. The same figure for WPI was 48.2%, compared to 54.3% in 1998. The trade balance improved due to lower raw material prices and a decline in imports – of mostly intermediate goods - as a consequence of the fall in investment. Value of exports fell by 19.2% from a year earlier to US\$1.8 Billion in January. Value of imports similarly declined to US\$2.2 Billion, a 30% drop compared to the same period last year.

Government spending continues to exceed revenues, but the primary balance shows considerable improvement. The problem to be addressed now is high level of interest payments on domestic debt. In the first quarter, revenues were TL2,994 Trillion (US\$8.1 Billion), expenditures TL5,447 Trillion (US\$14.8 Billion). The budget deficit stood at TL2,453 Trillion (US\$6.7 Billion).

Positive expectations in the aftermath of the elections led to a fall in interest rates from triple digits to around 90%.

### **Total interest revenues reached US\$654 Million**

Total interest revenues increased by 54% in real terms to reach TL224,407 Billion (US\$654 Million). The Bank's policy of staying liquid resulted in the interest earned from loans to decline to 31% of total interest revenues down from 50% a year ago, in parallel with a decrease in share of loans in assets. At the same time, interest earned from securities was up by 78% in real terms, reaching 48% of the total interest income.

Interest expense was TL131,348 Billion (US\$383 Million). 113.6% increase in real terms mainly stemmed from the rise in interest given to deposits. Shift to deposits from borrowed funds in funding structure raised the interest paid for deposits item by 149% in real terms. Interest paid on borrowed funds was TL16,118 Billion, up by 34% in real terms. Net interest margin was TL93,059 Trillion (US\$271 Million), an increase of 63% in nominal terms. Interest margin during the first three months of 1999 improved to 30.00% from 29.03% in 1998 year-end. On March 31, 1998, interest margin was 36.69%.

Non-interest income showed an increase of 96% in real terms and reached TL21,601 Billion (US\$63 Million). Net commission and fees were up by 218% reaching TL7,272 Billion. Operating expenses to total assets ratio declined to 1.70% during the first quarter of 1999, as compared to 2.01% during the same period of 1998.

### **Total assets rose by 28% in real terms**

On March 31, 1999, Garanti Bank's asset size was TL2,834,461 Billion (US\$7,678 Million), implying an increase of 28% in real terms as compared to the same period of the previous year. In the first quarter of 1998, total assets were TL1,497,535 Billion (US\$6,166 Million). Cash and due from banks were TL491,250 Billion, up by 45% in real terms.

The Bank declined the loan book to 37% of total assets. Net loans were TL1,045,701 Billion (US\$2,833 Million), declining by 5% in real terms over 1998's first quarter. The Bank improved its asset quality as compared to 1998 year-end. Non-performing loans to total cash loans declined to 1.17% from 1.34% in 1998 year-end. The Bank's allowance for loan losses to NPLs was 100%.

Total investment securities (investment securities and other long-term investments) were TL636,598 Billion (US\$1,724 Million). Real increase in total investment securities was 63%.

### **Deposits make up 56% of assets**

The share of deposits increased by 10 percentage points to reach 56% of the total liabilities and stockholders' equity. Deposits were TL1,600,337 Billion (US\$4,335 Million), up by 57% in real terms over 1998's first quarter. At March 31, 1998, total deposits were TL687,944 Billion (US\$2,833 Million). Increase in total deposits was attributable mainly to rise in time deposits which grew by 82% in real terms, reaching TL1,197,160 Billion. The share of demand deposits in total deposits was 25%.

Garanti Bank finalized EUR180 Million one year syndicated pre-export facility in April 1999, which represented the renewal of the DEM325 million syndicated pre-export facility that was closed on March 27, 1998. The transaction had been launched at an amount of EUR140 million. As a result of the strong demand from the banks, the Facility was substantially oversubscribed and Garanti decided to increase the Facility amount to EUR180 million. The amount of EUR180 million is the highest amount raised by a Turkish bank from the syndicated loan market after the Russian crisis. The Facility represents also the first pre-export financing for a Turkish bank after the Russian crisis, which will be renewed at a higher amount compared to the replaced facility of March 1998. The Facility carries a very competitive margin of 0.55% p.a. over EURIBOR and attracted strong interest from 29 international banks.

### **Prudent provisioning and exceptional profitability**

The Bank maintained its prudent provisioning policy and raised its provisions on the liability side to TL82,591 Billion, from TL4,979 Billion. General provision for loan losses was TL10,052 Billion, whereas reserve for taxes on income was TL59,017 Billion. Total stockholders' equity reached TL298,298 Billion (US\$808 Million), an increase of 48% in real terms.

The Bank decreased its off-balance sheet figure by 2% in real terms at TL2,949,244 Billion. Derivative transactions were TL1,504,079 Billion, remaining nearly the same in real terms as compared to the first quarter of 1998.

Garanti's net short position was US\$194 Million, up from US\$190 Million during the first quarter of 1998. Net repo position as of the first quarter of 1999 was TL283,551 Billion, or %9 of total assets. This is 7 percentage points lower than 1998's first quarter value.

The Bank's pre-tax ROAA rose to 8.92% during the first quarter of 1999, as compared to 7.54% in the same period of 1998. Accordingly, pre-tax ROAE (including profit) was 73.40% up from 70.90% in March 1998. Decline in risk weighted assets resulted in the Bank's capital adequacy ratio to increase to 18.13%. Garanti will raise its paid-in capital to TL260 Trillion, up from TL50 Trillion. TL210 Trillion will be increased in the form of bonus shares.

**TÜRKİYE GARANTİ BANKASI ANONİM ŞİRKETİ**

**FINANCIAL STATEMENTS  
FOR THE THREE-MONTH PERIODS ENDED  
31 MARCH 1999 AND 1998**

# TÜRKİYE GARANTİ BANKASI A.Ş.

BALANCE SHEETS-ASSETS (In millions TL)	Unaudited	
	31.03.99	31.03.98
<b>Liquid assets</b>	<b>19,438,572</b>	<b>16,144,584</b>
Cash, local currency	2,540,715	4,527,670
Cash, foreign currency	11,572,044	9,492,633
Others	5,325,813	2,124,281
<b>Due from banks</b>	<b>471,812,070</b>	<b>212,309,256</b>
Central Bank of Turkey	24,406,675	22,569,856
Other banks	447,405,395	189,739,400
-Domestic banks	100,482,413	27,089,078
-Foreign banks	346,922,982	162,650,322
<b>Other financial institutions</b>	-	-
<b>Interbank funds sold</b>	-	-
<b>Securities (Net)</b>	<b>572,963,030</b>	<b>185,493,581</b>
Government bonds and treasury bills	412,403,787	136,944,007
Other bonds	-	-
Equity shares	167,501	22,113
Other securities	160,391,742	48,527,461
<b>Loans</b>	<b>1,045,701,460</b>	<b>744,754,300</b>
Short-term	564,497,474	434,971,877
Medium and long-term	481,203,986	309,782,423
<b>Non-performing loans (Net)</b>	-	-
Loans under follow-up (Net)	-	-
-Uncollateralised	3,899,226	2,010,967
-Collateralised	8,298,126	2,810,621
-Provision (-)	12,197,352	4,821,588
Doubtful commissions and other receivables	-	-
-Gross receivables	-	-
-Provision (-)	-	-
<b>Accrued interest and income</b>	<b>272,126,440</b>	<b>91,102,459</b>
On loans	54,685,588	28,460,454
On securities	153,827,490	53,073,650
Others	63,613,362	9,568,355
<b>Receivables from financial leasing activities (Net)</b>	-	-
Receivables from financial leasing activities	-	-
Unearned income (-)	-	-
<b>Reserve deposits</b>	<b>72,051,331</b>	<b>34,480,907</b>
<b>Government bonds funding legal reserves</b>	<b>12,704,115</b>	<b>6,683,507</b>
<b>Miscellaneous receivables</b>	<b>2,588,861</b>	<b>1,275,706</b>
<b>Investments (Net)</b>	<b>29,907,534</b>	<b>1,656,657</b>
Financial companies	8,015,044	1,224,487
Non-financial companies	21,892,490	432,170
<b>Affiliated companies (Net)</b>	<b>42,883,678</b>	<b>30,606,587</b>
Financial companies	21,082,637	13,840,422
Non-financial companies	21,801,041	16,766,165
<b>Other long-term investments (Net)</b>	<b>63,635,365</b>	<b>78,047,863</b>
Equity shares	648,050	543,665
Others	62,987,315	77,504,198
<b>Bank premises and equipment (Net)</b>	<b>131,013,725</b>	<b>53,162,720</b>
Carrying value	153,674,742	64,958,636
Accumulated depreciation (-)	22,661,017	11,795,916
<b>Other assets</b>	<b>97,634,929</b>	<b>41,817,398</b>
<b>TOTAL ASSETS</b>	<b>2,834,461,110</b>	<b>1,497,535,525</b>

# TÜRKİYE GARANTİ BANKASI A.Ş.

## BALANCE SHEETS-LIABILITIES AND

### SHAREHOLDERS' EQUITY (In millions TL)

Unaudited

	31.03.99	31.03.98
<b>Deposits</b>	<b>1,600,336,674</b>	<b>687,943,677</b>
Saving deposits	138,282,775	55,863,189
Certificate of deposits	440	440
Deposits of official authorities and organisations	15,099,192	10,503,369
Commercial deposits	62,939,596	47,924,913
Deposits of other organisations	3,500,066	8,176,024
Bank deposits	499,932,680	126,144,993
Foreign currency deposits	879,172,381	437,237,147
Gold deposits	1,409,544	2,093,602
<b>Interbank funds borrowed</b>	<b>10,000,000</b>	<b>-</b>
<b>Funds borrowed</b>	<b>591,043,618</b>	<b>482,025,849</b>
From Central Bank of Turkey	-	-
Others	591,043,618	482,025,849
-Domestic banks and organisations	48,336,168	41,282,222
-Foreign banks and organisations	542,707,450	440,743,627
-Subordinated debts	-	-
<b>Funds</b>	<b>-</b>	<b>-</b>
<b>Securities issued (Net)</b>	<b>30,163,263</b>	<b>93,679,356</b>
Notes	-	-
Asset backed securities	-	60,937
Bonds	30,163,263	93,618,419
<b>Accrued interest and expense</b>	<b>90,797,434</b>	<b>27,110,208</b>
On deposits	71,844,292	14,930,743
On funds borrowed	8,882,154	8,915,141
Others	10,070,988	3,264,324
<b>Payables from financial leasing activities (Net)</b>	<b>-</b>	<b>-</b>
Payables from financial leasing activities	-	-
Deferred expenses (-)	-	-
<b>Taxes, stamps, premiums and other duties</b>	<b>5,818,603</b>	<b>2,843,517</b>
<b>Transfer orders</b>	<b>6,078</b>	<b>37,252</b>
<b>Other payables</b>	<b>30,621,145</b>	<b>15,482,884</b>
<b>Reserves</b>	<b>82,590,718</b>	<b>4,978,559</b>
Reserve for retirement pay	2,568,205	1,418,205
General provision for loan losses	10,051,734	2,694,072
Reserve for taxes on income	59,016,811	-
Other provisions	10,953,968	866,282
<b>Other liabilities</b>	<b>51,214,181</b>	<b>25,402,841</b>
<b>Shareholders' equity</b>	<b>298,298,351</b>	<b>135,787,158</b>
Share capital	50,000,000	40,000,000
-Nominal capital	50,000,000	40,000,000
-Unpaid capital (-)	-	-
Retained earnings	186,770,144	63,320,316
Reserve for possible loan losses (Banking Act, article 32/1)	11,362,534	4,858,793
Revaluation surplus	49,854,322	27,306,575
Valuation increment	311,351	301,474
Loss	-	-
-Loss for the period	-	-
-Prior years' losses	-	-
<b>Income</b>	<b>43,571,045</b>	<b>22,244,224</b>
-Income for the period	43,571,045	22,244,224
-Prior years' income	-	-
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,834,461,110</b>	<b>1,497,535,525</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>Guarantees and endorsements</b>	<b>1,153,885,276</b>	<b>772,934,730</b>
<b>Commitments</b>	<b>291,279,307</b>	<b>282,079,026</b>
<b>Derivative transactions</b>	<b>1,504,079,021</b>	<b>982,501,441</b>
<b>TOTAL</b>	<b>2,949,243,604</b>	<b>2,037,515,197</b>

## TÜRKİYE GARANTİ BANKASI A.Ş.

		Unaudited	
STATEMENTS OF INCOME (In millions TL)		31.03.99	31.03.98
I.	<b>INTEREST INCOME</b>	<b>224,406,713</b>	<b>98,479,129</b>
	<b>Interest on loans</b>	<b>69,816,457</b>	<b>49,777,295</b>
	On TL loans	45,943,159	36,948,079
	-On short-term loans	45,724,717	36,722,489
	-On medium and long-term loans	218,442	225,590
	On foreign currency loans	23,866,485	12,821,659
	-On short-term loans	10,673,988	5,392,070
	-On medium and long-term loans	13,192,497	7,429,589
	Interest on loans under follow-up	6,813	7,557
	<b>Interest from banks</b>	<b>41,205,610</b>	<b>4,925,292</b>
	Central Bank of Turkey	-	728,161
	Domestic banks	22,910,416	2,898,424
	Foreign banks	18,295,194	1,298,707
	<b>Interest on interbank funds sold</b>	<b>95,988</b>	<b>24,951</b>
	<b>Interest on securities</b>	<b>108,216,946</b>	<b>41,089,705</b>
	On government bonds and treasury bills	97,536,601	37,516,727
	On other securities	10,680,345	3,572,978
	<b>Other interest income</b>	<b>5,071,712</b>	<b>2,661,886</b>
II.	<b>INTEREST EXPENSE</b>	<b>131,347,923</b>	<b>41,490,630</b>
	<b>Interest expense on deposits</b>	<b>111,891,107</b>	<b>30,305,908</b>
	Saving deposits	29,178,837	6,515,476
	Certificate of deposits	-	3,986
	Deposits of official authorities and organisations	458,591	577,901
	Commercial deposits	32,712,296	405,340
	Deposits of other organisations	299,161	148,433
	Bank deposits	32,828,980	17,321,068
	Foreign currency deposits	16,413,242	5,333,704
	<b>Interest on interbank funds borrowed</b>	<b>2,025,020</b>	<b>753,397</b>
	<b>Interest on funds borrowed</b>	<b>16,118,315</b>	<b>8,124,680</b>
	Domestic banks	1,508,067	1,551,874
	Foreign banks	8,924,095	3,343,746
	Other organisations	5,686,153	3,229,060
	<b>Interest on securities issued</b>	<b>1,180,479</b>	<b>2,170,667</b>
	<b>Other interest expense</b>	<b>133,002</b>	<b>135,978</b>
III.	<b>NET INTEREST MARGIN (I-II)</b>	<b>93,058,790</b>	<b>56,988,499</b>
IV.	<b>OTHER INCOME</b>	<b>165,218,190</b>	<b>27,357,825</b>
	<b>Commissions and fees received</b>	<b>13,475,991</b>	<b>4,973,198</b>
	On loans	357,614	371,755
	On documentary credits and letters of guarantee	2,774,645	877,929
	Others	10,343,732	3,723,514
	<b>Trading account income</b>	<b>12,882,108</b>	<b>4,775,622</b>
	<b>Foreign exchange gain</b>	<b>136,473,072</b>	<b>16,322,749</b>
	<b>Dividends received</b>	<b>652,721</b>	<b>267,977</b>
	<b>Others</b>	<b>1,734,298</b>	<b>1,018,279</b>
V.	<b>OPERATING EXPENSES</b>	<b>200,455,935</b>	<b>58,989,034</b>
	<b>Commissions and fees paid</b>	<b>6,203,862</b>	<b>3,428,553</b>
	On funds borrowed	309,478	609,975
	On documentary credits	25,984	229
	Others	5,868,400	2,818,349
	<b>Trading account loss</b>	<b>940,242</b>	<b>178,320</b>
	<b>Foreign exchange loss</b>	<b>163,968,261</b>	<b>36,877,180</b>
	<b>Personnel expenses</b>	<b>14,193,618</b>	<b>7,524,206</b>
	<b>Provision for retirement pay</b>	<b>100,000</b>	<b>200,000</b>
	<b>Rent expenses</b>	<b>1,067,345</b>	<b>478,262</b>
	<b>Depreciation and amortisation expenses</b>	<b>1,313,904</b>	<b>821,231</b>
	<b>Taxes, stamps and other duties</b>	<b>937,432</b>	<b>540,084</b>
	<b>Provision for possible loan losses</b>	<b>-</b>	<b>98,498</b>
	<b>Other provisions</b>	<b>2,323,065</b>	<b>2,981,484</b>
	<b>Others</b>	<b>9,408,206</b>	<b>5,861,216</b>
VI.	<b>NET OTHER INCOME/(EXPENSE) (IV-V)</b>	<b>(35,237,745)</b>	<b>(31,631,209)</b>
VII.	<b>INCOME BEFORE TAXES (III+VI)</b>	<b>57,821,045</b>	<b>25,357,290</b>
VIII.	<b>PROVISION FOR TAXES ON INCOME</b>	<b>14,250,000</b>	<b>3,113,066</b>
IX.	<b>NET INCOME FOR THE PERIOD (VII-VIII)</b>	<b>43,571,045</b>	<b>22,244,224</b>

**(Currency - Millions of Turkish Lira)**

**I- GENERAL NOTES ON THE BANK'S FINANCIAL POSITION**

**A. Notes to the current period operations**

(1) The financial statements were approved on **22 April 1999 (1998: 30 April 1998)**.

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

**There were no changes in the accounting policies.**

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

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

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

**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 March 1999, used in the translation of foreign currency items in the financial statements and US dollar exchange rates for TL announced by the Bank applicable to its transactions for the last five working days of the period:-

**The US dollar exchange rate for TL used for the preparation of the financial statements at 31 March 1999, was TL369,150 (1998: TL242,850).**



**(Currency - Millions of Turkish Lira)****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 periods were as follows:-

26.03.1999	366,550	30.03.1998	241,400
25.03.1999	365,600	27.03.1998	240,000
24.03.1999	364,800	26.03.1998	239,970
23.03.1999	364,450	25.03.1998	239,670
22.03.1999	364,200	24.03.1998	239,190

- (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:-

	<u>1999</u>	<u>1998</u>
Foreign currency denominated assets	USD 5,790 millions	USD 5,613 millions
Foreign currency denominated liabilities	USD 5,984 millions	USD 5,803 millions
Short position in foreign currency	USD 194 millions	USD 190 millions

- (9) Total insurance coverage on assets amounted to **TL126,722,361 (1998: TL77,143,638)**.
- (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 March 1999, amounted to **TL2,568,205 (1998: TL1,418,205)** of which **TL100,000 (1998: TL200,000)** was provided in the current period.

In the current period, there were also other provisions expensed. These were: deferred tax liability of **TL3,420,929 (1998: TL3,113,066)** on income and expense items reflected in the statement of income in the current period but will be taxable or tax deductible in the subsequent periods (taxable temporary differences), provision for non-performing loans of **TL..... (1998: TL96,736)** and general provision for loan losses of **TL2,323,065 (1998: TL2,694,072)**.

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

**B. Other disclosures**

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

**There were no such events or matters.**

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

- (1) TL.....-..... (1998: TL.....-.....) of cash at the Central Bank was deposited under blocked accounts.
- (2) TL.....-..... (1998: TL.....-.....) of cash at foreign banks was deposited under blocked accounts.
- (3) - **TL31,440 (1998: TL18,885)**, 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 (1998: TL167,592)**.
  - **TL20,194,920 (1998: TL15,520,789)** 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 **TL615,271,803 (1998: TL277,855,232)** 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 **TL621,042,311 (1998: TL277,803,164)** 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 TL57,195,728 (1998: TL29,691,097), 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) - **TL11,708,005 (1998: TL1,496,387)** and **TL36,661,957 (1998: TL18,910,165)** of total loans and advances, aggregating to **TL48,369,962 (1998: TL20,406,552)**, 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.....-..... (1998: TL .....-.....)**.
- (5) - Total of the loans renewed or rescheduled, amounted to **TL1,989,450 (1998: TL.....-.....)**.

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

- As at 31 March 1999, detail of classified receivables by collateral and provisions against such receivables were as follows:-

<u>Collateral group</u>	<u>Classified receivables</u>	<u>Specific provision</u>
Uncollateralised	TL3,898,467	TL3,898,467
I st Group collateral	TL5,294	TL5,294
II nd Group collateral	TL2,899,437	TL2,899,437
III rd Group collateral	TL4,684,352	TL4,684,352
IV th Group collateral	TL276,024	TL276,024

- TL433,776 of the classified receivables comprised of foreign currency denominated receivables.

(6) - Receivables arising from term sale of assets amounted to TL.....-..... (1998: TL .....-.....).

(7) - TL279,910 (1998: TL282,588) 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 TL467,671 (1998: TL446,956) in total.

- Bonus shares received from investments and affiliated companies amounted to TL3,354,440 (1998: TL3,325,670).

- At 31 March 1999 and 1998, receivables from and payables to affiliated companies and other investees, were as follows:-

	1999	
	<u>Financial investees and affiliated companies</u>	<u>Other investees and affiliated companies</u>
<b><u>RECEIVABLES:</u></b>		
-Due from banks and other financial institutions	38,700,254	-
-Loans (including overdue loans)	6,470,876	3,726,500
-Accrued interest and income	734,459	309,180
<b><u>PAYABLES:</u></b>		
-Deposits	3,933,536	-
- Accrued interest and expense	37,419	-
<b><u>DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS</u></b>	171,941,614	-
	1998	
	<u>Financial investees and affiliated companies</u>	<u>Other investees and affiliated companies</u>
<b><u>RECEIVABLES:</u></b>		
-Due from banks and other financial institutions	24,885,258	-
-Loans (including overdue loans)	9,711,797	2,046,993
-Accrued interest and income	290,495	218,087
<b><u>PAYABLES:</u></b>		
-Deposits	6,178,432	1,445
-Accrued interest and expense	86,171	-
<b><u>DOCUMENTARY CREDITS AND OTHER NON-CASH LOANS</u></b>	145,420,147	1,807

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

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

	1999			
	<u>% of ownership</u>	<u>Total capital</u>	<u>Net income for the period</u>	<u>Market value</u>
<b><u>INDUSTRIAL COMPANIES</u></b>				
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 TIC. A.Ş.	99.99	2,500,000	96,303*	-
<b><u>BANKS</u></b>				
SINAI YATIRIM BANKASI A.O.	10.00	10,000,000	1,533,240	-
T.SINAI KALKINMA BANKASI A.Ş.	0.78	16,000,000	9,012,491*	189,413
İ.M.K.B. TAKASBANK A.Ş.	4.86	7,850,000	3,343,910	-
<b><u>COMMERCIAL COMPANIES</u></b>				
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	1,000,000	102,579	-
GENOTO GENERAL OTO. PAZ. A.Ş.	0.20	80,000	71,290	-
BANKALARARASI KRD. KARTLARI MERKEZİ A.Ş.	9.98	97,500	355,788*	-
GARANTİ FİNANSAL KİR. A.Ş.	80.00	2,000,000	44,760*	-
AKTİF FİN. FACTORİNG HİZ. A.Ş.	9.78	1,256,850	1,337,915*	373,100
TÜRK SUUDİ YATIRIM HOL. A.Ş.	0.06	400,000	(6,327)*	-
T. KREDİ KAYIT BÜROSU A.Ş.	9.09	275,000	37,982	-
GARANTİ MENKUL KIYM. A.Ş.	51.67	1,000,000	1,353,782	-
GARANTİ PORTFÖY YÖNETİMİ A.Ş.	70.00	250,000	242,669	-
PETROTRANS NAKLİYAT TİC. A.Ş.	100.00	5,000	(1,795)	-
ANA KONUT DANIŞMANLIK A.Ş.	100.00	4,250,000	(7,426)	-
DOĞUŞ HAVA TAŞIMACILIĞI A.Ş.	49.91	6,700,000	(3,550,164)*	-
TANSAŞ İZMİR BÜYÜK ŞEHİR BELEDİYESİ İÇ VE DIŞ TİCARET	35.52	750,000	1,142,865*	-
<b><u>TOURISM COMPANIES</u></b>				
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	17,703	-
<b><u>INVESTMENTS IN FOREIGN CURRENCY</u></b>				
UNITED GARANTİ BANK INT. N.V.	100.00	NLG75 millions	NLG33,090*	-
DOC FINANCE S.A.	16.67	CHF12 millions	CHF1,976,999***	-
CI FINANCE LTD.	100.00	USD500,000	USD(230,338)**	-
CI INVESTMENTS LTD.	100.00	USD500,000	USD(230,338)**	-
BOSPHORUS FINANCE SER. LTD.	100.00	USD500,000	USD(230,338)**	-
GARANTİ FUNDING CORP. I	100.00	USD50,000	-*	-
GARANTİ FUNDING CORP. II	100.00	USD50,000	-*	-
GARANTİ BANK MOSCOW	99.33	USD25 millions	USD(20,907)*	-
INSTRUMENTS FINANCE COMPANY	100.00	USD25,000	USD563,000*	-
GARANTİ FINANCIAL SERVICES PLC	99.99	USD138,100	USD(505,089)	-
GARANTİ FUND MANAGEMENT CO. LTD.	99.00	USD100,000	USD258,529	-

(\*) Net income/(loss) for the year ended 31 December 1998.

(\*\*) Net income/(loss) for the six-month period ended 30 June 1998.

(\*\*\*) Net income/(loss) for the year ended 31 December 1997.

(Currency - Millions of Turkish Lira)

## Note II - (Continued)

	1998			
	<u>% of ownership</u>	<u>Total capital</u>	<u>Net income for the period</u>	<u>Market value</u>
<b><u>INDUSTRIAL COMPANIES</u></b>				
GENOTO GEN. OTO. SAN. TİC. A.Ş.	40.00	64,000	49,717*	-
MAN KAMYON VE OTO. SAN. A.Ş.	0.50	2,244,530	1,106,724*	-
LASAŞ LASTİK SAN.VE TİC. A.Ş.	99.99	2,500,000	(47,017)*	-
<b><u>BANKS</u></b>				
SINAI YATIRIM BANKASI A.O.	10.00	2,500,000	628,631	-
T.SINAI KALKINMA BANKASI A.Ş.	0.78	5,000,000	4,359,818*	112,444
İ.M.K.B. TAKASBANK A.Ş.	4.86	1,050,000	1,738,657	-
<b><u>COMMERCIAL COMPANIES</u></b>				
GARANTİ TİCARET A.Ş.	100.00	994,000	(127,776)	-
BULL BİLGİSAYAR TEK. A.Ş.	0.02	10,000	623*****	-
YATIRIM FİNANSMAN A.Ş.	0.28	500,000	160,946*	-
GENOTO GENERAL OTO. PAZ. A.Ş.	0.20	80,000	355,062*	-
BANKALARARASI KR. KARTLARI MERKEZİ A.Ş.	9.98	97,500	114,521*	-
GARANTİ FİNANSAL KİR. A.Ş.	80.00	2,000,000	1,250,033*	-
AKTİF FİN. FACTORİNG HİZ. A.Ş.	9.78	1,256,850	1,191,719*	334,512
TÜRK SUUDİ YATIRIM HOL. A.Ş.	0.04	400,000	(3,612)*	-
T. KREDİ KAYIT BÜROSU A.Ş.	9.09	275,000	(60,975)	-
GARANTİ MENKUL KIYM. A.Ş.	21.67	1,000,000	593,028*	-
GARANTİ PORTFÖY YÖNETİMİ A.Ş.	70.00	125,000	42,245*	-
PETROTRANS NAKLİYAT TİC. A.Ş.	100.00	5,000	(2,182)*****	-
ANA KONUT DANIŞMANLIK A.Ş.	100.00	2,763,500	(3,400)*	-
<b><u>TOURISM COMPANIES</u></b>				
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	3,317	-
<b><u>INVESTMENTS IN FOREIGN CURRENCY</u></b>				
UNITED GARANTİ BANK INT. N.V.	100.00	NLG75 millions	NLG10,217,000*	-
DOC FINANCE S.A.	16.67	CHF12 millions	CHF1,976,999*	-
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 FUNDİNG CORP. I	100.00	USD50,000	-	-
GARANTİ FUNDİNG CORP. II	100.00	USD50,000	-	-
GARANTİ BANK MOSCOW	99.33	USD15 millions	USD6,599,000*	-
INSTRUMENTS FINANCE COMPANY	100.00	USD25,000	USD(353,703)*	-

(\*) Net income/(loss) for the year ended 31 December 1997.

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

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

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

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

**(Currency - Millions of Turkish Lira)****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 **TL50,061,036 (1998: TL26,792,094)**, **TL1,146,520 (1998: TL1,890,478)**, **TL11,779,758 (1998: TL48,821,626)** and **TL648,049 (1998: TL543,664)**, respectively.
- (9) In accordance with the Banking Law, assets held for resale amounted to **TL24,853,331 (1998: TL1,457,530)**.
- (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 **TL403,176,972 (1998: TL243,531,542)** and time accounts of **TL1,197,159,701 (1998: TL444,412,135)**, respectively.
- All saving deposits and gold deposit accounts were insured up to **TL595,107,376 (1998: TL265,085,136)** under "Saving Deposit Insurance Fund".
- (12) - Issuance premiums for securities issued amounted to **TL869,515 (1998: TL1,714,455)**.
- Bonds convertible to the capital shares amounted to **TL.....-..... (1998: TL.....-.....)**.
- (13) Cash collateral received amounted to **TL411,669 (1998: TL193,475)**.
- (14) - A portion of the "valuation increment" on securities (including equity shares classified in securities, investments, affiliated companies and other long-term investments) amounting to **TL.....-..... (1998: TL.....-.....)**, was related to securities denominated in foreign currencies. **TL.....-..... (1998: TL.....-..... )** of this portion represented the foreign exchange gain accrual on such equity shares classified in investments, affiliated companies and other long-term investments.
- Presentation of accrued foreign exchange gains on equity shares classified as investments, affiliated companies and other long-term investments in financial statements:-

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

(Currency - Millions of Turkish Lira)

## Note II - (Continued)

(15) At 31 March 1999 and 1998, maturity structures of some assets and liabilities were as follows:-

	1999			
	<u>Demand</u>	<u>Up to 3 months</u>	<u>3 to 12 months</u>	<u>Over 1 year</u>
<b><u>ASSETS:</u></b>				
Liquid assets	19,438,572	-	-	-
Due from banks and other financial institutions	42,192,351	429,619,719	-	-
Securities (Net)	-	333,650,642	239,312,390	62,987,314
Performing loans	-	347,705,621	492,006,442	205,989,399
Accrued interest and income	-	160,851,612	93,662,362	17,612,465
Reserve deposits	72,051,332	-	-	-
<b><u>LIABILITIES:</u></b>				
Deposits	403,176,973	1,138,924,351	56,376,941	1,858,409
Interbank funds borrowed	10,000,000	-	-	-
Funds borrowed	-	127,059,181	193,621,437	270,363,000
Securities issued (Net)	-	25,783,557	4,379,706	-
Accrued interest and expense	-	86,980,967	3,721,061	95,406
Taxes, stamps, premiums and other duties	-	5,818,603	-	-
<b><u>ASSETS:</u></b>				
Liquid assets	16,144,584	-	-	-
Due from banks and other financial institutions	155,776,254	56,533,001	-	-
Securities (Net)	-	121,460,590	64,032,991	77,504,199
Performing loans	-	259,683,277	313,478,088	171,592,934
Accrued interest and income	-	68,089,371	17,242,691	5,770,397
Reserve deposits	34,480,907	-	-	-
<b><u>LIABILITIES:</u></b>				
Deposits	243,531,544	416,222,268	28,145,424	44,441
Funds borrowed	-	210,160,525	61,919,192	209,946,131
Securities issued (Net)	-	73,891,356	19,778,639	9,362
Accrued interest and expense	-	25,748,507	1,358,990	2,711
Taxes, stamps, premiums and other duties	-	2,843,517	-	-

(16) Commitments arising from outstanding agreements for resale and repurchase of government securities at the balance sheet date, amounted to **TL583,774 (1998: TL.....-.....)** and **TL284,134,594 (1998: TL277,393,492)**, 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.**

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

- Capital increases during the period:-

In accordance with the resolution of the Board of Directors Meeting no. 1846 held on 5 April 1999, share capital was increased by TL210,000,000 (1998: TL10,000,000) from TL50,000,000 (1998: TL40,000,000) to TL260,000,000 (1998: TL50,000,000) provided for as follows:-

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

Application for the current-period capital increase to Capital Markets Board and the Turkish Treasury has been made. However, the Bank's capital has not yet been registered as TL260,000,000.

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

**As explained above.**

- Priority rights assigned to certain capital shares:-

**According to the Article 38 of the Articles of Association, 100.000 shares (V th issue) of TL600,000 each, representing TL 10 of the share capital in total, bear priority in voting rights.**

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

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

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

**Financial leasing transactions are accounted for in accordance with Turkish legislation, not IAS17. Per Turkish legislation, financial leasing transactions are accounted for as if they were operating leases. Accordingly, fixed assets acquired through financial leases and the related payables are not reflected in the financial statements; instead the periodic payments of installments, with no distinction between principal and interest portions, were initially recorded as "prepaid expense" to be charged to expense throughout the lease period. During the period ended 31 March 1999, such payments charged to statement of income as expense accumulated to TL102,911 (1998: TL40,160) and the remaining balance recorded as "prepaid expense" in the balance sheet, amounted to TL662,137 (1998: TL303,342).**



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

(19) - Other significant matters:-

- Wholly-owned affiliates of the Bank, incorporated in Malta; namely CI Finance Ltd., CI Investments Ltd. and Bosphorus Financial Services Ltd. own all the shares of Clover Investments Co. Limited, also incorporated in Malta. In 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 bank incorporated in Turkey. The Bank provided loans amounting to TL18,093,887 (TL equivalent at the exchange rates prevailing on 26 March 1999) to its affiliates in Malta to finance the acquisition of the shares in COI.

- Detail of deferred tax liability was as follows:-

<u>Deferred tax liability</u>	<u>Percentage of amount reflected in the financial statements</u>	<u>Amount reflected in the financial statements</u>
1- Amount related to current period TL3,420,929	100%	TL3,420,929
2- Amount related to prior years TL34,696,878	100%	<u>TL34,696,878</u>
<b>TOTAL AMOUNT</b> TL38,117,807		<b><u>TL38,117,807</u></b>
Deferred tax liability (balance sheet)		: <b><u>TL38,117,807</u></b>
Deferred tax charge (statement of income)		: <b><u>TL3,420,929</u></b>

**(Currency - Millions of Turkish Lira)**

**III- NOTES TO STATEMENTS OF INCOME**

- (1) - Interests received from the investee companies amounted to **TL669,599 (1998: TL493,488)**. Fees and commissions received from such companies aggregated to **TL..... (1998: TL ..... )**.
- Interests paid to the investee companies amounted to **TL33,339 (1998: TL11,105)**. Fees and commissions paid to such companies aggregated to **TL..... (1998: TL .....)**.
- (2) Income on financial leasing transactions amounted to **TL..... (1998: TL.....)**.
- (3) Expenses paid on financial leasing transactions amounted to **TL102,911 (1998: TL40,160)**.
- (4) - General provision for loan losses amounted to **TL2,323,065 (1998: TL2,694,072)**.
- Provision for valuation allowance on securities amounted to **TL..... (1998: TL .....)**.
- (5) Items comprising 20%, at minimum, of the other expenses and income classified in groups I, II, IV and V, and representing 10%, at minimum, of the total of the related group that they are included in:-

**There were no such items.**

- (6) Other significant matters:-

**None.**

.....