



## **Interim report**

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**SUBJECT :** 2000/Q3 IAS29 FINANCIAL STATEMENTS  
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According to the consolidated and inflation adjusted financial statements on an IAS29 basis for the third quarter of 2000, total assets of Garanti Bank increased by 13.7% since FYE 1999 to reach TL9,161,545 Billions (US\$13,760 Millions). The Bank has increased its net income by 14.1% on a year-on-year basis to reach TL141,187 Billions (US\$212 Millions). Net income before monetary loss and extraordinary item grew by 33.3% as compared to Q3/1999.

### **I. Operating Performance**

According to IAS 29 (consolidated and inflation adjusted) financial statements, Garanti Bank has released a net income after minority interest and extraordinary item of TL141,187 Billions (US\$212 Millions) during the first nine months of 2000. Net income was up by 14.1% in real terms from TL123,721 Billions (US\$186 Millions) as at September 30, 1999, as compared to the same period of 1999. Due to declining net interest income, income before taxes was TL361,705 Billions (US\$543 Millions) on September 30, 2000, down from TL396,926 Billions (US\$596 Millions), implying a 8.9% year-on-year decrease in inflation adjusted terms.

Interest income for the nine-month period ended September 30, 2000 was TL1,254,055 Billions (US\$1,884 Millions), down by 25.4% in real terms over September 30, 1999 figure, mainly due to declining spreads on securities and loans in the first three quarters of 2000. Interest earned from securities, which constituted 52.1% of total interest income, was TL652,919 Billions (US\$981 Millions) as at 2000/Q3. Although the securities portfolio went up by 18.3% since September 30, 1999, interest on securities was 26.9% lower on Q3/2000 as a result of falling yields. Interest on loans was TL450,840 Billions (US\$677 Millions) and declined by 21.3% as compared to Q3/1999. The share of interest on loans in total interest income increased to 36.0% on September 30, 2000 from 34.1% a year earlier.

Mainly due to the decrease on interest paid on deposits, total interest expense went down by 25.8% to TL678,732 Billions (US\$1,019 Millions) as at 30 September 2000. As of same date and on a year-on-year basis, interest paid on saving, commercial and public deposits (core deposits) decreased by 38.3% to TL229,705 Billions (US\$345 Millions) and interest paid on bank deposits decreased by 19.1% to TL273,185 Billions (US\$410 Millions). Interest paid on bank deposits and

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core deposits composed 40.2% and 33.8% of total interest expenses on 3Q/2000, respectively as compared to 36.9% and 40.7% on 3Q/1999.

During the first nine-months of 2000, on a consolidated and inflation adjusted basis, net interest income was TL575,323 Billions (US\$864 Millions), indicating a 24.8% fall in comparison with TL764,886 Billions (US\$1,149 Millions) as at September 30, 1999. This drop in net interest income resulted in a net interest margin (NIM) of 11.5% at the current period, as compared to 16.7% in year-end 1999 and 18.6% in 1999/Q3. Accordingly, NIM after adjusting by foreign exchange loss was 8.8%, as compared to 13.8% in Q3/1999 and 11.7% in H1/2000. Net interest income after provisions for possible loan losses decreased by 28.0% to TL535,535 Billions (US\$804 Millions) as at 3Q/2000.

As at 3Q/2000, other operating income improved by 78.3% to TL411,454 Billions (US\$618 Millions) over the same period of 1999, trading account income being the main contributor. On a year-on-year basis, trading account income increased by 102.0% to TL159,337 Billions (US\$239 Millions). When netted with the fees and commissions, trading income and income from sale of Tansaş shares, net other operating income is calculated as TL164,584 Billions (US\$247 Millions), and rose by 70.8% on a year-on-year basis. Net other operating income composed 17.7% of total operating income on September 30, 2000 as compared to 10.3% on September 30, 1999. Net fees and commissions were TL66,992 Billions (US\$101 Millions) for the period ended September 30, 2000, and was up by 21.3% on a year-on-year basis. The contribution from Garanti Securities and Garanti Portfolio Management to fees and commissions income was higher as compared to previous quarters. Net fees and commissions constituted 40.7% of netted other operating income as compared to 57.3% a year earlier. Tansaş added a TL52,709 Billions (US\$79 Millions) to other operating income, whereas Garanti Insurance and Garanti Life Insurance, generated TL16,495 Billions (US\$25 Millions) of other income of the Bank. As compared to Q3/1999, income from retail and insurance businesses together was up by 161.8% and composed 42.0% of net other operating income. These items composed 27.4% of net other operating income a year ago. Income from sale of participations is merely the net profit of TL28,347 Billions (US\$43 Millions) arising from the sale of 10% stake in Tansaş in February 2000. The share of dividends received and other income in net other operating income was 17.2% as of 30 September 2000, compared to 15.2% as of the same period of 1999.

Other operating expenses (excluding foreign exchange loss and fees and commissions expense) increased by %24.8 to TL431,115 Billions (US\$648 Millions) on a year-on-year basis. This increase mainly stemmed from rents, salaries and wages and other operating expenses. Total other operating expenses including net foreign exchange losses, (excluding fees and commission expenses) increased by a mere 0.7% over 3Q/1999 due to a 46.3% decline in net foreign exchange losses. Although salaries and wages went up by 7.9% to TL144,524 Billions (US\$217 Millions), this item composed 33.5% of total net operating expenses at the current period, compared to 38.8% in Q3/1999 and 35.5% at YE1999. The increase in net operating expenses and the decrease in net interest income together negatively affected the cost/income ratio of the Bank. Excluding the extraordinary item, cost/income ratio was almost the same at 56.1% as of the current period as compared to 56.3% in 31 December 1999. However, cost/income is higher than 52.3% as in September 30, 1999 and 49.2% as in June 30,2000. Tansaş contributes significantly to the Bank's operating expenses due to its aggressively expanding franchise. Garanti Bank's bank-only inflation adjusted financials indicate a cost/income ratio of 48.4% (excluding extraordinary item) at the end of Q3/2000.

The effective tax rate for the third quarter of 2000 went down to 33.9% with respect to 58.2% on September 30, 1999. In addition, loss on net monetary position declined by 41.0% to TL60,510 Billions (US\$91 Millions) resulting in a net income before extraordinary item of TL241,167 Billions (US\$362 Millions) which was up by 94.9% over Q3/1999. The burden of the

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earthquake related taxes was TL99,980 Billions (US\$150 Millions) for the first nine-months of 2000. The bank increased its net income by 14.1% on a year-on-year basis to reach TL141,187 Billions (US\$212 Millions). In line with narrowing margins return on average assets (ROAA) went down to 2.2% as of 30 September 2000 from 2.0% at the end of 1999. Accordingly, return on average equity (ROAE) declined to 19.9% at the current period from 18.2% at December 31, 1999.

## II. Balance Sheet

Total assets of Garanti Bank reached TL9,161,545 Billions (US\$13,760 Millions) as of September 30, 2000. This indicates a 13.7% increase as compared to December 31, 1999 and 18.7% year-on-year growth over the third quarter of 1999. The growth in liquid assets were 11.4%, up from TL3,419,061 Billions (US\$5,135 Millions) on September 30, 1999 to TL3,807,679 Billions (US\$5,719 Millions) on September 30, 2000. As a result of the growth in cash loans, liquid assets to total assets ratio decreased to 41.6% as at Q3/2000 from 45.7% as at YE1999. The securities portfolio slightly went up by 2.1% when compared to the year-end. The securities portfolio was TL2,587,941 Billions (US\$3,887 Millions) or 28.2% of total assets on September 30, 2000 and TL2,533,652 Billions (US\$3,805 Millions) or 31.5% of total assets as of December 31, 1999. The falling share of securities in total assets is a result of falling yields on government securities. The commitments arising from agreements for repurchase/resale of government securities (the repo portfolio) as at September 30, 2000 were TL516,444 Billions (US\$776 Millions), 50.4% lower than TL1,040,805 Billions (US\$1,563 Millions) as of December 30, 1999.

Total cash loans grew by 33.9% during the first nine-months of 2000, increasing to TL3,657,808 Billions (US\$5,494 Millions) as of September 30, 2000 from TL2,732,329 Billions (US\$4,104 Millions) as at year-end 1999. In line with this growth, the share of cash loans in total assets was up to 39.9% at the current period compared to 33.9% on December 31, 1999. Asset quality further improved and as at September 30, 2000, the share of non-performing loans (NPLs) to total cash loans was 1.6% in comparison with 2.0% as at December 31, 1999. The share of NPLs in total loans (cash and non-cash) also came down to 0.9% from 1.1% as of the respective periods. Allowances for loan losses to NPL's were 136.4% on a consolidated basis on September 30, 2000.

On the liability side, deposits grew by 23.4% since December 31, 1999. As of September 30, 2000 total deposits increased to TL5,234,627 Billions (US\$7,862 Millions) or 57.1% of total liabilities and shareholders' equity from TL4,241,858 Billions (US\$6,371 Millions) or 52.7% of total liabilities and shareholders' equity as at year-end 1999. On a year-on-year basis, the growth in deposits was 31.5%. Time deposits constituted 75.8% of total deposits at the current period, rising from 68.1% a year ago. The share of foreign currency deposits in total deposits on September 30, 2000 and year-end 1999 was 53.2% and 62.8%, respectively. As at September 30, 2000, total borrowings (long and short term including bonds) totalled TL2,161,469 Billions (US\$3,246 Millions) indicating a 5.1% growth over the YE1999 figure of TL2,057,044 Billions (US\$3,090 Millions). As at September 30, 2000, total long-term and short-term borrowings including bonds payable made up 23.6% of total liabilities and shareholders' equity. Short term borrowings made 66.8% of this sum.

Total shareholders' equity increased by 16.1% to TL1,018,814 Billions (US\$1,530 Millions) at the end of first nine months of 2000 as compared to TL877,627 Billions (US\$1,318 Millions) on December 31, 1999. The ratio of total shareholders' equity to total assets improved to 11.1% during the first three quarters of 2000 from 10.9% as at FYE 1999.

On a consolidated basis Garanti had a net foreign currency short position of TL298,446 Billions (US\$448 Millions), 17.6% up from the year-end figure of TL253,697 Billions (US\$381 Millions).

## KEY RATIOS

	30.09.2000	30.06.2000	31.12.1999	30.09.1999
<i>Asset Quality and Liquidity Ratios</i>				
NPL / Cash Loans	1.6%	1.8%	2.0%	1.5%
NPL/ Cash +Non-Cash Loans	0.9%	0.9%	1.1%	0.8%
Allowance for Loan Losses/NPL	136.4%	126.3%	103.2%	135.6%
Deposits/Total Assets	57.1%	55.6%	52.7%	51.6%
Cash Loans/Total Assets	39.9%	34.9%	33.9%	34.9%
Liquid Assets/Total Assets	41.6%	45.6%	45.7%	44.3%
<i>Profitability Ratios</i>				
NIM	11.5%	14.5%	16.7%	18.6%
Adjusted NIM	8.8%	11.7%	11.7%	13.8%
Return on Average Assets	2.2%	2.6%	2.0%	4.6%
Return on Average Equity	19.9%	23.1%	18.2%	20.8%
Non-interest Income / Total Operating Income (1)	36.0%	29.8%	26.7%	18.6%
Other Operating Expense (excl. FX loss and extraordinary expenses)/Total Assets	6.3%	6.9%	6.2%	6.0%
Cost / Income (2)	68.7%	64.2%	61.3%	52.3%
Cost / Income (3)	56.1%	49.1%	56.3%	52.3%
Effective Tax Rate	33.9%	38.3%	53.4%	58.2%

- (1) Excluding income earned from 10% stake sell of Tansaş.  
(2) Including the extraordinary items  
(3) Excluding the extraordinary items

**Türkiye Garanti Bankası A.Ş. And Its Affiliates**

**Consolidated Financial Statements  
For The Nine-Month Period Ended 30 September 2000  
And The Year Ended 31 December 1999**

**Türkiye Garanti Bankası A.Ş. And Its Affiliates**  
**Consolidated Balance Sheets At 30 September 2000 And 31 December 1999**

*(As adjusted for the effects of inflation in TL units current at 30 September 2000 pursuant to IAS 29)*

		30 September 2000	31 December 1999			30 September 2000	31 December 1999
<u>ASSETS</u>		<u>TL billions</u>	<u>TL billions</u>	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		<u>TL billions</u>	<u>TL billions</u>
Cash and due from banks	(Note 5)	1,144,924	1,098,880	Deposits	(Note 13)		
				Demand		1,264,517	1,017,653
Interbank placings		74,814	49,553	Time		<u>3,970,110</u>	<u>3,224,205</u>
						5,234,627	4,241,858
Reserve deposits at Central Bank	(Note 6)	289,104	267,254	Interbank takings		173,478	208,315
Securities	(Note 7)	2,587,941	2,533,652	Short-term borrowings	(Note 14)	1,444,196	1,151,432
Loans, advances and discounts, less allowance for possible losses	(Note 8)	3,657,808	2,732,328	Short-term bonds payable	(Note 15)	25,429	226,829
Accrued interest, prepaid expenses and other assets	(Note 9)	592,186	639,366	Taxation on income	(Note 16)		
				Current tax liability		26,143	142,037
Investments	(Note 10)	85,262	74,704	Deferred tax liability		<u>46,384</u>	<u>91,631</u>
						72,527	233,668
Bank premises and equipment, net	(Note 11)	634,979	549,990	Accrued interest and other liabilities	(Note 17)	473,972	411,354
Intangible assets, net	(Note 12)	94,527	108,675	Long-term debts	(Note 18)	<u>691,844</u>	<u>678,783</u>
				<b>Total liabilities</b>		<b>8,116,073</b>	<b>7,152,239</b>
				<b>Minority interest</b>		<b>26,658</b>	<b>24,536</b>
				Shareholders' equity (Note 19) :-			
				Share capital; authorized, issued and fully paid		752,683	752,683
				Retained earnings		<u>266,131</u>	<u>124,944</u>
				<b>Total shareholders' equity</b>		<b>1,018,814</b>	<b>877,627</b>
<b>TOTAL ASSETS</b>		<b><u>9,161,545</u></b>	<b><u>8,054,402</u></b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>9,161,545</u></b>	<b><u>8,054,402</u></b>
				Commitments and contingencies	(Note 22)		

The accompanying notes form integral parts of these financial statements.

**Türkiye Garanti Bankası A.Ş. And Its Affiliates**  
**Consolidated Statements Of Income**  
**For The Nine-Month Periods Ended 30 September 2000 And 1999**  
**And The Three-Month Periods Ended 30 September 2000 And 1999**

*(As adjusted for the effects of inflation in TL units current at 30 September 2000 pursuant to IAS 29)*

	Nine-month period ended 30 September 2000	Three-month period ended 30 September 2000	Nine-month period ended 30 September 1999	Three-month period ended 30 September 1999
	<u>TL billions</u>	<u>TL billions</u>	<u>TL billions</u>	<u>TL billions</u>
<b>Interest income:-</b>				
Interest on securities	652,919	123,789	893,697	380,638
Interest on loans	450,840	160,224	572,985	194,580
Interest on deposits at banks	128,578	39,378	169,667	53,986
Interest on financial leases	6,160	2,370	11,392	3,092
Interest on blocked accounts with Central Bank	-	-	21,544	6,756
Others	15,558	7,870	10,706	3,851
Total interest income	<u>1,254,055</u>	<u>333,631</u>	<u>1,679,991</u>	<u>642,903</u>
<b>Interest expenses:-</b>				
Interest on bank deposits	273,185	75,496	337,784	137,730
Interest on saving, commercial and public deposits	229,705	76,270	372,250	119,021
Interest on borrowings	143,930	53,487	153,839	67,170
Interest on bonds	5,643	1,031	16,691	4,254
Others	26,269	8,497	34,541	14,586
Total interest expenses	<u>678,732</u>	<u>214,781</u>	<u>915,105</u>	<u>342,761</u>
<b>Net interest income</b>	<b>575,323</b>	<b>118,850</b>	<b>764,886</b>	<b>300,142</b>
<b>Provision for possible loan losses (Notes 8 and 17)</b>	<b>39,788</b>	<b>9,268</b>	<b>20,710</b>	<b>5,451</b>
<b>Net interest income after provision for possible loan losses</b>	<b>535,535</b>	<b>109,582</b>	<b>744,176</b>	<b>294,691</b>
<b>Other operating income:-</b>				
Trading account income, net	159,337	73,335	78,873	34,217
Fees and commissions	126,178	28,577	110,817	35,858
Retail business income, net	52,709	25,215	26,432	10,281
Income on sale of interests in consolidated affiliates (Note 1)	28,347	3,296	-	-
Insurance business income, net	16,495	6,149	-	-
Dividends received from affiliated companies	1,826	-	1,618	95
Other operating income	26,562	18,317	13,074	6,086
Total other operating income	<u>411,454</u>	<u>154,889</u>	<u>230,814</u>	<u>86,537</u>
<b>Other operating expenses:-</b>				
Salaries and wages	144,524	45,822	133,892	50,060
Foreign exchange loss, net	94,983	25,786	177,009	47,670
Fees and commissions	59,186	21,712	55,572	22,446
Depreciation and amortization	46,411	17,169	37,261	13,369
Employee benefits	37,995	12,768	33,526	9,869
Advertising expenses	26,881	9,929	18,961	7,962
Taxes and duties other than on income	22,740	7,665	11,657	3,734
Rent expenses	20,598	8,568	11,962	4,542
EDP expenses	14,762	6,055	14,191	5,816
Saving deposits insurance fund	14,435	7,681	10,736	3,832
Research and development expenses	5,478	1,681	9,934	4,462
Repair and maintenance expenses	5,277	2,399	9,255	3,420
Stationary expenses	4,090	1,619	3,095	1,438
Provision for severance payments	2,960	-	8,256	3,070
Other operating expenses	84,964	36,810	42,757	22,260
Total other operating expenses	<u>585,284</u>	<u>205,664</u>	<u>578,064</u>	<u>203,950</u>
<b>Income before taxes</b>	<b>361,705</b>	<b>58,807</b>	<b>396,926</b>	<b>177,278</b>
<b>Provision for taxes on income (Note 16)</b>	<b>(68,243)</b>	<b>(5,627)</b>	<b>(171,237)</b>	<b>(82,355)</b>
<b>Net income before minority interest</b>	<b>293,462</b>	<b>53,180</b>	<b>225,689</b>	<b>94,923</b>
<b>Minority interest</b>	<b>8,215</b>	<b>1,239</b>	<b>664</b>	<b>(967)</b>
<b>Net income before loss on net monetary position</b>	<b>301,677</b>	<b>54,419</b>	<b>226,353</b>	<b>93,956</b>
<b>Loss on net monetary position</b>	<b>(60,510)</b>	<b>(7,360)</b>	<b>(102,632)</b>	<b>(38,291)</b>
<b>Net income before extraordinary item</b>	<b>241,167</b>	<b>47,059</b>	<b>123,721</b>	<b>55,665</b>
<b>Extraordinary item (Note 20)</b>	<b>(99,980)</b>	<b>(13,567)</b>	<b>-</b>	<b>-</b>
<b>Net income</b>	<b>141,187</b>	<b>33,492</b>	<b>123,721</b>	<b>55,665</b>
<b>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 3.19 and 19)</b>	<b>520,000,000,000</b>	<b>520,000,000,000</b>	<b>520,000,000,000</b>	<b>520,000,000,000</b>
<b>Earning per share (Full TL amount)</b>	<b>271.51</b>	<b>64.41</b>	<b>237.93</b>	<b>107.05</b>

The accompanying notes form integral parts of these financial statements.

**Türkiye Garanti Bankası A.Ş. And Its Affiliates**  
**Consolidated Statements Of Changes In Shareholders' Equity**  
**For The Nine-Month Periods Ended 30 September 2000 And 1999**

*(As adjusted for the effects of inflation in TL units current at 30 September 2000 to IAS 29)*

	Share capital TL billions	Retained earnings		Total TL billions	Shareholders' equity TL billions
		Legal reserves TL billions	Unappropriated earnings TL billions		
<b>Balances, 1 January 1999</b>	<b>475,502</b>	<b>32,462</b>	<b>223,543</b>	<b>256,005</b>	<b>731,507</b>
Appropriation of retained earnings:					
Transfer to legal reserves and minority interest		8,047	(8,047)		
Restatement effect of legal reserves in TL unit current at 30 September 2000		(11,507)	11,507		
Increase in capital:					
Transfer from retained earnings	277,181		(277,181)	(277,181)	
Net income for the nine-month period	<u>                    </u>	<u>                    </u>	<u>123,721</u>	<u>123,721</u>	<u>123,721</u>
ω <b>Balances, 30 September 1999</b>	<b>752,683</b>	<b>29,002</b>	<b>73,543</b>	<b>102,545</b>	<b>855,228</b>
Restatement effect of legal reserves for the last quarter of 1999 in TL unit current at 30 September 2000		(6,975)	6,975		
Net income for the last quarter	<u>                    </u>	<u>                    </u>	<u>22,399</u>	<u>22,399</u>	<u>22,399</u>
<b>Balances, 31 December 1999</b>	<b>752,683</b>	<b>22,027</b>	<b>102,917</b>	<b>124,944</b>	<b>877,627</b>
Appropriation of retained earnings:					
Transfer to legal reserves and minority interest		13,679	(13,679)		
Disposal of legal reserves of a consolidated affiliate sold during the period		(38)	38		
Restatement effect of legal reserves in TL unit current at 30 September 2000		(5,400)	5,400		
Net income for the nine-month period	<u>                    </u>	<u>                    </u>	<u>141,187</u>	<u>141,187</u>	<u>141,187</u>
<b>Balances, 30 September 2000</b>	<b>752,683</b>	<b>30,268</b>	<b>235,863</b>	<b>266,131</b>	<b>1,018,814</b>

The accompanying notes form integral parts of these financial statements.



**Türkiye Garanti Bankası A.Ş. And Its Affiliates**  
**Consolidated Statements Of Cash Flows**  
**For The Nine-Month Periods Ended 30 September 2000 And 1999**

*(As adjusted for the effects of inflation in TL units current at 30 September 2000 pursuant to IAS 29)*

	<u>2000</u>	<u>1999</u>
	<u>TL billions</u>	<u>TL billions</u>
<b>Cash flows from operating activities:-</b>		
Income before tax, minority interest and extraordinary item for the period	301,195	294,294
Components of net income not generating or using liquidity:-		
Provision for possible loan losses	39,788	20,710
Provision for severance payment	2,960	8,256
Depreciation and amortisation	46,411	37,261
Change in accrued interest and other income	381,568	(245,699)
Change in accrued interest and other expense	51,170	66,133
Reversal of decrease in value of investments	-	(502)
Monetary loss effect of above corrections	<u>(30,444)</u>	<u>(58,579)</u>
Operating profit before changes in operating assets and liabilities	792,648	121,874
Increase in deposits	992,769	355,611
(Increase)/decrease in gross loans, advances and discounts	(972,153)	27,198
Increase in securities	(527,942)	(819,560)
Increase in term placements at banks	(292,972)	(198,943)
Increase in prepaid expenses and other assets	(112,419)	(2,739)
Increase in reserve deposits at Central Bank	(21,850)	(27,751)
Extraordinary item paid	(137,794)	-
Income taxes paid	<u>(127,888)</u>	<u>(38,563)</u>
<b>Net cash used in operating activities</b>	<b>(407,601)</b>	<b>(582,873)</b>
<b>Cash flows from investing activities:-</b>		
Increase/(decrease) in investments-net	10,403	(288)
Increase in bank premises and equipment-net	129,320	120,439
(Decrease)/increase in goodwill	<u>(12,374)</u>	<u>51,053</u>
<b>Net cash used in investing activities</b>	<b>(127,349)</b>	<b>(171,204)</b>
<b>Cash flows from financing activities:-</b>		
(Decrease)/increase in interbank takings	(34,837)	32,658
Increase in short-term borrowings	292,764	328,645
(Decrease)/increase in short-term bonds payable	(201,400)	148,333
Increase/(decrease) in long-term debts	13,061	(116,812)
Increase in other liabilities	57,520	17,571
Proceeds from issuance of share capital to minorities	9,994	2,221
Increase in minority interest due to consolidated subsidiaries	<u>-</u>	<u>17,480</u>
<b>Net cash provided by financing activities</b>	<b>137,102</b>	<b>430,096</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(397,848)</b>	<b>(323,981)</b>
Cash and cash equivalents at beginning of period	<u>1,185,105</u>	<u>1,484,020</u>
<b>Cash and cash equivalents at end of period (Note 3.20)</b>	<b><u>787,257</u></b>	<b><u>1,160,039</u></b>

The accompanying notes form integral parts of these financial statements.

# Türkiye Garanti Bankası A.Ş. And Its Affiliates

## Notes to Consolidated Financial Statements 30 September 2000 and 31 December 1999

(As adjusted for the effects of inflation in TL units current at 30 September 2000 pursuant to IAS 29)

### 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 205 branches dispersed throughout the country; 3 branches in Luxembourg, Malta and Düsseldorf; and 34 "Open (Clover) Branches" 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. (COIBV), the Dutch parent of Osmanlı Bankası A.Ş., through the Bank's subsidiaries in Malta and Luxembourg, in October 1999, this structure was ceased and the Bank directly acquired COIBV; 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 portfolio management services; 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; 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.; 99.99% ownership in Lasaş Lastikleri San. ve Tic. A.Ş.; 29% ownership in and majority voting rights in the Board of Directors of Tansaş İzmir Büyükşehir Belediyesi İç ve Dış Ticaret A.Ş. (Tansaş), a company engaged in the sale of consumer products throughout Turkey through its distribution network consisting of 192 supermarkets, acquired in January 1999; 83.28% ownership in Doc Finance S.A. acquired in February 1999; 75.78% ownership in Garanti Yatırım Menkul Kıymetler A.Ş., a company engaged in providing brokerage and intermediary services in trading equity and debt securities, acquired in February 1999 and; 76.40% ownership in Doğuş Hava Taşımacılığı A.Ş., a company engaged in air transportation services, acquired in March 1999. In the last quarter of 1999, the Bank established Clover Bank Off-Shore Ltd under the laws of Turkish Republic of Northern Cyprus (TRNC) with ownership of 100% to be engaged in all the banking activities in TRNC; and acquired 99.99% and 100% ownerships in Garanti Sigorta A.Ş., an insurance company engaged in mainly all the insurance branches except for life and health and Garanti Hayat Sigorta A.Ş., an insurance company engaged in the branches of health and life, respectively. The financial statements of these affiliates are consolidated in the accompanying financial statements.

In December 1999, the Bank established Garanti Ödeme Sistemleri A.Ş., a separate entity for the management of the Bank's credit card business with ownership of 100%. Also in December 1999, the Bank contributed the share capital of a newly established joint venture between Volkswagen and Doğuş Groups, namely "Volkswagen Doğuş Tüketici Finansmanı A.Ş.", by TL3,205 billions representing 37% of the issued capital; this company is mainly engaged in the financing of the customers for their purchases of Volkswagen branded cars. These affiliates are not consolidated as they did not have any material operations as at 30 September 2000.

# **Türkiye Garanti Bankası A.Ş. And Its Affiliates**

## **Notes to Consolidated Financial Statements**

### **30 September 2000 and 31 December 1999**

*(As adjusted for the effects of inflation in TL units current at 30 September 2000 pursuant to IAS 29)*

#### **Note 1 – (Continued)**

On 18 February 2000, the Bank sold a 10% stake in Tansaş to Start Investments Limited, a foreign investment company. Accordingly, the ownership interest of the Bank in this company decreased to 19%; however together with 3.30% ownership interest held by the Bank's 100% owned affiliate, Ana Konut Danışmanlık A.Ş., the aggregate ownership of 22.30% in Tansaş, is still sufficient to provide the majority voting rights in the Board of Directors of this Company. The net profit of TL25,051 billions arising from this sale is reflected in "income on sale of interests in consolidated affiliates", in the accompanying consolidated statements of income for the nine-month period ended 30 September 2000.

In July 2000, Osmanlı Bankası A.Ş., a consolidated affiliate, fully divested all its interest in Sititur Turizm Temizlik Taşımacılık Organizasyon Bilgisayar Danışmanlık Yapı Sanayi ve Ticaret A.Ş. (Sititur). The net profit of TL3,296 billions arising from this sale is reflected in "income on sale of interests in consolidated affiliates", in the accompanying consolidated statements of income for the nine-month period ended 30 September 2000.

The principal shareholders of the Bank are the Doğu Group and its holding company, Doğu Holding A.Ş., which currently holds 40.12% of the issued capital.

Doğu Holding A.Ş., Doğu İnşaat ve Ticaret A.Ş., Doğu Otomotiv Sanayi ve Ticaret A.Ş. and Somtaş Tarım ve Ticaret A.Ş. have sold (i) an aggregate of 36.400.000.000 common shares in registered form each with nominal value of TL500 ("Shares") representing 7.0% of the share capital of Türkiye Garanti Bankası A.Ş. on 24 March 2000 and (ii) additional 5.460.000.000 Shares in registered form each with nominal value of TL500 representing 1.05% of the share capital of the Bank by 31 March 2000 to foreign investors abroad at the price TL7,900 for each unit of two Shares. Accordingly, the total ownership interest in the Bank of those shareholders other than the Doğu Group Companies and the individuals controlling this Group increased to 40.12%.

## **2 Basis of presentation of the financial statements**

The consolidated entities in Turkey, maintain their books of accounts 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"); while the other consolidated entities maintain their books of account and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

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 reclassifications 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. The restatement for the changes in the general purchasing power of the Turkish lira (TL) as at 30 September 2000 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").

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**30 September 2000 and 31 December 1999**

*(As adjusted for the effects of inflation in TL units current at 30 September 2000 pursuant to IAS 29)*

**Note 2 – (Continued)**

Such indices and conversion factors used to restate the accompanying financial statements at 30 September 2000 and 1999, and 31 December 1999 and 1998, are given below:-

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
30 September 2000	2,448.3	1.000
31 December 1999	1,978.5	1.237
30 September 1999	1,700.8	1.439
31 December 1998	1,215.1	2.015

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 acquisitions are restated using the relevant conversion factors.

Commencing for the financial statements for the periods ended 30 June 1999 and after, the Bank adopts a new policy for the restatement of transfers from retained earnings to share capital. Accordingly, the Bank started to transfer only up to the level of the restated amounts of such earnings as shown in the individual IAS financial statements of the consolidated entities concerned if their nominal values per statutory books as restated are higher.

- 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**

General:-

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.

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*(As adjusted for the effects of inflation in TL units current at 30 September 2000 pursuant to IAS 29)*

**Note 3 – (Continued)**

Insurance business:-

*Earned premiums*

In respect of non-life branches, under the annual basis of accounting, written premiums comprise the premiums due on contracts, net of taxes and cancellations, entered into during a financial year. These premiums are adjusted by the reserve for unearned premiums.

In respect of life branches, earned premiums represent premiums accrued on policies issued and adjusted by the reserve for unearned policies during the period.

*Unearned premium reserve*

Provision for unearned premiums is provided for in respect of in-force policies for which the premium period does not end simultaneously with the accounting period. Unearned premiums are determined from premiums written during the year, less reinsurance on the basis that premiums are written on the middle day of each month (the twenty fourth basis).

*Life assurance provision*

In aggregate, life assurance provision must be sufficient to provide for future guaranteed benefits as they become due according to Turkish insurance regulations. The life assurance provision is based on the level of premiums, as adjusted by commissions, and administrative expenses and risk premiums that are computed on the basis of worldwide actuarial mortality assumptions as approved by the Insurance Supervisory Office which are applicable for Turkish insurance companies. Life assurance provision also includes the net rate of return on investments.

*Claims and provision for claims*

Claims incurred include all claims (including claim estimates) and claims settlement payments made in respect of the financial period and the movement in provision for outstanding claims and settlement expenses. Provisions for outstanding claims and settlement expenses include claims incurred but not reported (IBNR), net of salvage and subrogation recoveries.

Along with the provisions for IBNR claims; the Bank's affiliates in insurance business also provide provisions for general business risks at different rates determined separately for each insurance branch by the related legislation applicable to insurance business in Turkey (equalisation provision).

**3.2 Securities**

Debt securities, primarily government bonds and treasury bills intended to be held for not more than one year (trading securities), are reflected at market values. Whereas debt securities intended to be held to maturity (investment securities) are carried at cost as adjusted for amortisation of premium and accretion of discount. Designation as an investment security is made at the time of acquisition and is based on the intend to hold the security for long-term investment.

Equity share certificates that are quoted at the stock exchange and all other securities, are reflected at market values ruling at period end.

Earned interest and gains or losses on the sales of securities are included in current operations (Note 7). Accrued interests on zero coupon securities are included in the carrying amount of the corresponding securities while accrued interests on other marketable securities are included in "accrued interest, prepaid expenses and other assets".

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**Note 3 – (Continued)**

Securities, where original maturity periods at the time of purchase is less than three months, are considered as cash equivalents for the purposes of the statements of cash flows.

**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,net' in the statement of income. Obligations relating to purchases or sales of securities under agreements for repurchase or resale are recognised as commitments (Note 22).

**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 credited to the allowance accounts and all write-offs and recoveries (reversals related to collection of prior periods' provisions credited to other income) are debited 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 general provisions for inherent credit risk on loans and guarantees and commitments. The level of general provision is based on management's evaluation of the loan portfolio, including such factors as the volume and character of loans outstanding, past loan loss experience and general economic conditions. The Bank's general provision level also meets the statutory requirement, valid since 1 January 1998 and revised in August and December 1999, for provision of %0.5 on loans and %0.1 on guarantees and commitments.

**3.6 Investments in affiliated companies**

The companies in which the direct and indirect ownership of Türkiye Garanti Bankası A.Ş. exceed 50% and/or which the Bank has controlling power over its operations through ownership of shares providing majority voting rights at the level of the Board of Directors or other similar incentives and rights 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.

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.

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**Note 3 – (Continued)**

**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 Financial leases**

As lessee:-

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.

As lessor:-

Assets leased under agreements that transfer substantially all the risks and rewards associated with ownership to customers, other than the legal title, are classified as finance leases. The leasing operations of the Bank's affiliate operating in leasing business, consist principally of the leasing of textile machinery, manufacturing machinery, printing, medical, construction, data processing, transportation and office equipment.

The sum of the minimum lease payments is recorded as gross investment in the leases. The difference between the gross investment and the cost of leased assets is recorded as unearned income and it is deducted from the gross investment in the leases. Income from finance leases is credited to the statement of income in a pattern reflecting a constant periodic rate of return on the net investments.

**3.9 Goodwill/Negative goodwill**

Positive and negative goodwills resulting from the indirect acquisition of 100% ownership in Osmanlı Bankası A.Ş. in 1996, the direct acquisition of 100% ownership in Ana Konut Danışmanlık A.Ş. in 1998 and; 19% ownership in Tansaş İzmir Büyükşehir Belediyesi İç ve Dış Ticaret A.Ş., 83.28% ownership in Doc Finance S.A., 75.78% ownership in Garanti Yatırım Menkul Kıymetler A.Ş., 76.40% ownership in Doğu Hava Taşımacılığı A.Ş., 99.99% ownership in Garanti Sigorta A.Ş. and 100% ownership in Garanti Hayat Sigorta A.Ş. in 1999 and consist of the excess/shortage of the total acquisition costs over/under the net assets of these consolidated entities at the dates of acquisitions. Such goodwill amounts are amortised on a straight line basis over 20 years, the time during which benefits are expected to be consumed. Negative goodwill on the acquisition of Ana Konut Danışmanlık A.Ş., is included under 'other liabilities' in the accompanying consolidated financial statements and credited to income over 20 years, the time during which benefit is expected to be consumed.

**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 period. Foreign currency assets and liabilities have been translated into Turkish Lira at foreign exchange rates prevailing at the period-end, the effects of which are also reflected in the statement of income as foreign exchange gain or loss.

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**Note 3 – (Continued)**

**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.

**3.12 Retirement plan**

The Bank has a trustee retirement plan covering all employees. Annual contributions are computed as a percentage of qualifying compensation and contributed by employees. Deficits, if any, are to be borne by the Bank. However, based on previous experience, management believes that any future cash flow, if any, for the purposes of this retirement plan will be insignificant.

**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 Taxes on income**

Taxes on income for the year comprises current tax and the change in the deferred taxes. Current taxes on income comprises tax payable calculated on the basis of expected taxable income for the year using the tax rates enacted by the balance sheet date and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences relating to goodwill not deductible for tax purposes and initial recognition of assets and liabilities which effect neither accounting nor taxable profit (Note 16).

Deferred tax liabilities and assets are recognised when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Bank. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

As permitted by IAS and starting from June 2000, the deferred tax assets and liabilities relating to a consolidated affiliate reporting to a specific tax office are offset against each other in the accompanying consolidated financial statements as of and for the nine-month period ended 30 September 2000.

**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 22).



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**Note 3 – (Continued)**

**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 period-end exchange rates.

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 quoted at the stock exchange, 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.

Long-term debts which, in principle at variable rates, denominated in foreign currencies are translated at period-end exchange rates and accordingly their fair values approximate their carrying values. The carrying values of long-term debts in Turkish lira along with the related accrued interest are estimated to be their fair values.

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***Notes to Consolidated Financial Statements***  
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**Note 3 – (Continued)**

Derivatives and hedging

The Bank uses derivative financial instruments to manage its exposures to foreign exchange, interest rate and commodity price risks arising from operational, financing and investing activities. In accordance with its treasury policy, in principle, the Bank does not currently hold or issue derivatives for trading purposes. The derivatives used for hedging purposes are accounted in the same way as the hedged transaction and offsetting gains and losses are recognised in the statement of income in the same financial period.

Interest rate risk

The Bank is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities and interest rate swap contracts. Interest differentials under swap agreements are accrued and recorded in the statement of income against interest expenses of the hedged loans.

Funding risk

The Bank manages its ability to fund the existing and prospective debt requirements and liquidity mismatches by maintaining adequate committed funding lines from high quality lenders.

Credit risk

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. These risks are monitored by internal credit ratings and limiting the aggregate risk to any individual counterparty. The credit risk of the Bank is highly diversified due to the large number of entities comprising the customer bases and their dispersion across many different industries.

Foreign exchange risk

The Bank is exposed to foreign exchange risk through the impact of exchange rate changes on liabilities and assets denominated in foreign currencies. These exposures are managed by using natural hedges that arise from offsetting foreign exchange assets and liabilities and forward foreign exchange and currency swap contracts.

Forward foreign exchange and currency swap contracts are mainly entered into as hedges against foreign currency loans and borrowings. These contracts 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.

**3.17 Offsetting**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**3.18 Capital increase**

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

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**Note 3 – (Continued)**

**3.19 Earnings per share**

Earnings per share disclosed in the accompanying consolidated statements 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.

**3.20 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 30 September 2000 and 1999, included in the accompanying consolidated statements of cash flows, are as follows:

	2000 <u>TL billions</u>	1999 <u>TL billions</u>
Cash and due from banks	762,328	957,022
Securities	<u>24,929</u>	<u>203,017</u>
	<u>787,257</u>	<u>1,160,039</u>

**4 Related parties**

For the purpose of this report, the Doğu 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 made placements with and granted loans to related parties and also received deposits from them at various terms. Interest rates applicable to foreign currency loans and deposits vary at ranges of 2.9-17% and 2.6-20%, and; for Turkish lira loans and deposits vary at ranges of 33-120% and 28-87% (31 December 1999: 3.1-16.8% and 2.9-17 % and; for Turkish lira loans and deposits: 68-101% and 62-102%), respectively. Various commission rates are applied to transactions involving guarantees and commitments.

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**Note 4 – (Continued)**

The Bank has the following balances outstanding from related parties:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>														
Bank placements	<u>15,322</u>	<u>56,720</u>														
Loans granted	<u>73,661</u>	<u>93,184</u>														
Bank takings	<u>9,072</u>	<u>24,233</u>														
Deposits received	<u>17,215</u>	<u>2,618</u>														
<u>Commitments and contingencies</u>																
Non-cash loans	82,765	75,457														
Derivative transactions	68,816	51,284														
Repurchase transactions	<u>2,192</u>	<u>14,004</u>														
	<u>153,773</u>	<u>140,745</u>														
Fixed asset purchases	<u>2,540</u>	<u>-</u>														
	<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Nine-month period ended 30 September 2000 <u>TL billions</u></th> <th style="text-align: center;">Three-month period ended 30 September 2000 <u>TL billions</u></th> <th style="text-align: center;">Nine-month period ended 30 September 1999 <u>TL billions</u></th> <th style="text-align: center;">Three-month period ended 30 September 1999 <u>TL billions</u></th> </tr> </thead> <tbody> <tr> <td>Interest income</td> <td style="text-align: right;"><u>24,809</u></td> <td style="text-align: right;"><u>5,460</u></td> <td style="text-align: right;"><u>10,877</u></td> <td style="text-align: right;"><u>4,454</u></td> </tr> <tr> <td>Income on sale of interest in Situr</td> <td style="text-align: right;"><u>3,296</u></td> <td style="text-align: right;"><u>3,296</u></td> <td style="text-align: right;"><u>-</u></td> <td style="text-align: right;"><u>-</u></td> </tr> </tbody> </table>	Nine-month period ended 30 September 2000 <u>TL billions</u>	Three-month period ended 30 September 2000 <u>TL billions</u>	Nine-month period ended 30 September 1999 <u>TL billions</u>	Three-month period ended 30 September 1999 <u>TL billions</u>	Interest income	<u>24,809</u>	<u>5,460</u>	<u>10,877</u>	<u>4,454</u>	Income on sale of interest in Situr	<u>3,296</u>	<u>3,296</u>	<u>-</u>	<u>-</u>	
Nine-month period ended 30 September 2000 <u>TL billions</u>	Three-month period ended 30 September 2000 <u>TL billions</u>	Nine-month period ended 30 September 1999 <u>TL billions</u>	Three-month period ended 30 September 1999 <u>TL billions</u>													
Interest income	<u>24,809</u>	<u>5,460</u>	<u>10,877</u>	<u>4,454</u>												
Income on sale of interest in Situr	<u>3,296</u>	<u>3,296</u>	<u>-</u>	<u>-</u>												

**5 Cash and due from banks**

Cash and due from banks comprise of the following:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Cash at branches	<u>37,316</u>	<u>62,058</u>
Due from banks-demand		
Domestic banks	121,963	93,408
Foreign banks	<u>105,155</u>	<u>79,789</u>
	<u>227,118</u>	<u>173,197</u>
Due from banks-time		
Domestic banks	472,413	109,544
Foreign banks	<u>408,077</u>	<u>754,081</u>
	<u>880,490</u>	<u>863,625</u>
	<u>1,144,924</u>	<u>1,098,880</u>

As at 30 September 2000, time deposits are all short-term, maturing within one year, with interest rates ranging between 4.5-19% per annum for foreign currency time deposits and 17-77% per annum for Turkish lira time deposits (31 December 1999: 4.63-14% and 46-120%, respectively).

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## 6 Reserve deposits at Central Bank

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 current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

## 7 Securities

Securities portfolios comprise of the following:-

	30 September 2000				31 December 1999
	Face value TL billions	Book value TL billions	Interest rate range %	Latest maturity	Book value TL billions
<b><u>Trading portfolio</u></b>					
Participating shares of mutual funds in foreign currency	-	341,334	-	-	-
Gold	-	315,258	-	-	338,335
Government bonds in Turkish lira	303,252	252,949	28.25-985	2002	566,129
Treasury bills	148,663	129,393	35-93.4	2002	30,177
Participating shares of mutual funds in Turkish lira	-	120,545	-	-	-
Government bonds in foreign currency	41,377	42,334	12	2030	-
Bonds issued by foreign governments	35,018	25,837	13.3-69.4	2028	-
Equity shares	-	7,606	-	-	-
Eurobonds	3,750	3,922	11.9-12.75	2030	-
Government bonds-indexed to consumer prices (a)	-	-	35.3-43.6	2002	7,741
Others	-	<u>12,552</u>	-	-	<u>-</u>
Total trading portfolio		<u>1,251,730</u>			<u>942,382</u>
<b><u>Investment portfolio</u></b>					
Eurobonds	492,574	444,618	7.25-12.75	2030	109,248
Government bonds in Turkish lira	364,328	352,566	4.7-303	2002	758,059
Government bonds in foreign currency	160,650	172,465	11.75-12.375	2030	22,670
Government bonds-indexed to consumer prices (a)	119,449	129,386	10.15-47.4	2002	98,026
Gold	-	126,512	-	-	133,118
Treasury bills	82,500	79,745	34.7-35.4	2001	50,318
Euroyen	18,493	21,623	5.7-6	2002	22,843
Bonds issued by foreign governments	2,770	2,770	5.75-43	2007	3,206
Securities issued by foreign institutions	-	-	-	-	223,507
Participating shares of mutual funds in Turkish lira	-	-	-	-	88,994
Participating shares of mutual funds in foreign currency	-	-	-	-	62,345
Others	-	<u>6,526</u>	-	-	<u>18,936</u>
Total investment portfolio		<u>1,336,211</u>			<u>1,591,270</u>
Total		<u>2,587,941</u>			<u>2,533,652</u>

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**Note 7 – (Continued)**

(a) The interest rate applied on these securities is the function of changes in consumer price index and a security coefficient described in the documents relating to the issuance of these bonds.

Profit on securities transactions amounting to TL159,337 billions for the nine-month period ended 30 September 2000, and to TL73,335 billions for the three-month period ended 30 September 2000 (30 September 1999: TL78,873 and the three-month period ended 30 September 1999: TL34,217 billions) in total is included in trading account income.

Unmatured interest accrued on securities amounting to TL119,349 billions (31 December 1999: TL221,700 billions) in total, is included in "other assets" (Note 9).

At 30 September 2000, the government bonds and treasury bills amounting, in total, to TL575,607 billions (31 December 1999: TL379,334 billions) are deposited as security for interbank fund borrowings, foreign currency money market transactions at the Central Bank; and for security trading activities at İstanbul Stock Exchange.

**8 Loans, advances and discounts**

Outstanding loans, advances and discounts are divided between economic sectors and loan types as follows:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Industrial	1,298,756	869,288
Foreign trade	492,719	463,792
Consumer loans	388,627	302,959
Financial institutions	350,457	240,503
Construction	288,560	273,471
Service sector	188,680	95,632
Agriculture	145,521	111,721
Tourism	119,052	131,120
Domestic commerce	48,445	30,928
Others	<u>358,313</u>	<u>214,738</u>
Total performing loans	3,679,130	2,734,152
Non-performing loans	<u>58,511</u>	<u>56,438</u>
Total gross loans	3,737,641	2,790,590
Allowance for possible losses	<u>(79,833)</u>	<u>(58,262)</u>
Loans – net	<u>3,657,808</u>	<u>2,732,328</u>

Loans given to customers have interest rates between 2.9-30% (31 December 1999: 3.1-19%) per annum for foreign currency loans and 28.5-89% (31 December 1999: 61.7-108.45%) per annum for Turkish lira loans.

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**Note 8 – (Continued)**

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

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Collateralized loans	2,497,308	1,978,315
Uncollateralized loans	<u>1,181,822</u>	<u>755,837</u>
	<u>3,679,130</u>	<u>2,734,152</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 specific allowances, 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 general provisions for inherent credit risk on loans and guarantees and commitments. The level of general provision is based on management's evaluation of the loan portfolio, including such factors as the volume and character of loans outstanding, past loan loss experience and general economic conditions. The Bank's general provision level also meets the statutory requirement, valid since 1 January 1998 and revised in August and December 1999, for provision of %0.5 on loans and %0.1 on guarantees and commitments.

Movements in the allowance account during the nine-month period ended 30 September 2000 and the year ended 31 December 1999, are as follows:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Balance, beginning of period	58,262	49,846
Restatement effect of the beginning balance and current year provision	(12,835)	(25,556)
Allowance account balance per the balance sheets of new subsidiaries at the date of their acquisitions by the Bank	-	1,499
Write-offs	(4,369)	(1,720)
Recoveries (reversals related to collection of prior periods' provisions credited to other income)	(1,413)	(2,173)
Provision for the period	<u>40,188</u>	<u>36,366</u>
Balance, end of period	<u>79,833</u>	<u>58,262</u>

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**9 Accrued interest, prepaid expenses and other assets**

Accrued interest, prepaid expenses and other assets comprise of the following items:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Accrued interest on securities	119,349	221,700
Assets held for resale	107,279	97,188
Minimum lease payment receivables	74,109	33,223
Accrued exchange gain on derivatives	47,034	12,305
Miscellaneous receivables	42,447	38,164
Retail business stocks	40,153	25,158
Prepaid expenses, insurance claims and similar items	35,168	13,440
Accrued interest on due from banks and similar items	26,540	35,117
Insurance premium receivables	25,075	11,708
Purchased cheques	12,871	6,589
Advances for fixed asset purchases	8,489	4,052
Deferred tax asset (a)	771	83,400
Taxes and funds to be refunded	646	870
Cheques at clearing house	-	10,396
Others	<u>52,255</u>	<u>46,056</u>
	<u>592,186</u>	<u>639,366</u>

(a) As permitted by IAS and starting from June 2000, the deferred tax assets and liabilities relating to a consolidated affiliate reporting to a specific tax office are offset against each other in the accompanying consolidated financial statements.

**10 Investments in affiliated companies**

The Bank holds investments in the following affiliates:-

	<u>30 September 2000</u>		<u>31 December 1999</u>	
	Carrying value <u>TL billions</u>	Ownership _____%	Carrying value <u>TL billions</u>	Ownership _____%
Petrotrans Nakliyat ve Ticaret A.Ş.	18,767	100.00	18,767	100.00
Garanti Turizm ve Yatırım İşl. A.Ş.	17,888	44.89	16,012	44.89
Doğuş Turizm Sağlık Yatırım İşl. Tic. A.Ş.	11,920	40.00	11,920	40.00
Sınai Yatırım Bankası A.O.	8,968	8.00	8,363	10.00
Aktif Finans Factoring Hizmetleri A.Ş.	8,944	19.56	8,582	19.56
Others	<u>18,775</u>		<u>11,060</u>	
	<u>85,262</u>		<u>74,704</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.

Doğuş Turizm Sağlık Yatırım İşletmeciliği Ticaret A.Ş. was formerly Genoto General Otomotiv San. Tic. A.Ş.. The company has changed its name and operations in February 2000.



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**Note 10 – (Continued)**

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. 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 carrying value of the investment. 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 – 30 September 2000 is as follows:-

	1 January TL billions	Additions TL billions	Disposals TL billions	Disposal of a consolidated affiliate sold	30 September TL billions
<b>Costs</b>					
Land and buildings	358,061	14,513	(7,595)	(7,504)	357,475
Furniture, fixture and equipments	312,653	75,427	(4,779)	(115)	383,186
Leasehold improvements	<u>81,497</u>	<u>46,543</u>	<u>(2,140)</u>	<u>(76)</u>	<u>125,824</u>
	752,211	136,483	(14,514)	(7,695)	866,485
<b>Less: Accumulated depreciation</b>					
Land and buildings	33,603	4,279	(527)	(164)	37,191
Furniture, fixture and equipments	174,109	30,689	(3,130)	(27)	201,641
Leasehold improvements	<u>44,548</u>	<u>9,363</u>	<u>(925)</u>	<u>(25)</u>	<u>52,961</u>
	252,260	44,331	(4,582)	(216)	291,793
<b>Construction in progress</b>	<u>50,039</u>				<u>60,287</u>
	<u>549,990</u>				<u>634,979</u>

Depreciation expense for the first nine months period of 2000 amount to TL44,331 billions and to TL16,271 billions for the three-month period ended 30 September 2000 (30 September 1999: TL34,249 billions and three-month period 30 September 1999: TL11,847 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; the direct acquisitions of 19% ownership in and majority voting rights in the Board of Directors of Tansaş İzmir Büyükşehir Belediyesi İç ve Dış Ticaret A.Ş., 83.28% ownership in Doc Finance S.A., 75.78% ownership in Garanti Yatırım Menkul Kıymetler A.Ş., 76.40% ownership in Doğuş Hava Taşımacılığı A.Ş., 99.99% ownership in Garanti Sigorta A.Ş. and 100% ownership in Garanti Hayat Sigorta A.Ş. in 1999, and consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

Goodwill is amortised on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL94,527 billions (31 December 1999: TL108,675 billions), net of accumulated amortisation, in the accompanying consolidated balance sheets at 30 September 2000 and 31 December 1999.

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### 13 Deposits

Deposits comprise of the following:-

	30 September 2000			31 December 1999
	Demand TL billions	Time TL billions	Total TL billions	Total TL billions
Foreign currency	914,085	1,871,445	2,785,530	2,665,690
Interbank (a)	30,509	1,658,747	1,689,256	1,025,820
Saving	71,195	331,240	402,435	293,422
Commercial	237,755	92,160	329,915	231,218
Public and other	<u>10,973</u>	<u>16,518</u>	<u>27,491</u>	<u>25,708</u>
	<u>1,264,517</u>	<u>3,970,110</u>	<u>5,234,627</u>	<u>4,241,858</u>

(a) Interbank deposits include both TL accounts of TL799,884 billions (31 December 1999: TL710,727 billions) and foreign currency accounts of TL889,372 billions (31 December 1999: TL315,093 billions).

Interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 28-87% and 2.6-20% (31 December 1999: 40-140% and 1.35-17%), respectively.

### 14 Short-term borrowings

Short-term borrowings comprise of the following:-

	30 September 2000 TL billions	31 December 1999 TL billions
Domestic banks	198,779	165,904
Foreign banks	<u>1,245,417</u>	<u>985,528</u>
	<u>1,444,196</u>	<u>1,151,432</u>

As at 31 December 1999, short-term borrowings from foreign banks included a syndicated pre-export credit facility available to Turkish exporters in the amount of DEM325 millions provided by twentyseven international banks, matured on 27 March 1999 and rollovered to 14 April 2000 for the equivalent of EUR180 millions and further rollovered for one-year for the amount of EUR400 millions and provided by seventy international banks through the arrangement of twelve foreign banks; a club loan facility amounting to USD65 millions provided by thirteen international banks through the agency of Bank of New York matured on 29 December 1999, and rollovered to 12 October 2000; and a syndicated loan facility in the amount of USD57.6 millions provided by sixteen international banks through the arrangement of Rabobank Amsterdam and matured on 25 August 2000. There was also a one-year pre-export loan facility in the amount of USD250 millions matured on 10 June 2000 and rollovered for one year for the equivalent of USD400 millions and provided by sixtyfour international banks.

In May 2000, Osmanlı Bankası A.Ş., a consolidated affiliate, obtained a syndicated loan facility in the amount of USD100 millions provided by eighteen international banks and maturing on 16 May 2001.

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## 15 Short-term bonds payable

Short-term bonds payable comprise of the following:-

	30 September 2000			31 December 1999	
	Amount in original currency in millions	Interest rates %	TL billions	TL billions	TL billions
Indenture notes	USD 28.8	Libor+2	19,142	19,296	19,296
Euro commercial papers	USD 6.4	6-13	4,236	30,372	30,372
Commercial paper notes			-	128,714	128,714
Bearer notes			-	43,099	43,099
Other bonds			<u>2,090</u>	<u>6,298</u>	<u>6,298</u>
			25,468	227,779	227,779
Less : Discounted portion			<u>(39)</u>	<u>(950)</u>	<u>(950)</u>
			<u>25,429</u>	<u>226,829</u>	<u>226,829</u>

Accrued interest on bonds payable amounting to TL697 billions (31 December 1999: TL3,195 billions) in total is included in "other interest and expense accruals" (Note 17).

## 16 Taxation

The 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 rate is 30%; contribution to a state fund is 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 this income tax rate up to the level of 25%, contribution to a state fund remained as 10% of this tax as well. Presently, this income tax charge is at the rate of 5% (for companies of which shares are not publicly traded; 15%) to be computed only on the amounts of dividend distribution and accrued only at the time of such payments.

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for permanent differences not deductible for tax purposes and initial recognition of assets and liabilities which effect neither accounting nor taxable profit.

As permitted by IAS and starting from June 2000, the deferred tax assets and liabilities relating to a consolidated affiliate reporting to a specific tax office are offset against each other in the accompanying consolidated financial statements as of and for the nine-month period ended 30 September 2000.

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**Note 16 – (Continued)**

The total provisions for taxes on income is different than the amount computed by applying the statutory tax rate to income before provision for taxes as shown in the following reconciliation for the nine-month period ended 30 September 2000:-

	30 September 2000	
	TL billions	%
<b>Taxes on income per statutory tax rate</b>	<b>66,401</b>	<b>33.00</b>
Income items exempt from tax or subject to different tax rates	(54,415)	(27.04)
Permanent differences relating to the restatement of non-monetary items per IAS29	49,016	24.36
Effect of permanent differences on consolidation adjustments	32,937	16.37
Effect of different tax rates applicable to the consolidated affiliates	(26,819)	(13.33)
Disallowable expenses	<u>1,123</u>	<u>0.56</u>
<b>Provision for taxes on income</b>	<b><u>68,243</u></b>	<b><u>33.92</u></b>

The provision for taxes on income comprise the following items:-

	30 September 2000
	TL billions
Current corporation and income taxes	28,176
Net increase in deferred tax on taxable temporary differences	<u>40,067</u>
<b>Provision for taxes on income</b>	<b><u>68,243</u></b>

In accordance with the related regulation for prepaid taxes on income, such advances payments during the year are being deducted from the final tax liability computed over current year operations. Accordingly, the taxation charge on income computed is not equal to the final tax liability appearing on the balance sheet.

The movements of current taxes payable on income in the first nine-month of 2000 and the year of 1999 are shown below:-

	30 September 2000	31 December 1999
	TL billions	TL billions
<b>Provision for current taxes payable on income before deductions</b>	<b>68,243</b>	<b>164,599</b>
Add: Taxes carried forward	1,943	4,108
Less: Deferred tax liabilities	(40,067)	(6,160)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 30 September 2000	<u>(3,976)</u>	<u>(20,510)</u>
<b>Taxes payable on income</b>	<b><u>26,143</u></b>	<b><u>142,037</u></b>

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**Note 16 – (Continued)**

Deferred tax assets and liabilities as at 30 September 2000 and 31 December 1999 are attributable to the items detailed in the table below:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
<b>Deferred tax assets</b>		
Specific and general allowance for loan losses	19,555	14,913
Tax losses carried forward	12,282	-
Tax legislation effect on securities	10,850	43,006
Reserve for retirement pay	4,147	5,014
Capitalised expenses	3,522	-
General provision for banking and leasing risks	3,300	4,692
Provision for extraordinary item (Note 20)	884	14,854
Others	<u>2,271</u>	<u>921</u>
Total deferred tax assets	<u>56,811</u>	<u>83,400</u>
<b>Deferred tax liabilities</b>		
Restatement of bank premises and equipment per IAS 29	55,208	43,576
Accrued interests and foreign exchange gains on securities	45,397	47,581
Others	<u>1,819</u>	<u>474</u>
Total deferred tax liabilities	<u>102,424</u>	<u>91,631</u>
<b>Net deferred tax liabilities</b>	<u><b>45,613</b></u>	<u><b>8,231</b></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**

The principal components of these captions are as follows:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Accrued interest on deposits	170,795	126,038
Miscellaneous payables	82,126	42,864
Accrued interest on borrowings	42,917	41,638
Transfer orders	27,046	12,710
Withholding taxes	21,385	24,043
Insurance technical provisions	15,902	12,837
Blocked accounts	15,755	9,569
Payables to insurance and reinsurance companies relating to insurance operations	15,512	5,663
Reserve for severance payment	14,352	16,670
Interest and expense accruals other than on deposits and borrowings	11,634	6,501
Payables to suppliers relating to financial leasing activities	10,147	19,318
General provision for banking risks (a)	10,000	12,374
Provision for earthquake taxes (Note 20)	3,066	44,927
General provision for non-cash loans	3,036	2,554
Others	<u>30,299</u>	<u>33,648</u>
	<u>473,972</u>	<u>411,354</u>

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**Note 17 – (Continued)**

- (a) General provision for banking risks as of 30 September 2000, includes a reserve amount of TL10,000 billions for inherent risk in banking environment as assessed by the management of the Bank through considering the current economic and other relevant conditions.

**18 Long-term debts**

Long-term debts comprise of the following:-

	30 September 2000				31 December 1999	
	Interest rate%	Maturity	Amount in original currency in millions	Short term portion TL billions	Medium and long-term portion TL billions	Long-term debts TL billions
<b>Funds from financial institutions:</b>						
Pera Financial Services Company	9.375	2002	USD 246	-	163,568	164,878
TPR Securitisation-I	9	2004	USD 181	27,628	92,767	114,669
Anatolia Finance Company	7.48	2004	USD 135	11,984	77,849	99,831
TPR Securitisation-II	7.67-8.75	2004	EUR 100	-	58,661	67,146
International Finance Corporation	8.65	2005	USD 91	6,031	54,281	60,545
International Finance Corporation	8.59-Libor+2.5	2004	USD 84	13,921	41,764	56,131
International Finance Corporation	Libor+3.375	2004	USD 4	740	2,220	2,673
First Fidelity Bank	7.83-9.75	2002	USD 48	14,334	17,781	28,110
First Fidelity Bank	7.83	2002	USD 10	1,577	4,818	6,189
ABN Amro Bank	4-6.3	2004	NLG 92	-	24,420	16,532
Credit Suisse	2.45	2010	USD 30	922	19,055	-
DEG	6.8	2004	EUR 15	-	8,742	-
DEG	Fibor+3.5	2002	DEM 5	747	747	1,286
Royalbank of Canada	5.8-7.1	2002	USD 4	1,275	1,269	4,273
Demirhalkbank N.V.	11.25	2001	EUR 23	13,362	-	15,428
Others				9,338	81,336	15,816
<b>Bonds:</b>						
Bearer notes	8	2003	EUR 48	-	27,827	-
Indenture notes	Libor+2	2002	USD 51	19,142	14,739	25,276
				121,001	691,844	678,783

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.

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

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**Note 18 – (Continued)**

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 securitisation 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 securitisation 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.

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.

An aggregate principle amount of USD100 millions was extended by International Finance Corporation (IFC) as a loan to Osmanlı Bankası A.Ş., a consolidated affiliate, in September 1998. This facility consisted of a direct loan by IFC (A Loan) in the amount USD15 millions and a B Loan in the amount of USD85 millions, which was securitised under the name of Osmanlı Bankası-IFC Trust I and II; were privately placed to United States insurance companies. Proceeds of this facility was used to on-lend to private Turkish companies for project finance, capital equipment financing, as well as short term trade financing. While the maturity of the facility is seven years, repayment terms involve a two-year grace period during which only interest is to be serviced.

In June 1999, the Bank obtained a fund in the amount of USD200 millions through its Trade Payment Rights Securitisation transaction (the "TPR Securitisation-I"). The TPR Securitisation-I consists of a floating and fixed tranche for an amount of USD29 millions and USD171 millions, respectively. The TPR Securitisation-I securitises the Bank's collection and reimbursement rights related to export transactions, specifically letters of credits and cash against documents transactions, and has a maturity of 5 years with an average life of 3.14 years. The TPR Securitisation-I was arranged by Bank of America Securities LLC, Bank of America International Limited and Credit Suisse First Boston Corporation (CSFB) was appointed as co-manager.

In December 1999, Osmanlı Bankası A.Ş., a consolidated affiliate, obtained a fund in the amount of EUR100 millions through its Trade Payment Rights Securitisation transaction (the "TPR Securitisation-II"). The TPR Securitisation-II consists of two tranches amounting to

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**Note 18 – (Continued)**

EUR81 millions and EUR19 millions. The TPR Securitisation-II securitises Osmanlı Bankası A.Ş.'s collection and reimbursement rights related to export transactions, specifically letters of credits and cash against documents transactions, and has a maturity of 5 years with an average life of 3.5 years. The TPR Securitisation-II was arranged under the management of Dresdner Bank AG and Banca d'Intermediazione Mobiliare IMI.

Bearer notes amounting to EUR45,750,000 represent the 8% Euro notes bearing interest from 21 March 2000 per annum payable annually in arrear on 21 March in each year commencing on 21 March 2001 and maturing in 2003 issued by United Garanti Bank International (UGBI), a consolidated affiliate, in March 2000 through the arrangement of Goldman Sachs International. The notes comprising 4.575 units will be in the denomination of EUR10,000 each. Unless previously redeemed or canceled, the notes will be redeemed at their principal amount on 21 March, 2003 and are subject to redemption in whole at their principal amount at the option of UGBI at any time in the event of certain changes affecting taxation in the Netherlands.

**19 Shareholders' equity**

The authorised and paid-in nominal share capital of the Bank is TL260,000 billions comprising 519.999.999.653 registered shares of five hundred Turkish liras each and 1.735 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 to 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). 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 Extraordinary item**

Late in 1999, Turkish Government has imposed a one time only extraordinary tax measures to finance the public expenditures caused by the massive earthquakes on 17 August and 12 November 1999 in Marmara Region.

One of such tax measures is "additional income and corporate tax". In principal, all individuals, excluding wage earners, and corporate taxpayers are required to pay an additional income or corporate tax at 5% on their taxable bases filed for the year of 1998. The tax base for the 5% additional tax is just the same as the tax base on which the income or corporate tax was charged for the year 1998. The Bank fully provided for these taxes amounting to TL9,374 billions in the accompanying consolidated financial statements as at 31 December 1999.

Another additional tax imposed by the Turkish Government is the withholding tax on interest income on government securities that will be held at maturity. The tax rate on such interest income changes from 4% to 19% according to maturities of the securities. Accordingly, the Bank either paid or fully provided for these taxes amounting to TL99,980 billions on accrued interest on government securities as "extraordinary item" in the accompanying consolidated statements of income for the nine-month period ended 30 September 2000.

Unpaid portion of such taxes in the amount of TL3,066 billions (31 December 1999: TL44,927 billions) was classified under "accrued interest and other liabilities" as "provision for earthquake taxes" in the accompanying consolidated balance sheets (Note 17).



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### 21 Maturity profiles

The maturity profiles of monetary assets and liabilities as at 30 September 2000 and 31 December 1999 were summarised as follows:-

	30 September 2000						31 December 1999					
	Up to 1 month TL billions	1 to 3 months TL billions	3 to 6 months TL billions	6 to 12 months TL billions	Over 1 year TL billions	Total TL billions	Up to 1 month TL billions	1 to 3 months TL billions	3 to 6 months TL billions	6 to 12 months TL billions	Over 1 year TL billions	Total TL billions
<b>MONETARY ASSETS</b>												
<b>Turkish Lira</b>												
Cash and due from banks	338,687	49,409	67,702	5,487	-	461,285	68,436	8,870	16,068	7,305	-	100,679
Interbank placings	-	-	-	-	-	-	3,589	-	-	-	-	3,589
Reserve deposits at Central Bank	32,283	-	-	-	-	32,283	18,873	391	261	131	32	19,688
Securities	77,996	88,265	126,331	208,405	565,230	1,066,227	18,812	373,393	594,988	183,461	435,499	1,606,153
Loans, advances and discounts	211,284	269,517	257,809	232,176	167,727	1,138,513	197,373	172,354	80,620	176,562	62,534	689,443
Other assets	198,378	28,618	2,768	6,297	26,006	262,067	239,320	21,431	7,603	54,583	26,112	349,049
<b>Total Turkish Lira assets</b>	<b>858,628</b>	<b>435,809</b>	<b>454,610</b>	<b>452,365</b>	<b>758,963</b>	<b>2,960,375</b>	<b>546,403</b>	<b>576,439</b>	<b>699,540</b>	<b>422,042</b>	<b>524,177</b>	<b>2,768,601</b>
<b>Foreign currency</b>												
Cash and due from banks	382,223	38,121	141,993	116,031	5,271	683,639	515,969	216,981	130,828	134,423	-	998,201
Interbank placings	72,160	2,654	-	-	-	74,814	7,325	38,639	-	-	-	45,964
Reserve deposits at Central Bank	256,821	-	-	-	-	256,821	225,601	17,459	2,816	-	1,690	247,566
Securities	315,258	342,027	11,562	14,115	838,752	1,521,714	364,317	5,440	339	72,150	485,253	927,499
Loans, advances and discounts	436,177	423,399	552,654	631,797	496,590	2,540,617	211,465	411,457	658,419	484,954	276,590	2,042,885
Other assets	52,180	9,750	10,550	12,921	61,472	146,873	118,151	3,920	5,720	9,226	17,514	154,531
<b>Total foreign currency assets</b>	<b>1,514,819</b>	<b>815,951</b>	<b>716,759</b>	<b>774,864</b>	<b>1,402,085</b>	<b>5,224,478</b>	<b>1,442,828</b>	<b>693,896</b>	<b>798,122</b>	<b>700,753</b>	<b>781,047</b>	<b>4,416,646</b>
<b>Total Monetary Assets</b>	<b>2,373,447</b>	<b>1,251,760</b>	<b>1,171,369</b>	<b>1,227,229</b>	<b>2,161,048</b>	<b>8,184,853</b>	<b>1,989,231</b>	<b>1,270,335</b>	<b>1,497,662</b>	<b>1,122,795</b>	<b>1,305,224</b>	<b>7,185,247</b>
<b>MONETARY LIABILITIES</b>												
<b>Turkish Lira</b>												
Deposits	1,345,664	205,940	19,202	7,660	508	1,578,974	913,138	251,984	61,869	31,308	1	1,258,300
Interbank takings	9,000	-	-	-	-	9,000	49,498	-	-	-	-	49,498
Short-term borrowings	38,037	7	6	-	-	38,050	29,817	3,779	26,177	8,114	-	67,887
Short-term bonds payable	370	1,420	300	-	-	2,090	3,191	3,106	-	-	-	6,297
Long-term debts	-	-	-	-	45	45	-	-	-	-	-	-
Other liabilities	205,968	18,823	21,155	78,306	64,277	388,529	77,010	24,602	65,714	19,492	325,149	511,967
<b>Total Turkish Lira liabilities</b>	<b>1,599,039</b>	<b>226,190</b>	<b>40,663</b>	<b>85,966</b>	<b>64,830</b>	<b>2,016,688</b>	<b>1,072,654</b>	<b>283,471</b>	<b>153,760</b>	<b>58,914</b>	<b>325,150</b>	<b>1,893,949</b>
<b>Foreign currency</b>												
Deposits	2,883,506	364,046	278,283	84,899	44,919	3,655,653	2,241,981	514,861	102,700	111,168	12,848	2,983,558
Interbank takings	164,478	-	-	-	-	164,478	158,145	672	-	-	-	158,817
Short-term borrowings	400,257	117,345	395,768	492,776	-	1,406,146	191,493	200,627	390,003	301,422	-	1,083,545
Short-term bonds payable	11,550	1,232	4,403	6,154	-	23,339	13,376	4,080	180,303	22,773	-	220,532
Long-term debts	-	-	-	-	691,799	691,799	-	-	-	-	678,783	678,783
Other liabilities	112,706	2,501	3,649	8,956	29,486	157,298	25,306	6,641	16,542	9,108	73,212	130,809
<b>Total foreign currency liabilities</b>	<b>3,572,497</b>	<b>485,124</b>	<b>682,103</b>	<b>592,785</b>	<b>766,204</b>	<b>6,098,713</b>	<b>2,630,301</b>	<b>726,881</b>	<b>689,548</b>	<b>444,471</b>	<b>764,843</b>	<b>5,256,044</b>
<b>Total Monetary Liabilities</b>	<b>5,171,536</b>	<b>711,314</b>	<b>722,766</b>	<b>678,751</b>	<b>831,034</b>	<b>8,115,401</b>	<b>3,702,955</b>	<b>1,010,352</b>	<b>843,308</b>	<b>503,385</b>	<b>1,089,993</b>	<b>7,149,993</b>

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## 22 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:-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Letters of guarantee	2,034,259	1,635,225
Letters of credit	736,002	620,021
Acceptance credits	218,375	183,117
Other guarantees and endorsements	<u>46,857</u>	<u>62,563</u>
	<u>3,035,493</u>	<u>2,500,926</u>

As at 30 September 2000, commitment for uncalled capital of affiliated companies amounts approximately to TL12,946 billions (31 December 1999: TL18,693 billions).

Commitment for purchase and sale of foreign currencies under spot, forward, swap, future rate agreements (FRA) or options and for gold trading amounts to TL3,791,230 billions (31 December 1999: TL2,402,467 billions), approximately 97% due within one year.

The breakdown of such commitments outstanding, by types, are presented as follows:-

	<u>30 September 2000</u>		<u>31 December 1999</u>	
	<u>Purchases</u> <u>TL billions</u>	<u>Sales</u> <u>TL billions</u>	<u>Purchases</u> <u>TL billions</u>	<u>Sales</u> <u>TL billions</u>
Forward agreements for customer dealing activities	116,203	83,150	45,853	34,135
Swap agreements for customer dealing activities	70,696	6,482	-	-
Spot foreign currency transactions for customer dealing activities	123,255	4	-	-
Forward agreements for hedging purposes	657,882	539,116	764,581	425,466
Currency swap agreements for hedging purposes	351,723	341,848	365,074	579,091
Interest rate swap agreements for hedging purposes	2,417	2,912	-	6,014
Forward agreements for gold trading	-	137,790	5,477	146,240
FRAs	184,838	66,331	-	-
Options	273,348	380,255	-	955
Spot foreign currency transactions	<u>269,983</u>	<u>182,997</u>	<u>8,407</u>	<u>21,174</u>
	<u>2,050,345</u>	<u>1,740,885</u>	<u>1,189,392</u>	<u>1,213,075</u>

Commitment arising from agreements for repurchase/resale of government securities at 30 September 2000 amounts to TL516,444 billions (31 December 1999: TL1,040,805 billions).

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**23 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.

The Bank's foreign currency assets and liabilities may be analysed as follows (TL equivalents):-

	30 September 2000 <u>TL billions</u>	31 December 1999 <u>TL billions</u>
Cash and due from banks	758,453	1,044,165
Reserve deposits at Central Bank	256,821	247,566
Securities	1,521,714	927,499
Loans, advances and discounts, less allowance for possible losses	2,545,639	2,042,885
Other assets	<u>331,784</u>	<u>326,730</u>
	5,414,411	4,588,845
Funding sources	5,941,930	5,112,341
Other liabilities	<u>157,298</u>	<u>130,810</u>
	6,099,228	5,243,151
Short position before derivative contracts	(684,817)	(654,306)
Derivative contracts (a)	<u>386,371</u>	<u>400,609</u>
Net short position	<u>(298,446)</u>	<u>(253,697)</u>

(a) The Bank hedged a portion of its short position amounting to 684,817 billions (31 December 1999: 654,306 billions) at TL equivalents at 30 September 2000 by forward contracts approximately 97% maturing in one year which represent total net commitment to buy approximately USD580 millions (US dollar equivalent of TL386,371 billions at exchange rate prevailing on 30 September 2000) (31 December 1999: USD600 millions) at varying exchange rates indicated in the corresponding contracts.

The major currencies included above are US Dollar, Deutsche Mark, Pounds Sterling and Swiss Francs. However, for the purposes of the evaluation of the table above, special emphasis should be given to the assets and liabilities denominated in Russian Roubles which are considered as foreign currency items. Russia is a highly inflationary environment as evidenced by a very high cumulative inflation rate of %229.4 for the three years ended 30 September 2000. The Russian Roubles denominated net assets as included in the above table at their TL equivalents at 30 September 2000 amounted to 16,373 billions (31 December 1999: 9,464 billions).

Volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to USD55,447 millions (for the year ended 31 December 1999: USD61,960 millions) for the nine-month period ended 30 September 2000.

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### 24 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., Tansaş İzmir Büyükşehir Belediyesi İçve Dış Ticareti A.Ş., Garanti Bank Moscow, Marmo S.A., Garanti Financial Services plc., Ana Konut Danışmanlık A.Ş., D.O.C Finance S.A., Doğuş Hava Taşımacılığı A.Ş., Clover Bank Off-Shore Ltd., Garanti Sigorta A.Ş., Instruments Finance Company, Clover Investment Ltd, Lasaş Lastik San. ve Tic.A.Ş., Garanti Yatırım Menkul Kıymetler A.Ş., Garanti Hayat Sigorta A.Ş., Garanti Portföy Yönetimi A.Ş., Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş., Şahinler Otellilik A.Ş., Garanti Fund Management, CI Finance Ltd, CI Investment Ltd, Bosphorus Financial Services Ltd, are consolidated in the accompanying financial statements. The summarised balance sheets of these affiliates at 30 September 2000 and 31 December 1999 which are consolidated, are as follows:-

	30 September 2000											
	Osmanlı Bankası A.Ş. Consolidated TL billions	United Garanti Bank Int. N.V. TL billions	Garanti Finansal Kiralama A.Ş. TL billions	Tansaş İzmir B.Ş.B. İ.ve D.Tic. A.Ş. TL billions	Garanti Bank Moscow TL billions	Marmo S.A. TL billions	Garanti Financial Services TL billions	Ana Konut Danışmanlık A.Ş. TL billions	D.O.C Finance S.A. TL billions	Doğuş Hava Taşımacılığı A.Ş. TL billions	Clover Bank Off-Shore Ltd. TL billions	Garanti Sigorta A.Ş. TL billions
<b>ASSETS</b>												
Cash and due from banks	180,858	191,044	45,886	3,541	1,653	127	117	17	249	411	33,753	1,570
Interbank placings	74,814	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	58,868	-	-	-	-	-	-	-	-	-	-	-
Securities	773,321	99,640	18,672	-	64,599	66,633	21,495	4,215	-	50	3,512	5,867
Loans, net	734,352	683,855	-	-	14,717	4,514	49,559	-	50,680	-	-	-
Accrued interest, prepaid expenses and other assets	107,011	6,734	94,835	64,449	2,721	-	31	4,818	64	1,564	93	27,136
Investments	17,677	6	951	484	-	-	-	100	-	8	-	1,689
Property and equipment, net	124,616	13,014	1,405	88,188	1,093	-	14	46,215	12	39,443	18	792
Intangible assets, net	56,872	-	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>2,128,389</b>	<b>994,293</b>	<b>161,749</b>	<b>156,662</b>	<b>84,783</b>	<b>71,274</b>	<b>71,216</b>	<b>55,365</b>	<b>51,005</b>	<b>41,476</b>	<b>37,376</b>	<b>37,054</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>												
Deposits	1,282,067	801,872	-	-	62,203	-	47,760	-	-	-	16,994	-
Interbank takings	54,546	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	319,462	3,611	74,999	40,057	-	66,580	21,444	359	33,371	3,083	-	-
Short-term bonds payable	-	-	-	-	-	-	-	-	-	-	2,091	-
Accrued interest and other liabilities	94,816	46,127	18,982	86,541	4,935	4,523	1,850	2,192	650	2,352	1,606	30,420
Long-term debts	117,287	76,044	46,344	20,126	-	-	-	12,450	13,899	30,886	-	-
<b>Total Liabilities</b>	<b>1,868,178</b>	<b>927,654</b>	<b>140,325</b>	<b>146,724</b>	<b>67,138</b>	<b>71,103</b>	<b>71,054</b>	<b>15,001</b>	<b>47,920</b>	<b>36,321</b>	<b>20,691</b>	<b>30,420</b>
Minority Interest	9,642	-	-	(56)	-	-	-	-	-	-	-	-
Shareholders' Equity:-												
Share capital	112,391	31,594	19,147	9,911	17,003	7,213	1,756	50,801	4,593	36,216	2,996	15,069
Legal reserves and retained earnings	138,178	35,045	2,277	83	642	(7,042)	(1,594)	(10,437)	(1,508)	(31,061)	13,689	(8,435)
<b>Total Shareholders' Equity</b>	<b>250,569</b>	<b>66,639</b>	<b>21,424</b>	<b>9,994</b>	<b>17,645</b>	<b>171</b>	<b>162</b>	<b>40,364</b>	<b>3,085</b>	<b>5,155</b>	<b>16,685</b>	<b>6,634</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,128,389</b>	<b>994,293</b>	<b>161,749</b>	<b>156,662</b>	<b>84,783</b>	<b>71,274</b>	<b>71,216</b>	<b>55,365</b>	<b>51,005</b>	<b>41,476</b>	<b>37,376</b>	<b>37,054</b>

# Türkiye Garanti Bankası A.Ş. And Its Affiliates

## Notes to Consolidated Financial Statements 30 September 2000 and 31 December 1999

(As adjusted for the effects of inflation in TL unit current at 30 September 2000 pursuant to IAS 29)

### Note 24 - (Continued)

	30 September 2000 (Continued)											
	Instruments Finance Company TL billions	Clover Investment Ltd. TL billions	Lasaş Lastik San ve Tic. A.Ş. TL billions	Garanti Yatırım Menkul Kıymetler A.Ş. TL billions	Garanti Hayat Sigorta A.Ş. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Garanti Bilişim Teknolojisi ve Tic. T.A.Ş. TL billions	Şahintur Şahinler Otelcilik A.Ş. TL billions	Garanti Fund Management TL billions	CI Finance Ltd. TL billions	CI Investment Ltd. TL billions	Bosphorus Financial Services Ltd. TL billions
<b>ASSETS</b>												
Cash and due from banks	13,736	22,144	110	25	3,917	1,590	20	225	460	43	18	27
Interbank placings	-	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	-	-	-	-	-	-	-	-	-	-	-	-
Securities	-	-	-	9,544	3,736	3,870	315	-	152	-	-	-
Loans, net	21,160	-	-	-	-	-	-	-	-	-	-	-
Accrued interest, prepaid expenses and other assets	390	289	609	2,481	2,687	1,788	2,477	23	56	41	66	55
Investments	-	7,213	758	228	2	-	3,575	2	3	67	67	67
Property and equipment, net	-	-	20,041	1,716	1,349	252	496	1,891	83	-	-	-
Intangible assets, net	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>35,286</b>	<b>29,646</b>	<b>21,518</b>	<b>13,994</b>	<b>11,691</b>	<b>7,500</b>	<b>6,883</b>	<b>2,141</b>	<b>754</b>	<b>151</b>	<b>151</b>	<b>149</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>												
Deposits	-	-	-	-	-	-	-	-	-	-	-	-
Interbank takings	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	-	-	-	-	-	-	-	-	-	-	-	-
Short-term bonds payable	19,142	-	-	-	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	700	2,293	2,022	2,915	6,767	1,971	1,432	471	388	3	3	1
Long-term debts	14,739	25,463	-	-	-	-	-	-	166	-	-	-
<b>Total Liabilities</b>	<b>34,581</b>	<b>27,756</b>	<b>2,022</b>	<b>2,915</b>	<b>6,767</b>	<b>1,971</b>	<b>1,432</b>	<b>471</b>	<b>554</b>	<b>3</b>	<b>3</b>	<b>1</b>
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-												
Share capital	17	201	16,730	6,977	4,382	1,647	33,918	2,780	67	67	67	67
Legal reserves and retained earnings	688	1,689	2,766	4,102	542	3,882	(28,467)	(1,110)	133	81	81	81
<b>Total Shareholders' Equity</b>	<b>705</b>	<b>1,890</b>	<b>19,496</b>	<b>11,079</b>	<b>4,924</b>	<b>5,529</b>	<b>5,451</b>	<b>1,670</b>	<b>200</b>	<b>148</b>	<b>148</b>	<b>148</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>35,286</b>	<b>29,646</b>	<b>21,518</b>	<b>13,994</b>	<b>11,691</b>	<b>7,500</b>	<b>6,883</b>	<b>2,141</b>	<b>754</b>	<b>151</b>	<b>151</b>	<b>149</b>

# Türkiye Garanti Bankası A.Ş. And Its Affiliates

## Notes to Consolidated Financial Statements 30 September 2000 And 31 December 1999

(As adjusted for the effects of inflation in TL unit current at 30 September 2000 pursuant to IAS 29)

### Note 24 - (Continued)

	31 December 1999 (Continued)												
	Garanti Sigorta A.Ş. TL billions	Garanti Financial Services TL billions	Garanti Yatırım Menkul Kıymetler A.Ş. TL billions	Clover Bank Off-Shore Ltd. TL billions	Garanti Hayat Sigorta A.Ş. TL billions	Garanti Bilişim Teknolojisi ve Tic. T. A. Ş. TL billions	Marmo S.A. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Şahintur Şahinler Otelcilik A.Ş. TL billions	Garanti Fund Management TL billions	CI Finance Ltd. TL billions	CI Investment Ltd. TL billions	Bosphorus Financial Services Ltd. TL billions
<b>ASSETS</b>													
Cash and due from banks	1,804	75	11	6,818	2,162	368	4,758	854	203	346	46	46	46
Interbank placings	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities	3,181	937	8,238	3,084	1,604	-	-	994	-	176	-	-	-
Loans, net	-	13,882	-	-	-	-	-	-	-	-	-	-	-
Accrued interest, prepaid expenses and other assets	11,901	53	1,358	116	3,660	3,362	-	1,231	20	20	48	48	48
Investments	1,689	-	225	-	2	3,454	-	-	2	4	67	67	67
Property and equipment, net	885	17	1,680	20	1,320	402	-	212	1,917	97	-	-	-
Intangible assets, net	-	-	-	-	-	10	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>19,460</b>	<b>14,964</b>	<b>11,512</b>	<b>10,038</b>	<b>8,748</b>	<b>7,596</b>	<b>4,758</b>	<b>3,291</b>	<b>2,142</b>	<b>643</b>	<b>161</b>	<b>161</b>	<b>161</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>													
Deposits	-	13,685	-	-	-	-	-	-	-	-	-	-	-
Interbank takings	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	-	-	2,887	-	-	-	-	-	-	-	-	-	-
Short-term bonds payable	-	-	-	6,294	-	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	16,666	203	1,775	411	4,544	1,474	24	1,049	-	281	7	7	7
Long-term debts	-	-	-	-	-	-	-	-	-	168	-	-	-
<b>Total Liabilities</b>	<b>16,666</b>	<b>13,888</b>	<b>4,662</b>	<b>6,705</b>	<b>4,544</b>	<b>1,474</b>	<b>24</b>	<b>1,049</b>	<b>-</b>	<b>449</b>	<b>7</b>	<b>7</b>	<b>7</b>
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Shareholders' Equity:-</b>													
Share capital	12,704	1,771	6,223	3,021	4,382	33,919	7,271	1,125	2,779	67	67	67	67
Legal reserves and retained earnings	(9,910)	(695)	627	312	(178)	(27,797)	(2,537)	1,117	(637)	127	87	87	87
<b>Total Shareholders' Equity</b>	<b>2,794</b>	<b>1,076</b>	<b>6,850</b>	<b>3,333</b>	<b>4,204</b>	<b>6,122</b>	<b>4,734</b>	<b>2,242</b>	<b>2,142</b>	<b>194</b>	<b>154</b>	<b>154</b>	<b>154</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>19,460</b>	<b>14,964</b>	<b>11,512</b>	<b>10,038</b>	<b>8,748</b>	<b>7,596</b>	<b>4,758</b>	<b>3,291</b>	<b>2,142</b>	<b>643</b>	<b>161</b>	<b>161</b>	<b>161</b>

# Türkiye Garanti Bankası A.Ş. And Its Affiliates

## Notes to Consolidated Financial Statements 30 September 2000 And 31 December 1999

(As adjusted for the effects of inflation in TL unit current at 30 September 2000 pursuant to IAS 29)

### Note 24 - (Continued)

	31 December 1999 (Continued)												
	Garanti Sigorta A.Ş. TL billions	Garanti Financial Services TL billions	Garanti Yatırım Menkul Kıymetler A.Ş. TL billions	Clover Bank Off-Shore Ltd. TL billions	Garanti Hayat Sigorta A.Ş. TL billions	Garanti Bilişim Teknolojisi ve Tic. T. A.Ş. TL billions	Marmo S.A. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Şahintur Şahinler Otelcilik A.Ş. TL billions	Garanti Fund Management TL billions	CI Finance Ltd. TL billions	CI Investment Ltd. TL billions	Bosphorus Financial Services Ltd. TL billions
<b>ASSETS</b>													
Cash and due from banks	1,804	75	11	6,818	2,162	368	4,758	854	203	346	46	46	46
Interbank placings	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities	3,181	937	8,238	3,084	1,604	-	-	994	-	176	-	-	-
Loans, net	-	13,882	-	-	-	-	-	-	-	-	-	-	-
Accrued interest, prepaid expenses and other assets	11,901	53	1,358	116	3,660	3,362	-	1,231	20	20	48	48	48
Investments	1,689	-	225	-	2	3,454	-	-	2	4	67	67	67
Property and equipment, net	885	17	1,680	20	1,320	402	-	212	1,917	97	-	-	-
Intangible assets, net	-	-	-	-	-	10	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>19,460</b>	<b>14,964</b>	<b>11,512</b>	<b>10,038</b>	<b>8,748</b>	<b>7,596</b>	<b>4,758</b>	<b>3,291</b>	<b>2,142</b>	<b>643</b>	<b>161</b>	<b>161</b>	<b>161</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>													
Deposits	-	13,685	-	-	-	-	-	-	-	-	-	-	-
Interbank takings	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	-	-	2,887	-	-	-	-	-	-	-	-	-	-
Short-term bonds payable	-	-	-	6,294	-	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	16,666	203	1,775	411	4,544	1,474	24	1,049	-	281	7	7	7
Long-term debts	-	-	-	-	-	-	-	-	-	168	-	-	-
<b>Total Liabilities</b>	<b>16,666</b>	<b>13,888</b>	<b>4,662</b>	<b>6,705</b>	<b>4,544</b>	<b>1,474</b>	<b>24</b>	<b>1,049</b>	<b>-</b>	<b>449</b>	<b>7</b>	<b>7</b>	<b>7</b>
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Shareholders' Equity:-</b>													
Share capital	12,704	1,771	6,223	3,021	4,382	33,919	7,271	1,125	2,779	67	67	67	67
Legal reserves and retained earnings	(9,910)	(695)	627	312	(178)	(27,797)	(2,537)	1,117	(637)	127	87	87	87
<b>Total Shareholders' Equity</b>	<b>2,794</b>	<b>1,076</b>	<b>6,850</b>	<b>3,333</b>	<b>4,204</b>	<b>6,122</b>	<b>4,734</b>	<b>2,242</b>	<b>2,142</b>	<b>194</b>	<b>154</b>	<b>154</b>	<b>154</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>19,460</b>	<b>14,964</b>	<b>11,512</b>	<b>10,038</b>	<b>8,748</b>	<b>7,596</b>	<b>4,758</b>	<b>3,291</b>	<b>2,142</b>	<b>643</b>	<b>161</b>	<b>161</b>	<b>161</b>