



Interim report

TO : INVESTMENT COMMUNITY
FROM : GARANTI BANK / Investor Relations
Tel: (90 212) 335 3150
Fax: (90-212) 286 0486
E-mail: investorrelations@garanti.com.tr
www.garantibank.com.tr

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On a consolidated and inflation adjusted basis total assets of Garanti Bank was up by 5.9% since year-end 2000 increasing to TL12,671,106 Billions (US\$13,199 Millions) as at March 31, 2001. The Bank recorded a loss before taxes of TL112,038 Billions (US\$117 Millions) due to unfavorable economic conditions. Net loss after extraordinary item and monetary loss was TL120,700 Billions (US\$126 Millions) during the first quarter of 2001.

I. Operating Performance

According to IAS 29 (consolidated and inflation adjusted) financial statements, Garanti Bank has released a net loss after minority interest and extraordinary item of TL120,700 Billions (US\$126 Millions) as of March 31, 2001 as compared to a net income of TL61,502 Billions (US\$64 Millions) on March 31, 2000. The fall in net interest income as a result of soaring cost of funding and lower non-interest income were the two main factors behind this result. The bank posted a net trading loss and a higher net foreign exchange loss due to the financial turmoil in February.

Due to the rising interest rates, interest income for Q1/2001 was TL958,294 Billions (US\$998 Millions), up by 46.5% in real terms over the figure in Q1/2000. The Bank achieved this by maintaining its net-lender position during the February crisis and also achieving strong growth in interest income from Turkish Lira and foreign currency loans as a result of higher interest rates. Interest on deposits at banks went up by 456.7% year-on-year to TL276,826 Billions (US\$288 Millions) and composed 28.9% of total interest income in March 31, 2001, in comparison with 7.6% in March 31, 2000. Similarly, interest income from loans grew by 130.6% to TL433,451 Billions (US\$452 Millions) in Q1/2001 as compared to TL187,933 Billions (US\$196 Millions) in Q1/2000. The share of interest on loans in total interest income also increased to 45.2% as of the same period as compared to 28.7% a year earlier and 41.9% at year-end 2000. Although the securities portfolio increased by 20.6% in real terms since March 31, 2000, interest on securities was 44.1% lower in Q1/2001 as a result of falling yields on government bills. Interest earned from securities, which constituted 23.9% of total interest income, was TL229,097 Billions (US\$239 Millions) as at March 31, 2001, whereas the same figure was TL409,772 Billions (US\$427 Millions) and made up 62.7% of total interest income in Q1/2000. However, on a quarterly basis interest income from securities was up by 178.2% as compared to Q4/00.

Total interest expenses increased by 160.4% to TL806,509 Billion (US\$840 Millions) on March 31, 2001 from TL309,763 Billions (US\$323 Millions) on March 31, 2000. Interest paid on total deposits, which constituted 83.1% of total interest expenses, rose by 187.6% to TL670,467 Billions (US\$698 Millions) as at March 31, 2001. This was due to rising cost of funding as well as expanding core deposit base, especially foreign currency deposits. Interest paid on saving, commercial and public deposits (core deposits) increased by 153.5% to TL307,780 Billions (US\$321 Millions) whereas interest paid on bank deposits increased by 224.7% to TL362,687 Billions (US\$378 Millions). Interest paid on bank deposits and core deposits composed 45.0% and 38.2% of total interest expenses in Q1/2001, respectively as compared to 36.1% and 39.2% in Q1/2000. In line with rising cost of foreign currency funding, interest on borrowings was also up by 110.2% in real terms since Q1/2000 to TL123,164 Billions (US\$128 Millions). However, the share of interest on borrowings in total interest expense went down to 15.3% as of March 31, 2001 from 18.9% a year ago.

Net interest income was TL151,785 Billions (US\$158 Millions) on March 31, 2001, indicating a 55.9% fall in comparison with TL344,265 Billions (US\$359 Millions) as at March 31, 2000. This drop in net interest income resulted in a net interest margin (NIM) of 6.3% at the current period, as compared to 9.4% in year-end 2000 and 17.2% in March 31, 2000. Accordingly, NIM after adjusting for foreign exchange losses was 2.5%, as compared to 13.9% in Q1/2000. Net interest income after provisions for possible loan losses decreased by 57.2% to TL139,740 Billions (US\$146 Millions) in Q1/2001.

Total other operating income (including trading account loss) decreased by 55.7% to TL60,398 Billions (US\$63 Millions) from TL136,347 Billions (US\$142 Millions) in Q1/2000. However, when netted with fees and commissions paid, trading account loss and income from sale of participations, net other operating income was calculated as TL80,742 Billions (US\$84 Millions) and up by 58.0% on a year-on-year basis. The Bank posted a net trading account loss of TL59,280 Billions (US\$62 Millions) as of March 31, 2001 as compared to an income of TL30,262 Billions (US\$32 Millions) a year earlier. As stated earlier in our bank-only financials, this is a reflection of falling bond prices and reduced trading activity in the capital markets during the first quarter of 2001 due to the financial turmoil. Net fees and commissions were TL25,465 Billions (US\$27 Millions) in Q1/2001, and was up by 0.9% on a year-on-year basis. As a result of higher contribution from other items as compared to the previous years, net fees and commissions constituted 31.5% of netted other operating income as compared to 49.4% a year earlier. Income from retail business (Tansa) was up by 26.7% year-on-year to TL18,031 Billions (US\$19 Millions). In addition, Garanti Insurance and Garanti Life Insurance, generated TL9,495 Billions (US\$10 Millions) of insurance income for the Bank, 62.0% above the figure in Q1/2000. In Q1/2001, income from retail and insurance businesses together was up by 37.0% as compared to a year earlier. Dividends received and other income, the two major income sources that compensated for the trading loss, reached TL27,751 Billion (US\$28 Millions) and were up by 381.5% year-on-year. The share of dividends received and other income in netted other operating income was 34.4% as of March 31, 2000, compared to 11.3% as in Q1/2000. Most of other income is coming from sale of fixed assets during the period.

Other operating expenses (excluding foreign exchange loss and fees and commissions expenses) increased by %21.0 to TL194,093 Billions (US\$202 Millions) on a year-on-year basis. However, on a quarterly basis the Bank managed to decrease its net operating expenses by 12.7% as compared to Q4/2000 as a result of the cost cutting measures taken since November crisis. Net foreign exchange losses were up by 64.4% to TL78,751 Billions (US\$82 Millions) as a result of the devaluation of the TL in February. Salaries and wages decreased by 3.5% to TL53,690 Billions (US\$56 Millions) and composed 27.7% of total net operating expenses at March 31, 2001, compared to 30.8% at year-end 2000. As of March 31, 2001, other non interest expenses went up by 65.0% to TL56,474 Billions (US\$59 Millions) and made up 29.1% of netted

operating expenses. This figure includes expenses related to “Garanti Payment Systems”, human resources related expenditures and operations. As a result of rising number of branches the depreciation and amortization expenses went up by 69.4% year-on-year to TL29,013 Billions (US\$30 Millions) as of Q1/2001. The Bank also paid TL16,167 Billions (US\$17 Millions) as impairment in value of investments as a result of the losses generated by unconsolidated affiliates.

The burden of the earthquake related taxes was TL12,960 Billions (US\$14 Millions) for the first quarter of 2001 as compared to TL76,495 Billions (US\$80 Millions) in Q1/2000. The one-time earthquake taxes were mostly covered in 2000 and this item will further fall in the coming quarters. Loss on net monetary position declined by 12.3% to TL39,650 Billions (US\$41 Millions). On March 31, 2001, Garanti posted a net loss of TL120,700 Billion (US\$126 Million) after adding TL21,061 Billion (US\$22 Million) as minority interest and TL22,887 Billion (US\$24 Million) as taxation credit on its loss before taxes figure of TL164,648 Billion (US\$172 Million).

II. Balance Sheet

Certain reclassifications have been made in the accompanying consolidated financial statements as at 31 December 2000 to conform with the current period presentation. Those reclassifications mainly relate to recognition of securities and obligation for repurchase transactions on the balance sheet, reclassification of securities to term deposits for resale transactions, lease receivables to loans and accrued interest on loans to accrued interest, prepaid expenses and other assets.

As at March 31, 2001, Garanti Bank’s total asset size reached TL12,671,106 Billions (US\$13,199 Millions), up by 5.9% in real terms over December 31, 2000. Cash and due from banks were TL1,163,473 Billions (US\$1,212 Millions), and interbank placements were TL544,909 Billions (US\$568 Millions) by the end of Q1/2001. Liquid assets to total assets ratio was 44.6% as at March 31, 2001, as compared to 45.1% in year-end 2000. Securities, which made up 31.2% of total assets, increased by 5.8% in real terms during the first quarter of 2001, to reach TL3,948,155 Billions (US\$4,113 Millions). As of December 31, 2000, securities were TL3,731,333 Billions (US\$3,887 Millions) and composed 32.1% of total assets. Trading portfolio composed 50.4% of the total securities portfolio. Securities pledged under repurchase agreements with customers were TL190,563 Billions (US\$199 Millions), down 69.8% from December 31, 2000’s figure of TL630,276 Billions (US\$657 Millions). Repurchase agreements declined to 1.5% of total assets, down from 5.3% on December 31, 2000.

Total cash loans were down slightly by 0.6% in real terms during the first quarter of 2001, decreasing to TL4,454,334 Billions (US\$4,640 Millions). Cash loans to total assets ratio was 35.2% as at March 31, 2001, down from 37.5% as at December 31, 2000. Non-performing loans to cash loans rose to 2.6% during the first quarter, up from 2.2% in year-end 2000. However, non-performing loans to total gross loans stood at 1.3% as of March 31, 2001. Allowances for loan losses to NPLs were 103.8% during the same period. Loans extended to industrial sector made up 40.3% of the total performing loans. This was followed by consumer loans and foreign trade loans, which composed 11.0% and 8.6% of the loans, respectively on March 31, 2001. Collateralization ratio of gross performing loans was 60.0% as at March 31, 2001. During the first quarter of 2001, cash loans extended to Dogus Group companies were 5.6% of total cash loans. Similarly, total cash and non-cash loans granted to group companies were 4.0% of total during the period.

On the funding side, share of deposits in total liabilities and shareholders’ equity rose to 50.6% during the first quarter of 2001, in comparison with 47.7% in 2000 year-end. Deposits were TL6,405,829 Billions (US\$6,673 Millions), up by 12.1% during the first three months of the year.

Demand deposits which made up 19.5% of total deposits were TL1,251,079 Billions (US\$1,303 Millions). Foreign currency deposits were TL3,604,816 Billions (US\$3,755 Millions), making up 56.3% of total deposits. Of the FC deposits, 28.4% was demand deposits whereas 8.2% of the TL deposits was demand deposits reflecting the growth in TL time deposits during the period. Obligations under repurchase agreements were TL191,582 Billions (US\$200 Millions). As of March 31, 2001, short-term borrowings were only down by 0.6% in real terms to TL2,424,993 Billions (US\$2,526 Millions). The share of total borrowing (including long-term borrowings) in total liabilities and shareholders' equity was 26.9%. Minority interest was TL15,990 Billions (US\$17 Millions). On March 31, 2001, leverage rate was 10.1x, in comparison with 8.4x during the year 2000. Total shareholders' equity was down by 9.5% in real terms during the first quarter of 2001, to TL1,146,570 Billions (US\$1,194 Millions). The ratio of total shareholders' equity to total assets was 9.0% as at March 31, 2001.

The share of foreign currency assets in total assets was 61.4% in Q1/2001, up from 54.6% in year-end 2000. Short position before derivative contracts was TL782,411 Billions (US\$815 Millions), down by 37.6% during the first quarter of the current year. After derivative contracts of TL506,242 Billions (US\$527 Millions), net short position on a consolidated and inflation adjusted basis was TL276,169 Billions (US\$288 Millions).

KEY RATIOS

	31.03.2001	31.12.2000	31.03.2000	31.12.1999
Asset Quality and Liquidity Ratios				
NPL / Cash Loans	2.6%	2.2%	1.8%	2.0%
NPL/ Cash +Non-Cash Loans	1.3%	1.2%	1.0%	1.1%
Allowance for Loan Losses/NPL	103.8%	123.8%	131.4%	103.2%
Deposits/Total Assets ⁽¹⁾	50.6%	47.7%	55.8%	48.1%
Cash Loans/Total Assets	35.2%	37.5%	31.4%	30.0%
Liquid Assets/Total Assets	44.6%	45.1%	46.4%	50.4%
Profitability Ratios				
NIM	6.3%	9.4%	17.2%	15.8%
Adjusted NIM	2.5%	7.4%	13.9%	11.0%
Return on Average Assets	-3.9%	1.6%	2.3%	1.9%
Return on Average Equity	-40.0%	15.2%	22.0%	18.2%
Non-interest Income / Total Operating Income ⁽²⁾	12.4%	39.4%	19.1%	26.7%
Other Operating Expense (excl. FX loss and extraordinary expenses)/Total Assets	6.3%	6.6%	6.1%	6.4%
Cost / Income ⁽³⁾	389.3%	59.9%	41.4%	52.3%
Cost / Income ⁽⁴⁾	419.9%	72.0%	63.5%	57.8%
Effective Tax Rate	13.9%	32.6%	47.2%	53.4%

(1) The assets and liabilities are re-adjusted including repurchase agreements. (Please see notes 3,3,5,7 and 14 in footnotes)

(2) Excluding income earned from sale of participations.

(3) Excluding the extraordinary items. (fees & comm. netted)

(4) Including the extraordinary items. (fees & comm. netted)

Turkiye Garanti Bankasi A.S. And Its Affiliates

**Consolidated Financial Statements
For The Three-Month Period Ended 31 March 2001
And The Year Ended 31 December 2000**

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Consolidated Balance Sheets At 31 March 2001 And 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

		31 March 2001	31 December 2000			31 March 2001	31 December 2000
ASSETS		<u>TL billions</u>	<u>TL billions</u>	LIABILITIES AND SHAREHOLDERS' EQUITY		<u>TL billions</u>	<u>TL billions</u>
Cash and due from banks	(Note 5)	1.163.473	1.571.224	Deposits	(Note 13)		
Interbank placings		544.909	94.412	Demand		1.251.079	1.207.673
Reserve deposits at Central Bank	(Note 6)	345.591	346.740	Time		<u>5.154.750</u>	<u>4.505.731</u>
Securities	(Note 7)	3.948.155	3.731.334	Interbank takings		6.405.829	5.713.404
Loans, advances and discounts, less allowance for possible losses	(Note 8)	4.454.334	4.481.996	Obligations under repurchase agreements	(Note 14)	751.576	368.722
Accrued interest, prepaid expenses and other assets	(Note 9)	1.160.996	679.324	Short-term borrowings	(Note 15)	191.582	643.881
Investments	(Note 10)	103.136	121.038	Short-term bonds payable	(Note 16)	2.424.993	2.439.925
Bank premises and equipment, net	(Note 11)	839.886	824.427	Taxation on income	(Note 17)	28.312	24.634
Intangible assets, net	(Note 12)	110.626	116.019	Current tax liability		42.143	34.973
				Deferred tax liability		<u>-</u>	<u>39.182</u>
				Accrued interest and other liabilities	(Note 18)	42.143	74.155
				Long-term debts	(Note 19)	<u>682.159</u>	617.654
				Total liabilities		11.508.546	10.664.194
				Minority interest		15.990	35.050
				Shareholders' equity (Note 20) :-			
				Share capital; authorized, issued and fully paid		933.052	933.052
				Retained earnings and reserves		<u>213.518</u>	<u>334.218</u>
				Total shareholders' equity		1.146.570	1.267.270
TOTAL ASSETS		<u>12.671.106</u>	<u>11.966.514</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>12.671.106</u>	<u>11.966.514</u>
				Commitments and contingencies	(Note 23)		

The accompanying notes form integral parts of these financial statements.

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Consolidated Statements Of Income
For The Three-Month Periods Ended 31 March 2001 And 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

	31 March 2001 <u>TL billions</u>	31 March 2000 <u>TL billions</u>
Interest income:-		
Interest on loans	433.451	187.933
Interest on deposits at banks	276.826	49.726
Interest on securities	229.097	409.772
Interest on financial leases	2.976	2.253
Others	15.944	4.344
Total interest income	<u>958.294</u>	<u>654.028</u>
Interest expenses:-		
Interest on bank deposits	362.687	111.685
Interest on saving, commercial and public deposits	307.780	121.419
Interest on borrowings	123.164	58.582
Interest on bonds	2.955	5.673
Others	9.923	12.404
Total interest expenses	<u>806.509</u>	<u>309.763</u>
Net interest income	151.785	344.265
Provision for possible loan losses (Note 8)	<u>(12.045)</u>	<u>(17.469)</u>
Net interest income after provision for possible loan losses	139.740	326.796
Other operating income:-		
Fees and commissions	64.797	49.171
Retail business income, net	18.031	14.236
Insurance business income, net	9.495	5.860
Income on sale of premises and equipment, net	6.813	516
Dividends received from affiliated companies	1.387	1.409
Income on sale of interests in consolidated affiliates, net (Note 1)	(396)	31.055
Trading account income, net	-	30.262
Other operating income	19.551	3.838
Total other operating income	<u>119.678</u>	<u>136.347</u>
Other operating expenses:-		
Foreign exchange loss, net	78.751	47.888
Trading account loss, net	59.280	-
Salaries and wages	53.690	55.644
Fees and commissions	39.332	23.931
Depreciation and amortization	29.013	17.124
Impairment in value of investments	16.167	-
Taxes and duties other than on income	14.961	9.569
Employee benefits	13.852	17.473
Rent expenses	8.985	7.094
Advertising expenses	6.975	8.403
EDP expenses	6.579	5.653
Saving deposits insurance fund	5.632	5.649
Utility expenses	2.226	3.720
Stationary expenses	1.314	1.117
Repair and maintenance expenses	1.258	1.544
Research and development expenses	992	2.525
Other operating expenses	32.449	24.864
Total other operating expenses	<u>371.456</u>	<u>232.198</u>
Income/(loss) before extraordinary item	<u>(112.038)</u>	<u>230.945</u>
Extraordinary item (Note 21)	<u>(12.960)</u>	<u>(76.495)</u>
Income/(loss) before monetary loss	<u>(124.998)</u>	<u>154.450</u>
Loss on net monetary position	<u>-39.650</u>	<u>-45.220</u>
Income/(loss) before taxes	<u>(164.648)</u>	<u>109.230</u>
Taxation (charge)/credit (Note 17)	<u>22.887</u>	<u>-51.583</u>
Net income/(loss) before minority interest	<u>(141.761)</u>	<u>57.647</u>
Minority interest	<u>21.061</u>	<u>3.855</u>
Net income/(loss) for the period	<u>(120.700)</u>	<u>61.502</u>
Weighted average number of shares with TL 500 value each; including those with TL 100 face value as expressed in terms of TL 500 face value (Notes 3.18 and 20)	<u>520.000.000.000</u>	<u>520.000.000.000</u>
Earnings/(loss) per share (Full TL amount)	<u>-232,12</u>	<u>118,27</u>

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 Three-Month Periods Ended 31 March 2001 And 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 to IAS 29)

	Share capital TL billions	Retained earnings and reserves		Total TL billions	Shareholders' equity TL billions
		Reserves TL billions	Unappropriated earnings TL billions		
Balances, 1 January 2000	933.052	27.305	127.580	154.885	1.087.937
Appropriation of retained earnings: Transfer to statutory and general banking reserves		15.730	-15.730		
Net income for the three-month period			61.502	61.502	61.502
Balances, 31 March 2000	933.052	43.035	173.352	216.387	1.149.439
Appropriation of retained earnings: Transfer to statutory and general banking reserves		1.261	-1.261		
Disposal of reserves of a consolidated affiliate sold during the year		-47	47		
ω Restatement effect of reserves in TL unit current at 31 March 2001		-9.233	9.233		
Net income for the nine-month period			117.831	117.831	117.831
Balances, 31 December 2000	933.052	35.016	299.202	334.218	1.267.270
Appropriation of retained earnings: Transfer to statutory and general banking reserves		21.851	-21.851		
Restatement effect of reserves in TL unit current at 31 March 2001		-4.747	4.747		
Net loss for the three-month period			-120.700	-120.700	-120.700
Balances, 31 March 2001	933.052	52.120	161.398	213.518	1.146.570

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 Three-Month Periods Ended 31 March 2001 And 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

	31 March 2001 TL billions	31 March 2000 TL billions
Cash flows from operating activities:-		
Net income/(loss) for the period	(120.700)	61.502
Components of net income not generating or using liquidity:-		
Taxation charge/(credit)	(22.887)	51.583
Minority interest	(21.061)	(3.855)
Impairment in value of investments	16.167	-
Recoveries on banking risks	(11.558)	-
Provision for possible loan losses	12.045	17.469
Provision for severance payment	600	3.959
Depreciation and amortisation	29.013	17.124
Provision for earthquake taxes	-	60.484
Change in accrued interest and other income	(302.109)	94.405
Change in accrued interest and other expense	90.173	54.085
Monetary loss effect of above corrections	(10.962)	(14.762)
Operating profit before changes in operating assets and liabilities	(341.279)	341.994
Decrease in obligations under repurchase agreements	(452.299)	130.799
Increase in deposits	692.425	431.392
Decrease in gross loans, advances and discounts	16.257	60.578
Increase in trading securities	(754.311)	(412.595)
Increase in term placements at banks	(12.478)	(363.087)
Increase in prepaid expenses and other assets	(209.311)	(35.046)
Decrease/(increase) in reserve deposits at Central Bank	1.149	-6.801
(Decrease)/increase in other liabilities	(12.038)	(51.182)
Income taxes paid	-	(92.899)
Net cash provided by/(used in) operating activities	-1.071.885	3.153
Cash flows from investing activities:-		
Decrease in investment securities-net	127.339	19.870
Increase in bank premises and equipment-net	-38.403	(33.195)
Proceeds from issuance of share capital to minorities	2.658	1.940
Net cash provided by/(used in) investing activities	91.594	-11.385
Cash flows from financing activities:-		
Increase/(decrease) in interbank takings	382.854	(76.649)
Decrease in short-term borrowings	(14.932)	(144.225)
Increase/(decrease) in short-term bonds payable	3.678	(32.817)
Increase/(decrease) in long-term debts	200.133	(14.442)
Dividend paid	-	(165)
Net cash provided by/(used in) financing activities	571.733	-268.298
Net decrease in cash and cash equivalents	-408.558	-276.530
Cash and cash equivalents at beginning of period	1.747.569	1.469.097
Cash and cash equivalents at end of period (Note 3.20)	1.339.011	1.192.567

The accompanying notes form integral parts of these financial statements.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements 31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

1 Activities and ownership

Turkiye Garanti Bankasi A.S. (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 224 branches dispersed throughout the country; 2 branches in Luxembourg and Malta; and 54 "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.S., a leasing company also established in late 1990; 100% ownership in Garanti Bilisim Teknolojisi ve Ticaret T.A.S., formerly named as Garanti Ticaret T.A.S.; a company engaged in EDP services mainly for banks; 100% ownership in Garanti Bank Moscow, a bank established in late 1996; 100% indirect ownership in Osmanli Bankasi A.S.; 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 Osmanli Bankasi A.S., through the Bank's subsidiaries in Malta and Luxembourg, in October 1999, this structure was ceased and the Bank directly acquired COIBV; together with Osmanli Bankasi A.S.; 95% ownership in Garanti Portfoy Yonetimi A.S., 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 Danismanlik A.S. a company acquired in February 1998; 100% ownership in Sahintur Sahinler Otelcilik Turz. Yat. Isl. A.S.; 99.99% ownership in Lasas Lastikleri San. ve Tic. A.S.; 29% ownership in and majority voting rights in the Board of Directors of Tansas Izmir Buyuksehir Belediyesi Ic ve Dis Ticaret A.S. (Tansas), a company engaged in the sale of consumer products throughout Turkey through its distribution network consisting of 201 supermarkets, acquired in January 1999; 83.33% ownership in Doc Finance S.A. acquired in February 1999; 75.78% ownership in Garanti Yatirim Menkul Kiyemetler A.S., a company engaged in providing brokerage and intermediary services in trading equity and debt securities, acquired in February 1999 and; 76.40% ownership in Dogus Hava Tasimaciligi A.S., 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.S., an insurance company engaged in mainly all the insurance branches except for life and health and Garanti Hayat Sigorta A.S, 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 Odeme Sistemleri A.S., a separate entity for the management of the Bank's credit card business with ownership of 100%. This affiliate is not consolidated in the accompanying financial statements as it did not have any material operations as at 31 March 2001 and 31 December 2000. Also in December 1999, the Bank and its affiliates contributed the share capital of a newly established joint venture between Volkswagen and Dogus Groups, namely "Volkswagen Dogus Tuketici Finansmani A.S.", by TL4,092 billions representing 38% of the issued capital; this company is mainly engaged in the financing of the customers for their purchases of Volkswagen branded cars. Equity method of accounting is applied for this associate in the accompanying consolidated financial statements.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 1 – (Continued)

On 18 February 2000, the Bank sold a 10% stake in Tansas 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 Danismanlik A.S., the aggregate ownership of 22.30% in Tansas, is still sufficient to provide the majority voting rights in the Board of Directors of this Company. The net profit of TL31,055 billions arising from this sale is reflected in "income on sale on interests in consolidated affiliates, net", in the accompanying consolidated statements of income for the three-month period ended 31 March 2000.

In July 2000, Osmanli Bankasi A.S., a consolidated affiliate, fully divested all its interest in Situr Turizm Temizlik Tasimacilik Organizasyon Bilgisayar Danismanlik Yapi Sanayi ve Ticaret A.S. (Situr). The net profit arising from this sale was TL3,754 billions.

In November 2000, Garanti Bilisim Teknolojisi ve Tic. T.A.S., a consolidated affiliate, sold its interest in Filiz Gida ve Degirmencilik A.S. and Dogus Insaat ve Ticaret A.S.. The net loss arising from this sale was TL2,944 billions.

In November 2000, Lasas Lastik San.ve Tic. A.S., a consolidated affiliate, sold its interest in Dogus Yapi San. A.S., Gucum Civata Tic. San. A.S. and Genoto Imalat ve San. A.S.. The net loss arising from this sale was TL316 billions.

In December 2000, the Bank fully divested all its interest in CI Finance Ltd. and CI Investments Ltd.. The net loss arising from this sale was TL24 billions.

In March 2001, Garanti Yatirim Menkul Kiyetler A.S. sold its interest in Iksir Uluslararası Elekt. Ticaret Bil.ve Hab.Hiz. A.S.. The net loss of TL396 billions arising from this sale is reflected in "income on sale of interests in consolidated affiliates, net", in the accompanying consolidated statements of income for the three-month period ended 31 March 2001.

The principal shareholders of the Bank are the Dogus Group and its holding company, Dogus Holding A.S., which currently holds 40.60% of the issued capital.

Dogus Holding A.S., Dogus Insaat ve Ticaret A.S., Dogus Otomotiv Sanayi ve Ticaret A.S. and Somtas Tarim ve Ticaret A.S. 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 Turkiye Garanti Bankasi A.S. 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 Dogus Group Companies and the individuals controlling this Group increased to 31.51%.

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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 2 – (Continued)

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 trading securities valued at market prices and 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 Board except for IAS39 ("Financial Instruments; Recognition and Measurement") (Note 26).

The restatement for the changes in the general purchasing power of the Turkish lira (TL) as at 31 March 2001 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms.

One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Such indices and conversion factors used to restate the accompanying financial statements at 31 March 2001 and 2000, and 31 December 2000 and 1999, are given below:-

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
31 March 2001	3,035.0	1.000
31 December 2000	2,626.0	1.156
31 March 2000	2,246.8	1.351
31 December 1999	1,978.5	1.534

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 of shareholders' equity are restated by applying the relevant (monthly, yearly average, year end) conversion factors.

For the restatement of transfers from retained earnings to share capital, the Bank transfers only up to the level of the restated amounts of such earnings 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 Bank's net monetary position is included in the statements of income as monetary gain or loss.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

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, and dividends received from equity investments which are generally recognised only when received. Certain commissions, such as those deriving from letters of guarantee and other banking services, are also usually recognised as income only when received.

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).

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 3 – (Continued)

3.2 Securities

Debt securities, primarily government bonds and treasury bills intended to be held for not more than one year (trading securities), are valued at their market prices, 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 intent to hold the security upto its maturity.

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".

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

Securities sold under sale and repurchase agreements (repos) are accounted for as a financing transaction and related assets are reflected in securities (Note 7) at their carrying values with corresponding counterparty liability reflected as obligations under repurchase agreements (Note 14). Securities purchased under agreements to resell (reverse repos) are reflected in term deposits at banks (Note 5). The difference between sale and repurchase price in repo transactions or purchase and resale price in reverse repo transactions is treated as interest and accrued evenly over the life of the transaction. Such transactions are short-term and mainly involve government securities.

3.4 Loans, advances and discounts

Loans and advances are stated at the principal amounts outstanding. 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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 3 – (Continued)

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.

Statutory and other regulatory loan loss reserve requirements that exceed the Bank's estimates for possible loan losses, are dealt with in the general banking reserve as an appropriation of retained earnings.

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

3.7 Depreciation

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

3.8 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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 3 – (Continued)

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 goodwill resulting from the indirect acquisition of 100% ownership in Osmanli Bankasi A.S. in 1996, the direct acquisition of 100% ownership in Ana Konut Danismanlik A.S. in 1998 and; 19% ownership in Tansas Izmir Buyuksehir Belediyesi Ic ve Dis Ticaret A.S., 83.33% ownership in Doc Finance S.A., 75.78% ownership in Garanti Yatirim Menkul Kiymetler A.S., 76.40% ownership in Dogus Hava Tasimaciligi A.S., 99.99% ownership in Garanti Sigorta A.S. and 100% ownership in Garanti Hayat Sigorta A.S. in 1999 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 Danismanlik A.S., 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.

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 Reserve for severance payments

Reserve for severance payments represent the present value of the estimated future probable obligation of the Bank arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government.

International Accounting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, 7% discount rate and 98% turnover rate to estimate the probability of retirement assumptions were used in the calculation of the total liability in the accompanying consolidated financial statements.

3.13 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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 3 – (Continued)

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 17).

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 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.

3.14 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 contracts (Note 23).

3.15 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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 3 – (Continued)

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

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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 3 – (Continued)

3.16 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.

3.17 Capital increase

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

3.18 Earnings per share

Earnings per share disclosed in the accompanying consolidated 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.

3.19 Reclassifications

Certain reclassifications have been made in the accompanying consolidated financial statements as at 31 December 2000 to conform with the current period presentation.

3.20 Reporting of cash flows

Cash and cash equivalents include only cash and due from banks, interbank placings and securities with original maturity periods of less than three months. Cash and cash equivalents as at 31 March 2001 and 2000, included in the accompanying consolidated statements of cash flows, are as follows:

	2001 <u>TL billions</u>	2000 <u>TL billions</u>
Cash and due from banks and interbank placings	1,287,280	923,637
Securities	<u>51,731</u>	<u>268,930</u>
	<u>1,339,011</u>	<u>1,192,567</u>

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

4 Related parties

For the purpose of this report, the Bank's principal shareholders and affiliates and the Dogus Group's (Note 1) non-financial and financial companies 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. As at 31 March 2001, interest rates applicable to foreign currency loans and deposits vary at ranges of 3.5-38% and 3-38%, and; for Turkish lira loans and deposits vary at ranges of 27-83% and 27-83% (31 December 2000: 3.5-30% and 2.7-40% and; for Turkish lira loans and deposits: 33-90% and 26-90%), respectively. Various commission rates are applied to transactions involving guarantees and commitments.

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

	31 March 2001 TL billions	31 December 2000 TL billions
Bank placements	<u>23,412</u>	<u>26,217</u>
Repurchase transactions	<u>355</u>	<u>11,169</u>
Loans granted	<u>247,182</u>	<u>158,333</u>
Bank takings	<u>6,081</u>	<u>4,452</u>
Deposits received	<u>64,824</u>	<u>29,215</u>
<u>Commitments and contingencies</u>		
Non-cash loans	105,468	97,320
Derivative transactions	<u>68,968</u>	<u>90,615</u>
	<u>174,436</u>	<u>187,935</u>
Fixed asset purchases	<u>-</u>	<u>3,148</u>
	Three-month period ended 31 March 2001 TL billions	Three-month period ended 31 March 2000 TL billions
Interest income	<u>9,053</u>	<u>18,609</u>
Interest expense	<u>4,800</u>	<u>1,059</u>

Turkiye Garanti Bankasi A.S. And Its Affiliates
Notes to Consolidated Financial Statements
31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

5 Cash and due from banks

Cash and due from banks comprise of the following:-

	31 March 2001			31 December 2000		
	Turkish Lira	Foreign Currency	Total	Turkish Lira	Foreign Currency	Total
Cash at branches	<u>13,732</u>	<u>68,822</u>	<u>82,554</u>	<u>27,820</u>	<u>40,069</u>	<u>67,889</u>
Due from banks-demand						
Central Bank of Turkey	39,321	146,416	185,737	4,490	106,971	111,461
Domestic banks	74	88	162	8,562	12,481	21,043
Foreign banks	-	<u>168,881</u>	<u>168,881</u>	<u>17</u>	<u>162,494</u>	<u>162,511</u>
	<u>39,395</u>	<u>315,385</u>	<u>354,780</u>	<u>13,069</u>	<u>281,946</u>	<u>295,015</u>
Due from banks-time						
Central Bank of Turkey	-	-	-	-	-	-
Domestic banks	72,000	46,446	118,446	825,091	5,936	831,027
Foreign banks	<u>6,611</u>	<u>601,082</u>	<u>607,693</u>	<u>46,180</u>	<u>331,113</u>	<u>377,293</u>
	<u>78,611</u>	<u>647,528</u>	<u>726,139</u>	<u>871,271</u>	<u>337,049</u>	<u>1,208,320</u>
Total cash and due from banks	<u>131,738</u>	<u>1,031,735</u>	<u>1,163,473</u>	<u>912,160</u>	<u>659,064</u>	<u>1,571,224</u>

As at 31 March 2001, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 4.5-28% per annum for foreign currency time deposits and 33-90% per annum for Turkish lira time deposits (31 December 2000: 4.27% and 30-145%, respectively).

As at 31 March 2001, TL11,604 billions (31 December 2000: TL62,461 billions) of term deposits at domestic banks are the funds lent against government securities received as collateral under contractual agreements to sell back (reverse repo) such securities at a predetermined sale price at the maturity dates.

As at 31 March 2001, demand deposits at foreign banks include blocked accounts of TL22,357 billions (31 December 2000: TL20,768 billions) against the securitisation transactions on cheques and credit card receivables.

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 4% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits.

Turkiye Garanti Bankasi A.S. And Its Affiliates
Notes to Consolidated Financial Statements
31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

7 Securities

Securities portfolios comprise of the following:-

	31 March 2001				31 December
	Face value TL billions	Book value TL billions	Interest rate range %	Latest maturity	2000 Book value TL billions
Trading portfolio					
Bonds issued by foreign institutions	717,361	902,303	-	2002	228,232
Gold	-	479,467	-	-	392,185
Government bonds floating rates	268,662	305,782	(a)	2002	12,075
Government bonds in Turkish lira	190,482	164,908	32.4-133.82	2002	411,865
Capital growth fund in Turkish lira	45,001	42,084	-	-	-
Treasury bills foreign currency	38,083	38,110	12.00	2001	-
Treasury bills Turkish lira	41,203	34,496	44.95-138.94	2001	2,531
Eurobonds	6,340	6,111	8.12-37.53	2030	5,330
Participating shares of mutual funds in foreign currency	-	-	-	-	416,108
Participating shares of mutual funds in Turkish lira	-	-	-	-	165,965
Others		<u>18,008</u>			<u>11,743</u>
Total trading portfolio		<u>1,991,269</u>			<u>1,646,034</u>
Investment portfolio					
Government bonds floating rates	856,820	880,335	(a)	2002	658,801
Eurobonds	410,777	416,546	7.25-15.00	2030	455,196
Government bonds in foreign currency	251,088	258,440	11.75-12.375	2030	276,466
Government bonds in Turkish lira	247,339	241,261	30.8-116.56	2002	641,588
Government bonds- CPI	68,000	68,000	(b)	2003	-
Euroyen	25,707	30,058	5.76-6	2002	24,138
Treasury bills	33,007	29,746	31.50-145	2001	18,961
Securities issued by foreign institutions	22,542	22,542	9.48-15	2005	-
Bonds issued by foreign governments	4,467	4,467	5.75-50	2007	3,524
Others		<u>5,491</u>			<u>6,626</u>
Total investment portfolio		<u>1,956,886</u>			<u>2,085,300</u>
Total		<u>3,948,155</u>			<u>3,731,334</u>

(a) The interest rate applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

(b) 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.

For the three month period ended 31 March 2001, net loss on securities transactions amounting to TL59,280 billions (31 March 2000: net gain of TL30,262 billions included in trading account income) in total is included in trading account loss.

As at 31 March 2001, unmatured interest accrued on securities amounting to TL98,336 billions (31 December 2000: TL61,993 billions) in total, is included in "other assets" (Note 9).

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 7 – (Continued)

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL190,563 billions (31 December 2000: TL630,276 billions).

The following table summarizes securities that were deposited as collaterals with respect to various banking transactions (foreign currency amounts in millions):

	31 March 2001		31 December 2000	
	Nominal	Carrying value	Nominal	Carrying value
Euroyens issued in JPY	JPY 2,000	JPY 2,294	JPY 1,976	JPY 2,333
TL equivalent	-	19,621	-	16,022
Eurobonds issued in Euro	-	-	EUR 26	EUR26
TL equivalent	-	-	-	19,022
Eurobonds issued in USD	USD 259	USD 259	USD 337	USD 352
TL equivalent	-	273,645	-	273,311
Deposited at Central Bank of Luxembourg	EUR 5	EUR 5	EUR 5	EUR 5
TL equivalent	-	3,849	-	3,257
Deposited at Central Bank of Turkey for foreign currency money market transactions	1,102,805	1,093,882	406,599	378,787
(coupon)	-	-	10,402	4,788
(coupon)	-	-	12,302	4,375
Deposited at the Istanbul Stock Exchange	8,034	6,926	34,608	31,510
(coupon)	8,644	623	2,312	351
(coupon)	-	-	9,990	720
Reserve requirements at Central Bank of Turkey	171,221	159,482	183,880	176,918
(coupon)	-	-	2,312	166
Deposited at Central Bank of Turkey for interbank transactions	122,718	104,521	158,267	156,134
Deposited at Clearing Bank (Takasbank)	75,552	69,269	81,844	87,920
Salomon Brothers Inc.	-	-	13,927	11,641
Lehman Brothers Ltd.	-	-	763	841
Stingray Ltd.	2,965	2,370	-	-
Deutsche Bank	4,247	3,396	-	-
		<u>1,737,584</u>		<u>1,165,763</u>

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

8 Loans, advances and discounts

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

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Industrial	1,753,877	1,636,410
Consumer loans	479,231	523,047
Foreign trade	375,555	317,962
Service sector	346,709	307,649
Construction	346,375	355,020
Financial institutions	294,157	394,946
Tourism	186,352	161,738
Agriculture	157,356	151,552
Transportation	100,944	106,072
Domestic commerce	42,266	32,777
Media	28,518	25,680
Others	<u>242,306</u>	<u>378,831</u>
Total performing loans	4,353,646	4,391,684
Non-performing loans	<u>117,499</u>	<u>102,126</u>
Total gross loans	4,471,145	4,493,810
Financial lease receivables, net	105,119	114,656
Allowance for possible losses	<u>(121,930)</u>	<u>(126,470)</u>
Loans, advances and discounts	<u>4,454,334</u>	<u>4,481,996</u>

As at 31 March 2001, loans given to customers have interest rates between 3.5-38% (31 December 2000: 3.2-30%) per annum for foreign currency loans and 27-106.2% (31 December 2000: 21.7-103.6%) per annum for Turkish lira loans.

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

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Collateralized loans	2,611,866	2,958,458
Uncollateralized loans	<u>1,741,780</u>	<u>1,433,226</u>
	<u>4,353,646</u>	<u>4,391,684</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.

Turkiye Garanti Bankasi A.S. And Its Affiliates
Notes to Consolidated Financial Statements
31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 8 – (Continued)

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.

Movements in the allowance account during the three-month period ended 31 March 2001 and the year ended 31 December 2000, are as follows:-

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Balance, beginning of period/year	126,470	72,223
Restatement effect of the beginning balance and current period provision	(15,252)	(21,296)
Write-offs	(693)	(10,026)
Recoveries (reversals related to collection of prior periods' provisions credited to other income)	(65)	(2,014)
Provision for the period/year	<u>11,470</u>	<u>87,583</u>
Balance, end of period/year	<u>121,930</u>	<u>126,470</u>

The loans, advances and discounts include financial lease receivables, which may be analysed as follows:-

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Financial lease receivables, gross:-		
Not later than 1 year	141,726	75,078
Later than 1 year and not later than 5 years	-	68,572
Later than 5 years	-	-
	<u>141,726</u>	<u>143,650</u>
Unearned income	<u>(36,607)</u>	<u>(28,994)</u>
Financial lease receivables, net	<u>105,119</u>	<u>114,656</u>

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

9 Accrued interest, prepaid expenses and other assets

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

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Accrued interest on loans	343,685	166,644
Assets held for resale (a)	161,568	132,879
Miscellaneous receivables	124,799	37,738
Accrued interest on due from banks and similar items	106,736	56,383
Accrued interest on securities	98,336	61,993
Retail business stocks	51,465	46,105
Prepaid expenses, insurance claims and similar items	46,862	48,454
Taxes and funds to be refunded	40,757	9,460
Insurance premium receivables	32,125	32,959
Accrued exchange gain on derivatives	20,084	11,460
Advances for foundation of investment funds	10,528	14,605
Advances for fixed asset purchases	9,058	3,441
Purchased cheques	6,654	10,317
Others	<u>108,339</u>	<u>46,886</u>
	<u>1,160,996</u>	<u>679,324</u>

(a) Assets held for resale comprise of real-estate acquired by the Bank against its overdue receivables. Such assets are required to be disposed within three years following their acquisitions per the Turkish Banking Law. This legal period can be extended upon receiving legal permission.

10 Investments in affiliated companies

The Bank holds investments in the following companies:-

	<u>31 March 2001</u>		<u>31 December 2000</u>	
	<u>Carrying value TL billions</u>	<u>Ownership %</u>	<u>Carrying value TL billions</u>	<u>Ownership %</u>
Garanti Turizm ve Yatirim Isl. A.S.	24,090	44.89	23,017	44.89
Iksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. A.S.	24,037	43.50	26,685	48.50
Petrotrans Nakliyat ve Ticaret A.S.	23,264	100.00	23,264	100.00
Dogus Turizm Saglik Yatirim Isl. Tic. A.S.	14,777	40.00	14,777	40.00
Aktif Finans Factoring Hizmetleri A.S.	11,829	19.56	11,829	19.56
Sinai Yatirim Bankasi A.O.	11,117	8.00	11,117	8.00
Others	<u>10,189</u>		<u>10,349</u>	
	119,303		121,038	
Impairment in value of investments	<u>(16,167)</u>		-	
	<u>103,136</u>		<u>121,038</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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 10 – (Continued)

The Bank had previously made available loans to Petrotrans Nakliyat Ticaret A.S.(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 – 31 March 2001 is as follows:-

	1 January TL billions	Additions TL billions	Disposals TL billions	31 March TL billions
Costs				
Land and buildings	448,572	12,129	31,689	429,012
Furniture, fixture and equipments	501,095	43,201	4,058	540,238
Leasehold improvements	<u>174,093</u>	<u>5,094</u>	<u>1</u>	<u>179,186</u>
	1,123,760	60,424	35,748	1,148,436
Less: Accumulated depreciation				
Land and buildings	49,471	1,815	1,344	49,942
Furniture, fixture and equipments	262,760	13,880	2,680	273,960
Leasehold improvements	<u>71,044</u>	<u>7,231</u>	<u>-</u>	<u>78,275</u>
	383,275	22,926	4,024	402,177
Construction in progress	<u>83,942</u>			<u>93,627</u>
	<u>824,427</u>			<u>839,886</u>

Depreciation expense for the three-month period ended 31 March 2001 amounts to TL22,926 billions (31 March 2000: TL16,441 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 Osmanli Bankasi A.S. in June 1996 and; the direct acquisitions of 19% ownership in and majority voting rights in the Board of Directors of Tansas Izmir Buyuksehir Belediyesi Ic ve Dis Ticaret A.S., 83.33% ownership in Doc Finance S.A., 75.78% ownership in Garanti Yatirim Menkul Kiyemetler A.S., 76.40% ownership in Dogus Hava Tasimaciligi A.S., 99.99% ownership in Garanti Sigorta A.S. and 100% ownership in Garanti Hayat Sigorta A.S. in 1999, and consists of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

As at 31 March 2001, goodwill is amortised on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL110,626 billions (31 December 2000: TL116,019 billions), net of accumulated amortisation, in the accompanying consolidated balance sheets.

Turkiye Garanti Bankasi A.S. And Its Affiliates
Notes to Consolidated Financial Statements
31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

13 Deposits

Deposits comprise of the following:-

	31 March 2001			31 December 2000
	Demand TL billions	Time TL billions	Total TL billions	Total TL billions
Foreign currency	1,022,501	2,582,315	3,604,816	3,316,526
Interbank (a)	10,086	1,277,730	1,287,816	1,346,604
Saving	69,650	761,693	831,343	634,561
Commercial	137,650	454,155	591,805	385,246
Public and other	11,192	78,857	90,049	30,467
	<u>1,251,079</u>	<u>5,154,750</u>	<u>6,405,829</u>	<u>5,713,404</u>

(a) Interbank deposits include both TL accounts of TL957,668 billions (31 December 2000: TL818,416 billions) and foreign currency accounts of TL330,148 billions (31 December 2000: TL528,188 billions).

As at 31 March 2001, interest rates applicable to Turkish lira deposits and foreign currency deposits vary at ranges of 27-87% and 3-20% (31 December 2000: 26-110% and 2.5-40%), respectively.

14 Obligations under repurchase agreements

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations for repurchase agreements. As at 31 March 2001, the maturities and interest rates of the obligations are within one month and between 8.5% and 213.86% (31 December 2000: 8.17-250%), respectively.

15 Short-term borrowings

Short-term borrowings comprise of the following:-

	31 March 2001 TL billions	31 December 2000 TL billions
Domestic banks	140,664	425,034
Foreign banks	<u>2,284,329</u>	<u>2,014,891</u>
	<u>2,424,993</u>	<u>2,439,925</u>

As at 31 March 2001, short-term borrowings from foreign banks included a syndicated pre-export credit facility available to Turkish exporters in the amount of EUR350 millions provided by thirtyfour international banks, signed in March 2001 for one-year through the arrangement of eighteen foreign banks. There was also a one-year pre-export loan facility in the amount of USD400 millions signed in July 2000 for one year and provided by sixtyfour international banks. The Bank completed the renewal of a 364-day Direct Pay Letter of Credit ve Reimbursement Facility in support of its US Commercial Paper Program for USD225 millions with the participation of twentyfive banks from twelve countries in October 2000 for one year.

In May 2000, Osmanli Bankasi A.S., 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; a club loan facility in the amount of USD120 millions provided by sixteen international banks through the agency of Deutsche Bank AG Luxembourg and maturing on 26 October 2001.

Turkiye Garanti Bankasi A.S. And Its Affiliates
Notes to Consolidated Financial Statements
31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

16 Short-term bonds payable

Short-term bonds payable comprise of the following:-

	31 March 2001			31 Decemcer 2000
	Amount in original currency in millions	Interest rates %	TL billions	TL billions
Indenture notes	USD 29	Libor+2	27,600	22,146
Other bonds			<u>712</u>	<u>2,488</u>
			<u>28,312</u>	<u>24,634</u>

As at 31 March 2001, accrued interest on bonds payable amounting to TL1,181 billions (31 December 2000: TL4,235 billions) in total is included in "other interest and expense accruals" (Note 18).

17 Taxation

As at 31 March 2001 and 31 December 2000, 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 is authorised to determine this income tax rate up to the level of 25%, contribution to state fund is 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.

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.

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:-

	31 March 2001		31 March 2000	
	TL billions	%	TL billions	%
Taxes on income per statutory tax rate	(54,334)	33.00	36,045	33.00
Income items exempt from tax or subject to different tax rates	(66,611)	40.46	(45,952)	(42.07)
Permanent differences relating to the restatement of non-monetary items per IAS29	63,798	(38.75)	45,341	41.51
Effect of permanent differences on consolidation adjustments	37,792	(22.95)	19,308	17.68
Effect of different tax rates applicable to the consolidated affiliates	(8,814)	5.35	(3,490)	(3.20)
Disallowable expenses	<u>5,282</u>	<u>(3.21)</u>	<u>331</u>	<u>0.30</u>
Taxation charge/(credit)	<u>(22,887)</u>	<u>13.90</u>	<u>51,583</u>	<u>47.22</u>

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 17 – (Continued)

The taxation charge/(credit) comprise the following items:-

	31 March 2001 <u>TL billions</u>	31 March 2000 <u>TL billions</u>
Current taxes	10,535	14,100
Deferred taxes	<u>(33,422)</u>	<u>37,483</u>
Taxation charge/(credit)	<u>(22,887)</u>	<u>51,583</u>

In accordance with the related regulation for prepaid taxes on income, such advance 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 quarter of 2001 and the year of 2000 are shown below:-

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Provision for current taxes payable on income before deductions	(22,887)	77,173
Add: Taxes carried forward	31,918	11,868
Add/(less): Deferred tax assets/liabilities	33,422	(48,830)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 31 March 2001	<u>(310)</u>	<u>(5,238)</u>
Taxes payable on income	<u>42,143</u>	<u>34,973</u>

Deferred tax assets and liabilities as at 31 March 2001 and 31 December 2000 are attributable to the items detailed in the table below:-

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Deferred tax assets		
Tax losses carried forward	93,496	25,306
Specific and general allowance for loan losses	22,570	22,528
General provision for banking and leasing risks	2,237	6,322
Capitalised expenses and leasing obligations	14,430	4,600
Reserve for retirement pay	2,914	3,030
Others	<u>8,172</u>	<u>2,442</u>
Total deferred tax assets	<u>143,819</u>	<u>64,228</u>
Deferred tax liabilities		
Restatement of non-monetary items per IAS 29	83,482	61,249
Accrued interests and foreign exchange gains on securities	53,646	38,159
Others	<u>3,836</u>	<u>4,002</u>
Total deferred tax liabilities	<u>140,964</u>	<u>103,410</u>
Net deferred tax (assets)/liabilities	<u>(2,855)</u>	<u>39,182</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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

18 Accrued interest and other liabilities

The principal components of these captions are as follows:-

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Accrued interest on deposits	183,043	104,414
Transfer orders	156,288	89,269
Miscellaneous payables	91,736	139,509
Accrued interest on borrowings	77,833	69,253
Withholding taxes	29,616	41,310
Blocked accounts	25,845	19,187
Insurance technical provisions	22,007	24,140
Payables to insurance and reinsurance companies relating to insurance operations	21,841	18,588
Interest and expense accruals other than on deposits and borrowings	14,886	11,922
Reserve for severance payment	10,030	12,083
Payables to suppliers relating to financial leasing activities	8,128	11,969
General provision for non-cash loans	4,545	4,564
General provision for banking risks	-	11,558
Others	<u>36,361</u>	<u>59,888</u>
	<u>682,159</u>	<u>617,654</u>

19 Long-term debts

Long-term debts comprise of the following:-

	31 March 2001				31 December 2000		
	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	
<u>Funds from financial institutions:</u>							
Pera Financial Services Company	9.375	2002	USD 246	-	235,844	189,243	
TPR Securitisation-I	9	2004	USD 161	41,981	112,217	98,799	
Anatolia Finance Company	7.48	2004	USD 128	16,800	105,740	86,274	
TPR Securitisation-II	8.75-Eurolibor+4	2004	EUR 100	-	93,251	71,490	
International Finance Corporation	8.65	2005	USD 82	19,210	67,235	56,465	
International Finance Corporation	8.59-Libor+2.5	2004	USD 73	20,072	50,183	48,320	
International Finance Corporation	Libor+3.375	2004	USD 4	1,134	2,835	2,157	
First Fidelity Bank	7.83	2002	USD 40	22,971	15,466	14,346	
First Fidelity Bank	7.83-9.75	2002	USD 9	2,882	5,786	5,166	
Credit Suisse	2.45	2010	USD 30	569	30,048	21,841	
ABN Amro Bank	4-6.3	2004	NLG 69	-	26,326	23,412	
DEG	7.7	2004	EUR 15	-	12,702	10,750	
DEG	Fibor+3.5	2002	DEM 4	691	1,037	823	
Others				22,169	180,638	111,650	
<u>Bonds:</u>							
Bearer notes	8	2003	EUR 48	-	40,436	34,218	
Indenture notes	Libor+2	2002	USD 31	<u>27,600</u>	<u>2,208</u>	<u>6,865</u>	
				<u>176,079</u>	<u>981,952</u>	<u>781,819</u>	

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 19 – (Continued)

Short-term portions of funds from financial institutions and bonds are classified under short-term borrowings (Note 15) and short-term bonds payable (Note 16), 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 (SPC) organized under the laws of the Cayman Islands for the amount of USD175 millions. The SPC sold to the Bank of New York, as trustee of the Credit Cards Receivables Trust 1998 - I (the Trust), which issued the trust certificates amounting to USD175 millions in total pursuant to the Trust Agreement dated 3 February 1998 between the SPC and the Bank of New York as trustee. The trust certificates will be repaid in the period from March 1998 to December 2004 on a quarterly basis. The property of the Trust includes, among other things, (i) the right to receive a specified amount of current and future US Dollar amounts owed or to be owed by Visa, MasterCard and Europay to or for the account of Türkiye Garanti Bankası A.Ş., in respect of credit and debit card merchant voucher receivables generated by the usage in Turkey of Visa, MasterCard and Europay credit cards issued by non-Turkish financial institutions and acquisition of such voucher receivables by the Bank for processing and payment by Visa, MasterCard and Europay in accordance with their respective collection and settlement systems, subject to the pari-passu rights of the holders of the Prior Certificates, (ii) or funds collected or to be collected in respect of such receivables, (iii) or other payments by any other person in respect thereof and (iv) certain money on the deposit in certain accounts of the Trust.

The Bank borrowed USD115 millions as a 7-year private placement bond issue maturing at 2004. 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.

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

Note 19 – (Continued)

An aggregate principle amount of USD100 millions was extended by International Finance Corporation (IFC) as a loan to Osmanli Bankasi A.S., 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 Osmanli Bankasi-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, Osmanli Bankasi A.S., 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 EUR81 millions and EUR19 millions. The TPR Securitisation-II securitises Osmanli Bankasi A.S.'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 represent Euro notes bearing 8% interest per annum and 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, on 21 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.

20 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 and includes transfers from retained earnings in the amount of TL401,924 billions as at 31 March 2001 and 31 December 2000.

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 at their historical amounts.

Turkiye Garanti Bankasi A.S. And Its Affiliates
Notes to Consolidated Financial Statements
31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

21 Extraordinary item

Late 1999, Turkish Government has imposed 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.

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, in the accompanying consolidated statements of income for the three-month period ended 31 March 2001, the Bank charged TL12,960 billions (31 March 2000: TL76,495 billions) for these taxes on accrued interest on government securities as "extraordinary item". As at 31 March 2001 and 31 December 2000, there is no unpaid portion of such taxes classified under "accrued interest and other liabilities" in the accompanying consolidated balance sheets (Note 18).

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements 31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL unit current at 31 March 2001 pursuant to IAS 29)

22 Maturity profiles

The maturity profiles of monetary assets and liabilities as at 31 March 2001 and 31 December 2000 were summarised as follows:-

	31 March 2001						31 December 2000					
	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
MONETARY ASSETS												
Turkish Lira												
Cash and due from banks	112.938	14.317	2.983	1.500	-	131.738	867.565	29.973	13.466	1.157	-	912.161
Interbank placings	395.500	-	-	-	-	395.500	-	-	-	-	-	-
Reserve deposits at Central Bank	55.266	-	-	-	-	55.266	39.944	-	-	-	-	39.944
Securities	66.131	221.659	68.383	669.941	748.224	1.774.338	66.917	370.395	262.418	271.496	947.736	1.918.962
Loans, advances and discounts	473.586	178.136	81.844	47.388	108.402	889.356	362.315	247.553	244.464	191.264	191.303	1.236.899
Other assets	160.116	105.925	82.567	133.283	82.742	564.633	86.431	64.368	28.346	45.511	37.382	262.038
Total Turkish Lira assets	1.263.537	520.037	235.777	852.112	939.368	3.810.831	1.423.172	712.289	548.694	509.428	1.176.421	4.370.004
Foreign currency												
Cash and due from banks	909.957	37.649	15.002	65.748	3.379	1.031.735	574.027	31.015	19.310	28.475	6.236	659.063
Interbank placings	149.409	-	-	-	-	149.409	94.412	-	-	-	-	94.412
Reserve deposits at Central Bank	290.325	-	-	-	-	290.325	306.796	-	-	-	-	306.796
Securities	552.304	33.384	-	869.981	718.148	2.173.817	267	235.400	15.755	283	1.560.667	1.812.372
Loans, advances and discounts	468.186	612.670	626.487	1.055.646	806.420	3.569.409	251.724	517.192	951.229	877.065	672.231	3.269.441
Other assets	44.650	42.887	28.589	56.244	114.283	286.653	33.394	28.308	50.104	36.599	28.542	176.947
Total foreign currency assets	2.414.831	726.590	670.078	2.047.619	1.642.230	7.501.348	1.260.620	811.915	1.036.398	942.422	2.267.676	6.319.031
Total Monetary Assets	3.678.368	1.246.627	905.855	2.899.731	2.581.598	11.312.179	2.683.792	1.524.204	1.585.092	1.451.850	3.444.097	10.689.035
MONETARY LIABILITIES												
Turkish Lira												
Deposits	2.379.973	66.718	11.325	9.494	188	2.467.698	1.384.717	418.306	40.445	12.450	163	1.856.081
Interbank takings	-	-	-	-	-	-	82.925	-	-	-	-	82.925
Obligations under repurchase agreements	65.070	-	-	500	-	65.570	435.110	-	-	-	-	435.110
Short-term borrowings	3.500	27.988	2.187	4	-	33.679	34.834	2.930	2.840	6	-	40.610
Short-term bonds payable	212	500	-	-	-	712	1.615	873	-	-	-	2.488
Long-term debts	-	-	-	-	37	37	-	-	-	-	49	49
Other liabilities	110.484	55.948	33.356	20.818	159.661	380.267	161.447	50.571	27.829	23.411	193.572	456.830
Total Turkish Lira liabilities	2.559.239	151.154	46.868	30.816	159.886	2.947.963	2.100.648	472.680	71.114	35.867	193.784	2.874.093
Foreign currency												
Deposits	3.277.201	215.081	175.160	190.892	79.797	3.938.131	3.192.305	407.266	79.796	121.661	56.295	3.857.323
Interbank takings	751.576	-	-	-	-	751.576	285.797	-	-	-	-	285.797
Obligations under repurchase agreements	126.012	-	-	-	-	126.012	208.771	-	-	-	-	208.771
Short-term borrowings	284.734	754.493	569.370	782.717	-	2.391.314	773.620	497.241	382.082	746.372	-	2.399.315
Short-term bonds payable	2.208	-	6.348	19.044	-	27.600	5.093	-	1.772	15.281	-	22.146
Long-term debts	-	-	-	-	981.915	981.915	-	-	-	-	781.770	781.770
Other liabilities	156.255	33.972	23.853	55.048	74.098	343.226	67.103	18.315	14.819	43.213	90.700	234.150
Total foreign currency liabilities	4.597.986	1.003.546	774.731	1.047.701	1.135.810	8.559.774	4.532.689	922.822	478.469	926.527	928.765	7.789.272
Total Monetary Liabilities	7.157.225	1.154.700	821.599	1.078.517	1.295.696	11.507.737	6.633.337	1.395.502	549.583	962.394	1.122.549	10.663.365

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

23 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.

Commitments and contingent liabilities arising in the ordinary course of business comprise of the following items:-

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Letters of guarantee	3,041,343	2,475,385
Letters of credit	1,012,496	997,623
Acceptance credits	310,401	233,927
Other guarantees and endorsements	<u>61,465</u>	<u>44,389</u>
	<u>4,425,705</u>	<u>3,751,324</u>

As at 31 March 2001, commitment for uncalled capital of affiliated companies amounts approximately to TL133 billions (31 December 2000: TL6,179 billions).

As at 31 March 2001, commitment for purchase and sale of foreign currencies under spot, forward, swap, future rate agreements (FRA) or options and for gold trading amounts to TL3,997,745 billions (31 December 2000: TL3,892,988 billions), almost all due within one year.

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

	<u>31 March 2001</u>		<u>31 December 2000</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	74,033	82,220	168,879	101,677
Swap agreements for customer dealing activities	147	9,315	7,250	8,012
Spot foreign currency transactions for customer dealing activities	4,234	-	51,550	15
Forward agreements for hedging purposes	1,004,286	987,565	1,398,307	733,564
Forward agreements for gold trading	-	7,458	-	3,368
Currency swap agreements for hedging purposes	406,507	160,698	314,637	760,964
Interest rate swap agreements for hedging purposes	3,701	3,924	2,796	3,148
FRAs	208,185	-	36,967	84,349
Options	508,800	92,667	167,044	-
Spot foreign currency transactions	<u>256,683</u>	<u>187,322</u>	<u>36,467</u>	<u>13,994</u>
	<u>2,466,576</u>	<u>1,531,169</u>	<u>2,183,897</u>	<u>1,709,091</u>

Turkiye Garanti Bankasi A.S. And Its Affiliates

Notes to Consolidated Financial Statements

31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

24 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):-

	31 March 2001 <u>TL billions</u>	31 December 2000 <u>TL billions</u>
Cash and due from banks and interbank placings	1,181,144	753,475
Reserve deposits at Central Bank	290,325	306,796
Securities	2,173,817	1,812,372
Loans, advances and discounts, less allowance for possible losses	3,568,301	3,269,825
Other assets	<u>564,538</u>	<u>391,975</u>
	7,778,125	6,534,443
Funding sources	8,217,366	7,554,433
Other liabilities	<u>343,170</u>	<u>234,119</u>
	8,560,536	7,788,552
Short position before derivative contracts	(782,411)	(1,254,109)
Derivative contracts (a)	<u>506,242</u>	<u>945,381</u>
Net short position	<u>(276,169)</u>	<u>(308,728)</u>

(a) As at 31 March 2001, the Bank hedged a portion of its short position amounting to 782,411 billions (31 December 2000: 1,254,109 billions) at TL equivalents by forward contracts almost all maturing in one year which represent total net commitment to buy approximately USD527 millions (US dollar equivalent of TL506,242 billions at exchange rate prevailing on 31 March 2001) (31 December 2000: USD1,227 millions) at varying exchange rates indicated in the corresponding contracts.

The major currencies included above are US Dollar, Euro, 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 %253.6 for the three years ended 31 March 2001. The Russian Roubles denominated net assets as included in the above table at their TL equivalents at 31 March 2001 amounted to 24,949 billions (31 December 2000: 49,798 billions).

For the three-month period ended 31 March 2001, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to USD21,224 millions (for the year ended 31 December 2000: USD83,071 millions).

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements 31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL unit current at 31 March 2001 pursuant to (AS 29))

25 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 İç ve Dış Ticareti A.Ş., Doğu Hava Taahhütlüğü A.Ş., Ana Konut Danışmanlık A.Ş., D Garanti Bank Moscow, Clover Bank Off-Shore Ltd., Garanti Sigorta A.Ş., Clover Investment Ltd., Garanti Financial Services plc., Instruments Finance Company, Lasas Lastik San. ve Tic.A.Ş., Garanti Yatırım Menkul Kıymetler A.Ş., Garanti Hayat Sigorta A.Ş., Mamo S.A., Garanti Pk Garanti Bilişim Teknolojisi ve Ticaret T.A.Ş., Şahinler Otelleri A.Ş., Garanti Fund Management, Bosphorus Financial Services Ltd. are consolidated in the accompanying financial statements. The summarised balance sheets of these affiliates at 31 March 2001 and 31 December 2000 are as follows:-

	31 March 2001										
	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	Doğu Hava Taahhütlüğü A.Ş. TL billions	Ana Konut Danışmanlık A.Ş. TL billions	D.O.C Finance S.A. TL billions	Garanti Bank Moscow TL billions	Clover Bank Off-Shore Ltd. TL billions	Garanti Sigorta A.Ş. TL billions	Clover Investment Ltd. TL billions
ASSETS											
Cash and due from banks	135,541	336,632	40,899	2,067	175	613	366	32,704	1,495	4,862	32,900
Interbank placings	316,909	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	88,042	-	-	-	-	-	-	-	-	-	-
Securities	1,876,341	50,328	16,078	-	-	4,650	-	-	33,209	6,853	-
Loans, advances and discounts - net	865,106	843,848	145,654	-	-	-	60,425	16,728	2,544	-	-
Accrued interest, prepaid expenses and other assets	158,474	12,975	24,800	85,184	33,122	3,420	2,215	3,131	14,452	32,902	960
Investments	27,843	114	1,585	430	5	282	-	-	-	2,125	10,400
Property and equipment, net	150,244	28,833	1,921	119,253	76,091	67,771	14	1,370	25	949	-
Intangible assets, net	69,515	-	-	-	-	-	-	-	-	-	-
Total Assets	3,688,015	1,272,730	230,937	206,934	109,393	76,736	63,020	53,933	51,725	47,691	44,260
LIABILITIES AND SHAREHOLDERS' EQUITY											
Deposits	1,864,497	958,089	-	-	-	-	-	24,139	23,962	-	-
Interbank takings	349,100	-	-	-	-	-	-	-	-	-	-
Obligations under repurchase agreements	16,829	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	928,165	6,592	107,532	92,891	14,715	1,030	12,427	-	-	-	-
Short-term bonds payable	-	-	-	-	-	-	-	-	712	-	-
Accrued interest and other liabilities	111,647	75,768	19,962	80,565	7,421	4,080	2,925	5,533	11,841	39,985	3,509
Long-term debts	165,024	109,143	80,414	44,603	70,675	19,944	43,338	-	-	-	39,733
Total Liabilities	3,435,262	1,149,592	207,908	218,059	92,811	25,054	58,690	29,672	36,515	39,985	43,242
Minority Interest	12,637	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-											
Share capital	178,662	72,728	26,507	26,764	50,413	71,302	6,661	20,798	4,320	18,680	288
Legal reserves and retained earnings	61,454	50,410	(3,478)	(37,889)	(33,831)	(19,620)	(2,331)	3,463	10,890	(10,974)	730
Total Shareholders' Equity	240,116	123,138	23,029	(11,125)	16,582	51,682	4,330	24,261	15,210	7,706	1,018
Total Liabilities and Shareholders' Equity	3,688,015	1,272,730	230,937	206,934	109,393	76,736	63,020	53,933	51,725	47,691	44,260

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements 31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL unit current at 31 March 2001 pursuant to IAS 29)

Note 25 - (Continued)

31 March 2001 (Continued)

	Garanti Financial Services TL billions	Instruments Finance Company TL billions	Lasap Lastik San ve Tic. A.Ş. TL billions	Garanti Yatırım Menkul Kıymetler A.Ş. TL billions	Garanti Hayat Sigorta A.Ş. TL billions	Marmo S.A. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Garanti Bilgi Teknolojisi ve Tic. T.A.Ş. TL billions	Bahitur Bahinler Otelcilik A.Ş. TL billions	Garanti Fund Management TL billions	Bosphorus Financial Services Ltd. TL billions
ASSETS											
Cash and due from banks	198	3.162	22	10	4.797	8	5.568	243	271	774	45
Interbank placings	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	-	-	-	-	-	-	-	-	-	-	-
Securities	-	-	-	11.921	4.991	12.923	1.458	-	-	224	-
Loans, advances and discounts - net	31.705	27.651	-	-	-	-	-	-	-	-	-
Accrued interest, prepaid expenses and other assets	932	636	2.224	6.440	6.373	260	721	3.209	12	27	-
Investments	-	-	352	283	4	-	-	1.553	4	-	288
Property and equipment, net	18	-	24.670	2.424	1.647	-	326	646	2.322	105	-
Intangible assets, net	-	-	-	-	-	-	-	-	-	-	-
Total Assets	32.853	31.449	27.268	21.078	17.812	13.191	8.073	5.651	2.609	1.130	333
LIABILITIES AND SHAREHOLDERS' EQUITY											
Deposits	29.784	-	-	-	-	-	-	-	-	-	-
Interbank takings	-	-	-	-	-	-	-	-	-	-	-
Obligations under repurchase agreements	-	-	-	500	-	-	-	-	-	-	-
Short-term borrowings	-	-	-	4.800	-	2.544	-	-	-	-	-
Short-term bonds payable	-	27.600	-	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	600	578	4.670	4.369	9.631	43	3.149	2.274	597	642	6
Long-term debts	-	2.208	-	-	-	-	-	-	-	240	-
Total Liabilities	30.384	30.386	4.670	9.669	9.631	2.587	3.149	2.274	597	882	6
Minority Interest	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-											
Share capital	2.533	24	20.739	13.080	8.074	10.400	2.041	42.046	3.446	96	96
Legal reserves and retained earnings	-64	1.039	1.859	-1.671	107	204	2.883	-38.669	-1.434	152	231
Total Shareholders' Equity	2.469	1.063	22.598	11.409	8.181	10.604	4.924	3.377	2.012	248	327
Total Liabilities and Shareholders' Equity	32.853	31.449	27.268	21.078	17.812	13.191	8.073	5.651	2.609	1.130	333

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements 31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL unit current at 31 March 2001 pursuant to IAS 29)

Note 25 - (Continued)

	31 December 2000										
	Osmanlı Bankası A.Ş. Consolidated TL billions	United Garanti Bank Int. N.V. TL billions	Tansaş İzmir B.Ş.B. İve D.Tic. A.Ş. TL billions	Garanti Finansal Kiralama A.Ş. TL billions	Garanti Bank Moscow TL billions	Ana Konut Danışmanlık A.Ş. TL billions	D.O.C Finance S.A TL billions	Garanti Financial Services TL billions	Garanti Sigorta A.Ş. TL billions	Doğuş Hava Taahhütçüğü A.Ş. TL billions	Clover Investment Ltd. TL billions
ASSETS											
Cash and due from banks	256,316	336,675	24,021	44,508	32,972	94	184	114	5,101	377	25,729
Interbank placings	94,412	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	73,647	-	-	-	-	-	-	-	-	-	-
Securities	1,047,202	8,910	-	9,186	30,691	5,374	-	-	7,144	-	-
Loans, advances and discounts - net	845,749	739,663	-	122,497	13,840	-	60,063	57,056	-	-	-
Accrued interest, prepaid expenses and other assets	112,888	28,607	80,425	12,546	6,934	3,511	1,564	2,393	33,589	1,001	555
Investments	25,215	87	699	1,194	-	282	-	-	2,094	25	8,346
Property and equipment, net	153,543	16,588	120,623	1,892	977	66,701	13	16	962	47,512	-
Intangible assets, net	70,008	-	-	-	-	-	-	-	-	-	-
Total Assets	2,678,980	1,130,540	226,668	191,823	85,414	75,962	61,814	59,579	48,920	48,915	34,630
LIABILITIES AND SHAREHOLDERS' EQUITY											
Deposits	1,164,962	895,674	-	-	60,753	-	-	55,976	-	-	-
Interbank takings	108,602	-	-	-	-	-	-	-	-	-	-
Obligations under repurchase agreements	199,493	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	669,851	4,440	60,352	76,740	-	806	42,519	77	-	3,624	-
Short-term bonds payable	-	-	-	-	-	-	-	-	-	-	-
Accrued interest and other liabilities	104,688	45,568	132,414	24,323	5,556	3,896	2,109	1,780	41,476	4,258	1,330
Long-term debts	132,474	93,509	19,003	64,461	-	15,879	13,817	-	-	34,646	31,480
Total Liabilities	2,280,068	1,039,191	211,769	165,524	66,309	20,581	58,445	57,835	41,476	42,528	32,810
Minority interest	12,805	-	(91)	-	-	-	-	-	-	-	-
Shareholders' Equity:-											
Share capital	136,970	44,526	26,006	26,708	15,905	68,337	5,655	2,032	18,680	44,895	231
Legal reserves and retained earnings	149,137	46,823	(12,016)	(409)	3,200	(12,966)	(2,286)	(288)	(11,236)	(38,508)	1,589
Total Shareholders' Equity	286,107	91,349	13,990	26,299	19,105	55,371	3,369	1,744	7,444	6,387	1,820
Total Liabilities and Shareholders' Equity	2,678,980	1,130,540	225,668	191,823	85,414	75,962	61,814	59,579	48,920	48,915	34,630

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Notes to Consolidated Financial Statements 31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL unit current at 31 March 2001 pursuant to IAS 29)

Note 25 - (Continued)

86

	31 December 2000 (Continued)										
	Garanti Yatırım Menkul Kıymetler A.Ş. TL billions	Instruments Finance Company TL billions	Lasaf Lastik San ve Tic. A.Ş. TL billions	Clover Bank Off-Shore Ltd. TL billions	Garanti Hayat Sigorta A.Ş. TL billions	Garanti Portföy Yönetimi A.Ş. TL billions	Marmo S.A. TL billions	Garanti Bilişim Teknolojisi ve Tic. T.A.Ş. TL billions	Pahtur Bahinler Otelcilik A.Ş. TL billions	Garanti Fund Management TL billions	Bosphorus Financial Services Ltd. TL billions
ASSETS											
Cash and due from banks	34	6.334	169	11.294	5.214	7.554	7.686	391	271	629	34
Interbank placings	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at Central Bank	-	-	-	-	-	-	-	-	-	-	-
Securities	24.546	-	-	4.127	4.699	1.121	-	-	-	187	-
Loans, advances and discounts - net	-	23.337	-	-	-	-	-	-	-	-	-
Accrued interest, prepaid expenses and other assets	2.654	903	2.401	3.935	4.655	2.416	48	3.113	16	44	2
Investments	2.929	-	351	-	2	-	-	1.531	2	3	231
Property and equipment, net	2.263	-	24.756	21	1.684	294	-	656	2.332	90	-
Intangible assets, net	-	-	-	-	-	-	-	-	-	-	-
Total Assets	32.426	30.574	27.677	19.377	16.254	11.385	7.734	5.691	2.621	953	267
LIABILITIES AND SHAREHOLDERS' EQUITY											
Deposits	-	-	-	6.548	-	-	-	-	-	-	-
Interbank takings	-	-	-	-	-	-	-	-	-	-	-
Obligations under repurchase agreements	11.673	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	3.901	-	-	-	-	-	-	-	-	-	-
Short-term bonds payable	-	22.146	-	2.487	-	-	-	-	-	-	-
Accrued interest and other liabilities	3.279	617	3.962	6.120	7.957	3.096	36	2.262	563	500	2
Long-term debts	-	6.865	-	-	-	-	-	-	-	193	-
Total Liabilities	18.853	29.628	3.962	15.155	7.957	3.096	36	2.262	563	693	2
Minority Interest	-	-	-	-	-	-	-	-	-	-	-
Shareholders' Equity:-											
Share capital	8.648	20	20.739	3.466	6.789	2.041	8.346	42.046	3.446	77	77
Legal reserves and retained earnings	4.925	926	2.976	756	1.508	6.248	-648	-38.617	-1.388	183	188
Total Shareholders' Equity	13.573	946	23.715	4.222	8.297	8.289	7.698	3.429	2.058	260	265
Total Liabilities and Shareholders' Equity	32.426	30.574	27.677	19.377	16.254	11.385	7.734	5.691	2.621	953	267

Türkiye Garanti Bankası A.Ş. And Its Affiliates
Notes to Consolidated Financial Statements
31 March 2001 and 31 December 2000

(As adjusted for the effects of inflation in TL units current at 31 March 2001 pursuant to IAS 29)

26 Significant events

Significant economic difficulties have emerged in Turkey during the year 2001. These include, but are not limited to a steep decline in prices of domestic debt and equity securities and increasing rates on government and corporate borrowings. In an attempt to overcome the liquidity crisis in the banking system, on 22 February 2001, the government allowed Turkish Lira to float freely. This caused a 28% devaluation of the Turkish Lira against the US Dollar during the first day of floatation. The financial condition of the companies and their future operations and cash flows could be adversely affected by continued economic difficulty.

On 15 March 1999, the International Accounting Standards Board issued International Accounting Standard 39 (IAS39). IAS39 is operative for the financial statements covering financial years beginning on or after 1 January 2001. IAS39, Financial Instruments; Recognition and Measurement, covers a wide range of instruments, including all derivatives, investment in debt and equity securities, financial assets and liabilities held for trading and a bank's own debt. This standard presents significant and complex changes in a bank's treasury, lending and other processes, operations and systems. Considering that the Bank is currently operating in an instable economic environment as stated above, and that the market indicators are not yet reliable, management of the Bank decided not to apply IAS39 in the accompanying consolidated financial statements as at 31 March 2001.

Based on the decision of the Board of Directors on 23 February 2001, the Bank's paid-in nominal share capital will increase to TL750,000 billions from TL260,000 billions. Capital increase will be realized through transfers of TL372,589 billions from "extraordinary reserves", of TL167 billions from "gain on fixed asset sale" recorded in the statutory shareholders' equity and of TL117,244 billions from statutory revaluation surplus.

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