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OYAK BANK, ONE OF TURKEY'S MOST RESPECTED AND FASTEST-GROWING COMMERCIAL BANKS, IS A SUBSIDIARY OF OYAK, TURKEY'S ARMED FORCES PENSION FUND.

OYAK BANK IS AT THE SERVICE OF CUSTOMERS IN THE CORPORATE, COMMERCIAL, AND RETAIL BANKING MARKET SEGMENTS. AS OF YEAR-END 2000, THE BANK HAD TOTAL ASSETS WORTH TL 362 TRILLION AND A PAID-IN CAPITAL OF TL 62.7 TRILLION ACCORDING TO AUDITED, CONSOLIDATED AND INFLATION ADJUSTED FIGURES.

#### OYAK BANK: PAST & PRESENT...

THE BANK FIRST BECAME OPERATIONAL IN TURKEY IN 1984 AS THE ISTANBUL BRANCH OF FIRST NATIONAL BANK OF BOSTON. AFTER OYAK AND THE ALARKO AND CERRAHOĞLU GROUPS ACQUIRED STAKES IN THE OPERATION IN 1990, THE BRANCH WAS TRANSFORMED INTO AN INDEPENDENT BANK IN WHICH TURKISH SHAREHOLDERS HAD A CONTROLLING MAJORITY.

THE BANK UNDERWENT ANOTHER CHANGE OF NAME IN 1991, BECOMING TÜRK BOSTON BANK.

IN 1993, A MAJOR CHANGE TOOK PLACE IN THE BANK'S PARTNERSHIP STRUCTURE IN WHICH OYAK ACQUIRED THE STAKES OF THE OTHER PRINCIPAL STOCKHOLDERS AND BECAME THE ONLY OWNER OF

THE BANK. THREE YEARS LATER, THE BANK'S NAME WAS OFFICIALLY CHANGED TO OYAK BANK ON 10 MAY 1996.

BETWEEN ITS INCEPTION AND 1999, OYAK BANK OPERATED ESSENTIALLY AS A SPECIALIZED BANK THAT FOCUSED ON CORPORATE BANKING SERVICES, WHICH IT PROVIDED THROUGH A LIMITED NUMBER OF BRANCHES.

## FINANCIAL HIGHLIGHTS\*

Billions TL	2000	1999
TOTAL LOANS	250,844	284,406
TOTAL DEPOSITS	202,287	218,119
TOTAL SHAREHOLDERS' EQUITY	57,287	43,462
TOTAL ASSETS	362,078	432,772
COMMITMENTS AND CONTINGENT LIABILITIES	53,997	35,987
PERIOD LOSS	(19,810)	(5,664)

\*Inflation adjusted and restated figures (as per IAS 29)

## RESTRUCTURING A BANK...

IN 2000, OYAK BANK EMBARKED UPON A PROGRAM OF FUNDAMENTAL CHANGE AND RESTRUCTURING.

THIS IS A PROGRAM IN WHICH EVERY ASPECT OF THE BANK FROM MANAGEMENT TO CORPORATE VISION AND FROM WORK PROCESSES TO BRANCH DESIGN ARE BEING COMPLETELY OVERHAULED. THE TWO MAIN OBJECTIVES OF THIS PROGRAM ARE TO ENABLE THE BANK TO ACHIEVE SOLID GROWTH IN THE RETAIL, CORPORATE, AND COMMERCIAL BANKING MARKET SEGMENTS AND TO MAKE OYAK BANK ONE OF THE LEADING FINANCIAL SERVICES INSTITUTIONS IN TURKEY.

IN 2001, OYAK BANK'S GROWTH WILL BE FUELLED AS MUCH BY THE PROGRESS ACHIEVED THROUGH THIS PROGRAM AS BY NEW ACQUISITIONS THAT ARE

PLANNED SO AS TO MAKE IT POSSIBLE FOR THE BANK TO SERVE A MUCH BROADER BASE OF CUSTOMERS ALL OVER THE COUNTRY.

THE RESPECT AND REPUTATION THAT OYAK BANK ENJOYS ARE WHAT GUIDE THE BANK IN ITS APPROACH TO PROVIDING CUSTOMERS WITH BANKING SERVICES OF THE HIGHEST QUALITY. AS PART OF A COMPLETE, SEAMLESS NETWORK THAT INCLUDES OVERSEAS OPERATIONS (OYAK ANKER BANK GMBH IN GERMANY AND OYAK EUROPEAN FINANCE PLC IN IRELAND) AND DOMESTIC FINANCIAL SUBSIDIARIES (OB MENKUL KIYMETLER A.Ş. AND OYAK PORTFÖY YÖNETİMİ A.Ş.), THE BANK COMBINES ITS EXPERIENCE IN THE AREAS OF RETAIL, CORPORATE, AND COMMERCIAL BANKING AS WELL AS IN CASH AND MUTUAL FUNDS MANAGEMENT WITH ITS ABILITY TO TAP SOURCES OF FUNDING AND SOLID PARTNERSHIP STRUCTURE.

## REVIEW BY THE GENERAL MANAGER

THANKS TO SUCCESSFUL MANAGEMENT OF ASSETS-LIABILITIES AND OF LIQUIDITY THROUGHOUT THE YEAR, OYAK BANK SUCCESSFULLY WEATHERED THE CRISIS THAT BROKE OUT IN NOVEMBER 2000 AND STRUCK IN A SECOND WAVE IN FEBRUARY 2001.

Distinguished shareholders, customers, and colleagues,

### THE YEAR 2000 SIGNED THE START OF A CRUCIAL TRANSFORMATION IN TURKEY.

It was a year in which an anti-inflationary program based on keeping exchange rate and monetary policies under control was introduced, in which the national economy began growing again, and in which important progress was made in improving public financing and reducing inflation.

An important step for the Banking industry in 2000 was the launching of the Banking Regulation and Supervision Board, which had been set up in order to bring the functions of banking regulation and oversight under the control of a single authority. While declines in interest

rates limited the growth in deposits, they also sparked a substantial expansion in the volume of credit. With government paper generating lower and lower yields, banks were encouraged to return to their core banking activities: taking deposits and lending money.

A liquidity crunch that began to make itself felt early in the second half of the year however turned into a full-fledged crisis in November, eventually making it necessary to completely revise the economic stabilization program in the first quarter of 2001. These developments have had a serious impact on all sectors of the economy- particularly upon the banking industry.

### IMPORTANT STEPS IN THE PROCESS OF GROWTH

OYAK, the Armed Forces Pension Fund, one of the biggest social security institutions in Turkey, is the major stockholder in Oyak Bank. Originally incorporated in 1984, the Bank remained a small “boutique” institution that took a specialized approach towards banking until a decision was made in 2000 to change that approach and to make rapid and determined progress by shifting the Bank’s customer focus and concentrating on growth. Since then, Oyak Bank has pursued this goal with determination and made rapid progress.

At the same time that the Bank was obliged to keep close watch on the extraordinary developments and upheavals taking place in the Turkish economy so as to manage and protect its balance sheet assets in the best way possible, it was also beginning to activate restructuring projects incorporating changes that touched upon every aspect from the design of products and services to technological infrastructure: substantial and radical changes that are intended to enable the Bank to achieve its targeted market share and industry position in the near term.

After a management overhaul that took place in 2000, all of Oyak Bank’s strategies and policies were reviewed in light of the country’s economic realities and our business strategies were reshaped in line with a development and growth plan setting out the course to be followed over the next three years.

Thanks to successful management of assets-liabilities and of liquidity throughout the year, the Bank successfully weathered the crisis that broke out in November 2000 and struck in a second wave in February 2001. During these difficult days, the Oyak Bank team never deviated from the Bank’s customary common-sense policies and analytical business approaches: in so doing, it continued to manage its own assets as well as

those entrusted to it by its customers in the most effective ways possible.

Oyak Bank has set its sights on growth and on becoming one of this country’s market-makers by providing the most innovative and advanced banking products and services in every market segment from corporate finance to retail banking. The Bank derives the strength that it needs to achieve this from its staff of professionals and from the OYAK Group of which it is a member.

### TOWARDS BECOMING ONE OF THE FIVE BIGGEST BANKS IN TURKEY

Underpinning this transformation is Oyak Bank’s goal of becoming one of the top five banks in the Turkish banking industry as it pursues a course of stable growth with a sound financial structure.

The Bank is a member of the OYAK Group, whose subsidiaries employ some 14,000 people and which, in its capacity as manager of the social security entitlements of more than 180,000 members, is one of the most potent economic forces in Turkey. OYAK is also in partnership with many different international capital groups that have investments in Turkey: among those are the automotives giant Renault, the AXA financial services group, tire-maker Goodyear, and petroleum products distributors ELF.

The OYAK Group’s market experience, superior business discipline, and international reputation have guided and will continue to guide Oyak Bank as it reshapes itself for the future and achieves its aims.

In 2001 the OYAK Group will take yet another step towards its growth goals by acquiring a bank that had been taken over by the Banking Regulation and Supervision Board and then merging it into Oyak Bank. In addition

to nourishing the Bank's own growth, this acquisition is intended to serve national macroeconomic and social policies aimed at ensuring the continued soundness of the Turkish banking system and at restoring to health banks that have had to be taken under the Board's wing during the last two years.

#### DEVELOPING A REPUTATION AS AN INTERNATIONALLY RESPECTED INSTITUTION

Another goal that Oyak Bank pursues as an adjunct of its growth is that of establishing itself as an internationally respected institution. Because of the specialist-banking strategy that the Bank pursued in the years before joining the OYAK Group, Oyak Bank has a well-developed network of foreign correspondent banks. In the wake of the management change in 2000 and the decision to concentrate on growth, the Bank has been giving special importance to strengthening and developing its relations with international banks and financial institutions.

Efforts in this direction have already begun to bear fruit: there have been significant gains not only in the number of correspondent banks but also in their geographical distribution.

Foreign trade financing is one area of business in the corporate banking services market segment that Oyak Bank has especially set its sights on. The Bank has already begun offering customers an ever-increasing variety of ways to finance their foreign trade transactions that include advanced structured financing techniques and foreign countries' export credit institutions as well as customary international financial instruments.

#### THE OUTLOOK FOR 2001

Given the dynamic nature and structure of Turkey's economy, Oyak Bank expects that the country's banking activities will be able to make a quick recovery. Once the problems of the sector and the country are overcome, the banking sector will face a fiercer competition with narrower costs and profit margins. That recovery however will entail a process in which the full gamut of retail, corporate, and commercial banking services will become more important than ever.

Oyak Bank is at the service of all corporate customer segments from small and medium-sized companies to the biggest corporations, providing them not only with classical credit instruments but also with products involving

**FOREIGN TRADE FINANCING IS ONE AREA OF BUSINESS IN THE CORPORATE BANKING SERVICES MARKET SEGMENT THAT OYAK BANK HAS ESPECIALLY SET ITS SIGHTS ON. THE BANK HAS ALREADY BEGUN OFFERING CUSTOMERS AN EVER-INCREASING VARIETY OF WAYS TO FINANCE THEIR FOREIGN TRADE TRANSACTIONS THAT INCLUDE ADVANCED STRUCTURED FINANCING TECHNIQUES AND FOREIGN COUNTRIES' EXPORT CREDIT INSTITUTIONS.**

**IN OUR PROGRESS TOWARDS OUR GOALS, THE CONFIDENCE AND THE RELIABILITY OF OUR STAFF ARE AN UNLIMITED WELLSPRING OF ENCOURAGEMENT. OUR PERSONNEL, A WORKFORCE DEVELOPED AND SUPPORTED BY MODERN HUMAN RESOURCES MANAGEMENT METHODS, REPRESENT THIS BANK'S MOST IMPORTANT ASSET.**

structured financial techniques, all designed to take advantage of the Bank's expertise in risk assessment and management. Similarly, Oyak Bank's ventures into the area of retail banking services in 2000 have opened the way for the Bank's further growth in this market segment as well.

Oyak Bank makes use of state-of-the-art technology in its effort to provide customer-focused service. The Bank will be making even greater use of the synergies created by its membership in the OYAK Group as a way of supporting the expansion in its volume of business.

In our progress towards our goals, the confidence and the reliability of our staff are an unlimited wellspring of encouragement. Our personnel, a workforce developed and supported by modern human resources management methods, represent this bank's most important asset. So long as we go on doing our business with personnel who are equipped with feelings of equality, justice, trust, solidarity, and mutual respect and devotion, we should have no difficulty in bringing our customers into that

same auspicious circle. By rapidly and successfully adapting itself to changing economic conditions and by taking advantage of its ability to come up with the best and most productive solutions for its customers, Oyak Bank will continue to be the author of enduring successes.

In closing, I want to thank all my colleagues for their self-sacrificing contributions to the success of our efforts to restructure and grow as we advance closer and closer towards the realization of our goals.

With my respects,

**A. MEHMET ÖZDENİZ**

BOARD MEMBER AND GENERAL MANAGER

## OYAK IN BRIEF...

**OYAK HAS A TOTAL OF TWENTY-FIVE SUBSIDIARIES ACTIVE IN FIVE DIFFERENT SECTORS: AUTOMOTIVES, CEMENT, FINANCE, FOODS & CHEMICALS, AND SERVICES. IN PARTNERSHIPS WITH A NUMBER OF WORLD-LEADING CORPORATIONS LIKE RENAULT, AXA, AND GOODYEAR, OYAK HAS BEEN RESPONSIBLE FOR THE ENTRY OF SIGNIFICANT AMOUNTS OF FOREIGN INVESTMENT AND TECHNOLOGICAL EXPERTISE INTO TURKEY.**

Founded on 1 March 1961 under Statute 205, OYAK, (Ordu Yardımlaşma Kurumu-Armed Forces Pension Fund) is a supplementary social security institution for military and civilian employees of the Turkish Armed Forces. As a civilian organization subject to the provisions of private law, it is administratively and financially autonomous.

OYAK conducts its activities as a company providing the highest standards of service expected by its members while, at the same time, acting as a holding company that ensures its shareholders high rates of returns by putting assets to work in the most profitable portfolio and equity investments possible.

OYAK has a total of twenty-five subsidiaries active in five different sectors: automotives, cement, finance, foods

& chemicals, and services. In partnerships with a number of world-leading corporations like Renault, AXA, and Goodyear, OYAK has been responsible for the entry of significant amounts of foreign investment and technological expertise into Turkey. Particular attention is given to creating service, product, and financial synergies among the companies under the OYAK roof while also developing new strategies that will guide them in their future endeavors.

In the course of its activities in 2000, OYAK paid 3,672 members TL 2.5 trillion in retirement assistance, 194 members TL 1.5 trillion in death benefits, 189 members TL 875.7 billion in disablement compensation, and 21,704 members TL 9.6 trillion in retirement pensions. Under the heading of “social services” last year, 65,314 members received a total of TL 68 trillion in cash loans and 1,525

OYAK IN BRIEF...

**OYAK-RENAULT AND MAİS ARE THE TWO LARGEST COMPANIES OF THE OYAK AUTOMOTIVES GROUP. OMSAN ONE OF THE LEADING TURKISH TRANSPORTATION COMPANIES, ELF SELYAK THAT OPERATES 157 STATIONS AND GOODYEAR, TURKEY'S BIGGEST TIRE MANUFACTURER ARE THE OTHER MEMBERS OF THE GROUP.**

received a total of TL 10.3 trillion as assistance to finance the purchase of a home.

A brief summary of OYAK's subsidiaries and affiliates is presented below.

#### THE AUTOMOTIVES GROUP

**Oyak-Renault** (OYAK Group share: 49%)

Producing more than 140,000 vehicles under license from Renault France in 2000, Oyak-Renault is one of the biggest automotive manufacturers in Turkey.

**MAİS** (OYAK Group share: 51%)

The general distributor for Renault automobiles in Turkey, MAİS is the country's biggest automobile dealership organization with a market share of 23% in 2000.

**Omsan** (OYAK Group share: 100%)

Omsan is one of the leading companies in the business of integrated international land, sea, and air transport in Turkey with a fleet of dry bulk, automobile, and cement carriage truck numbering 400 vehicles.

**ELF Selyak** (OYAK Group share: 32%)

A joint venture with the French ELF Group, this company manufactures petroleum-based lubricants and it also stores and distributes petroleum products. It presently operates 157 stations.

**Goodyear** (OYAK Group share: 11.48%)

Turkey's biggest manufacturer of tires for automobiles, trucks, pickups, buses, minibuses, agricultural tractors, and heavy-duty equipment and of treadbarber.

#### THE CEMENT GROUP

The plants in the OYAK Cement Group produce various types of gray and white cement, all of which conform to the quality standards of the Turkish Standards Institute.

**Adana Çimento** (OYAK Group share: 57%)

Adana Çimento has an annual production capacity of 2,294,000 tons of clinker and a milling capacity of 3,643,000 tons. In 2000 the Company exported goods worth USD 26.8 million and had aggregate domestic sales in the amount of TL 55.9 trillion.

## OYAK IN BRIEF...

**Bolu Çimento** (OYAK Group share: 53%)

Bolu Çimento has an annual production capacity of 1,350,000 tons of clinker and 2,700,000 tons of cement. The Company commands a 4.6% share of the domestic market for clinker and a 5.4% share of cement production.

**Ünye Çimento** (OYAK Group share: 51%)

Ünye Çimento has an annual production capacity of 600,000 tons of clinker and 1,752,000 tons of cement. In 2000 the Company posted a profit of TL 14.2 trillion.

**Mardin Çimento** (OYAK Group share: 51%)

Mardin Çimento has an annual production capacity of 625,000 tons of clinker and a cement milling capacity of 1,020,000 tons. In 2000 the Company's gross sales proceeds were worth TL 27.1 trillion.

**Elazığ Çimento** (OYAK Group share: 70%)

Elazığ Çimento has an annual production capacity of 300,000 tons of clinker and a cement milling capacity of 900,000 tons. In 2000 the Company secured a profit of TL 2.2 trillion on its activities.

**Oysa Niğde Çimento** (OYAK Group share: 38.25%)

Oysa Niğde Çimento as an annual production capacity of 410,000 tons of clinker and a cement milling capacity of 916,000 tons.

**Oysa İskenderun Çimento** (OYAK Group share: 50%)

Oysa İskenderun Çimento makes sales to both domestic and foreign customers. Its annual cement milling capacity is 1,000,000 tons. In 2000 it secured a profit of TL 2.8 trillion on its activities.

**THE FINANCIAL SERVICES GROUP****AXA OYAK Holding A.Ş.** (OYAK Group share: 50%)

AXA OYAK Holding A.Ş. is a joint venture of OYAK and the French AXA Group. Its operations are carried out principally by AXA OYAK Hayat Sigorta (life insurance) and AXA OYAK Sigorta (non-life insurance).

**Oyak Menkul Değerler A.Ş.** (OYAK Group share: 100%)

Oyak Menkul Değerler A.Ş. is one of the leading brokerage houses in Turkey. In 2000 the Company handled TL 1.4 trillion worth of business, a year-on increase of 169%.

**Halk Leasing** (OYAK Group share: 40%)

Halk Leasing is one of the oldest and most experienced leasing companies in Turkey. In 2000 the Company saw the volume of its business increase 44% over that of the previous year.

**THE PLANTS IN THE OYAK CEMENT GROUP PRODUCE VARIOUS TYPES OF GRAY AND WHITE CEMENT, ALL OF WHICH CONFORM TO THE QUALITY STANDARDS OF THE TURKISH STANDARDS INSTITUTE.**

OYAK IN BRIEF...

## FINANCE, FOOD & CHEMICAL AND SERVICES ARE THE AREAS THAT THE OTHER OYAK SUBSIDIARIES ARE ACTIVE IN.

### THE FOODS AND CHEMICALS GROUP

**Hektaş** (OYAK Group share: 53.18%)

Hektaş is the leading company in the Turkish market for agrochemicals with an overall market share of 17.6% in 2000. Hektaş is also the Turkish representative and distributor for such multinationals as DuPont, FMC, and Uniroyal Chemical.

**Tukaş** (OYAK Group share: 70%)

Tukaş is Turkey's biggest manufacturer of canned and ready-to-eat foods. The Company has two modern integrated plants in Turgutlu and Torbalı.

**Tam Gıda** (OYAK Group share: 29.09%)

Tam Gıda is Turkey's biggest manufacturer of cookies, biscuits, and similar baked goods. Its products are sold under the "Eti" brand.

**Eti Pazarlama** (OYAK Group share: 26%)

Eti Pazarlama is the marketing and distributor firm for Tam Gıda and Eti Gıda, whose products it sells domestically through a network of 132 dealers. The Company's exports in 2000 were up 30% over those of the previous year and amounted to nearly 4,000 tons.

### THE SERVICES GROUP

**Oyak İnşaat** (OYAK Group share: 75%)

Oyak İnşaat is a construction firm that undertakes design, construction, and installation work for a complete range of projects from housing to industrial plants and from holiday villages to military facilities.

**Oytur** (OYAK Group share: 100%)

Oytur is a tourism company that provides an extensive line of services from domestic and international airline ticket sales to organizing fairs and exhibitions. The Company's turnover from ticket sales in 2000 amounted to TL 2.4 trillion.

**Oytaş** (OYAK Group share: 99.48%)

Oytaş is a general trading company set up to exploit the import/export potential of OYAK Group companies. In 2000, the Company posted a profit of TL 4.4 trillion.

**Oypa** (OYAK Group share: 100%)

Oypa controls one of the oldest retailing chains in Turkey. The Company's turnover in 2000 was worth USD 102 million.

**Oyak Güvenlik** (OYAK Group share: 100%)

Oyak Güvenlik was founded in 2000 as a security services company that specializes in the movement of cash and other valuables. The Company also provides consultancy, research, and information services as well.

## THE TURKISH ECONOMY

Important progress was made towards reducing inflation in 2000, the first year of a three-year stand-by agreement signed with the IMF in late 1999, and the successes inspired hopes of a significant recovery in the Turkish economy.

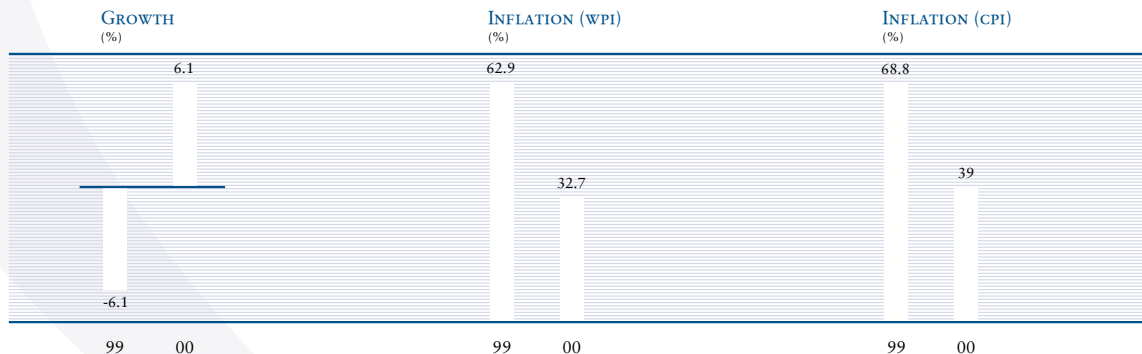
Those hopes were nourished in financial markets by feelings of confidence in the IMF-backed economic stabilization program, which was based on the principles of public sector discipline, structural reforms, and adhering to pre-announced exchange rates in line with inflation. The result was that, in the first six months of the year, there was a rapid collapse in interest rates-a development that made consumption more and more attractive. The recovery in demand was most visible in the case of durable consumer goods, the considerable pent-up demand for which was suddenly released as interest rates tumbled after many years and banks turned their attentions to consumer credit in their search for new products to promote to customers. However because the production of these goods was largely dependent on imported raw

and intermediary materials, the recovery in demand had a direct-and deleterious-impact on the country's foreign trade balance.

What with petroleum prices running at their highest levels since the Gulf War and a very strong US dollar, the bill for Turkey's imports became more and more onerous. Meanwhile the weakness of the euro, the common currency of account of European Union countries (to which more than half of Turkey's exports are shipped) put a squeeze on the country's export revenues, which increased by a mere 4.5% over those of the previous year.

Although the year-end figure for inflation was higher than the government-announced target, it was still the lowest one reported since 1986-an achievement that was attributable to the decline in interest rates, to a policy that kept devaluation in line with wholesale price inflation, and to restraints on public-sector prices. Overall, consolidated budget performance in 2000 exceeded

**IN THE FIRST SIX MONTHS OF THE YEAR, THE IMF-BACKED ECONOMIC STABILIZATION PROGRAM-WHICH WAS BASED ON THE PRINCIPLES OF PUBLIC SECTOR DISCIPLINE, STRUCTURAL REFORMS, AND ADHERING TO PRE-ANNOUNCED EXCHANGE RATES IN LINE WITH INFLATION-RESULTED IN A RAPID COLLAPSE IN INTEREST RATES-A DEVELOPMENT THAT MADE CONSUMPTION MORE AND MORE ATTRACTIVE.**



## THE TURKISH ECONOMY

**ON THE DOMESTIC FRONT, THE TREASURY WAS HAVING A RELATIVELY EASIER YEAR: IT BORROWED ABOUT 76% OF THE TOTAL DEBT SERVICING IT HAD ANNOUNCED IN ITS PROGRAM FOR 2000 AND, THANKS TO THE POSITIVE EXPECTATIONS THAT PREVAILED DURING THE EARLIER PART OF THE YEAR, IT WAS ABLE TO BORROW DOMESTICALLY AT HUGELY MORE FAVORABLE RATES OF INTEREST.**

expectations by a wide margin thanks to economic recovery as well as to one-off additional taxes imposed late in 1999. However the picture was not entirely rosy for, in the case of public sector discipline (one of the three fundamental tenets of the anti-inflationary program), the restraints imposed on public sector prices and the failure to adequately address the structural problems of a number of crucial public-sector suppliers of basic goods and services had an adverse impact on those companies' balance sheets.

In the area of privatizations, which are crucial to any resolution of the structural problems that plague fiscal discipline as well as being important generators of public-sector revenues, performance was less than targeted for 2000 and was only modestly successful. The government had posited a total of USD 7.6 billion in privatization revenues in its budget for the year but only USD 3.5 billion of that was actually taken in—from the sale of a new GSM license and from the divestiture of some shares in Türk Telekom. The complete privatization of Türk Telekom as well as of a number of power plants and distribution networks was interpreted by markets as government reluctance on the subject of genuine structural reforms and this mindset played an important role in the deterioration of expectations as the end of the year approached.

Supported by economic recovery and by lower interest rates, domestic demand fuelled an appetite for imports. This trend, combined with an import performance weakened by a rapid slide in the value of the euro against the dollar, pushed the increase in the foreign trade deficit—and with it, the hole in the current transactions balance—to record size: at year-end 2000, the country's current accounts deficit stood at USD 9.8 billion. While all this was going on, Turkey's stock of foreign debt reached USD 114.3 billion, USD 28.9 billion of which consisted of short-term obligations.

On the domestic front however, the Treasury was having a relatively easier year: it borrowed about 76% of the total debt servicing it had announced in its program for 2000 and, thanks to the positive expectations that prevailed during the earlier part of the year, it was able to borrow domestically at hugely more favorable rates of interest: after having had to pay an average 109.5% compounded interest on its borrowings in 1999, in 2000 the cost of the Turkish Treasury's borrowing was down to a mere 38%.

Such positive developments as there were however were suddenly throttled by a serious financial crisis that broke out in the second half of November, which the Central Bank of Turkey (CBT) found it necessary to counter by selling some USD 6.3 billion of its foreign exchange

## THE TURKISH ECONOMY

reserves in just two weeks' time in order to shore up the system. Matters were not brought under control until about a month later, when the government was able to secure IMF support and a promise of an additional credit. Despite these assurances, the cost of the crisis to both the banking industry and to the real sector was severe.

Among the underlying causes of the developments that emerged in the form of a financial crisis in November 2000, one may cite the serious under-performance in inflation and privatization targets, the record level in the current accounts deficit in August, and procrastination on the subject of structural reforms as well as resulting market concerns about the whole program's viability.

Turkey rode out the November crisis thanks to the support of international financial institutions-principally the IMF and World Bank. On December 18th, the Turkish government submitted to the IMF its third letter of intent within the framework of the existing stand-by agreement, this one incorporating even more austere measures. In return, the country was rewarded with a "supplemental reserve facility" in the amount of USD 5.2 billion. A few days later on the 21st, the World Bank approved a USD 5 billion grant under a "country assistance strategy", the first installment of which sum was provided as a "financial sector adjustment loan" (to the tune of USD 778 million) and an additional USD 250 million as part of the Bank's "privatization social support project".

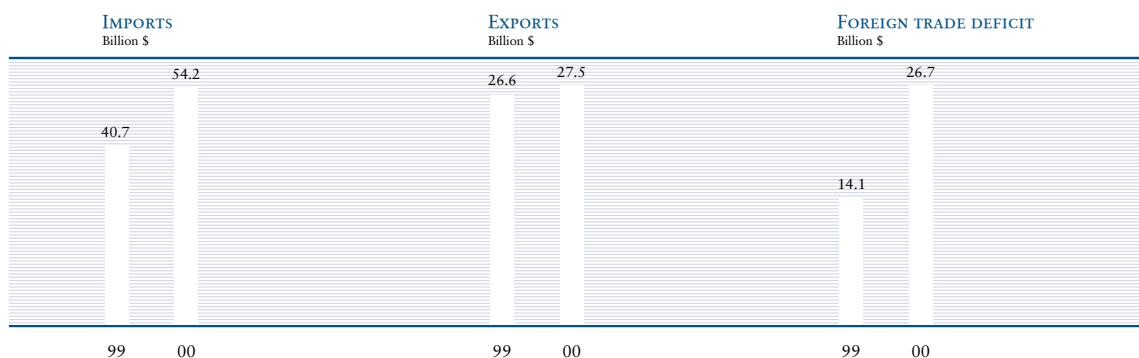
A few months after the November crisis, new shock waves swept through the economy following a rancorous

argument between the President and members of the government at a meeting of the National Security Council on February 19th.

The same day, a surge in demand for some USD 7.6 billion in foreign exchange, deliverable the next day, created a shortage of Turkish lira liquidity in markets. As a requirement of its commitment to the program of managing exchange rates, on the 20th CBT sold about 1.5 billion of that amount to those banks that had sufficient TL reserves with it. At the same time, interest rates on overnight borrowings shot up to 2,058%

None of this however seemed to be able to satisfy the demand for foreign exchange: on the contrary, it had the additional effect of creating a payments system crisis that was especially hard on public-sector banks. Between the 19th and the 21st, CBT sold a total of USD 5 billion in foreign exchange. In the three days between 20 and 22 February, overnight interest rates remained an average of 2,424%-yet CBT continued to stick with its monetary policy while also refraining from supplying liquidity to public-sector banks that were having difficulties in meeting payments. This led to a crisis in the payments system whose knock-on effect was to cause the whole financial system to freeze up.

After a series of meetings with the IMF delegation, leaders of the coalition government convened and announced on the evening of February 21st that the policy of "predetermined exchange rates"-one of the most crucial elements of the existing stabilization program-had been



## THE TURKISH ECONOMY

**AMONG THE UNDERLYING CAUSES OF THE NOVEMBER 2000 FINANCIAL CRISIS, ONE MAY CITE THE SERIOUS UNDERPERFORMANCE IN INFLATION AND PRIVATIZATION TARGETS, THE RECORD LEVEL IN THE CURRENT ACCOUNTS DEFICIT IN AUGUST, AND PROCRASTINATION ON THE SUBJECT OF STRUCTURAL REFORMS AS WELL AS RESULTING MARKET CONCERNS ABOUT THE WHOLE PROGRAM'S VIABILITY.**

abandoned and that the Turkish lira had been cut free and left to "float" on its own. In the wake of that announcement, the dollar rose 39.8% on February 22nd and 12% on the 23rd against the Turkish lira. In just two days' time, the lira depreciated a total of 36.1% against the dollar.

To deal with the crisis in the payments system, on the 21st CBT began supplying liquidity through direct buy-backs of government debt then being held by public-sector banks and by the banks under Savings Deposits Insurance Fund (SDIF) administration. In the days that followed however, exchange rates continued to rise as the demand for foreign currencies remained strong and it was not until around the middle of March that they began to stabilize. As of the beginning of April, the increase in the USD/TL parity was around 75% since February 21st. Towards the end of the month on the 27th, the cumulative increase was 79.3%. Worried and perplexed by exchange rate movements, nearly all markets became inoperable while most economic activity took a serious hit.

On March 3rd a World Bank vice president named Kemal Derviş joined the government as a minister responsible for the economy. With the support of international financial institutions, he immediately set to work on putting together a new and more enduring program, which, dubbed "Transition to a Strong Economy" was announced on May 15th.

In what was the third time in a year and a half, the IMF came to Turkey's support again, increasing the country quota on credit facilities extended to it by some sixteen-fold. During 2001 the IMF and the World Bank together agreed to provide about USD 14 billion in funding to enable Turkey to service its foreign debt and to ensure the sustainability of the country's domestic debt.

That support however comes with a commitment on Turkey's part to comply with a number of conditions. As announced by government spokesmen, the floating exchange rate system is to remain in place while a sustained and determined effort is to be made to combat inflation. The banking system is to undergo a rapid and comprehensive restructuring with a particular focus on public-sector banks and on those banks now under SDIF administration in line with the goals of establishing a healthy relationship between the banking and real sectors and of strengthening public sector finance in such a way as to ensure they never become so unbalanced again. A tax and revenue policy is to be pursued that is based on social solidarity, that ensures that all segments of society contribute their fair share in the sacrifices that must be made, and that is in keeping with anti-inflationary targets. Finally, the government has pledged to provide the legal underpinnings for structural reforms that will provide the clout, flexibility, and transparency needed to make all of this a reality.

## THE BANKING SECTOR IN TURKEY

Due to the money and exchange rate policies that were being pursued and to insufficient oversight of the banking sector, the rapid rise in public-sector indebtedness after 1990 resulted in a number of problems becoming ingrained in the system.

Because of macroeconomic instabilities, huge public-sector deficits, the distorting effects of public-sector banks on the system, and debilities in risk perception and management, the Turkish banking system was beset with many problems that included insufficient equity, an undersized and fragmented banking system, excessive overall systemic influence on the part of public-sector banks, poor-quality assets, over-sensitivity and fragility with respect to market risks, and shortcomings in risk management and transparency.

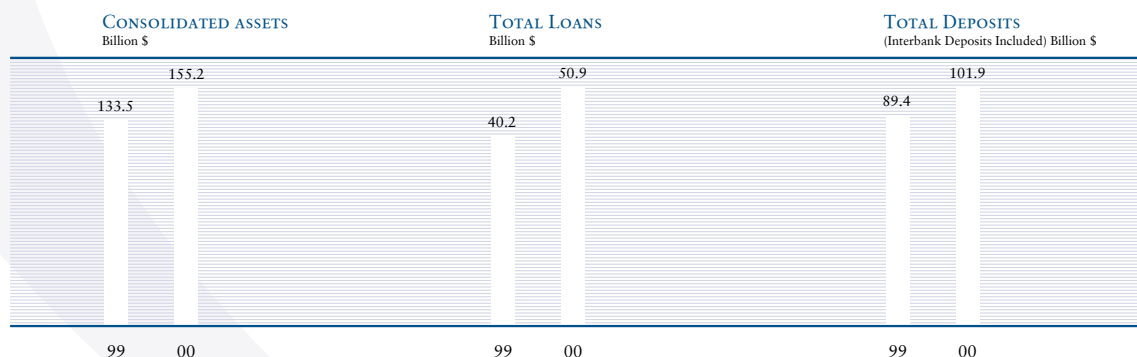
At the beginning of 2000, an IMF-backed anti-inflationary program of three years' duration was introduced. Widespread confidence in the program and its system of managed exchange rates led to a sudden rapid drop in Turkish lira interest rates while also making it attractive for banks to assume more and more exchange-rate risks. In an atmosphere buoyed up by over-confidence, banks were encouraged to take on ever more future risk in the expectation that interest rates would continue to fall as they had done. This was especially true in the case of consumer credit, where competition among banks resulted in serious exposure to the risk of payment default. When the November crisis hit this parlous structure, the financial structures of public-sector banks and of the banks under SDIF administration were further weakened because of their huge need to borrow at overnight rates. The November crisis was hardest on those banks that were overburdened with liquidity problems and with interest

rate risk exposure; the losses caused by the February crisis on the other hand were the result of the materializing of exchange rate risks.

According to figures published by the Banks Association of Turkey, the Turkish banking industry saw its total assets grow by 16% (in USD terms) during 2000: this corresponded to an increase of five percentage points in the industry's share of GNP. In terms of banks' assets structure, the share of their credit and loans increased while that of their marketable securities portfolios declined.

The most important reason for the increase in credit and loans was the increase in consumer credit. According to CBT figures, such credit nearly tripled during the year while credit card usage alone was up 150%. At the beginning of 2000, consumer loans and credit-card use accounted for 11.7% of all forms of bank credit extended to those outside the finance sector; by the end of the year, that proportion was up to 23.6%. Because of the financial crisis experienced in the last quarter of 2000, the number of banks under SDIF administration rose to 11, the assets of which accounted for a 9% share of the Turkish banking system's total assets. As of year-end 2000, those banks has a share of 13% in total deposits and 7% in total credits.

Sectoral concentration continued to increase in 2000: the five biggest banks' share of total system assets was up two points to 48% while their share of total deposits was up one point to 51%. In the case of total credit on the other hand, those same five banks' share was only 42%-the same level it had been in 1999.



## THE BANKING SECTOR IN TURKEY

## SECTORAL CONCENTRATION CONTINUED TO INCREASE IN 2000: THE FIVE BIGGEST BANKS' SHARE OF TOTAL SYSTEM ASSETS WAS UP TWO POINTS TO 48%.

### TURKISH BANKING SYSTEM'S KEY INDICATORS (in USD million)

	1980	1990	1994	1999	2000
Total Assets	20,785	58,171	52,552	133,533	155,237
Total Credits	11,168	27,342	20,559	40,206	50,931
TL Credits	-	21,600	10,691	19,626	28,823
Foreign Currency Credits	-	5,742	9,868	20,580	22,108
Total Credits/Total Assets (%)	53.7	47.0	39.1	30.1	32.8
Marketable Securities Portfolios	1,339	5,997	5,955	22,955	17,848
Marketable Securities Portfolios/Total Assets (%)	6.4	10.3	11.3	17.2	11.5
Deposits (Including Interbank Deposits)	10,188	32,564	33,191	89,361	101,884
- Savings Deposits	4,288	19,343	24,190	58,807	64,352
- TL	4,288	11,914	8,612	24,701	26,628
- Foreign Currencies	-	7,429	15,578	34,106	37,724
Total Credits/Total Deposits (%)	109.6	84.0	61.9	45.0	50.0
Non-Deposit Resources	1,289	11,760	9,019	22,934	29,435
- Foreign Banks	-	3,460	2,675	12,073	16,284
Equity + Profit	1,147	5,903	4,409	7,840	11,367
Total Assets/GNP (%)	28.6	38.2	40.3	71.7	76.9
Total Credits/GNP (%)	15.4	17.9	15.8	21.6	25.2
Marketable Securities Portfolios/GNP (%)	1.8	3.9	4.6	12.3	8.8
Savings Deposits/GNP (%)	5.9	12.7	18.5	31.6	31.9
Public-Sector Bank Assets/Total Sector Assets (%)	44.1	44.6	39.6	34.9	34.2
Off Balance-Sheet Items/Total Assets (%)	-	-	49.5	103.5	100.8

Source: Banking Regulation and Supervision Board, Banks Association of Turkey

At year-end 2000 there were 79 banks in the system, 61 of which were commercial banks; of the total number however, only 30 had assets amounting to more than a billion dollars each and only nine of them had assets worth more than five billion.

Looking at the system from the standpoint of its funding, the year-on increase in total deposits was 14% on a USD basis whereas the increase in non-deposit resources was 28%. While the terms on which these funds were deposited varied throughout the year, they grew substantially shorter in the last quarter, dropping from an average of 3.5 months to 2.6 months. Paid-in capital within the system in 2000 was also up-40.7%-over that of the previous year, again on a USD basis, while current-year losses soared (from USD 4.7 billion to USD 6.9 billion) mainly because of the effect of the eleven banks that went into

SDIF administration. The most spectacular rise however was in reserves, which went from USD 1.2 billion to USD 5 billion. Discounting equity, the year-on dollar increase in the system's net profit was 124%.

In 2000, the ratio of the Turkish banking system's equity (including net profit) to total assets improved 1.1 points over that of the previous year and stood at 7.3%. This represents the first improvement (since a marginal one in 1997) in a ratio that has been steadily declining since 1990. Because of the stabilization program's managed exchange rate policy in 2000, the use of foreign-source funds to support lending became increasingly more attractive with the result that the difference (that is, the "open position") between the banking system's foreign currency assets and its foreign currency liabilities rose USD 4.1 billion to USD 17.3 billion.

## OYAK BANK: ACTIVITIES IN 2000

### SHAPING THE CORPORATE BANKING APPROACHES OF THE FUTURE

In the business of corporate banking, Oyak Bank provides a complete line of money and capital market products, cash management services, private banking products, and corporate consultancy services to the corporate banking market.

Oyak Bank is an institution actively engaged in accommodating itself to the process of transformation that the Turkish economy is undergoing. Once stability has been restored to the economy, the needs of the real sector for banking services will not only increase but will also diversify. Oyak Bank regards corporate banking as a business line that will nourish its growth and in which there are important gains to be made.

Oyak Bank's part in the process of change that the Turkish economy and Turkish banking industry are undergoing is assured by its sound and strong structure. In 2001, the Bank will be looking to increase the size of its existing corporate portfolio with the addition of new customers while reinforcing it through effective corporate relationships. Determined to pursue and achieve growth, Oyak Bank initiated a restructuring process in 2000 designed to enable it to achieve its goals in the business of corporate banking products and services.

The most important aims of Oyak Bank's corporate restructuring project are to acquire new customers for the Bank, to ensure the viability of long-term relationships with existing customers based on mutual trust, to increase

the volume of business on an individual customer basis and in terms of corporate banking products, and to promote the Oyak Bank name to a broader audience as a supplier of products and services. In 2001, the Bank will be at the service of its customers with an even more extensive line of products. The constant aims of Oyak Bank's lending policy are to contribute to the growth and development of Turkey's economy and industry and to increase the Bank's share in the banking sector.

According to audited, statutory figures the total volume of Oyak Bank's corporate lendings at year-end 2000 was worth TL 47,400 billion-an 8% increase over that of 1999. During the same period, the volume of the Bank's non-cash credit increased 48% to TL 48,796 billion.

### TURNING THE OYAK GROUP'S HUGE POTENTIAL INTO BUSINESS

Employing some 14 thousand people in its subsidiaries and handling the social security accounts of more than 180 thousand members, the OYAK Group is one of the most potent economic forces in Turkey.

The Group's corporate structure, market experience, strong business discipline, and international reputation provide sound guidance for Oyak Bank in its efforts to restructure itself and achieve its goals. OYAK Group synergies number among the Bank's most important advantages at the corporate and individual level. Extensive and detailed work is in progress to develop those synergies and to turn them into business.

**IN THE BUSINESS OF CORPORATE BANKING, OYAK BANK PROVIDES A COMPLETE LINE OF MONEY AND CAPITAL MARKET PRODUCTS, CASH MANAGEMENT SERVICES, PRIVATE BANKING PRODUCTS, AND CORPORATE CONSULTANCY SERVICES TO THE CORPORATE BANKING MARKET.**

## OYAK BANK: ACTIVITIES IN 2000

**DEVELOPING CASH MANAGEMENT PRODUCTS SUCH AS AUTOMATIC DEBITING AND COLLECTING SYSTEMS AND INTEGRATING THEM INTO CORPORATE BANKING MARKETING ACTIVITIES ON AN INDIVIDUAL PROJECT BASIS IS AN AREA OF BUSINESS IN WHICH OYAK BANK SEES GREAT POTENTIAL AND TO WHICH IT ATTACHES MUCH IMPORTANCE.**

Working in coordination with the Bank's Retail Banking Department, the aim is to derive maximum advantage from cross-sale opportunities arising as a result of transactions among OYAK Group companies. In 2001, the process of restructuring Oyak Bank's corporate marketing activities will continue in full force as it takes advantage of these OYAK synergies.

#### **A GROWING VOLUME OF BUSINESS IN CASH MANAGEMENT**

In 2000, Oyak Bank began offering a select group of its customers cash management products designed to make their collections and payments easier and more effective. The underlying philosophy of the Bank's cash management products is to analyze each customer's needs individually and to adapt existing products to the particular needs of customers and their operations.

Oyak Bank's goal in 2001 is to broaden the scope, variety, and quality of its cash management services while further increasing the size of its service network. Under this heading, the Bank plans to make it possible for a larger number of customers-focusing particularly on dealership networks-to have direct access to collection points, to expand the customer base by allowing firms to make payments to sellers over the service network, and to keep

a close watch on the chain of supply and demand in order to ensure that every link remains within the system insofar as that is possible.

Oyak Bank's goal is to rank among the sector's leaders in the business of cash management as well.

#### **ELF SELYAK ATS DIRECT DEBITING PROJECT**

Developing cash management products such as automatic debiting and collecting systems and integrating them into corporate banking marketing activities on an individual project basis is an area of business in which Oyak Bank sees great potential and to which it attaches much importance.

The first big project undertaken in this direction is the vehicle recognition system (ATS) project for ELF Selyak, an OYAK subsidiary. The goal of this project is to facilitate and achieve economies in vehicle fuel purchases.

The project's design principles were defined in an agreement signed between ELF Selyak and Oyak Bank on 15 December 2000. After quickly completing the project's technical infrastructure studies, testing and phase-1 implementation began on 26 March 2001. The entire project consists of four phases and is scheduled for completion by the end of the same year.

## OYAK BANK: ACTIVITIES IN 2000

The purpose of this project is to completely automate collections for sales of fuel by ELF stations to vehicles in companies' fleets through a system of direct debiting. The project has already drawn the interest and support not only of OYAK Group companies but also of the Bank's customers. As this system spreads throughout Turkey, it represents one of the finest examples of the OYAK Group synergies.

### AN ACTIVE PLAYER IN CAPITAL AND MONEY MARKETS

Oyak Bank continued to play an active role among banks in capital and money markets.

A policy of pre-announced movements in exchange rates, the backbone of the IMF supported anti-inflationary program introduced in 2000, caused a rapid drop in interest rates while also fuelling a policy of "hot money". To the maximum degree allowed by Treasury rules, Oyak Bank handled transactions for its customers thereby increasing both its Turkish lira and foreign currency business volumes. The Bank made a particular point however of maintaining a short-term maturity structure.

As we moved into the second half of the year, delays in privatization and in banking reform as well as in other aspects of the program caused inflation to fall more slowly than had been targeted. This was accompanied by rapid growth in the size of the country's current accounts deficit, which led to worries about the whole program's sustainability. The Turkish banking system found itself confronted by burgeoning term/interest rate risks, in the face of which Oyak Bank's Treasury department chose not to maintain any open positions in the second half of the year. In line with this, coupon-bearing instruments were allowed to form the bulk of the Bank's portfolio-within the limits of requirements imposed by laws and regulations. As a result, the Bank's portfolio shrank an average of 52% by the end of the year.

Meanwhile Oyak Bank introduced a new deposits policy in order to strengthen the structure of its resources: the result was an increase in overall liquidity as total deposits rose 84% (49% on a USD basis). In 2000, the Bank's Turkish lira deposits were up 489% while its foreign currency deposits increased 38% as measured in

US dollars. The total volume of deposits was worth TL 55 trillion (USD 82 million).

During the same year, Oyak Bank engaged in TL 975 trillion worth of outright trading on the ISE's bond and bill market and in another TL 197 trillion worth of secondary market transactions.

Thanks to its successful strategies, the Bank kept its assets as liquid as possible, restricting the size of its bond and bill portfolio to statutory limits and abstaining from open positions. These efforts paid off handsomely in the liquidity crunch that hit in November 2000: Oyak Bank was one of a very few banks that was able to turn the crisis to its own advantage. During that difficult period, the Bank fulfilled all of its obligations and at the beginning of December it easily repaid the syndicated loan facility that it had obtained from international markets a year earlier without any need for an extension.

While technology played an important role in the successes that were achieved in a year as difficult and volatile as 2000 was, an even greater contribution was made by the accomplished and competitively-minded team of professionals who make up Oyak Bank's Treasury department. The highest-priority goals and tasks of this department are to develop new products with a focus on customer satisfaction and to minimize exchange rate, interest rate, and other measurable risks as much as possible by analyzing capital and money market movements and trends.

### RETAIL BANKING: A HIGH-POTENTIAL AREA OF BUSINESS

As it redefines its market position and rethinks its business strategies, retail banking products and services are an area of business with high potential in which Oyak Bank has no choice but to become an influential player. In the new period of the banking sector following the economic crisis, the ability to reach large groups of customers through an extensive service network is becoming more and more crucial. In that respect, the Bank's position is strengthened by the existence of OYAK Group employees and members who are located all over Turkey.

## OYAK BANK: ACTIVITIES IN 2000

**AIMED AT DEVELOPING AN ALTERNATIVE AND EXTENSIVE CHANNEL OF DISTRIBUTION AND AT CREATING GROUP-WIDE SYNERGIES, THE OYAK BANK ONLINE DEALER SALES SYSTEM (BOSS) MAKES IT POSSIBLE TO SECURE INSTANT CREDIT FINANCING FOR CAR SALES AT ALL RENAULT-MAÏS AUTHORIZED DEALERSHIPS.**

In the years ahead, Oyak Bank will be focusing on growth and on increasing market share in all segments of retail banking. In the near future, retail banking will become a business line that creates a significant proportion of the Bank's operational revenues.

Important gains were registered in the area of retail loans in 2000. Oyak Bank was the author of an innovative project that will serve as a model for others. Aimed at developing an alternative and extensive channel of distribution and at creating group-wide synergies, the Bank's online dealer sales system (BOSS) makes it possible to secure instant credit financing for car sales at Renault-Maïs authorized dealerships. This system is now in operation in all 147 sales points around the country. It was an important factor in enabling and maintaining dealer-customer relations under even the most difficult conditions of the crisis. Plans are now being made to extend the system into insurance, thereby broadening the scope of products that can be accessed over the system, while also providing a greater range of services to a larger group of customers.

Oyak Bank extended a total of TL 30,500 billion in retail loans in 2000, a figure that represents a 594% increase over the Bank's business (worth TL 4,394 billion) in the

same area in 1999. Broken down by category, there were 195 consumer loans amounting to TL 545 billion, 4,294 motor vehicle loans amounting to TL 24,775 billion, and 200 housing loans amounting to TL 5,180 billion.

Looking at the same breakdown again, the biggest gains in consumer credit were in loans for the purchase of motor vehicles: there were TL 1,340 billion of such loans in 1999; the TL 24,775 billion figure in 2000 represents a year-on increase of no less than 1,749%. This outstanding performance was followed by the increase in retail loans, which were up 228%.

In terms of the number of loan accounts, the 4,689 figure achieved in 2000 represents an 850% increase over the number that existed just a year before.

At year-end 2000, Oyak Bank held TL 34,691 billion worth of running retail loan accounts on its books: a 432% increase over the 1999 level of TL 6,522 billion. There were 5,278 accounts of this kind in 2000—a 708% increase over their previous year's level.

An indispensable component of Oyak Bank's retail banking services is automatic teller machines (ATM), investments in which are continuing without interruption. Using their

## OYAK BANK: ACTIVITIES IN 2000

Oyak Bank24 debit cards, bank customers can access their accounts and withdraw money twenty-four hours a day and seven days a week not only through the eleven ATMs presently in Oyak Bank branches but also (beginning in June 2001) through the nearly 1,900 ATMs that are linked to the “Joint Point” system all over Turkey.

The functions of the Bank’s ATMs were enhanced during 2000. In December, these machines were programmed and equipped with features that allow holders of cards issued by other Joint Point system members to access their accounts and to withdraw money. Oyak Bank is also working on a project to install ATMs in locations outside banks and the first machines are now in operation. In the first stage of this project, the Bank will be focusing on working together with the Group companies and introducing ATMs that will serve the needs of their employees.

Another retail banking service to which the Bank gives attention is salary payments. The first results of efforts in this direction were realized in 2000, with the salaries of 725 employees in five different companies being paid through Oyak Bank. The Bank will be seeking to increase its share in the market for salary payment services, focusing on the Group companies in particular at the outset.

In 2000, Oyak Bank became a member of the Credit Registration Office. This is an independent entity that is at the service of Turkish banking industry by providing a common pool of credit information and references that members can query. In November and December, 4,039 retail loan applications were checked with the Office

while the Bank supplied the Office with information about 1,778 loan customers during the same two-month period.

#### SPECIALLY DESIGNED CAMPAIGNS AND PRODUCTS FOR DIFFERENT CUSTOMER SEGMENTS

Seeking to bolster its presence in the market for retail banking products and services, Oyak Bank is determined to increase both the number of its retail banking customers and the volume of its business with them by designing original products and services for customer segments that it targets as a result of careful measurement and feasibility studies.

The retail loans in which Oyak Bank takes the greatest interest and sees the greatest potential for growth are loans to finance the purchase of automobiles and homes.

#### The Turkish automotives market and motor vehicle loans

Because of its dynamic economy with its huge potential as well as its political structure, Turkey is recognized by international automotives manufacturers as a particularly attractive market. The value of that market is further enhanced from the standpoint of automotives manufacturing and distributing by geographical location and by low production costs. Seven major automotives manufacturers have production facilities in Turkey and the automobile industry is the third biggest employer in the country, ranking only behind textiles and construction.

In 1999, the Turkish automobile market shrank 8% because of a general economic malaise made worse by that year’s disastrous earthquakes. Only 289,743 units

**OYAK BANK IS DETERMINED TO INCREASE BOTH THE NUMBER OF ITS RETAIL BANKING CUSTOMERS AND THE VOLUME OF ITS BUSINESS WITH THEM BY DESIGNING ORIGINAL PRODUCTS AND SERVICES FOR CUSTOMER SEGMENTS THAT IT TARGETS.**

## OYAK BANK: ACTIVITIES IN 2000

were sold that year. The following year, the industry rebounded with record sales of 459,538 units overall.

Automobile loans negotiated under a campaign developed jointly with Renault-Mais, the OYAK Group's automotives sector subsidiary, made up the biggest category of the Bank's retail loans.

As part of this campaign, which was undertaken as a comprehensive project, a dealer online sales system (BOSS) was developed by means of which dealers themselves can input loan applications directly, application reservations can be made automatically on the main Renault-Mais system, and the lending process is initiated and finalized through the Bank's system. BOSS also makes it possible for dealers to view the current standings of existing loan accounts on their own screens and to generate whatever reports they may need.

At present, 93% of Renault-Mais authorized dealers are linked into BOSS and have been taking part in company-organized campaigns. A remarkable 23% of all Renault-Mais sales in November-December 2000 alone were made through the Oyak Bank motor vehicle loan system.

Sales campaigns conducted jointly with Renault-Mais are expected to make the biggest single contribution to the growth in such loans for the foreseeable future. A target of Oyak Bank's financing 40% of Renault-Mais sales has been set for 2001.

### The real estate market and housing loans

The real estate market is another area of business with increasingly greater potential as the Turkish economy continues to develop. According to State Planning Organization figures, construction licenses for 126,000 new homes are expected to be issued in Turkey in 2001. This is just one statistic pointing to the overall size of this market.

Housing loans rank second only to motor vehicle loans as a retail loan category to which Oyak Bank gives its attention. In this business line, the Bank targets its products at strongly-capitalized building contractors, at real estate

agents, and at major industrial group companies as producers and, as consumers, at senior managers, at people with steady income, and at self-employed professionals who have a good earnings record.

### GROWTH TARGETS IN AUTOMOBILE AND HOUSING LOANS

Oyak Bank is determined to grow and increase its market share in the business of providing retail loans with a particular emphasis on automobile and housing loans.

The Bank is looking to develop similar automobile loan projects for other marques. These will also be targeted at different market segments. In 2001 the Bank will be working on organizing sales campaigns with some distributors of high-end luxury and median-market vehicles with an eye on achieving a 10% penetration in financing their sales. The job of adapting the BOSS software package to make this possible is scheduled for completion during the first half of 2001.

The Bank has also set its sights on a number of ambitious goals in providing housing loans in 2001-2002 as well. Oyak Bank already has a strong portfolio of mortgages and it has begun developing procedures to provide mortgages for housing development projects being undertaken by a number of construction firms.

### IMPORTANT DEVELOPMENTS IN RETAIL BANKING PRODUCTS AND SERVICES

Oyak Bank is also working on a number of projects that will add impetus to its activities in the market for retail banking products and services.

The Bank's new banking automation software package will become operational in October 2001. This system will contribute greatly not only to the marketing of retail banking products but also to the efficiency of customer service. The new automation system is also equipped with features that will significantly enhance customer satisfaction.

## OYAK BANK: ACTIVITIES IN 2000

The Bank's utility invoice payment module will also come online during the first quarter of 2002. Using this module-development of which is now under way-it will be possible to pay water, electricity, gas, telephone, GSM, and cable-TV bills at any Oyak Bank branch.

Oyak Bank's first credit card will be offered to customers in January 2001. Agreements have already been concluded with Europay and Visa International. Bank customers will be able to choose between the "Classic" and "Gold" card options. Oyak Bank credit cards will be followed by smart card and automatic installment shopping card projects.

One of Oyak Bank's fundamental goals is to serve its customers by taking advantage of alternative channels of distribution, which it believes will become increasingly more important in retail banking in the near future. In keeping with this belief, Oyak Bank is continuing work on developing and improving its web site, internet banking, and call center projects. The Bank's web site [www.oyakbank.com.tr](http://www.oyakbank.com.tr) will go live in May 2001 while its internet banking module is scheduled to start serving customers in the first quarter of 2002.

### THE IMPORTANCE OF MANAGING CUSTOMER RELATIONS

In today's "new economy", companies that focus on customer satisfaction are able to create for themselves important competitive advantages over their rivals in their bid to achieve product dominance or market share.

In recognition of this truth, Oyak Bank redesigned all its work processes to bring them into alignment with the concept of customer relations management in 2000. The changes dictated by this new approach to management were also reflected in the Bank's organizational structure where necessary.

Oyak Bank's goals in 2001 are to put into effect strategies that will further increase customer satisfaction, to come up with solutions for customers while providing service of the highest quality, and to strengthen its position as one of the leading institutions in the Turkish banking industry.

At a time when information has become more important than ever, the Bank is also continuing with its databank project, which will serve as the base for the customer relations management system.

### TECHNOLOGICAL ADVANCES THAT SHAPE TOMORROW'S PRODUCTS AND SERVICES

From the standpoint of information technologies, 2000 was also a busy year of fast-paced progress.

The most important activity of the year was the introduction of the BOSS project, which completely automates automotive loan procedures over the intranet. This robust and reliable system, has already given the Bank a strong presence in the market for retail loans. Other important projects completed during the year worthy of mention were concerned with the ATM system, salary payments, insurance premium collections and compensation payments, credit investigations, a link to the Credit Registration Office, MIS reporting, promissory notes, and fixed assets modules.

Concurrent with these activities the existing network tying together all branches and headquarters units was redesigned and renovated to comply with LAN and WAN standards. High-speed connectors were also installed. Thanks to this upgraded system, the Bank now has a powerful backbone to carry its voice and data communications.

Another important project undertaken by the Information Technologies Department was the ATS vehicle-recognition system designed for ELF Selyak. All of the technological and operational development and support required for this system is provided by Oyak Bank.

In 2000, the Bank's debit card system came on stream. Other activities during the year were SWIFT updates, installing the Right Fax automatic fax system, and installing the CAI TNG Unicenter and making it operational. Yet another project undertaken by the Department in 2000 was concerned with its support for OB Menkul Değerler A.Ş., an Oyak Bank subsidiary.

## OYAK BANK: ACTIVITIES IN 2000

AS IT STRIVES TO ACCOMMODATE ITSELF TO TODAY'S RAPIDLY CHANGING DYNAMICS, OYAK BANK IS AWARE THAT IT MUST WORK UNCEASINGLY IN ORDER TO COMPETE SUCCESSFULLY AND THAT THIS IS POSSIBLE ONLY WITH PERSONNEL WHO MAKE AN EFFORT ON THEIR OWN AS "SELF-DEVELOPERS" AND WHO HAVE A SENSE OF RESPONSIBILITY FOR THEIR OWN CAREERS.

Arguably the most important event from the standpoint of information technologies in 2000 however was the initiation of a restructuring capable of serving the Bank as it grows. As part of this effort, employees were given training in new aspects of technology, staff was beefed up by taking on new experts, and the system was equipped with features such as software that allows remote intervention.

#### A HUMAN RESOURCES POLICY TO SUPPORT PHYSICAL GROWTH

The human resources mission of Oyak Bank is to contribute to the development of a corporate culture and of feelings of confidence in the institution and to increase the effectiveness, productivity, and happiness of employees through the adoption and implementation of human resources policies that are principled, modern, and participatory.

As it strives to accommodate itself to today's rapidly changing dynamics, Oyak Bank is aware that it must work unceasingly in order to compete successfully and that this is possible only with personnel who make an effort on their own as "self-developers" and who have a sense of responsibility for their own careers. Because

of this awareness, it is Oyak Bank's policy to only take on individuals who are well educated, who are creative, who are technologically adept and multi-faceted, and who can think globally.

Each and every Oyak Bank employee is provided with the tools needed to carry out their duties, with the knowledge needed to be successful, with the training needed to develop their skills, and with the opportunities needed to further their career progression. To accomplish this the Bank bases its performance evaluation, compensation, promotion, and similar systems upon a philosophy that rewards knowledge and success and supports personal development.

Oyak Bank employs a staff of 426. 62% of its employees are university graduates and 76% of them have command of at least one foreign language. The average age is 32, as befits Oyak Bank's profile as a young and dynamic institution.

Oyak Bank's sights are focused on growth and its human resources policies and practices have been designed to support and foster that growth.

## FINANCIAL REVIEW

2000 will long be remembered for two very different things: the sanguine appearance that dominated the Turkish economy during the first half of the year and the liquidity crunch and its extraordinary aftermath in the last quarter.

In such an environment, the Turkish banking industry was inevitably caught up in a whirlwind of radical change. For its own part, Oyak Bank in the second six months of 2000 continued to carry out the projects that it had initiated as a requirement of its transformation and growth strategies but it also took great pains in its efforts to implement policies that aimed at protecting all the Bank's assets and claims during a period of tremendous economic volatility.

Liquidity management therefore became the touchstone of the Bank's activities in 2000 because of its vital importance to the Bank's survival. Throughout the year, Oyak Bank kept a close watch on money and capital markets, taking great care to remain as liquid as possible by focusing on short-term investments.

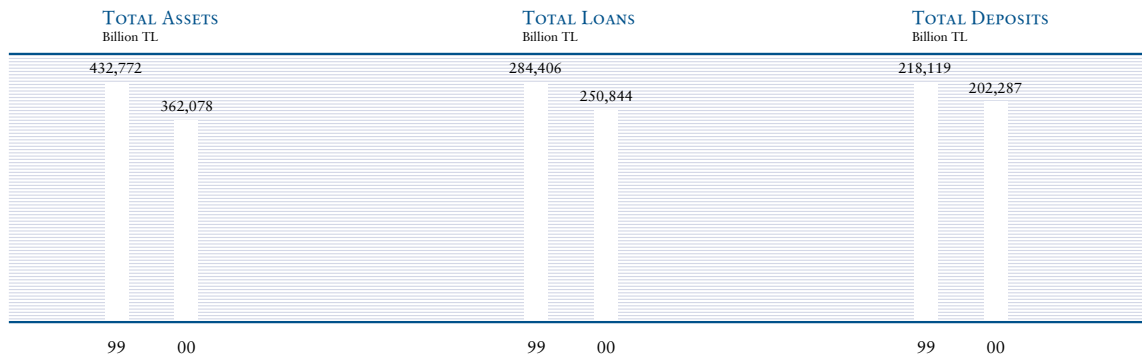
Oyak Bank's balance sheet, as maintained in compliance with the requirements of Turkish laws and regulations, shows a net loss of TL 8.4 trillion for 2000.

One thing about this balance sheet that should immediately be pointed out is that the provisions set aside for loans as a result of banking activities both in Turkey and through Oyak Bank's German subsidiary are higher than those required by law. This is in keeping with the Bank's fundamental principle of prudence. Provisions of 96% were set aside in 2000 for loans that were in legal follow-up.

The German subsidiary Oyak Anker Bank GmbH increased its own provisions from DM 2.6 million to DM 8.5 million in 2000, 70% of which was for loans that had been extended to business enterprises in Germany and had problems.

According to the Bank's inflation-adjusted and independently audited balance sheet, as of 31 December 2000 Oyak Bank had assets worth a total of TL 362 trillion. This figure represents a 16.3% decrease from that of the previous year.

**LIQUIDITY MANAGEMENT BECAME THE TOUCHSTONE OF OYAK BANK'S ACTIVITIES IN 2000: THROUGHOUT THE YEAR, OYAK BANK KEPT A CLOSE WATCH ON MONEY AND CAPITAL MARKETS, TAKING GREAT CARE TO REMAIN AS LIQUID AS POSSIBLE BY FOCUSING ON SHORT-TERM INVESTMENTS.**



## FINANCIAL REVIEW

**DURING 2000, OYAK BANK ACTED WITH GREAT PRUDENCE AND DISCRIMINATION IN ITS LENDING ACTIVITIES. BUT ALTHOUGH THE CORPORATE LOAN PORTFOLIO SHRANK OVERALL IN THE SECOND HALF OF THE YEAR, OYAK BANK CONTINUED TO STAND BY ITS EXISTING CREDIT CUSTOMERS EVEN DURING THE DIFFICULT DAYS OF THE NOVEMBER CRISIS.**

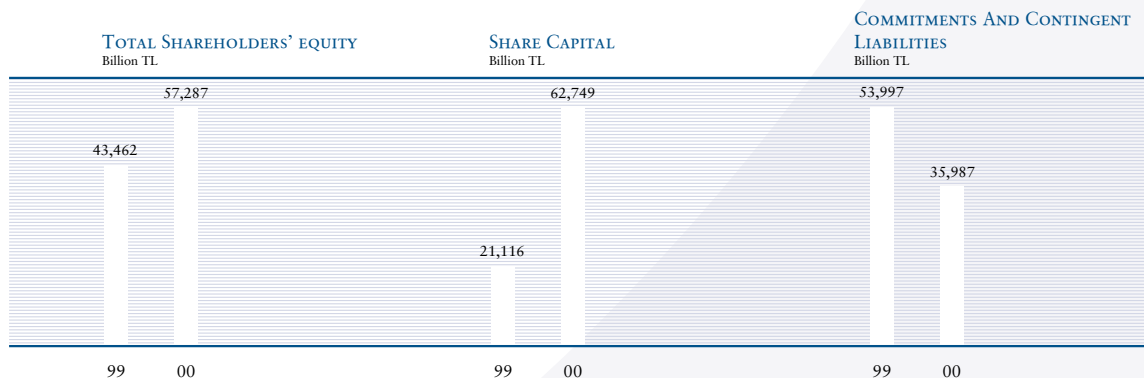
The two biggest contributors to this contraction were decreases in the two balance sheet items “Loans to customers” and “Lendings to banks”: Oyak Bank’s loan portfolio shrank 12% in 2000 while the volume of its lendings to other banks was down 58%.

During 2000, the Bank acted with great prudence and discrimination in its lending activities. But although the corporate loan portfolio shrank overall in the second half of the year, Oyak Bank continued to stand by its existing credit customers even during the difficult days of the November crisis.

After the end of the year, the volume of the Bank’s lending began to grow again, mainly because of new relationships established with corporate customers and as a result of

new projects-especially automobile loans and other retail loans-that the Bank became involved in.

According to the Bank’s inflation-adjusted and independently audited balance sheet for 2000, Oyak Bank’s paid-in capital stood at TL 62.7 trillion as of 31 December 2000. This resulted from two cash injections totaling TL 31.7 trillion (TL 16.7 trillion on 5 April 2000 and TL 15 trillion on 25 December 2000), from TL 9.4 trillion in retained profits, and from TL 446 billion from the revaluation of assets. This total represents a 197% increase over the 1999 figure. The increase is still more proof of the commitment of Oyak Bank’s shareholders to the principle of maintaining a reputation of being a strongly capitalized bank.



## OYAK BANK'S SUBSIDIARIES

**OYAK BANK HAS FOUR SUBSIDIARIES THAT ARE ENGAGED IN THE BUSINESSES OF SECURITIES BROKERAGE, PORTFOLIO MANAGEMENT, BANKING AND FINANCIAL SERVICES.**



OB Menkul Değerler A.Ş. was founded in 1998 as a joint venture of Oyak Bank and Oyak Menkul Değerler A.Ş. The Company is a brokerage house whose services on behalf of domestic and foreign corporate investors are based on high-quality, impartial, and solid research.

Oyak Bank's respected name, modern approaches, and strength combined with Oyak Menkul Değerler's years of market experience create powerful synergies that OB Menkul Değerler can take advantage of.

OB Menkul Değerler's principal activities consist of capital market transactions (trading in corporate stocks, fixed-income instruments, and mutual funds) and investment consultation.

In 2000, OB Menkul Değerler handled a total trading volume of TL 211.6 trillion on the Istanbul Stock Exchange (ISE). Oyak Bank owns a 94.5% stake in OB Menkul Değerler.



Oyak Portföy Yönetimi A.Ş. is a portfolio management company founded to manage the portfolios of corporate and private investors. The Company is a joint venture of Oyak Bank (60%) and Oyak Menkul Değerler (40%).

Oyak Portföy Yönetimi manages a total of six mutual funds: three for the OYAK Group and three for Emlak Bankası. The Company also undertakes the management of investment accounts for a large number of private and corporate clients, the latter of which include many prestigious institutional investors and charitable foundations.

## OYAK BANK'S SUBSIDIARIES

**Oyak  Anker Bank**

Oyak Anker Bank GmbH is a wholly-owned subsidiary of Oyak Bank. The Bank joined the OYAK Group in 1996 with the acquisition of AB Anker Bank. The Bank's headquarters are located in Koblenz, Germany. The Bank also has six branches in the cities of Koblenz, Cologne, Bonn, Munich, Berlin, and Mannheim.

Oyak Anker Bank specializes in trade finance and in retail banking products and services. At year-end 2000, the Bank had assets worth DM 507 million. During the year, it booked a total of DM 222 million in business as foreign trade financing. The Bank, whose capitalization amounts to DM 31.4 million, employs 129 people.

**Oyak  European Finance Plc**

Oyak European Finance Plc (OEF) was founded in 1994 and is based in Dublin's International Financial Services Center. A wholly-owned subsidiary of Oyak Bank, OEF is a financial services company and is subject to Irish laws and regulations.

OEF's principal activities consist of accepting deposits, commercial and retail loans, leasing, project financing, and corporate finance consultation. In 2000 the Company wrote USD 70 million worth of business.

## MANAGEMENT

### BOARD OF DIRECTORS

DR. ŞERİF COŞKUN ULUSOY  
CHAIRMAN

DR. ALİ CANER ÖNER  
VICE-CHAIRMAN / BOARD MEMBER

A. MEHMET ÖZDENİZ  
BOARD MEMBER, GENERAL MANAGER

BEDİZ DEMİRAY  
BOARD MEMBER

DR. MEHMET AYDIN MÜDERRİSOĞLU  
BOARD MEMBER

NURHAN ÖZDAMAR  
BOARD MEMBER

ERTUĞRUL AYDIN  
AUDITOR

DR. TAMER AKSOY  
AUDITOR

### EXECUTIVE MANAGEMENT

A. MEHMET ÖZDENİZ  
GENERAL MANAGER

NIHAT KARADAĞ  
ASSISTANT GENERAL MANAGER

SÜREYYA MEYDANOĞLU  
ASSISTANT GENERAL MANAGER

GÜLDEN ÇAĞLI  
ASSISTANT GENERAL MANAGER

GÜLÇİN GÖKÇEN  
ASSISTANT GENERAL MANAGER

GÖKHAN YURTÇU  
HEAD OF THE INSPECTION BOARD

AHMET RAMİZ ZİYAL  
COORDINATOR

BAHAR MADAZLI  
COORDINATOR

SEÇKİN KÖSE  
COORDINATOR

SUDAD HAMAM  
COORDINATOR

## AUDITOR'S REPORT

To the Board of Directors of  
Oyak Bank Anonim Şirketi

1. We have audited the accompanying consolidated balance sheet of Oyak Bank Anonim Şirketi ("the Bank" - a Turkish corporation) at 31 December 2000 and the related consolidated statements of loss and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish lira at 31 December 2000. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oyak Bank Anonim Şirketi at 31 December 2000 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion we draw attention to the following issue:

4. As explained in Note 24, on 22 February 2001 due to the turmoil in the Turkish financial sector the Turkish government concluded that the managed exchange rate was no longer sustainable. The crawling-peg system, which had limited the depreciation of the local currency, was then abandoned in favour of a free-floating exchange rate. The Turkish lira has depreciated in excess of 35% when compared to the exchange rates prevailing at 31 December 2000 and the prevailing interest rates are significantly high at the date of this report. There is uncertainty as to the effects of the ongoing volatility in the financial markets on the financial condition of the Bank and its future operations and cash flows at present.

Başaran Nas Serbest Muhasebeci  
Mali Müşavirlik Anonim Şirketi  
a member of PricewaterhouseCoopers



Zeynep Uras, SMMM

Istanbul, 23 February 2001

## OYAK BANK A.Ş.

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

	Notes	2000	1999
<b>ASSETS</b>			
Cash and balances with Central Banks	3	17,036,897	14,867,226
Due from other banks	4	39,888,884	94,731,947
Dealing securities	5	20,280,718	16,628,810
Loans and advances to customers	6	250,843,709	284,405,747
Investment securities	7	9,298,294	1,153,955
Accrued interest receivable and other assets		8,556,823	9,489,362
Investments		7,930	-
Goodwill	8	-	1,138,551
Property and equipment	9	10,123,339	9,802,192
Deferred tax asset	14	6,041,488	554,378
<b>Total assets</b>		<b>362,078,082</b>	<b>432,772,168</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to other banks	10	8,491,400	5,543,192
Deposits	11	202,286,794	218,118,918
Interbank money market deposits	12	-	7,537,360
Debt securities in issue		2,939,774	6,084,260
Other borrowed funds	12	75,870,947	136,648,113
Accrued interest payable and other liabilities	13	9,564,862	9,751,647
Income taxes payable	14	685,007	1,241,033
Reserve for employment termination benefits	15	661,966	581,893
Deferred tax liability	14	1,268,134	716,167
Subordinated loans		2,056,164	2,433,313
<b>Total liabilities</b>		<b>303,825,048</b>	<b>388,655,896</b>
Minority interest	16	965,620	654,222
<b>Shareholders' equity</b>			
Share capital	17	62,749,000	21,116,000
Adjustment to share capital	17	92,104,739	88,738,976
Accumulated deficit and reserves	18	(97,566,325)	(66,392,926)
<b>Total shareholders' equity</b>		<b>57,287,414</b>	<b>43,462,050</b>
<b>Total liabilities and shareholders' equity</b>		<b>362,078,082</b>	<b>432,772,168</b>
Commitments and contingent liabilities	19		

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

## OYAK BANK A.Ş.

## CONSOLIDATED STATEMENTS OF LOSS FOR THE YEARS ENDED 31 DECEMBER

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

	Notes	2000	1999
<b>Interest income:</b>			
On loans and advances to customers		32,315,075	40,219,491
Interest on short term funds and placements with other banks		20,458,444	31,669,632
Interest on investment securities		3,950,601	6,176,792
Other interest income			
<b>Total interest income</b>		<b>56,724,120</b>	<b>78,065,915</b>
<b>Interest expense:</b>			
Interest on customer, commercial and bank deposits		(16,172,878)	(13,658,416)
Interest on other borrowed funds		(10,065,854)	(12,767,575)
On Interbank funds borrowed		(1,590,779)	(714,425)
On securities issued		(404,147)	(553,707)
<b>Total interest expense</b>		<b>(28,233,658)</b>	<b>(27,694,123)</b>
<b>Net interest income</b>		<b>28,490,462</b>	<b>50,371,792</b>
Foreign exchange gains losses, including net gains or losses from dealing in foreign currency		(11,395,756)	(25,426,078)
<b>Net interest income after foreign exchange gains and losses</b>		<b>17,094,706</b>	<b>24,945,714</b>
<b>Other operating income</b>			
Income from bank services		3,824,717	1,711,484
Fees and commissions on loans, net		2,568,458	2,479,888
Trading income on marketable securities		7,042,787	7,028,880
Dividend income		1,078	7,577
Other non- interest income		1,132,379	2,547,269
<b>Operating income</b>		<b>31,664,125</b>	<b>38,720,812</b>
<b>Other operating expenses</b>			
Salaries and employee benefits		(13,706,941)	(13,858,706)
Other taxes		(1,463,071)	(1,009,530)
Depreciation and amortisation on property, equipment and leasehold improvements	9	(2,677,608)	(2,565,478)
Amortisation of goodwill	8	(1,130,792)	(1,138,551)
Other non-interest expenses		(15,910,365)	(10,076,401)
Loan loss provisions	6	(14,490,140)	(5,030,994)
<b>Profit from operations</b>		<b>(17,714,792)</b>	<b>5,041,152</b>
<b>Profit before tax and loss on monetary position</b>		<b>(17,714,792)</b>	<b>5,041,152</b>
Taxation on income	14	4,289,576	(2,244,947)
<b>Loss on net monetary position</b>	2	<b>(6,064,019)</b>	<b>(8,323,157)</b>
<b>(Loss)/profit after tax and loss on monetary position</b>		<b>(19,489,235)</b>	<b>(5,526,952)</b>
Minority interest	16	(321,182)	(137,152)
<b>Net loss for the year</b>		<b>(19,810,417)</b>	<b>(5,664,104)</b>

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

## OYAK BANK A.Ş.

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

	Notes	2000	1999
Cash flows from operating activities			
Net loss for the year		(19,810,417)	(5,664,104)
Adjustments for:			
Depreciation and amortization		3,808,400	3,704,029
Provision for loan impairment	6	14,490,140	5,030,994
Employment termination benefits		80,073	62,386
Provision for current and deferred taxes		(4,250,136)	482,017
Minority interest		321,182	137,152
Profit on sale of property and equipment		-	(14,191)
Interest income – net		(28,490,463)	(50,371,792)
Interest paid		(26,843,784)	(26,645,010)
Interest received		57,374,588	77,609,678
Cash flows from operating profits before changes in operating assets and liabilities			
		(3,320,417)	4,331,159
Changes in operating assets and liabilities:			
Net decrease/(increase) in loans and advances to banks		19,118,551	(5,221,953)
Net (increase)/decrease in balances with Central Bank of Turkey		(1,811,760)	2,148,634
Net (increase)/decrease in securities portfolio		(10,126,102)	11,379,167
Net increase in other assets		(211,443)	(191,766)
Net increase in other liabilities		474,817	365,286
Net (decrease)/increase customer deposits		(15,832,124)	18,841,107
Proceeds from borrowed funds (net of repayments)		(68,510,804)	(22,391,624)
Income taxes paid		(1,241,035)	(7,190,727)
Net cash (used in)/from operating activities			
		(81,460,317)	2,069,283
Cash flows from investing activities			
Purchase of property and equipment (net of disposals)		(2,990,994)	(5,347,716)
(Increase)/decrease in minority interest		(3,113)	93,770
Purchase of investments		(7,930)	-
Net cash used in investing activities			
		(3,002,037)	(5,253,946)
Cash flows from/(used in) financing activities			
Cash increase in share capital		33,968,998	13,837,818
Dividends paid		(339,887)	(14,559,869)
Net cash from/(used in) financing activities			
		33,629,111	(722,051)
Net decrease in cash and cash equivalents			
		(50,833,243)	(3,906,714)
Cash and cash equivalents at beginning of year		121,794,389	125,701,104
Cash and cash equivalents at end of year	3	70,961,146	121,794,390

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

## OYAK BANK A.Ş.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

	Share Capital	Adjustment to share capital	Accumulated deficit			Shareholders' equity total
			General and legal reserves	Unappropriated net income	Accumulated deficit total	
Balance at 1 January 1999	13,766,000	82,251,158	(47,260,221)	1,146,781	(46,113,440)	49,903,718
Capital increase:						
-Cash injection	7,127,002	6,710,816	-	-	-	13,837,818
-Capitalisation of revaluation fund	222,998	(222,998)	-	-	-	-
Dividends paid	-	-	(13,413,088)	(1,146,781)	(14,559,869)	(14,559,869)
Taxation on dividends paid	-	-	(35,235)	-	(35,235)	(35,235)
Change in minority interest	-	-	(20,278)	-	(20,278)	(20,278)
Net loss for the year	-	-	-	(5,664,104)	(5,664,104)	(5,664,104)
Balance at 31 December 1999	21,116,000	88,738,976	(60,728,822)	(5,664,104)	(66,392,926)	43,462,050
Capital increase:						
-Cash injection	31,749,776	2,219,222	-	-	-	33,968,997
-Transfer from retained earnings	9,437,044	1,592,722	-	(11,029,766)	(11,029,766)	-
-Capitalisation of revaluation fund	446,180	(446,180)	-	-	-	-
Dividends paid	-	-	-	(339,887)	(339,887)	(339,887)
Change in minority interest	-	-	6,671	-	6,671	6,671
Net loss for the year	-	-	-	(19,810,417)	(19,810,417)	(19,810,417)
Balance at 31 December 2000	62,749,000	92,104,740	(60,722,151)	(36,844,174)	(97,566,325)	57,287,414

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

# OYAK BANK A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

### NOTE 1 - PRINCIPAL ACTIVITIES

Oyak Bank Anonim Şirketi ("the Bank") was incorporated on 9 November 1990 and operated with the name Türk Boston Bank A.Ş. until 10 May 1996. The Bank's head office is located at Büyükdere cad. Ali Kaya Sok. No:4 Polat Plaza A Blok 80620 Levent-Istanbul/Turkey. The Bank provides general corporate banking services with some emphasis on retail activities where an investment process started during 1998 to establish the base for a more extensive network of retail activities. In addition to the head-office in Istanbul, it has 11 operational branches, which are located in Istanbul (four), Ankara (two), Adana (two), Izmir, Bursa and Izmit.

The Bank also has two foreign subsidiaries in Dublin, Ireland and in Koblenz, Germany and two financial subsidiaries in Istanbul, Turkey.

The consolidated financial statements incorporate the assets, liabilities, income and expenses of Oyak Bank A.Ş. and its group companies, Oyak European Finance Plc., Oyak Anker Bank GmbH, Oyak Portföy Yönetimi A.Ş. and OB Menkul Değerler A.Ş. which together form the Oyak Bank Group ("the Group").

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

#### Basis of presentation of financial statements

The Bank and its domestic subsidiaries maintain their books of account and prepare their statutory financial statements in Turkish lira based on the Turkish Commercial Code, Banking Law and Tax Regulations. Foreign subsidiaries maintain their books based on statutory rules and regulations applicable in their jurisdictions. The consolidated financial statements are based on the statutory records which are maintained under the historical cost convention (except for the revaluation of property, plant and equipment for subsidiaries registered in Turkey as discussed in Note 9) with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee.

The restatement for changes in the general purchasing power of the Turkish lira as of 31 December 2000 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 is applicable to financial statements covering periods beginning on or after 1 January 1990. 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 nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS").

Indices and conversion factors used to restate accompanying financial statements as of 31 December 2000 and 1999 are given below:

Dates	Index	Conversion factor
31 December 2000	2,626.000	1.000
31 December 1999	1,979.500	1.327
31 December 1998	1,215.100	2.161

The main procedures 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 which are carried at amounts current at the balance sheet date 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.
- Comparative financial statements are restated using general inflation indices at the currency purchasing power at the latest balance sheet date.
- All items in the statement of income are restated by applying the monthly conversion factors.
- The effects of inflation on the Bank's net monetary position are included in the statement of income as gain or loss on net monetary position.

#### Translation of foreign subsidiary financial statements

The financial statements of foreign subsidiaries are translated into Turkish lira using relevant foreign exchange rates prevailing at the balance sheet date.

#### Consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank.

# OYAK BANK A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

The list of principal subsidiary undertakings is set out below:

Name	Country of incorporation	Percentage ownership 2000	Percentage ownership 1999
Oyak European Finance Plc	Ireland	100.00%	100.00%
Oyak Anker Bank GmbH	Germany	100.00%	100.00%
VFG	Germany	100.00%	100.00%
Oyak Portföy Yönetimi A.Ş.	Turkey	60.00%	60.00%
OB Menkul Değerler A.Ş.	Turkey	94.49%	80.00%

Oyak European Finance Plc, an international financial services company, was incorporated in July 1994 and has been operational since August 1994.

Oyak Anker Bank GmbH, which has six branches located in Germany was acquired on 1 January 1996.

VFG is a fully owned subsidiary of Oyak Anker Bank GmbH.

Oyak Portföy Yönetimi A.Ş. ("OPY"), an asset management company, is a 60% investment in which the remaining shares are held by Oyak Menkul Değerler A.Ş. OPY was incorporated in June 1997 and has been operational since then.

OB Menkul Değerler A.Ş. ("OBM"), a brokerage house, is an 94.5% investment (1999: 80%) of which the remaining shares are held by Oyak Menkul Değerler A.Ş. OBM was incorporated in September 1998.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Separate disclosure is made of minority interests.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is amortised using the straight-line method over five years. The carrying amount of goodwill is reviewed when circumstances or events indicate that there may be uncertainty over the carrying amount and written down for impairment where the net present value of the forecast future cash flows of the business are insufficient to support the carrying value. The gain or loss on disposal of an entity includes the related unamortised balance of goodwill relating to the entity disposed of.

### Related parties

The Bank's shareholders, directors and key management personnel, in each case together with their families and the companies controlled by or affiliated with them ("Oyak Group") are referred to as related parties in these consolidated financial statements.

### Investment securities

Investment securities include treasury bills and government bonds which management intend to hold until maturity and are stated at cost as adjusted for the amortisation of discounts on purchases over the period to maturity. A reduction in market value is not taken into account unless it is considered to be permanent.

### Dealing securities

Dealing securities are stated at market prices. All gains and losses realised and unrealised from trading in dealing securities are reported in trading income on marketable securities. Interest earned whilst holding dealing securities is reported as interest income. Dividends received are included separately in dividend income.

### Sale and repurchase agreements

Securities sold under sale and repurchase agreements ("repos") are retained in the financial statements and the counterparty liability is included in deposits from banks or customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as placement with other banks. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements.

### Interest income and expense

Interest income and expense are recognised in the income statement on an accrual basis. Interest income is suspended when, in management's opinion, collection becomes doubtful and is excluded from interest income until received. Interest income includes coupons earned on fixed income securities and accrued discount on treasury bills.

### Loans and provisions for loan impairment

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. The level of the provision is based on the internal policies of the Bank which require a classification to loans under follow-up and a provision for the outstanding balance of the loan if the payment of interest is overdue for more than thirty days.

# OYAK BANK A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

A general provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

The provision for loan impairment is based on an analysis of internal credit risk gradings allocated to borrowers, refined to reflect the economic climate in the markets in which the Bank operates and the realisable value of collateral taken against outstanding exposures.

The movement in provision is charged against the income for the period. When a loan is deemed uncollectable, it is written off against the related provision for impairment. The loan is written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Subsequent recoveries are credited to the income statement if previously written off (Note 6).

Foreign currency indexed loans are recognised at their initial Turkish lira values and subsequent foreign currency gains calculated on such loans are included in interest income on loans in the income statement.

### Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. Acceptances are accounted for as off - balance sheet transactions (Note 19).

### Foreign exchange transactions

Foreign currency transactions in group companies are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Such balances are translated at year-end exchange rates.

### Property and equipment

All property and equipment carried at historical cost less depreciation are restated to the equivalent purchasing power at 31 December 2000. Depreciation is calculated on the restated amounts of property and equipment using the straight-line method to write off the restated cost of each asset to their residual values over their estimated useful life as follows:

Buildings	50 years
Furniture and fixtures	5 years
Office equipment and motor vehicles	3-8 years
Leasehold improvements	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Expenses for the repair of property and equipment are normally charged against income. They are, however, capitalised in exceptional cases if they result in an enlargement or substantial improvement of the respective assets.

Leasehold improvements comprise primarily the capitalised branch refurbishment costs and are amortised on a straight-line basis over a period not exceeding five years, which is not longer than the lease period.

### Computer software development costs

Generally, costs associated with developing computer software programs are recognised as expense as incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives but not exceeding a period of five years, or over the period of the lease if less than five years.

Costs associated with the maintenance of existing computer software programs and for modifications for the Year 2000 are expensed as incurred.

### Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from the restatement of property and equipment over their historical cost, amortised gains on investment securities, accrued foreign exchange income and expense on forward contracts, provision for loan impairment, provision for employment termination benefits, capital software expenses and carry forward losses.

Deferred tax assets resulting from temporary differences in the recognition of expense for income tax and financial reporting purposes are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised (Note 14).

### Employment termination benefits

Employment termination benefits, as required by the Turkish Labour Law, are recognised in the accompanying financial statements as they are earned. The total provision represents the present value of the future probable obligation of the Bank arising from the retirement of the employees (Note 15).

# OYAK BANK A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

### Financial instruments

IAS 32 Financial Instruments: Disclosure and Presentation defines financial instruments very broadly, covering not only financial assets and liabilities but also derivative financial instruments and requires disclosures about exposure to, and significant concentrations of, credit risk and about exposure to foreign exchange, interest rate and liquidity risks.

### Credit risk

Financial instruments contain an element of risk that the counterparts may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey where the majority of the activities are carried out. This risk is monitored by reference to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has a credit committee and the majority of loans are subject to approval of this committee. The Bank has in place effective credit evaluation, disbursement and monitoring procedures and those control procedures are supported by senior management. The credit risk is generally diversified due to the large number of entities comprising the customer bases and their dispersion across different industries.

Geographical concentration of assets, liabilities and off-balance sheet items

As at 31 December 2000	Total assets	Total liabilities	Credit commitments
Turkey	215,981,305	154,825,965	52,749,450
Germany	144,696,049	144,568,006	1,247,461
Ireland	1,400,728	4,431,077	-
	362,078,082	303,825,048	53,996,911
As at 31 December 1999	Total assets	Total liabilities	Credit commitments
Turkey	212,237,796	173,224,340	32,257,737
Germany	209,934,462	207,970,204	3,729,284
Ireland	10,599,910	7,461,352	-
	432,772,168	388,655,896	35,987,021

Geographic sector risk concentrations within the loans and advances to customers were as follows:

	2000	2000 %	1999	1999 %
Turkey	121,900,994	49	130,049,387	46
Germany	128,942,715	51	154,356,360	54
	250,843,709	100	284,405,747	100

### Foreign exchange risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. Open foreign exchange exposures are hedged with derivative financial instruments that include primarily forward foreign exchange contracts, currency futures and swaps. All forward contracts hedging foreign exchange risk have a duration of less than a year.

### Interest rate risk

The Bank is exposed to interest rate risk either through market value fluctuations of balance sheet items i.e., price risk or the impact of rate changes on interest sensitive assets and liabilities. In Turkey the interest rates are highly volatile and this may result in significant changes in prices of financial instruments, such as government bonds and bills. Additionally, in Turkey the major sources of funding are customer deposits and repurchase agreements. These exposures are managed by using derivatives such as futures, and natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

### Liquidity risk

The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions.

### Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between 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, judgement 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 realise in a current market exchange.

A market does not presently exist for term loans and deposits which would facilitate obtaining prices for comparative instruments, and if sold or settled prior to their stated maturity dates, these instruments would bear transaction costs in the form of fees or discounts. Fair value has not been computed for these instruments because of the impracticability of determining fair value with sufficient reliability. Furthermore net book amounts are considered to be a reasonable estimate of the fair value.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

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

### Financial assets

Monetary assets for which fair value approximates carrying value:

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

The fair values of certain financial assets carried at cost, including cash and balances with the Central Bank of Turkey, due from other banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature. The fair values of investment securities have been estimated based on market prices at balance sheet dates (Note 7).

The fair value of loans and advances to customers is also considered to approximate the carrying value. The fair value of the loan portfolio is estimated by assessing the risk components of the portfolio.

The fair value of dealing securities is determined by reference to the market value.

### Financial liabilities

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

### Derivative financial instruments

Derivative financial instruments mainly comprise forward foreign exchange contracts that allow the Bank to reduce its foreign exchange risk. Accordingly, unrealised gains and losses on forward foreign exchange contracts are determined by comparing the spot rate on deal date as adjusted for the forward premium/discount calculated on a pro-rata basis with the spot rate at the balance sheet date. Such gains and losses are included in foreign exchange gains and losses in the income statement.

The Bank's criteria for a derivative instrument to be classified as a hedge is as follows:

- The transaction must be reasonably expected to match or eliminate a significant portion of the risk inherent in the position being hedged,
- There is adequate evidence of the intent to hedge at the outset of the transaction.

### 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 realise the asset and settle the liability simultaneously.

### Cash and cash equivalents

For the purpose of the statement of cash flows, the cash and cash equivalents comprise balances with less than 90 days' maturity from the date of acquisition including cash and balances with central banks, amounts due from other banks and dealing securities (Note 3).

### NOTE 3 - CASH AND BALANCES WITH CENTRAL BANKS

	2000	1999
Cash in hand	1,009,003	780,910
Cheques received	-	14,460
Interbank money market placements	1,717,785	-
Balances with the Central Bank of Germany	1,308,377	1,460,915
Balances with the Central Bank of Turkey	13,001,732	12,610,941
	17,036,897	14,867,226

According to the regulations of the Central Bank of Turkey the Bank is required to maintain reserve deposits equivalent to a certain portion of its customers deposits, other than interbank deposits, based on the type of deposit (foreign currency or Turkish lira), at different percentages ranging from 6% to 11%. Accordingly, balances with the Central Bank of Turkey include mandatory reserve deposits of TL6,245,353 million (1999: TL4,433,593 million). These funds are not available to finance the Bank's day to day operations.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

The Central Bank of Turkey requires that banks maintain minimum ratios of cash-on-hand, deposits with the Central Bank of Turkey and government bonds in their portfolio against their liabilities. The Bank was in compliance with the following liquidity requirements at 31 December 2000:

	Applicable for 2000	Applicable for 1999
Turkish lira deposits	4% government bonds 2% cash 2% deposits in call account	4% government bonds 2% cash 2% deposits in call account
Turkish lira liabilities	8% deposits in call account 4% government bonds 2% cash	8% deposits in call account 4% government bonds 2% cash
Foreign currency deposits	1% government bonds 2% cash	1% government bonds 2% cash
Foreign currency liabilities	11% deposits in call account 1% government bonds 2% cash	11% deposits in call account 1% government bonds 2% cash

Subsequent to the balance sheet date, the liquidity requirement for Turkish lira liabilities for government bonds has been decreased to 6% from 8%.

All interbank money market deposits are denominated in Turkish Lira and related interest rates were between 125% and 128% per annum during 2000 (1999: -).

According to the Central Bank regulations banks in Germany are required to deposit a certain proportion of their deposits including bank deposits with the Central Bank, Since 1 January 1999, the Central Bank of Germany is part of the European Central Bank and the Bank receives interest for the reserve deposits. In prior years reserve deposits in Germany did not bear any interest.

Cash and cash equivalents included in the statement of cash flows for the years ended 31 December are as follows:

	2000	1999
Cash in hand	1,009,003	780,910
Cheques received	-	14,460
Interbank money market placements	1,717,785	-
Balances with the Central Bank of Turkey (excluding reserve deposits)	6,756,379	8,177,348
Current/demand accounts with other banks	1,514,332	1,208,715
Balances with the Central Bank of Germany	1,308,377	1,460,915
Placements with banks	38,374,552	93,523,232
Dealing securities	20,280,718	16,628,810
	<b>70,961,146</b>	<b>121,794,390</b>

## NOTE 4 - DUE FROM OTHER BANKS

	2000	1999
Current/demand accounts with other banks:		
Domestic banks	10,145	6,297
Foreign banks	1,504,187	1,202,418
	<b>1,514,332</b>	<b>1,208,715</b>
Placements with domestic banks	28,608,449	38,504,188
Placements with foreign banks	9,766,103	55,019,044
	<b>38,374,552</b>	<b>93,523,232</b>
	<b>39,888,884</b>	<b>94,731,947</b>

Interest rates for placements with other banks ranged between 42% and 140% for local currency placements (1999: 30% and 130%) and between 35% and 43% (1999: 8% and 12%) for foreign currency placements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

Included in placements with domestic banks at 31 December 1999 were securities pledged under agreements to resell (reverse repos) in the amount of TL15,517,110 million. The interest rates on reverse repos ranged between 118% and 169% in 1999. There were no reverse repos at 31 December 2000.

## NOTE 5 - DEALING SECURITIES

	2000		1999	
	Cost	Carrying value	Cost	Carrying value
Government bonds	15,359,445	14,964,290	13,136,884	15,010,336
Treasury bills	92,789	96,354	61,191	126,211
Eurobonds	2,137,787	2,157,570	-	-
Common stocks	3,264,458	1,920,871	-	-
Mutual funds	1,477,714	1,141,633	1,487,137	1,492,263
	22,332,193	20,280,718	14,685,212	16,628,810

Government bonds and treasury bills are discount and coupon securities issued by the Republic of Turkey in Turkish lira.

Included in government bonds were securities pledged under to repurchase agreements with other banks whose carrying value at 31 December 2000 was TL11,557,454 million (1999: TL2,913,305 million).

Interest rates for government bonds and treasury bills vary between 51% and 64% in 2000 (1999: 42% and 84%). Interest rates for Eurobonds vary between 9.25% and 12.35% in 2000 (1999: -).

The mutual funds are consisted of A type Oyak-fund participations.

The net unrealised loss on dealing securities amounted to TL2,051,475 million at 31 December 2000 (1999: unrealized gain of TL1,943,598 million).

## NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS

	2000	1999
Consumer loans	128,943,243	120,726,004
Corporate loans	108,709,170	130,323,796
Mortgage loans	16,799,613	22,678,430
Eximbank loans	2,845,251	5,553,057
	257,297,277	279,281,287
Non-performing loans	16,995,762	18,666,930
Total gross loans and advances	274,293,039	297,948,217
Less: Specific provisions for loan losses	(22,049,136)	(12,212,617)
General provisions for loan losses	(1,400,194)	(1,329,853)
Net loans and advances to customers	250,843,709	284,405,747

Movement in provisions for loan impairment is as follows:

	Specific provision	General provision	Total provision
Balance at 1 January 1999	7,711,112	2,291,998	10,003,110
Reclassification from general provision to specific provision	777,185	(777,185)	-
Loan impairment expense during the year	4,982,452	48,542	5,030,994
Amounts written off	(402,803)	-	(402,803)
Recoveries of amounts previously provided	(34,180)	-	(34,180)
Monetary gain	(821,149)	(233,502)	(1,054,651)
Balance at 31 December 1999	12,212,617	1,329,853	13,542,470
Loan impairment expense during the year	14,111,219	378,921	14,490,140
Amounts written off	(1,491,051)	-	(1,491,051)
Recoveries of amounts previously provided	(183,284)	-	(183,284)
Monetary gain	(2,600,365)	(308,580)	(2,908,945)
Balance at 31 December 2000	22,049,136	1,400,194	23,449,330

## OYAK BANK A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

Economic sector risk concentrations for the performing loans were as follows:

	31 December 2000					
	Cash Loans		Non-Cash Loans		Total	
	TL billion	%	TL billion	%	TL billion	%
Consumer loans	128,943	50	-	-	128,943	42
Finance	32,000	12	24,145	45	56,145	18
Mortgage loans	16,800	7	-	-	16,800	5
Service	11,895	5	1,759	3	13,654	4
Textile	10,460	4	568	1	11,028	4
Automotive	925	-	9,893	18	10,818	3
Cement	6,715	3	1,904	4	8,619	3
Food	7,933	3	613	1	8,546	3
Residential house development	8,281	3	-	-	8,281	3
Construction	5,460	2	-	-	5,460	2
Glass	5,116	2	-	-	5,116	2
Transportation	2,825	1	2,254	4	5,079	2
Ship building	4,700	2	-	-	4,700	2
Electrical	4,368	2	99	-	4,467	1
Industrial production	1,431	1	2,221	4	3,652	1
Trading	515	-	3,015	6	3,530	1
Insurance	1,252	-	-	-	1,252	-
Chemical	-	-	927	2	927	-
Ceramics	357	-	443	1	800	-
Tourism	-	-	537	1	537	-
Petroleum products	1	-	-	-	1	-
Other	7,320	3	5,619	10	12,939	4
	257,297	100	53,997	100	311,294	100

	31 December 1999					
	Cash Loans		Non - Cash Loans		Total	
	TL billion	%	TL billion	%	TL billion	%
Consumer loans	120,690	43	1,081	3	121,771	39
Mortgage loans	18,775	7	11,870	33	30,645	10
Finance	22,672	8	-	-	22,672	7
Textile	13,534	5	606	2	14,140	4
Service	12,022	4	764	2	12,786	4
Food	12,478	4	-	-	12,478	4
Residential house development	12,047	4	-	-	12,047	4
Automotive	6,947	2	4,627	13	11,574	4
Industrial production	8,230	3	1,816	5	10,046	3
Electrical	9,071	3	880	2	9,951	3
Insurance	3,692	1	4,699	13	8,391	3
Trading	7,905	3	-	-	7,905	3
Ceramics	5,992	2	283	1	6,275	2
Chemical	5,015	2	-	-	5,015	2
Transportation	1,410	1	3,314	9	4,724	1
Glass	4,643	2	-	-	4,643	1
Cement	4,314	2	-	-	4,314	1
Carpet	3,424	1	-	-	3,424	1
Petroleum products	1,990	1	813	2	2,803	1
Tourism	1,230	-	1,503	4	2,733	1
Ship building	679	1	1,994	6	2,673	1
Construction	1,079	-	-	-	1,079	-
Other	1,442	-	1,737	5	3,179	1
	279,281	100	35,987	100	315,268	100

Interest rates vary between 6% and 32% (1999: 7% and 22%) per annum for foreign currency loans and between 24% and 180% (1999: 52% and 120%) per annum for Turkish lira loans.

Loans and advances to customers are further analysed as a part of the balance sheet in the notes: Related party transactions (Note 20), Currency risk (Note 21) and Liquidity risk (Note 22).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

## NOTE 7 - INVESTMENT SECURITIES

	2000			1999		
	Cost	Accrued Interest	Carrying Value	Cost	Accrued Interest	Carrying value
Government Bonds	8,804,780	493,514	9,298,294	598,182	536,491	1,134,673
Treasury Bills	-	-	-	12,673	6,609	19,282
	8,804,780	493,514	9,298,294	610,855	543,100	1,153,955

The fair values of the investment securities amount to TL8,782,171 million at 31 December 2000.

The interest rates of investment securities vary between 30% and 32% at 31 December 2000.

## NOTE 8 - GOODWILL

	2000	1999
Opening net book amount:		
Oyak Anker Bank GmbH	1,083,215	2,166,431
VFG	55,336	110,671
Effect of difference between inflation and devaluation rates	(7,759)	-
	1,130,792	2,277,102
Amortisation charge	(1,130,792)	(1,138,551)
	-	1,138,551
Cost	5,692,755	5,692,755
Accumulated amortisation	(5,692,755)	(4,554,204)
	-	1,138,551

The goodwill in Oyak Anker Bank GmbH relates to the balance arising at the date of acquisition and is expressed in Turkish lira in terms of the purchasing power of TL at 31 December 2000 whereas the goodwill in VFG is the Turkish lira equivalent of the original DM balance as at the year-end rate.

## NOTE 9 - PROPERTY AND EQUIPMENT

	Total
At 31 December 1999	
Cost	22,024,976
Accumulated depreciation	(12,222,784)
Net book amount	9,802,192
Year ended December 2000	
Opening net book amount	9,802,192
Effect of difference between inflation and devaluation rates	(584,050)
Additions	3,670,608
Disposals - net	(87,803)
Depreciation charge	(2,677,608)
Closing net book amount	10,123,339
At 31 December 2000	
Cost	24,526,253
Accumulated depreciation	(14,402,914)
Net book amount	10,123,339

## OYAK BANK A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

## NOTE 10 - DUE TO OTHER BANKS

	2000	1999
Foreign currency:		
Domestic banks	7,241,400	3,383,850
Foreign banks	-	-
	7,241,400	3,383,850
Turkish Lira:		
Domestic banks	1,250,000	2,159,342
	8,491,400	5,543,192

All of the amounts due to other banks are consisted of term deposits and interest rates on foreign currency deposits from other banks vary between 24% and 30% for 2000 (1999: 8% and 11%). Interest rates on Turkish lira bank deposits ranged between 33% and 42% in 2000 (1999: 51% and 93%).

## NOTE 11 - DEPOSITS

	2000			1999		
	Current/ Demand	Term	Total	Current/ Demand	Term	Total
Saving and commercial (TL)	721,000	4,848,137	5,569,137	484,968	969,994	1,254,962
Saving and commercial (Foreign currency)	9,404,934	175,036,557	184,441,491	12,574,403	199,496,839	212,071,242
Securities sold under repurchase agreements	-	12,276,166	12,276,166	-	4,792,714	4,792,714
	10,125,934	192,160,860	202,286,794	13,059,371	205,259,547	218,118,918

Interest rates for deposits bear the following interest rates at 31 December 2000 and 1999:

Currency	2000	1999
US\$	8%-15%	9%-15%
DM	6%-12%	3%-13%
TL	30%-70%	58%-101%

## NOTE 12 - OTHER BORROWED FUNDS

	2000		1999	
	Original currency	TL million	Original currency	TL million
Interbank	TL	-	7,537,360	7,537,360
Domestic banks	TL	1,898,940	1,857,162	1,857,162
	DM	-	18,275,975	1,198,949
	US\$	1,035,000	1,840,000	1,323,757
	EUR	406,778	1,625,999	1,173,189
		2,845,252		5,553,057
Foreign banks	DM	15,572,716	2,131,500	786,327
	US\$	39,196,150	109,532,709	78,801,452
	EUR	17,250,000	23,570,000	17,006,205
		41,921,331		96,593,984
Group company borrowings	US\$	46,389,808	47,955,918	34,501,072
		75,870,947		136,648,113

# OYAK BANK A.Ş.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000

(AMOUNTS EXPRESSED IN MILLIONS OF TURKISH LIRA (TL) IN TERMS OF THE PURCHASING POWER OF TL AT 31 DECEMBER 2000)

Funds borrowed from foreign banks include a US\$13.3 million (1999: US\$26.6 million) of originally US\$40 million long term syndicated loan granted by IFC (International Finance Corporation).

The funds borrowed from banks at 31 December 2000 and 1999 bear the following interest rates:

Currency	2000	1999
US\$	7%-29%	6%-15%
DM	5%-10%	3%-8%
EUR	7%-10%	5%-15%
TL	-	51%-73%
TL (Eximbank)	6%-9%	49%-63%

### NOTE 13 - ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES

	2000	1999
Interest expense accruals	4,978,533	5,146,055
Unearned revenues	1,725,730	-
Banking operations tax payable	1,073,570	236,952
Payment orders	85,050	137,875
Others	1,701,979	4,230,765
	9,564,862	9,751,647

### NOTE 14 - TAXATION

	2000	1999
Current tax expense	645,567	3,003,963
Deferred tax income	(4,935,143)	(759,016)
Taxation (income)/expense	(4,289,576)	2,244,947
Deferred tax liability	1,268,134	716,167
Deferred tax asset	(6,041,488)	(554,378)
Deferred taxes (asset)/liability, net	(4,773,354)	161,789

#### Taxation for Turkey

Effective from 1 January 1999, corporation tax is payable at a rate of 33% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

Income exempt from corporation tax (except dividend income received from Turkish Companies) is subject to withholding tax at the rate of 16.5% regardless of whether the profits are distributed.

Dividends paid by the Company are subject to a withholding tax calculated on the gross dividend to be paid at the rate of 16.5% for private companies and 5.5% for quoted companies. An increase in capital using distributable profit or by issuing bonus shares is not considered as a profit distribution and thus there is no withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 25% on their corporate income. Advance tax is payable by the 15th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Interest income on Turkish government bonds and treasury bills is subject to corporation tax.

Capital gains derived from the sale of investments in subsidiaries and immovable assets held for not less than two years are tax exempt if such gains are added to paid in capital in the year in which they are sold.

Capital expenditures and projected capital expenditures for the following year are eligible for investment allowance incentives. Such allowance is available to companies for specific capital investments and are deductible from taxable income prior to the calculation of the corporate income tax. Investment allowance incentives utilised are subject to a withholding tax at the rate of 19.8% (1999: 16.5%).

Additional tax liabilities were imposed in order to compensate for the losses suffered due to earthquakes in the Marmara Region and vicinity on 17 August 1999 and 12 November 1999. Accordingly, effective from 1 January 2000, treasury bills and bonds issued prior to 1 December 1999 and maturing after 1 January 2000 have been kept subject to interest tax. The tax rate schedule is based upon the number of days between 1 December 1999 and the redemption date of the relevant security.

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For treasury bills or bonds issued at discount, the following schedule applies:

<u>Days remaining until redemption (From 1 December 1999):</u>	<u>Tax rate:</u>
1-91	4%
92-183	9%
More than 183	14%

Additionally, two-year fixed interest rate bonds with quarterly coupon payments will be taxed at a 19% rate with three-year variable interest rate bonds with quarterly coupon payments taxed at a 4% rate. At this time, no tax has been implemented on treasury securities issued on or after 1 December 1999. Securities issued in foreign currency, such as Eurobonds, are not subject to this tax.

Under the Turkish taxation system, losses can be carried forward to offset against future taxable income for up to 5 years. Losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing. During this time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

### Taxation for Germany

Corporation tax rate for non-distributed income is reduced from 45% to 40% for financial years ending after 31 December 1998. Tax rate for distributed income is 30%. Corporation tax rates for profits of German permanent establishments (branches) of foreign corporations is reduced from 42% to 40% for financial years ending after 31 December 1998.

The loss carried forward for corporations is unrestricted as to time or source. The loss carried back amounts to a maximum of DM2 million for one year, which will be reduced to DM1 million from 2001 onwards.

### Taxation for Ireland

Oyak European Finance Plc. ("OEF") received the tax certificate of International Financial Service Centre ("IFSC") from the Irish Minister for Finance which entitles OEF to have its trading profits taxed at 10%. This certificate will remain in force until 31 December 2005, provided that OEF adheres to the conditions in the certificate. Any income of OEF which does not fall to be regarded as active will be taxed at 25%. From 1 January 2006, trading income will be taxable at 12.5% and non-trading income at 25%.

Irish companies which pay dividends to non-Irish parent companies are obliged to pay withholding tax at the standard rate of income tax, unless the parent company qualifies for exemption. The exemptions are confined to the companies which are resident either in an EU country with which Ireland has concluded a tax treaty. As Turkey does not fulfil either of these requirements, OEF must withhold tax any dividend payments to parent Bank. The rate of withholding tax is 22% in respect of dividends paid before 6 April 2001 and 20% on dividends paid after that date.

### Deferred taxes

Deferred taxes are calculated on all temporary differences under the liability method using principal tax rates of 33% for Oyak Bank A.Ş., Oyak Portföy Yönetimi A.Ş. and OB Menkul Değerler A.Ş., 44% for Oyak Anker Bank GmbH, and 10% for Oyak European Finance Plc..

The movement on the deferred tax account is as follows:

	2000	1999
At beginning of the year	161,789	920,805
Income statement credit	(4,935,143)	(759,016)
At the end of the year	(4,773,354)	161,789

The deferred tax liability represents the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return, in accordance with applicable tax law.

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The temporary differences giving rise to the deferred tax assets and deferred tax liabilities are as follows:

	Cumulative temporary differences		Deferred tax assets/liabilities	
	2000	1999	2000	1999
Deferred tax asset				
Loan loss provisions	9,785,468	1,548,815	3,229,205	511,108
Reserve for employment termination benefits	284,960	121,604	87,869	40,130
Expense accrual on common stocks	1,341,385	-	442,657	-
Carry forward losses	6,541,142	-	2,155,298	-
Lease obligation	-	9,515	-	3,140
Capitalised interest expense on property and equipment	-	-	-	-
Expense accrual on derivatives	383,210	-	126,459	-
	18,336,165	1,679,934	6,041,488	554,378
Deferred tax liability				
Investment financing funds	-	976,672	-	161,151
Restatement of property and equipment	4,277,927	1,030,644	1,016,751	340,113
Income accrual on marketable securities	528,914	1,014	174,541	334
Income accrual on derivatives	-	55,382	-	18,277
Accelerated capital allowances	35,740	59,353	3,574	5,936
Capital software expense	366,341	317,998	73,268	190,356
	5,208,922	2,441,063	1,268,134	716,167
Deferred tax asset/(liability), net			4,773,354	(161,789)

## NOTE 15 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

Under Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, who is called up for military service, who dies or who retires after completing 25 years of service (20 years for women) and simultaneously according to new social security legislation, effective 8 September 1999, who reaches the required age to retire. The retirement age is defined as 58 for women and 60 for men and as a transitional approach, decreases according to the cumulative working days earned until 8 September 1999. The amount payable consists of one month's salary limited to a maximum of TL587,720,000 (1999: TL345,200,000) for each year of service.

The liability is not funded, as there is no funding requirement.

The Bank during 1999 adopted IAS 19 (revised) "Employment Benefits". Accordingly, the reserve for employment termination benefits has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of the employees.

IAS 19 (revised) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as of 31 December 2000 for the parent Bank and its financial subsidiaries operating in Turkey:

	2000	1999
Discount rate (%)	7	7
Turnover rate to estimate the probability of retirement (%)	9	17

Additionally, the principal actuarial assumption is the maximum liability of TL457,941,500 for each year service would increase in line with inflation. As the maximum liability is revised semi-annually the maximum amount of TL614,750,000 which is effective from 1 January 2000 has been taken into consideration in calculating the reserve for employment termination benefits of the parent Bank and its financial subsidiaries operating in Turkey.

Total amount of reserve for employment termination benefits for the parent Bank and its financial subsidiaries amount to TL232,763 million at 31 December 2000 (1999: TL124,448 million). The amount of the pension accruals for Oyak Anker Bank GmbH and Oyak European Finance Plc. equals to TL429,203 million at 31 December 2000 (1999: TL457,445 million).

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Movements of the reserve for employment termination benefits during the year are as follows:

	2000	1999
1 January	581,893	519,507
Paid during the year	(141,243)	(6,483)
Charge for the year	215,767	68,869
Monetary gain	5,549	-
31 December	661,966	581,893

### NOTE 16 - MINORITY INTEREST

	2000	1999
1 January	654,222	403,022
Increase in share capital	-	220,996
Net income for the year	321,182	137,152
Dividend for 1999 (1998)	-	(52,528)
Effect of change in minority interest	(9,784)	(54,420)
31 December	965,620	654,222

### NOTE 17 - SHARE CAPITAL

The Bank's share capital as at 31 December 2000 consists of 62,749,000 (1999: 21,116,000) fully paid shares with a par value of TL 1,000 each. TL 62,748,999,988 thousand of the Bank's share capital is held by Ordu Yardımlaşma Kurumu (OYAK).

Adjustment to share capital represents the restatement effect of cash contributions to share capital in year-end equivalent purchasing power.

### NOTE 18 - ACCUMULATED DEFICIT AND RESERVES

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Bank is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

- First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid share capital.
- Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued share capital, without limit. It may be used to absorb losses.

Under the previous Banking Law the Bank was required to record a reserve for possible loan losses, appropriated at the rate of 5% from profit after tax until the total reserve is equal to the paid-in capital. The new Banking Act has abolished this requirement and the balance accumulated in statutory financial statements has been classified as legal reserves.

At 31 December 2000 and 1999 reserves held by the Bank (the parent only) in the historical statutory financial statements as follows:

	2000	1999
Legal reserves	3,826,719	3,307,134
Unappropriated (loss)/profit	(8,393,650)	10,247,322

According to Capital Market Board ("CMB") regulations, the Bank has the following two options: They may either distribute dividends in cash or they may elect not to distribute any dividends at all. However, CMB may require the Bank to distribute dividends in cash. If the Bank makes a decision to distribute any dividends, distribution should be made within five months following the year-end.

### NOTE 19 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements, including letters of guarantee, acceptance credits, letters of credit and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities at 31 December 2000 and 1999.

#### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to

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third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit related commitments of the Bank at 31 December:

	2000	1999
Letters of guarantee issued by the Bank	19,337,997	15,748,954
Acceptance credits	633,651	1,729,742
Letter of credits	19,486,611	16,894,584
Other commitment and contingencies	14,538,652	1,613,741
	53,996,911	35,987,021

**Commitments under derivative instruments**

The breakdown of forward and spot currency purchase/sale transactions at 31 December is as follows:

		Notional amounts	2000 TL million	Notional amounts	1999 TL million
Forward currency purchases	US\$	18,317,887	12,282,143	9,138,512	6,574,547
	GBP	2,550,000	2,523,970	-	-
	DM	-	-	10,657,973	3,931,804
	EUR	4,934,051	3,060,824	6,565,951	4,736,016
			17,866,937		15,242,367
Forward currency sales	US\$	4,371,505	2,931,094	14,448,725	10,394,890
	DM	1,995,361	632,885	-	-
	EUR	14,775,124	9,165,704	6,886,262	4,968,569
	TL	5,409,950	5,409,950	-	-
			18,139,633		15,363,459
Spot currency purchase	DM	250,000	79,295	-	-
	EUR	750,000	465,260	-	-
			544,555		-
Spot currency sales	US\$	690,650	463,080	-	-
	EUR	127,823	79,295	-	-
			542,375		-

Currency swap sales and purchases at 31 December 2000 in terms of foreign currencies amount as follows:

Currency swap purchases	Currency swap sales
EUR 4,934,051	US\$ 4,371,301
GBP 2,550,000	EUR 4,145,124
US\$ 9,868,550	EUR 10,630,000
US\$ 949,307	DM 1,995,361

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## NOTE 20 - RELATED PARTY BALANCES

A number of banking transactions were entered into with related parties in the normal course of business. These include cash and non-cash loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates. Outstanding year end balances are as follows:

	2000	1999
Loans	2,350,165	13,667,751
Accrued interest receivable and other assets	47,433	335,817
Customer deposits	12,274,072	14,571,656
Other borrowed funds	31,104,364	34,501,072
Accrued interest payable and other liabilities	347,601	816,316
Dividends paid	-	14,559,869
Commitment and contingencies	13,995,179	13,086,935

## NOTE 21 - CURRENCY RISK

Assets and liabilities denominated in foreign currency at 31 December are stated in terms of TL billion as follows:

31 December 2000	TL	US\$	DM	EUR	Other	Total
Cash and balances with Central Banks	2,085	12,252	1,603	913	184	17,037
Due from other banks	19,741	9,105	9,262	805	976	39,889
Dealing securities	18,123	2,131	-	27	-	20,281
Loans and advances to customers	30,797	57,657	144,798	17,251	341	250,844
Investment securities	9,298	-	-	-	-	9,298
Accrued interest receivable and other assets	5,326	1,680	961	91	499	8,557
Investments	-	-	8	-	-	8
Goodwill	-	-	-	-	-	-
Property and equipment	6,656	63	3,404	-	-	10,123
Deferred tax asset	5,932	-	109	-	-	6,041
<b>Total assets</b>	<b>97,958</b>	<b>82,888</b>	<b>160,145</b>	<b>19,087</b>	<b>2,000</b>	<b>362,078</b>
Due to other banks	1,250	7,241	-	-	-	8,491
Deposits	17,847	40,697	140,285	429	3,029	202,287
Interbank money market deposits	-	-	-	-	-	-
Debt securities in issue	-	2,844	-	-	96	2,940
Other borrowed funds	1,899	43,780	4,935	25,257	-	75,871
Accrued interest payable and other liabilities	4,480	1,672	2,784	212	417	9,565
Income taxes payable	604	77	4	-	-	685
Reserve for employment termination benefits	233	-	429	-	-	662
Deferred tax liability	1,182	4	82	-	-	1,268
Subordinated loans	-	-	2,056	-	-	2,056
<b>Total liabilities</b>	<b>27,495</b>	<b>96,315</b>	<b>150,575</b>	<b>25,898</b>	<b>3,542</b>	<b>303,825</b>
Minority interest	966	-	-	-	-	966
<b>Net balance sheet position</b>	<b>69,497</b>	<b>(13,427)</b>	<b>9,570</b>	<b>(6,811)</b>	<b>(1,542)</b>	<b>57,287</b>
Off-balance sheet derivative instruments net position	(5,410)	8,888	(554)	(5,719)	2,524	(271)

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31 December 1999	TL	Other	Total
Cash and balances with Central Banks	538	14,329	14,867
Due from other banks	42,276	52,456	94,732
Dealing securities	16,629	-	16,629
Loans and advances to customers	17,211	267,195	284,406
Investment securities	1,154	-	1,154
Accrued interest receivable and other assets	5,688	3,801	9,489
Investments	-	-	-
Goodwill	1,139	-	1,139
Property and equipment	5,602	4,200	9,802
Deferred tax asset	554	-	554
<b>Total assets</b>	<b>90,791</b>	<b>341,981</b>	<b>432,772</b>
Due to other banks	2,159	3,384	5,543
Deposits	6,048	212,071	218,119
Interbank money market deposits	-	7,537	7,537
Debt securities in issued	-	6,084	6,084
Other borrowed funds	11,946	124,702	136,648
Accrued interest payable and other liabilities	2,100	7,652	9,752
Income taxes payable	976	265	1,241
Reserve for employment termination benefits	125	457	582
Deferred tax liability	520	196	716
Subordinated loans	-	2,434	2,434
<b>Total liabilities</b>	<b>23,874</b>	<b>364,782</b>	<b>388,656</b>
Minority interest	654	-	654
<b>Net balance sheet position</b>	<b>66,263</b>	<b>22,801</b>	<b>43,462</b>
Off-balance sheet derivative instruments net position	-	(122)	(122)

At 31 December 2000 assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL670,500 = US\$1 (1999: TL542,150 US\$1), TL317,178 = DM1 (1999: TL278,001 = DM1) and TL620,347 = EUR1 (1999: TL543,722 = EUR1).

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## NOTE 22 - LIQUIDITY RISK

The Bank's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due. The amount of assets and liabilities at 31 December analysed over the remaining period to the contractual maturity date in terms of TL billion is as follows:

31 December 2000	Demand and up to 3 months	3 to 12 month	Over 1 year	No maturity	Total
Cash and balances with Central Banks	10,647	145	-	6,245	17,037
Due from other banks	31,106	8,783	-	-	39,889
Dealing securities	4,678	6,954	8,649	-	20,281
Loans and advances to customers	47,068	70,003	131,951	1,822	250,844
Investment securities	-	2,385	6,913	-	9,298
Accrued interest receivable and other assets	4,195	2,263	1,126	973	8,557
Investments	-	-	-	8	8
Goodwill on investments	-	-	-	-	-
Property and equipment	-	-	-	10,123	10,123
Deferred tax asset	-	-	6,041	-	6,041
<b>Total assets</b>	<b>97,694</b>	<b>90,533</b>	<b>154,680</b>	<b>19,171</b>	<b>362,078</b>
Due to other banks	8,160	331	-	-	8,491
Deposits	101,242	41,541	57,112	2,392	202,287
Interbank money market deposits	-	-	-	-	-
Debt securities in issue	-	2,658	282	-	2,940
Other borrowed funds	5,688	60,085	10,098	-	75,871
Accrued interest payable and other liabilities	7,023	1,007	146	1,389	9,565
Income taxes payable	608	77	-	-	685
Reserve for employment termination benefits	-	-	-	662	662
Deferred tax liability	-	-	1,268	-	1,268
Subordinated loans	-	2,056	-	-	2,056
<b>Total liabilities</b>	<b>122,721</b>	<b>107,755</b>	<b>68,906</b>	<b>4,443</b>	<b>303,825</b>
Minority interest	-	-	-	966	966
<b>Net liquidity gap</b>	<b>(25,027)</b>	<b>(17,222)</b>	<b>85,774</b>	<b>13,762</b>	<b>57,287</b>

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31 December 1999	Demand and up to 3 months	3 to 12 month	Over 1 year	No maturity	Total
Cash and balances with Central Banks	10,433	-	-	4,434	14,867
Due from other banks	94,732	-	-	-	94,732
Dealing securities	10,284	6,345	-	-	16,629
Loans and advances to customers	149,301	110,220	24,885	-	284,406
Investment securities	-	1,154	-	-	1,154
Accrued interest receivable and other assets	-	-	-	9,489	9,489
Investments	-	-	-	-	-
Goodwill	-	-	-	1,139	1,139
Property and equipment	-	-	-	9,802	9,802
Deferred tax asset	-	-	-	554	554
<b>Total assets</b>	<b>264,750</b>	<b>117,719</b>	<b>24,885</b>	<b>25,418</b>	<b>432,772</b>
Due to other banks	5,543	-	-	-	5,543
Deposits	143,683	58,085	16,351	-	218,119
Interbank money market deposits	7,537	-	-	-	7,537
Debt securities in issue	5,725	359	-	-	6,084
Other borrowed funds	108,070	28,578	-	-	136,648
Accrued interest payable and other liabilities	-	-	-	9,752	9,752
Income taxes payable	-	-	-	1,241	1,241
Reserve for employment termination benefits	-	-	-	582	582
Deferred tax liability	-	-	-	716	716
Subordinated loans	2,434	-	-	-	2,434
<b>Total liabilities</b>	<b>272,992</b>	<b>87,022</b>	<b>16,351</b>	<b>12,291</b>	<b>388,656</b>
Minority interest	-	-	-	654	654
<b>Net liquidity gap</b>	<b>(8,242)</b>	<b>30,697</b>	<b>8,534</b>	<b>12,473</b>	<b>43,462</b>

## NOTE 23 - MUTUAL FUNDS

At 31 December 2000, the Bank managed three open-ended mutual funds (Funds) which were established under the Capital Market Board Regulations. At 31 December 2000, the Funds' investment portfolios include equity stocks, government bonds and treasury bills of TL17,932,787 million (1999: TL16,650,976 million). In accordance with the Funds' statute, the Bank purchases and sells marketable securities for the Funds, markets their participation certificates and provides other services for management fees of 0.00075%. In 2000, the Bank earned a management fee of TL1,466,955 million (1999: TL2,699,776 million).

## NOTE 24 - SUBSEQUENT EVENTS

On 22 February 2001, due to the turmoil in the Turkish financial sector the Turkish government concluded that the managed exchange rate was no longer sustainable. The crawling-peg system, which had limited the depreciation of the local currency, was then abandoned in favour of a free-floating exchange rate. The Turkish lira has depreciated in excess of 35% when compared to the exchange rates prevailing at 31 December 2000 and the prevailing interest rates are significantly high at the date of these financial statements. There is uncertainty as to the effects of the ongoing volatility in the financial markets on the financial condition of the Bank and its future operations and cash flows at present.

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