KPMG

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements

31 December 2004

With Independent Auditors' Report Thereon

4 March 2005

This report contains the "Independent Auditors' Report" comprising 1 page; and the "Consolidated financial statements and their explanatory notes" comprising 57 pages.

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Independent Auditors' Report

To the Board of Directors of
Türkiye Garanti Bankası Anonim Şirketi,

We have audited the accompanying consolidated balance sheet of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 31 December 2004; and the consolidated income statements, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Garanti Bankası Anonim Şirketi and its affiliates as of 31 December 2004; and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul,
4 March 2005

KPMG Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik A.Ş.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet
At 31 December 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2004 pursuant to IAS 29)

	Notes	31 December 2004	31 December 2003
Assets			
Cash and cash equivalents	*3*	2.761.781	1.870.702
Financial assets held for trading	*4*	618.621	1.191.860
Loans and advances to banks	*5*	1.737.211	1.483.459
Loans and advances to customers	*6*	15.282.759	11.205.284
Other assets	*8*	1.003.197	1.230.141
Security investments	*9*	6.555.246	9.244.831
Investments in equity participations	*10*	273.716	449.590
Tangible assets, net	*11*	1.723.920	1.860.108
Intangible assets, net	*12*	115.134	137.388
Deferred tax assets	*17*	194.478	532.298
Total assets		**30.266.063**	**29.205.661**
Liabilities			
Deposits from banks	*13*	1.134.021	1.033.799
Deposits from customers	*14*	19.705.720	18.530.532
Obligations under repurchase agreements	*15*	924.761	1.840.065
Loans and advances from banks	*16*	4.052.898	3.673.320
Current tax liability	*17*	29.487	34.463
Deferred tax liabilities	*17*	1.390	5.366
Other liabilities and accrued expenses	*18*	1.140.449	1.043.626
Total liabilities		**26.988.726**	**26.161.171**
Minority interest		**189.377**	**231.561**
Shareholders' equity	*19*		
Share capital		2.563.176	2.168.544
Retained earnings		524.784	644.385
Total shareholders' equity		**3.087.960**	**2.812.929**
Total liabilities, minority interest and shareholders' equity		**30.266.063**	**29.205.661**
Commitments and contingencies	*21*		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Income Statement
For The Year Ended 31 December 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2004 pursuant to IAS 29)

	Notes	2004	2003
Interest income:-			
Interest on loans		1.934.900	1.437.595
Interest on securities		969.151	1.314.511
Interest on deposits at banks		184.235	171.065
Interest on lease business		49.732	53.701
Others		70.641	75.503
		3.208.660	3.052.375
Interest expense:-			
Interest on saving, commercial and public deposits		(1.464.128)	(1.931.888)
Interest on borrowings		(329.592)	(442.975)
Interest on bank deposits		(95.004)	(121.650)
Others		(40.102)	(5.325)
		(1.928.826)	(2.501.838)
Net interest income		**1.279.834**	**550.537**
Fee and commission income		865.306	720.910
Fee and commission expense		(253.311)	(277.665)
Net fee and commission income		**611.994**	**443.245**
Gross profit from retail business		247.093	195.082
Premium income from insurance business		109.765	85.166
Trading account income, net		104.767	480.601
Foreign exchange gain, net		47.321	209.397
Others		78.108	153.677
Other operating income		**587.054**	**1.123.923**
Total operating Income		**2.478.882**	**2.117.705**
Salaries and wages		(431.048)	(389.938)
Impairment losses	*6,7,8,10,11,12,18*	(344.125)	(133.897)
Depreciation and amortization	*11,12*	(218.087)	(229.419)
Employee benefits		(117.850)	(92.850)
Advertising expenses		(88.186)	(71.358)
Communication expenses		(82.160)	(72.450)
Rent expenses		(72.465)	(77.230)
EDP expenses		(48.318)	(65.383)
Saving deposits insurance fund		(45.042)	(36.185)
Claim loss from insurance business		(37.782)	(29.494)
Utility expenses		(33.716)	(39.855)
Taxes and duties other than on income		(30.707)	(35.048)
Repair and maintenance expenses		(23.042)	(22.315)
Stationary expenses		(13.514)	(12.751)
Other operating expenses		(320.692)	(330.020)
Total operating expenses		**(1.906.733)**	**(1.638.193)**
Income from operations		**572.149**	**479.512**
Loss on monetary position, net		(41.560)	(2.671)
Income before tax		**530.589**	**476.841**
Taxation (charge)/credit	*17*	(301.163)	70.155
Income after tax		**229.426**	**546.996**
Minority interest		40.376	63.761
Net income for the year		**269.802**	**610.757**
Weighted average number of shares with a face value of TL 500 each (including those with TL 100 face value as expressed in terms of TL 500 face value)	*19*	**1,709.5 billion**	**1,583.5 billion**
Earnings per share (Full TL amount)		**157,83**	**385,70**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity
For The Year Ended 31 December 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2004 pursuant to IAS 29)

			Retained earnings			Total shareholders' equity
	Notes	Share capital	Reserves	Unappropriated earnings	Total	
Balances at 1 January 2003		**1.993.351**	**24.229**	**184.592**	**208.821**	**2.202.172**
Correction of additional paid-in capital	*19*	175.193	-	(175.193)	(175.193)	-
Transfer from unappropriated earnings	*19*	-	922	(922)	-	-
Reserve for general banking risks, net		-	37.567	(37.567)	-	-
Net income for the year		-	-	610.757	610.757	610.757
Balances at 31 December 2003		**2.168.544**	**62.718**	**581.667**	**644.385**	**2.812.929**
Transfer from unappropriated earnings	*19*	394.632	27.404	(422.036)	(394.632)	-
Release from general banking risks, net		-	(37.567)	37.567	-	-
Net fair value gains from cash flow hedges	*22*	-	5.229	-	5.229	5.229
Net income for the year		-	-	269.802	269.802	269.802
Balances at 31 December 2004		**2.563.176**	**57.784**	**467.000**	**524.784**	**3.087.960**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2004

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units at 31 December 2004 pursuant to IAS 29)

	Notes	2004	2003
Cash flows from operating activities:-			
Net income for the year		269.802	610.757
Adjustments for non-cash items:-			
Taxation charge/(credit)	*17*	301.163	(70.155)
Minority interest		(40.376)	(63.761)
Impairment losses	*6,7,8,10,11,12,18*	344.125	133.897
Insurance technical provision		37.782	29.494
Provision for severance payments		1.795	19.980
Depreciation and amortization	*11,12*	218.087	229.419
Loss on sale of premises and equipment		25.658	19.807
Change in accrued interest and other income		310.513	(195.334)
Change in accrued interest and other expense		(50.712)	(12.401)
Monetary loss effect of above corrections		23.664	25.927
Changes in operating assets and liabilities:-			
Deposits from banks		99.452	118.450
Deposits from customers		1.244.220	(564.766)
Obligations under repurchase agreements		(924.254)	431.387
Financial assets held for trading		574.516	836.889
Loans and advances to banks		(252.498)	(71.864)
Loans and advances to customers		(4.307.614)	(1.249.852)
Other assets		69.658	(169.608)
Other liabilities		43.471	(89.737)
Income taxes paid		(30.487)	(45.270)
Net cash used in operating activities		**(2.042.035)**	**(76.741)**
Cash flows from investing activities:-			
Decrease/(increase) in security investments		2.467.468	(394.142)
Decrease/(increase) in investments in equity participations-net		143.436	(221.274)
Proceeds from sales of tangible assets and tangible assets held for resale		88.533	120.385
Additions to tangible assets and tangible assets held for resale		(137.737)	(207.373)
Net cash provided by/(used in) investing activities		**2.561.700**	**(702.404)**
Cash flows from financing activities:-			
Increase in loans and advances from banks		371.414	11.811
Decrease in bonds payable		-	(92.973)
Proceeds from issuance of share capital to minorities		-	25.389
Net cash provided by/(used in) financing activities		**371.414**	**(55.773)**
Net increase/(decrease) in cash and cash equivalents		**891.079**	**(834.918)**
Cash and cash equivalents at beginning of the year		1.870.702	2.705.620
Cash and cash equivalents at end of the year	*3*	**2.761.781**	**1.870.702**

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the year ended 31 December 2004 comprise the Bank and its affiliates (the Affiliates) and their interest in associates.

(a) Brief History

Foundation of the Bank was approved by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 and "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides corporate, commercial and retail banking services through a network of 347 domestic branches, three foreign branches, five representative offices abroad, four change offices, one in-store branch and 34 domestic liaison offices. In addition to its branches, the Bank has 100% ownership in a total of two banks each of which is located in Amsterdam and Moscow. The Bank's head office is located in the following address:Levent Nispetiye Mah.Aytar Cad.2 Beşiktaş 34340 İstanbul.

(b) Ownership

The principal shareholder of the Bank is the holding company of Doğuş Group, Doğuş Holding AŞ, which currently holds 51.42% of the issued capital after a decrease by 3.667% from 55.08% in November 2004 as explained below:

As per the Board of Directors decision dated 8 November 2004, Doğuş Holding AŞ had an agreement with an foreign portfolio investor for issuing an option to purchase a portion of the shares of the Bank owned by Doğuş Holding AŞ. The pricing negotiation was concluded in November 2004 and the investor took over all the ownership rights including sale of 88,007,246,560 shares (TL500 each) representing 3.667% of the Bank's capital throughout the option period agreed. Accordingly, Doğuş Holding AŞ' share in the Bank's capital decreased from 55.08% to 51.42%. In the agreement, an additional right has been provided to the investor to purchase a further 30% of the shares subject to this option which represents 2.05% of the Bank's capital. Such shares are kept as collateral for the investor.

The ownership interest in the Bank of those shareholders other than the Doğuş Group Companies and the individuals controlling this Group is 40.77%.

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish

Significant accounting policies (continued)

GAAP); the Bank's foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are authorized for issue by the directors on 4 March 2005.

(b) Basis of preparation

The accompanying consolidated financial statements are presented in Turkish Lira (TL), rounded to the nearest billion as adjusted for the effects of inflation in TL units current at 31 December 2004.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, financial assets and liabilities held for trading, available-for-sale assets and tangible assets held for resale. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The accounting policies have been consistently applied by the Bank and its affiliates and are consistent with those used in previous years.

(c) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the companies included in the consolidation have been prepared as of the date of the consolidated financial statements.

Affiliates

Affiliates are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Significant accounting policies (continued)

Associates

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

Special purpose entities

Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(d) Accounting in hyperinflationary economies

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 "*Financial Reporting in Hyperinflationary Economies*". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 69.72% as at 31 December 2004, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Although this rate is below the 100% threshold as of 31 December 2004, other characteristics; like general population prefers to keep its wealth in foreign currencies, prices are quoted in foreign currencies, interest rates, wages and prices are linked to a general price index, sales and purchases on credit take place at prices that compensate for the expected loss of

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

Significant accounting policies (continued)

purchasing power during the credit period, even if the period is short, still confirms the existence of a hyperinflationary economy. Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 31 December 2004 based on IAS 29. The restatement is calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics. For the last three years, such indices and conversion factors used to restate the accompanying consolidated financial statements are as follows:

Date	Index	Conversion factor
31 December 2004	8,403.8	1.000
31 December 2003	7,382.1	1.138
31 December 2002	6,478.8	1.297

The main guidelines for the restatement above mentioned 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 that 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 that are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant conversion factors.
- All items in the income statement are restated by applying the monthly conversion factors except for those deriving from non-monetary items, which are calculated based on the restated values of the related items.
- The effects of inflation on the net monetary positions of the Bank and its affiliates, is included in the income statement as "gain/(loss) on monetary position, net".

(e) Foreign currency

Foreign currency transactions

Transactions are recorded in Turkish Lira, which represents its functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into Turkish Lira at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the income statement as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the income statement as realized during the course of the period.

Significant accounting policies (continued)

Financial statements of foreign operations

The foreign operations of the Bank and its affiliates are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Turkish Lira at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Turkish Lira at foreign exchange rates ruling at the balance sheet date pursuant to IAS 29.

(f) Tangible assets and related depreciation

Owned assets

The costs of the tangible assets are restated for the effects of inflation in TL units current at the balance sheet date pursuant to IAS 29. Accordingly, tangible assets are carried at restated costs, less accumulated depreciation and impairment losses (refer accounting policy (p)).

Leased assets

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by way of financial lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer accounting policy (p)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to income statement.

Subsequent expenditure

Expenditure incurred to replace a component of an item of tangible assets that is accounted for separately, including major inspection and overhaul costs, is capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the income statement as incurred.

Significant accounting policies (continued)

Depreciation

Tangible assets are depreciated over the estimated useful lives of the related assets from the date of purchase or the date of installation, on a straight-line basis. The estimated useful lives are as follows:

Buildings	50 years
Furniture, fixture and equipments	4–12.5 years

Leasehold improvements are amortized over the periods of the respective leases, also on a straight-line basis.

Expenditures for major renewals and betterment of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

(g) Goodwill/Negative Goodwill

Positive and negative goodwill consist of the excess/shortage of the total acquisition costs over/under the share of the Bank and its affiliates in the fair value of net assets of the acquired companies at the dates of acquisitions. Goodwill is reflected in 'intangible assets' in the consolidated balance sheets and is amortized on a straight-line basis over 20 years, the time during which benefits are expected to consume.

Negative goodwill is included under 'other liabilities' in the accompanying consolidated balance sheets and is credited to income over a period of 20 years, the time during which benefits are expected to consume. Amortization expense/income of goodwill and negative goodwill is reflected in the accompanying income statement.

At each balance sheet date, goodwill is assessed by using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments, carrying value of net assets, whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the income statement.

(h) Financial instruments

Classification

Trading instruments are those that are principally hold for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well

Significant accounting policies (continued)

as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Originated loans and receivables are loans and receivables created by the Bank and its affiliates providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments.

Recognition

Financial assets held for trading and available-for-sale assets are recognized on the date at which the purchase of the assets is committed. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity instruments and originated loans and receivables are recognized on the day they are transferred to the Bank and its affiliates.

Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at amortized cost.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Significant accounting policies (continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in current market exchange.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank and its affiliates would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of trading instruments and available-for-sale assets are recognized in the income statement. Whereas, gains and losses arising from changes in the fair value of cash flow hedges are deferred in a separate component of equity, within reserves under retained earnings.

Specific instruments

Cash and cash equivalents: Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturities of three months or less when purchased. Money market placements are classified in loans and advances to banks as originated loans and receivables.

Investments: Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

Loans and advances to banks and customers: Loans and advances originated by the Bank and its affiliates are classified as originated loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Financial lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

Significant accounting policies (continued)

Bonds payable: Bonds issued by the Bank and its affiliates are classified as non-trading liabilities.

Derecognition

A financial asset is derecognised when the control over the contractual rights that comprise that asset, is lost. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank and its affiliates.

(i) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense. No such businesses have yet been carried out by the Bank and its affiliates.

(j) Repurchase and resale agreements over investments

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as “obligations under repurchase agreements”, a liability account.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest expense.

Significant accounting policies (continued)

(k) Items held in trust

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

(l) Employee benefits

The Bank has a defined benefit and contribution plan for its employees as described below:

Pension and other post-retirement obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through constructively paying additional amounts or through contractual benefits that are not solely linked to the fixed contributions.

The liability to be recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Bank does not have the legal right to access to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognised in the balance sheet in respect of defined benefit pension plans. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected real interest rates for Turkish lira.

The Bank established a pension scheme, which is a funded defined benefit plan covering substantially all employess. The assets of the plan are held independently of the Bank's assets in the Fund. This scheme is valued by independent actuaries every year. The latest actuarial valuations were carried out as at 31 December 2004. Since, the fair value of the Fund's plan assets exceed the defined benefit obligation, no liability is recognized in the accompanying consolidated financial statements of the Bank at 31 December 2004.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

Significant accounting policies (continued)

Reserve for severance payments

Reserve for severance payments represent the present value of the estimated future probable obligation of the Bank and its affiliates arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amount are TL 1,574 millions and TL 1,583 millions at 31 December 2004 and 2003, respectively.

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2004 and 2003 are as follows:

	2004 %	2003 %
Expected inflation rate	10	18
Expected rate of salary/limit increase	16	25
Turnover rate to estimate the probability of retirement	4.3	4.8

(m) Taxes on income

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

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences relating to goodwill not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit. Deferred tax liabilities and assets are recognised when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Bank and its affiliates. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

Deferred tax assets and liabilities relating to an individual consolidated affiliate that reports to a specific tax office are offset against each other in the accompanying consolidated financial statements.

Significant accounting policies (continued)

(n) Offsetting

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

(o) Earnings per share

Earnings per share disclosed in the accompanying consolidated income statement are determined by dividing net income/(loss) by the weighted average number of shares that have been outstanding during the year concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Share issued are regarded as issued shares.

Additionally, considering the fact that the number of issued shares through bonus share issuances is increased without an increase in resources contributed by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(p) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Originated loans and advances and held-to-maturity instruments

The recoverable amount of originated loans and advances and purchased loans that are classified as held-to-maturity, is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be

Significant accounting policies (continued)

uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

Financial assets remeasured to fair value

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in the income statement.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

(q) Income and expense recognition

Interest income and expense

Except for the interest income on overdue loans, interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income on overdue loans is recognized on cash basis. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income on overdue loans is recognized only when received.

Fee and commission income

Fee and commission income arising on financial services provided including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services is recognized when the corresponding service is provided. Certain commissions, such as those deriving from letters of guarantee and other similar banking services, are usually recognized as income only when received.

Significant accounting policies (continued)

Net trading income

Net trading income includes gains and losses arising from disposals of financial assets held for trading and available-for-sale.

Dividend income

Dividend income is recognized in the income statement when received. Income from equity investments and other non-fixed income investments is recognized as dividend income when it accrues.

Insurance business

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

Unearned premium reserve: Reserve for unearned premiums is provided for in respect of in-force policies for which the premium period does not end simultaneously with the accounting period. Unearned premiums are arise from premiums written during the year, less reinsurance.

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

Claims and provision for claims: Claims incurred include all claims (including claim estimates) and claims settlement payments made in respect of the financial period and the movement in provision for outstanding claims and settlement expenses. Provisions for outstanding claims and settlement expenses include claims incurred but not reported (IBNR), net of salvage and subrogation recoveries. Along with the provisions for IBNR claims; the Bank's affiliates in insurance business also make provisions for general business risks (equalisation provision) at different rates determined separately for each insurance branch by the related legislation applicable to insurance business in Turkey.

Significant accounting policies (continued)

Retail business

Revenues are recognized at the time the shipment or delivery of related goods are made to customers. Revenues, net of costs of goods sold are reflected as “gross profit from retail business” in the accompanying consolidated income statement.

(r) Segment reporting

A segment is a distinguishable component of the Bank and its affiliates that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Index for the notes to the consolidated financial statements:

Note description

1 Segment reporting

Segment information is presented in respect of the Bank and its affiliates' geographical and business segments. The primary format, business segments, is based on the Bank and its affiliates.

Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted at arm's length basis.

1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in Holland, Russia, Ireland, Turkish Republic of Northern Cyprus, Malta and Luxembourg. As the operation results outside of Turkey are quite negligible in the consolidated results, geographical segment information is not presented.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

1 Segment reporting (continued)

1.2 Business segments

The main business segments are banking, leasing, insurance, factoring, retail and other financial and non-financial sectors:

31 December 2004	*Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial Sectors*	*Retail*	*Other Non-Financial Sectors*	*Combined*	*Eliminations*	*Total*
Interest income	3,126,143	68,813	17,752	152	7,717	11,723	854	3,233,154	(24,494)	3,208,660
Interest expense	(1,897,293)	(22,130)	-	(6,792)	(151)	(26,337)	(721)	(1,953,424)	24,598	(1,928,826)
Net interest income/(expense)	1,228,850	46,683	17,752	(6,640)	7,566	(14,614)	133	1,279,730	104	1,279,834
Fee and commission income, net	590,510	-	(6,408)	16,394	31,843	(16,886)	-	615,453	(3,459)	611,994
Gross profit from retail business	-	-	-	-	-	247,093	-	247,093	-	247,093
Premium income from insurance business	-	-	109,765	-	-	-	-	109,765	-	109,765
Trading account income, net	102,875	-	36	-	2,090	-	(234)	104,767	-	104,767
Foreign exchange gain, net	54,214	1,053	(1,564)	(3,282)	(683)	(1,047)	(625)	48,066	(745)	47,321
Other operating income	76,843	1,925	148	101	4,581	8,964	31,194	123,756	(45,648)	78,108
Salaries and wages	(307,551)	(7,820)	(21,930)	(1,295)	(7,674)	(70,556)	(14,222)	(431,048)	-	(431,048)
Impairment losses	(354,134)	(225)	-	-	(522)	-	(3,706)	(358,587)	14,462	(344,125)
Other operating expenses	(789,629)	(15,311)	(98,572)	(2,218)	(14,980)	(201,102)	(26,812)	(1,148,624)	17,064	(1,131,560)
Gain/(loss) on monetary position,net	(13,699)	(14,009)	(3,027)	(1,770)	(4,440)	4,297	(7,209)	(39,857)	(1,703)	(41,560)
Taxation charge	(239,995)	(38,836)	(4,901)	(734)	(5,120)	(11,060)	(517)	(301,163)	-	(301,163)
Minority interest	-	-	-	-	-	-	-	-	40,376	40,376
Net income/(loss) for the year	348,284	(26,540)	(8,701)	556	12,661	(54,911)	(21,998)	249,351	20,451	269,802
Segment assets	28,126,267	456,125	232,256	107,856	125,319	455,043	647,274	30,150,140	(157,793)	29,992,347
Investments in equity participations	1,654,424	471	492	9,216	5,903	118	14,946	1,685,570	(1,411,854)	273,716
Total assets	29,780,691	456,596	232,748	117,072	131,222	455,161	662,220	31,835,710	(1,569,647)	30,266,063
Segment liabilities	26,273,197	368,232	180,093	92,215	12,153	258,188	26,011	27,210,089	(221,363)	26,988,726

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

1 **Segment reporting** (continued)

31 December 2003	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	2,984,192	65,386	13,087	190	12,580	5,921	1,023	3,082,379	(30,004)	3,052,375
Interest expense	(2,460,169)	(19,875)	-	(6,953)	(862)	(42,362)	(1,656)	(2,531,877)	30,039	(2,501,838)
Net interest income/(expense)	524,023	45,511	13,087	(6,763)	11,718	(36,441)	(633)	550,502	35	550,537
Trading account income, net	477,688	-	36	-	2,877	-	-	480,601	-	480,601
Fee and commission income, net	432,209	-	(2,191)	15,584	25,859	(18,362)	(7)	453,092	(9,847)	443,245
Foreign exchange gain, net	203,466	2,888	(875)	(690)	(834)	4,970	343	209,268	129	209,397
Gross profit from retail business	-	-	-	-	-	195,082	-	195,082	-	195,082
Premium income from insurance business	-	-	85,166	-	-	-	-	85,166	-	85,166
Other operating income	126,309	3,856	2,104	1,063	2,138	8,009	40,758	184,237	(30,560)	153,677
Salaries and wages	(271,981)	(6,698)	(17,955)	(1,564)	(9,121)	(58,096)	(24,523)	(389,938)	-	(389,938)
Impairment losses	(106,157)	(3,720)	-	-	(4,653)	-	(5,582)	(120,112)	(13,785)	(133,897)
Other operating expenses	(788,588)	(11,391)	(71,508)	(2,920)	(13,974)	(209,754)	(38,059)	(1,136,194)	21,835	(1,114,358)
Gain/(loss) on monetary position,net	5,040	(12,511)	(1,772)	(1,696)	(4,941)	8,472	(4,662)	(12,070)	9,400	(2,671)
Taxation (charge)/credit	(53,292)	(4,274)	(1,610)	(839)	(2,301)	19,343	113,128	70,155	-	70,155
Minority interest	-	-	-	-	-	-	-	-	63,761	63,761
Net income/(loss) for the year	548,717	13,661	4,482	2,175	6,768	(86,777)	80,763	569,789	40,968	610,757
Segment assets	27,067,590	399,915	161,558	111,917	113,181	492,194	676,016	29,022,371	(266,300)	28,756,071
Investments in equity participations	1,972,396	808	277	9,217	6,304	114	20,081	2,009,197	(1,559,607)	449,590
Total assets	29,039,986	400,723	161,835	121,134	119,485	492,308	696,097	31,031,568	(1,825,907)	29,205,661
Segment liabilities	25,603,533	285,819	116,749	96,835	6,007	240,426	38,191	26,387,560	(226,389)	26,161,171

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

2 Related party disclosures

For the purpose of this report, the Bank's ultimate parent company, Doğuş Holding AŞ and all its subsidiaries, and the ultimate owners, directors and executive officers of Doğuş Group are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank has the following balances outstanding from and transactions with related parties:

2.1 Outstanding balances

	2004	2003
Balance sheet		
Obligations under repurchase agreements	-	340
Loans and advances to customers		
including accrued interest income	361,413	600,848
Loans granted in TL	*10,018*	*256*
Loans granted in foreign currency:	*US$ 251,453,539*	*US$ 354,606,491*
	EUR0 5,089,915	*EUR 14,923,596*
Deposits received	74,390	115,546
Commitments and contingencies		
Non-cash loans	200,664	256,689

2.2 Transactions

Interest income	8,356	30,485
Interest expense	8,960	10,761

In 2004, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 1.75-7.00% and 1.50-2.50% (31 December 2003: 2-10% and 0.75-2.75%), respectively. The interest rates applied to Turkish Lira payables to related parties vary within the ranges of 14.50-21.50% (31 December 2003: 25-27%). Various commission rates are applied to transactions involving guarantees and commitments.

The equity participation in Doğuş Otomotiv Servis ve Tic. AŞ was sold to Doğuş İnşaat ve Ticaret AŞ at a price of TL 5,500 for each share, at a total amount of TL 120,514 billions representing their equivalent market value on 23 August 2004. There was no gain or loss on the sale as this equity participation's carrying value was equal to its market value in the books of account of the Bank.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

3 Cash and cash equivalents

	2004	2003
Cash at branches	205,236	189,196
Balances with Central Banks	2,538,246	1,666,826
Others	18,299	14,680
	2,761,781	1,870,702

At 31 December 2004, cash and cash equivalents included balances with the Central Bank of Turkey amounting TL 1,347,868 billions (31 December 2003: TL 1,281,422 billions) as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits. Interest rates applied for reserve requirements are 12.5% (2003: 16%) for TL deposits and 0.99% (2003: 0.80%) for foreign currency deposits.

4 Financial assets held for trading

	2004				2003
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments held for trading:					
Discounted government bonds in Turkish lira	216,888	192,300	18-30	2006	20,685
Government bonds in Turkish lira	59,954	49,635	16-29	2007	44,911
Bonds issued by corporations	44,352	46,577	5-17	2010	40,315
Eurobonds	31,647	42,249	1-12	2034	31,973
Treasury bills in Turkish lira	38,408	34,406	16-26	2005	6,751
Government bonds in foreign currency	32,244	32,496	3-6	2007	534,818
Government bonds at floating rates	25,932	26,933	16-26	2007	12,905
Bonds issued by foreign governments	5,379	5,769	5-10	2008	372,614
Others		1,348			961
		431,713			1,065,933
Equity and other non-fixed income instruments:					
Forfaiting receivables		170,938			107,652
Listed shares		15,970			18,275
Total financial assets held for trading		618,621			1,191,860

Income from debt and other instruments held for trading is recognized in interest on securities. Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading account income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges are reflected in a separate component of equity, within reserves under retained earnings.

For the year ended 31 December 2004, net income on trading of financial assets amounting to TL 104,767 billions (2003: TL 480,601 billions) in total is included in "trading account income, net".

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2004 pursuant to IAS 29)

4 Financial assets held for trading (continued)

Securities pledged under repurchase agreements with customers amounting to TL 11,810 billions as of 31 December 2003 (2004: nil) are reflected in government bonds and treasury bills.

The following table summarizes the contractual amounts of the forward exchange, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date. Monetary items denominated in a foreign currency are economically hedged using foreign currency derivative contracts. The Bank and its affiliates do not use hedge accounting for its foreign currency derivative contracts.

All gains and losses on foreign currency contracts are recognized in the income statement. At 31 December 2004, 104% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (2003: 70%).

	Notional amount with remaining life of					
At 31 December 2004	***Upto 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Future rate agreements	-	13,585	54,340	81,510	81,510	230,945
Purchases	-	*13,585*	*54,340*	*81,510*	*81,510*	*230,945*
Sales	-	-	-	-	-	-
Interest rate options	1,612	-	-	-	-	1,612
Purchases	-	-	-	-	-	-
Sales	*1,612*	-	-	-	-	*1,612*
Interest rate swaps	2,368	71,086	27,170	-	-	100,624
Purchases	*2,368*	*71,086*	*27,170*	-	-	*100,624*
Sales	-	-	-	-	-	-
Currency Derivatives						
Spot exchange contracts	224,502	-	-	-	-	224,502
Purchases	*63,382*	-	-	-	-	*63,382*
Sales	*161,120*	-	-	-	-	*161,120*
Forward exchange contracts	372,576	54,942	59,821	61,919	-	549,258
Purchases	*258,728*	*47,292*	*38,085*	*61,079*	-	*405,184*
Sales	*113,848*	*7,650*	*21,736*	*840*	-	*144,074*
Currency/cross currency swaps	1,049,178	446,909	352,119	1,289,282	-	3,137,488
Purchases	*985,035*	*401,338*	*352,119*	*1,273,158*	-	*3,011,650*
Sales	*64,143*	*45,571*	-	*16,124*	-	*125,838*
Options	231,726	159,336	91,420	112,450	-	594,932
Purchases	*130,197*	*54,952*	*25,828*	*59,425*	-	*270,402*
Sales	*101,529*	*104,384*	*65,592*	*53,025*	-	*324,530*
Foreign currency futures	-	149,600	-	-	-	149,600
Purchases	-	-	-	-	-	-
Sale	-	*149,600*	-	-	-	*149,600*
Other foreign exchange contracts	10,164	64,659	-	-	-	74,823
Purchases	*10,164*	-	-	-	-	*10,164*
Sale	-	*64,659*	-	-	-	*64,659*
Subtotal Purchases	1,449,874	588,253	497,542	1,475,172	81,510	4,092,351
Subtotal Sales	442,252	371,864	87,328	69,989	-	971,433
Total of Transactions	1,892,126	960,117	584,870	1,545,161	81,510	5,063,784

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

4 Financial assets held for trading (continued)

At 31 December 2003	Notional amount with remaining life of Upto 1 month	1 to 3 months	3 to 6 months	6 to 12 months	over 1 year	Total
Interest Rate Derivatives						
Future rate agreements	-	-	-	41,044	64,310	105,354
Purchases	-	-	-	*20,522*	*32,155*	*52,677*
Sales	-	-	-	*20,522*	*32,155*	*52,677*
Currency Derivatives						
Spot exchange contracts	206,619	-	-	-	-	206,619
Purchases	*86,840*	-	-	-	-	*86,840*
Sales	*119,779*	-	-	-	-	*119,779*
Forward exchange contracts	92,424	13,097	2,325	804	-	108,650
Purchases	*51,567*	*8,076*	*1,187*	*161*	-	*60,991*
Sales	*40,857*	*5,021*	*1,138*	*643*	-	*47,659*
Currency/cross currency swaps	3,235,870	547,582	532,479	259,707	-	4,575,638
Purchases	*3,037,699*	*542,926*	*532,479*	*246,491*	-	*4,359,595*
Sales	*198,171*	*4,656*	-	*13,216*	-	*216,043*
Options	38,624	57,858	-	80,371	-	176,853
Purchases	*6,476*	*53,040*	-	*80,371*	-	*139,887*
Sales	*32,148*	*4,818*	-	-	-	*36,966*
Foreign currency futures	-	96,445	-	-	-	96,445
Purchases	-	*96,445*	-	-	-	*96,445*
Sale	-	-	-	-	-	-
Other foreign exchange contracts	92,512	29,203	-	-	-	121,715
Purchases	*1,564*	*2,086*	-	-	-	*3,650*
Sale	*90,948*	*27,117*	-	-	-	*118,065*
Subtotal Purchases	3,184,146	702,573	533,666	347,545	32,155	4,800,085
Subtotal Sales	481,903	41,612	1,138	34,381	32,155	591,189
Total of Transactions	3,666,049	744,185	534,804	381,926	64,310	5,391,274

5 Loans and advances to banks

	2004 Turkish Lira	2004 Foreign Currency	2004 Total	2003 Turkish Lira	2003 Foreign Currency	2003 Total
Loans and advances-demand						
Domestic banks	9,014	507	9,521	3,229	5,434	8,663
Foreign banks	1,970	62,719	64,689	3	159,147	159,150
	10,984	63,226	74,210	3,232	164,581	167,813
Loans and advances-time						
Domestic banks	10,371	569,369	579,740	157,405	666,392	823,797
Foreign banks	109,434	969,839	1,079,273	36,475	452,641	489,116
	119,805	1,539,208	1,659,013	193,880	1,119,033	1,312,913
Accrued interest on loans and advances	2,643	1,345	3,988	440	2,293	2,733
Total loans and advances to banks	133,432	1,603,779	1,737,211	197,552	1,285,907	1,483,459
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	133,432	1,603,779	1,737,211	197,552	1,285,907	1,483,459

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

5 Loans and advances to banks (continued)

As at 31 December 2004, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1-6% per annum for foreign currency time deposits and 18-26% per annum for Turkish lira time deposits (2003: 0.5-6% and 15-42%, respectively).

As at 31 December 2004, demand deposits at foreign banks include blocked accounts of TL 45,145 billions (2003: TL 41,182 billions) against the securitisation transactions on cheques, credit card receivables and insurance business.

6 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	2004	2003
Industrial	3,490,449	2,405,458
Consumer loans	3,322,014	2,435,956
Turkish Treasury	3,253,891	1,743,428
Financial institutions	1,290,352	1,435,427
Service sector	1,125,131	928,665
Construction	436,793	389,400
Agriculture	406,281	230,965
Tourism	284,639	212,805
Foreign trade	216,782	220,682
Transportation	192,690	93,499
Media	17,406	19,779
Domestic commerce	11,437	41,659
Others	327,697	210,796
Total performing loans	14,375,562	10,368,519
Non-performing loans	444,770	354,239
Total gross loans	14,820,332	10,722,758
Accrued interest income on loans	236,108	258,616
Financial lease receivables, net of unearned income (Note 7)	386,647	292,765
Factoring receivables	101,238	109,633
Forfaiting receivables	47,381	52,312
Allowance for possible losses from loans and lease receivables	(308,947)	(230,800)
Loans and advances to customers	15,282,759	11,205,284

As at 31 December 2004, interest rates on loans given to customers range between 1-14% (2003: 1-18%) per annum for foreign currency loans and 15-32% (2003: 29-49%) per annum for Turkish lira loans.

Securities pledged under repurchase agreements with customers amounting to TL 352,732 billions (2003: TL 80,418 billions) are included in loans and advances to customers.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

6 Loans and advances to customers (continued)

The specific allowance for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

In addition to the allowance for specific loan losses explained in the above paragraph, the Bank also provides general provisions for inherent credit risk on loans and guarantees and commitments. The level of general provision is based on management's evaluation of the loan portfolio, including such factors as the volume and character of loans outstanding, past loan loss experience and general economic conditions.

Movements in the allowance for possible losses on loans and lease receivables are as follows:

	2004	2003
Balance at the beginning of the year	230,800	230,982
The effect of inflation on the beginning balance and current transactions	(26,763)	(33,401)
Write-offs	(11,662)	(7,789)
Recoveries	(32,118)	(32,312)
Provision for the year	148,690	73,320
Balance at the end of the year	308,947	230,800

7 Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates.

The receivables are secured through the underlying assets. Loans and advances to customers include the following financial lease receivables:

	2004	2003
Financial lease receivables, net of unearned income (Note 6)	386,647	292,765
Less: allowance for possible losses from lease receivables	(5,980)	(7,874)
	380,667	284,891
Analysis of net financial lease receivables		
Due within 1 year	288,633	242,304
Due between 1 and 5 years	155,887	97,840
Financial lease receivables, gross	444,520	340,144
Unearned income	(63,853)	(55,253)
Financial lease receivables, net	380,667	284,891
Analysis of net financial lease receivables, net		
Due within 1 year	247,656	203,516
Due between 1 and 5 years	133,011	81,375
Financial lease receivables, net	380,667	284,891

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

8 Other assets

	2004	2003
Tangible assets held for resale	492,153	640,214
Accrued exchange gain on derivatives	160,014	170,019
Insurance premium receivables	99,309	60,990
Prepaid expenses, insurance claims and similar items	96,345	86,167
Retail business stocks	62,902	55,468
Miscellaneous receivables	22,468	146,622
Taxes and funds to be refunded	12,075	13,007
Others	57,931	57,654
	1,003,197	1,230,141

The portion amounting to TL 210,689 billions (2003: TL 338,290 billions) of tangible assets held for resale is comprised of real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This legal period can be extended by a legal permission from the regulators.

Impairment losses provided on real estates held for resale were determined based on the appraisals of independent appraiser firms. As of 31 December 2004, real estates held for resale with cost amounting TL 247,293 billions (2003: TL 121,499 billions) impaired by TL 103,504 billions (2003: TL 38,726 billions).

9 Security investments

	2004				2003
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments available-for-sale:					
Government bonds at floating rates	872,717	909,806	6-25	2006	972,395
Eurobonds	636,496	787,494	5.5-12.5	2034	1,794,057
Discounted government bonds in Turkish Lira	341,995	278,619	18-21	2006	214,629
Government bonds in foreign currency	183,423	185,096	4-7	2007	247,855
Bonds issued by foreign governments	146,298	148,817	2-11	2008	189,430
Bonds issued by corporations	81,151	83,467	9-13	2009	26,689
Government bonds in Turkish Lira	16,112	14,166	18-29	2006	2,876
Treasury bills in Turkish Lira	2,050	1,957	29	2005	20,079
Bonds issued by financial institutions		-			222,429
Others		13,593			5,355
Total securities available-for-sale		2,423,015			3,695,794

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

9 Security investments (continued)

	2004				*2003*
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Total securities available-for-sale		2,423,015			3,695,794
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	1,503,568*	1,458,370	***(a)***	2006	3,336,398
Eurobonds	1,319,710	1,410,605	7-12	2030	1,124,273
Government bonds at floating rates	712,209	729,813	***(b)***	2006	699,966
Bonds issued by foreign governments	137,691	140,819	2.5-6	2008	173,464
Bonds issued by corporations	96,169	96,119	11.5-13	2007	82,476
Bonds issued by financial institutions	85,226	85,226	4.5-12	2014	18,173
Government bonds in Turkish Lira	81,400	81,070	24.5	2005	-
Discounted government bonds in Turkish lira		-			34,149
Others		-			343
		4,002,022			5,469,242
Accrued interest on held-to-maturity portfolio		130,209			79,795
Total securities held-to-maturity		4,132,231			5,549,037
Total security investments		6,555,246			9,244,831

(a) *The interest rate applied on these securities are Libor+2.85% as fixed semiannually by the Turkish Treasury.*

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

* *The face value represents TL equivalent of the foreign currency in which the government bonds were indexed to.*

Income from debt and other fixed- or floating-income instruments is reflected in interest on securities.

Included in government bonds and treasury bills were securities pledged under repurchase agreements with customers amounting to TL 725,850 billions (2003: TL 2,292,422 billions).

In the second quarter of 2004, the Bank management has decided to transfer the available-for-sale securities (eurobonds and government bonds in Turkish Lira and at floating rates) with a total face value of TL 1,179,857 billions to its held-to-maturity portfolio. Despite this reclassification, the size of the securities held-to-maturity portfolio decreased from TL 5,549,037 billions as of 31 December 2003 to TL 4,132,231 billions as of 31 December 2004 as some securities matured and collected during the year.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

9 Security investments (continued)

The following table summarizes securities that were deposited as collaterals with respect to various banking transactions:

	2004		2003	
	Face Value	*Carrying value*	*Face Value*	*Carrying value*
Collateralised to foreign banks	692,550	725,281	1,863,840	2,347,842
Deposited at CBT for interbank transactions	380,000	447,859	630,000	857,827
Reserve requirements at CBT	340,000	400,716	300,000	408,488
Deposited at CBT for foreign currency money market transactions	320,000	377,145	320,000	435,721
Deposited at Clearing Bank (Takasbank)	255,000	267,239	193,500	228,745
Deposited at Istanbul Stock Exchange	228,867	228,187	-	-
Deposited at CBT for repurchase transactions	58,803	60,205	76,374	92,281
Others		225,316		30,160
		2,731,948		4,401,064

10 Investments in equity participations

	2004			2003	
	Carrying Value	*Ownership %*		*Carrying Value*	*Ownership %*
Investments in associated companies:					
Garanti Turizm ve Yatırım İşl. AŞ	30,388	44.89		34,594	44.89
Petrotrans Nakliyat ve Tic. AŞ	9,782	99.99		11,135	99.99
Others	7,517			6,338	
	47,687			52,067	
Equity participations available-for-sale:					
Voyager Med. Tur. End. ve Tic. AŞ	166,132	77.00	***(a)***	189,125	77.00
Akarnet Konakl. Tes. Yat. İşl. AŞ	30,402	100.00	***(a)***	30,402	100.00
IMKB Takasbank AŞ	11,397	5.83		11,397	5.83
Doğuş Otomotiv Servis ve Tic. AŞ	-	-		145,901	19.82
Others	18,098			20,698	
	226,029			397,523	
	273,716			449,590	

(a) *The investments in companies over which the Bank and its affiliates do not have either any significant influence or control, or any long-term plans to hold them as affiliate, were classified as equity participations available-for-sale and not consolidated.*

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

10 Investments in equity participations (continued)

The equity participation in Doğuş Otomotiv Servis ve Tic. AŞ was sold to Doğuş İnşaat ve Ticaret AŞ at a price of TL 5,500 for each share, at a total amount of TL 120,514 billions representing their equivalent market value on 23 August 2004. There was no gain or loss on the sale as this equity participation's carrying value was equal to its market value in the books of account of the Bank.

IMKB Takasbank AŞ and equity participations available-for-sale disclosed in 'Others' do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and unworkable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at the balance sheet date.

Petrotrans Nakliyat ve Tic. AŞ is presently a dormant company. As the Bank's intention is to hold this investment for only its property of which the fair value is equal to this investment's carrying value, net-off impairment reduction, it is not consolidated.

Impairment losses are provided for decreases in the value of certain investments in equity participations amounting to TL 20,676 billions in the current period. Accordingly, the cumulative provisions for such impairment losses increased to TL 240,143 billions as of 31 December 2004.

11 Tangible assets

Movement in tangible assets for the period of 1 January – 31 December 2004 is as follows:

	1January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs					
Land and buildings	1,614,093	14,912	(14,101)	(44,609)	1,570,295
Furniture, fixture and equipments	1,090,854	74,497	(3,730)	(57,698)	1,103,923
Leasehold improvements	405,219	32,317	-	(72,719)	364,817
	3,110,166	121,726	(17,831)	(175,026)	3,039,035
Less: Accumulated depreciation					
Buildings	177,872	34,204	(3,463)	(9,801)	198,812
Furniture, fixture and equipments	737,476	113,458	(174)	(51,411)	799,349
Leasehold improvements	224,190	48,268	-	(68,618)	203,840
	1,139,538	195,930	(3,637)	(129,830)	1,202,001
Construction in progress	11,666	6,059 ***(a)***	-	-	17,725
	1,982,294		(14,194)	(45,196)	1,854,759
Impairment in value of tangible assets	(122,186)				(130,839)
	1,860,108				1,723,920

(a) *Additions to and transfers from "construction in progress" are given as net.*

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

11 Tangible assets (continued)

Movement in tangible assets for the period of 1 January – 31 December 2003 is as follows:

	1January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs					
Land and buildings	1,629,418	42,490	(5,675)	(52,141)	1,614,093
Furniture, fixture and equipments	1,131,553	70,670	(1,498)	(109,871)	1,090,854
Leasehold improvements	457,699	39,317	(1,245)	(90,552)	405,219
	3,218,670	152,477	(8,418)	(252,564)	3,110,166
Less: Accumulated depreciation					
Buildings	181,269	33,129	33	(36,559)	177,872
Furniture, fixture and equipments	722,391	124,803	(1,118)	(108,600)	737,476
Leasehold improvements	242,150	49,323	(1,103)	(66,180)	224,190
	1,145,810	207,255	(2,188)	(211,339)	1,139,538
Construction in progress	12,563	(897)***(a)***	-	-	11,666
	2,085,423		(6,230)	(41,225)	1,982,294
Impairment in value of tangible assets	(60,390)				(122,186)
	2,025,033				1,860,108

(a) *Additions to and transfers from "construction in progress" are given as net.*

Depreciation expense for the year ended 31 December 2004 amounts to TL 195,930 billions (2003: TL 207,255 billions). The premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range between 8% to 25%.

Impairment losses provided for decreases in the value of land and buildings were determined based upon assessment of the independent appraiser firms. As of 31 December 2004, land and buildings with cost amounting TL 316,714 billions (2003: TL 280,136 billions) impaired by TL 130,839 billions (2003: TL 122,186 billions).

12 Intangible assets

Intangible assets represent goodwill arising from the direct acquisitions of 24.11% ownership in and majority voting rights in the Board of Directors of Tansaş Perakende Mağazacılık Ticaret AŞ, 29% ownership in Doc Finance SA, 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Doğuş Hava Taşımacılığı AŞ, 100% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Emeklilik ve Hayat AŞ, 98.89% ownership in Garanti Finansal Kiralama AŞ, 81.81% ownership in Garanti Faktoring Hizmetleri AŞ, 56.06% ownership in Garanti Gayrimenkul Yatırım Ortaklığı AŞ, 100% ownership in Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ and 99.95% ownership in Sititur Tur.Tem.Taş.Org.Bilg.Dan.Yapı.San. ve Tic. AŞ consisting of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

As at 31 December 2004, goodwill is amortized on a straight line basis over 20 years, the time during which benefits are expected to be consumed, and reflected as TL 115,134 billions (2003:TL 137,388 billions), net of accumulated amortization, in the accompanying consolidated balance sheets.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

12 **Intangible assets** (continued)

Movement in goodwill from 1 January to 31 December 2004 is as follows:

	1January	Additions	Disposals	31 December
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	142,970	-	-	142,970
Doğuş Hava Taşımacılığı AŞ	48,861	-	-	48,861
Garanti Yatırım Menkul Kıymetler AŞ	25,677	-	-	25,677
Doc Finance SA	10,637	-	-	10,637
Garanti Finans Faktoring Hizmetleri AŞ	7,535	-	-	7,535
Garanti Finansal Kiralama AŞ	5,888	-	-	5,888
Sititur Tur.T.Taş.Org.Bilg.Dan.Y.San.veTic. AŞ	3,645	-	-	3,645
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,672	-	-	1,672
Garanti Sigorta AŞ	1,396	-	-	1,396
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	576	-	-	576
Garanti Emeklilik ve Hayat AŞ	48	-	-	48
Total goodwill	248,905	-	-	248,905
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	45,466	16,863	-	62,329
Doğuş Hava Taşımacılığı AŞ	9,778	2,443	-	12,221
Garanti Yatırım Menkul Kıymetler AŞ	4,314	1,284	-	5,598
Doc Finance SA	2,497	532	-	3,029
Garanti Finans Faktoring Hizmetleri AŞ	752	377	-	1,129
Garanti Finansal Kiralama AŞ	590	293	-	883
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	366	181	-	547
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	166	84	-	250
Garanti Sigorta AŞ	276	70	-	346
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56	28	-	84
Garanti Emeklilik ve Hayat AŞ	8	2	-	10
	64,269	22,157	-	86,426
Goodwill, net of accumulated amortization	184,636			162,479
Impairment in value of goodwill	(47,248)			(47,345)
	137,388			115,134

Impairment losses are provided for decreases in the value of consolidated entities which were determined assessing their internal and external sources. As of 31 December 2004, Doğuş Hava Taşımacılığı AŞ, Doc Finance SA and Sititur Tur. Tem. Taş. Org. Bilg. Dan. Yap.San. ve Tic. AŞ which have net goodwill amount of TL 36,640 billions, TL 7,608 billions and TL 3,097 billions, respectively were impaired by TL 47,345 billions in total (2003: TL 47,248 billions).

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

12 Intangible assets (continued)

Movement in goodwill from 1 January to 31 December 2003 is as follows:

	1January	Additions	Disposals	31 December
Goodwill				
Tansaş Perakende Mağazacılık Ticaret AŞ	142,970	-	-	142,970
Doğuş Hava Taşımacılığı AŞ	48,861	-	-	48,861
Garanti Yatırım Menkul Kıymetler AŞ	25,677	-	-	25,677
Docfinance SA	10,637	-	-	10,637
Garanti Finans Faktoring Hizmetleri AŞ	7,535	-	-	7,535
Garanti Finansal Kiralama AŞ	5,888	-	-	5,888
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	3,645	-	-	3,645
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,672	-	-	1,672
Garanti Sigorta AŞ	1,396	-	-	1,396
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	576	-	-	576
Garanti Emeklilik ve Hayat AŞ	48	-	-	48
Total goodwill	248,905	-	-	248,905
Less: Accumulated amortization				
Tansaş Perakende Mağazacılık Ticaret AŞ	28,597	16,869	-	45,466
Doğuş Hava Taşımacılığı AŞ	7,335	2,443	-	9,778
Garanti Yatırım Menkul Kıymetler AŞ	3,030	1,284	-	4,314
Docfinance SA	1,965	532	-	2,497
Garanti Finans Faktoring Hizmetleri AŞ	376	376	-	752
Garanti Finansal Kiralama AŞ	295	295	-	590
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	183	183	-	366
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	83	83	-	166
Garanti Sigorta AŞ	207	69	-	276
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	28	28	-	56
Garanti Emeklilik ve Hayat AŞ	6	2	-	8
	42,105	22,164	-	64,269
Goodwill, net of accumulated amortization	206,800			184,636
Impairment in value of goodwill	(43,967)			(47,248)
	162,833			137,388

13 Deposits from banks

Deposits from banks comprise the following:

	2004	2003
Payable on demand	41,108	22,199
Term deposits	1,087,534	1,006,991
	1,128,642	1,029,190
Accrued interest on deposits from banks	5,379	4,609
	1,134,021	1,033,799

Deposits from banks include both TL accounts of TL 732,422 billions (2003: TL 563,085 billions) and foreign currency accounts of TL 396,220 billions (2003: TL 466,105 billions). As at 31 December 2004, interest rates applicable to Turkish lira bank deposits and foreign currency bank deposits vary within ranges of 15-27% and 1-8% (2003: 23-52% and 0.5-5%), respectively.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

14 Deposits from customers

Deposits from customers comprise the following:

	2004			2003
	Demand	*Time*	*Total*	*Total*
Foreign currency	4,544,667	7,651,939	12,196,606	12,105,187
Saving	452,535	3,355,304	3,807,839	3,364,557
Commercial	1,215,542	2,022,407	3,237,949	2,587,700
Public and other	293,848	63,700	357,548	298,278
	6,506,592	13,093,350	19,599,942	18,355,722
Accrued interest expense on deposits from customers	-	105,778	105,778	174,810
	6,506,592	13,199,128	19,705,720	18,530,532

As at 31 December 2004, interest rates applicable to Turkish lira deposits and foreign currency deposits vary within ranges of 17-23% and 1.5-6.5% (2003: 26-42% and 1-6%), respectively.

15 Obligations under repurchase agreements

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

2004	*Carrying value*	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
Security investments	725,850	789,140	612,670	Jan’05-Apr’08	652,096
Originated loans	352,732	363,604	312,091	Jan’05-Sep’06	334,052
	1,078,582	1,152,744	924,761		986,148
2003					
Trading instruments	11,810	11,810	9,006	Jan.-Aug. 2004	10,355
Security investments	2,292,422	2,407,452	1,770,781	Jan.-Sept. 2004	1,784,663
Originated loans	80,418	94,246	60,278	April-Sept. 2004	61,335
	2,384,650	2,513,508	1,840,065		1,856,353

Accrued interest on obligations under repurchase agreements amounting to TL 15,964 billions (2003: TL 7,014 billions) is included in the carrying amount of corresponding liabilities.

As such funding is raised against assets collateralized, due to the margins set between the parties, generally carrying values of such assets are more than the corresponding liabilities.

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2004, the maturities of the obligations from one day to four years and interest rates varied between 3-25% (2003: 1-20%).

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2004 pursuant to IAS 29)

16 Loans and advances from banks

Loans and advances from banks comprise the following:

	2004	2003
Short-term borrowings		
Domestic banks	271,981	271,433
Foreign banks	2,299,546	2,214,729
	2,571,527	2,486,162
Long-term debts		
Short-term portion	192,409	386,082
Medium and long-term portion	1,244,194	764,472
	1,436,603	1,150,554
Accrued interest on loans and advances from banks	44,768	36,604
	4,052,898	3,673,320

As at 31 December 2003, short-term borrowings from foreign banks included a one-year syndicated term-loan facility amounting US$ 450 millions signed on 20 November 2003, matured in November 2004, and renewed with a total amount of US$ 600 millions (equivalent of TL 816,000 billions) on 6 December 2004 as signed with the 25 mandated arrangers. At 31 December 2003, short-term borrowings from foreign banks also included a one-year syndicated facility amounting EUR 400 millions matured in July 2004; and renewed to finance pre-finance export contracts of the Bank's corporate customers with a total amount of EUR 450 millions (equivalent of TL 832,687 billions) on 9 July 2004 as signed with the 25 mandated arrangers.

Long-term debts comprise the following:

	2004					2003
	Interest rate%	*Latest Maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
DPR Securitisation-I	2.71-4.46	2008	US$350 mio	-	476,000	562,598
DPR Securitisation-II	2.41-2.44	2012	US$325mio	-	442,000	-
Cobank	1.99-2.92	2007	US$65 mio	49,513	39,317	55,158
Deutsche Bank	1.99-2.92	2007	US$43 mio	33,356	24,657	39,360
Murabaha Syndication	4.99	2006	US$27 mio	18,268	18,640	-
Standard Chartered	2.02-2.80	2006	US$13 mio	12,364	5,733	21,389
Others				78,908	237,847	85,967
				192,409	1,244,194	764,472

In August 2004, the leasing affiliate of the Bank has secured a syndicated "Murabaha" facility of US$ 30 million with a term of 24 months through a consortium arranged by HSBC to support the growing demand for leasing transactions. In line with the repayment schedule, the outstanding balance of this loan as of 31 December 2004 is US$ 27 millions.

In June 2004, the Bank completed a securitization (the "DPR Securitization-II") transaction by issuance of two classes of certificates: US$175 million Floating Rate Series 2004-B and US$150 million Floating Rate Series 2004-C. The Series 2004-B issue has a financial guarantee issued by MBIA Insurance Corporation, a final maturity of 5 years and an average life of 3.6 years. The Series 2004-C issue has a financial guarantee issued by Ambac Assurance Corporation, a final maturity of 8 years and an average life of 5.6 years. The DPR-II securitizes the Bank's payment orders created via SWIFT MT 103 or similar payment orders accepted as derived primarily from the Bank's trade finance and other corporate businesses and paid through foreign depository banks.

16 Loans and advances from banks (continued)

In December 2002, the Bank obtained a short-term fund in the amount of US$ 200 millions through its "DPR Securitization" (the "DPR Securitization-I"). The DPR Securitization-I securitizes the Bank's all right, title and interest to US dollar, Euro or Sterling-denominated MT100-series messages under the Society for Worldwide Interbank Financial Telecommunication (SWIFT) message system received by the Bank. Subsequently in October 2003, its maturity period extended to five years as US$ 200 millions Floating Rate Series 2003-A issue and a further US$ 150 millions Floating Rate Series 2003-B issue was obtained in December 2003.

17 Taxation on income

Corporate income tax is levied at the rate of 33% on the statutory Turkish Lira corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2004. This rate will be 30% in the following years. There is an additional tax computed only on the amounts of dividend distribution and is accrued only at the time of such payments. According to the amendments in tax legislations, which are effective from 24 April 2003, no income tax withholding is calculated over the dividends that are distributed to the shareholders from the profits of the years between 1999 and 2002 if these profits are exempted from corporation tax bases of the companies.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, provision for taxation charge, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years.

In Turkey, there is no procedure for a final and definite 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 which 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.

(Currency: Billions of Turkish Lira as adjusted for the effects of inflation in TL units current at 31 December 2004 pursuant to IAS 29)

17 **Taxation on income** (continued)

The total provision for taxes on income is different than the amount computed by applying the statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	2004	%	2003	%
Taxes on income per statutory tax rate	175,094	33.00	143,052	30.00
Valuation allowance for deferred tax assets	44,390	8.37	-	-
Non-tax deductable impairment losses, net	42,035	7.92	(41,848)	(8.78)
Disallowable expenses	31,635	5.96	27,891	5.85
Investment incentives	14,049	2.65	5,444	1.14
Income items exempt from tax	(13,291)	(2.50)	(8,546)	(1.79)
Effect of permanent differences on consolidation adjustments	7,312	1.38	6,649	1.39
Effect of change in legal tax rate	(6,763)	(1.28)	-	-
Reversal of restatement of non-monetary items per IAS29	-	-	(127,960)	(26.83)
Valuation differences of financial assets and liabilities	-	-	(63,986)	(13.42)
Others	6,702	1.26	(10,851)	(2.27)
Taxation charge/(credit)	301,163	56.76	(70,155)	(14.71)

The taxation charge comprise the following:

	2004	2003
Current taxes	32,126	28,145
Deferred taxes	269,037	(98,300)
Taxation charge	301,163	(70,155)

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

The current taxes payable on income comprise the following:

	2004	2003
Provision for current taxes payable on income before deductions	301,163	(70,155)
Add: Taxes payable carried forward	1,865	7,912
Add/(less): Deferred tax asset/liability	(269,037)	98,300
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of TL at 31 December 2004	(4,504)	(1,594)
Taxes payable on income	29,487	34,463

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

17 Taxation on income (continued)

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

	2004	***2003***
Deferred tax assets		
Tax losses carried forward	76,082	415,938
Impairment in value of investments in associated companies and tangible assets	48,075	19,981
Valuation difference on financial assets and liabilities	22,898	35,578
Specific and general allowance for loan losses	17,574	15,938
Investment incentives and exemptions	9,617	26,940
Reserve for severance payments	5,854	(1,567)
Leasing obligations	3,777	21,286
Others, net	10,601	(1,796)
Total deferred tax assets	194,478	532,298
Deferred tax liabilities		
Total deferred tax liabilities	1,390	5,366

18 Other liabilities and accrued expenses

The principal components of other liabilities and accrued expenses are as follows:

	2004	***2003***
Transfer orders	398,724	398,744
Miscellaneous payables	237,616	213,479
Insurance technical provisions	102,389	76,723
Payables to insurance and reinsurance companies relating to insurance operations	58,773	29,474
Withholding taxes	51,097	53,130
Unearned income	46,592	45,279
Expense accruals	28,427	27,989
Blocked accounts	26,336	23,892
Factoring payables	26,117	51,428
Reserve for severance payment	23,542	38,698
General provision for non-cash loans	14,747	12,834
Payables to suppliers relating to financial leasing activities	11,751	10,482
Others	114,338	61,474
	1,140,449	1,043,626

19 Shareholders' equity

The authorized nominal share capital of the Bank amounted to TL 1,200,000 billions comprising 2,399,999,999,654 registered shares of five hundred Turkish liras each and 1,728 registered shares of one hundred Turkish liras each. The portion of share capital arising from the amounts paid in by the shareholders was restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements; however, the transfers from revaluation surplus on fixed assets for statutory purposes and transfers from statutory retained earnings were eliminated. The Bank's nominal share capital increased from TL 822,038 billions to TL 1,200,000 billions by way of appropriation of gain on sales of real estate amounting TL 20,515 billions, gain on sales of equity participation amounting TL 6,947 billions and retained earnings of TL 350,500 billions in the third quarter of 2004 as reflected in the equity of statutory financial statements.

The Bank has made two transactions in 2001 representing a subsidy by its major shareholder in order to mitigate the effects of its one-time losses resulting from economic crisis in Turkey. As a result of these transactions, the Bank has reflected an income in 2001. However, these transactions were in substance, capital contributions by the shareholders since such financing could not have been entered into on an arm's-length basis with a third party. Consequently, a correction was made decreasing the "retained earnings" by TL 175,193 billions and increasing additional share capital by the same amount as at 30 September 2003.

The reserves include legal reserves amounting to TL 57,784 billions in total which are generated by annual appropriations amounting to 5% of the statutory income of the Bank and its affiliates until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

20 Fair value information

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.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. Turkey has shown sings of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

20 **Fair value information** (continued)

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for those security investments and Turkish Treasury securities reflected under loans and advances to customers. These balance sheet instruments include loans and advances to banks and customers except for loans to Turkish Treasury against securities, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Fair value of security investments and loans to Turkish Treasury against securities is TL 10,019,116 billions (2003: TL 11,142,464 billions), whereas the carrying amount is TL 9,866,393 billions (2003: TL 11,041,568 billions) in the accompanying consolidated balance sheet as at 31 December 2004.

21 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incure certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit.

Commitments and contingent liabilities comprise the following:

	2004	2003
Letters of guarantee	4,671,134	4,133,170
Letters of credit	1,804,544	1,493,567
Acceptance credits	599,588	593,719
Other guarantees and endorsements	403	22,634
	7,075,669	6,243,090

As at 31 December 2004, commitment for uncalled capital of affiliated companies amounts approximately to TL 13 billions (2003: TL 145 billions).

As at 31 December 2004, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 5,063,784 billions (2003: TL 5,391,274 billions), almost all due within a year.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

21 Commitments and contingencies (continued)

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

	31 December 2004		*31 December 2003*	
	Purchases	***Sales***	***Purchases***	***Sales***
Forward agreements for customer dealing activities	56,894	72,092	31,173	12,812
Currency swap agreements for customer dealing activities	82,754	14,308	36,252	17,151
Spot foreign currency transactions for customer dealing activities	54,470	137,802	8,905	3,446
Forward agreements for hedging purposes	348,290	71,982	29,818	34,847
Currency swap agreements for hedging purposes	2,928,896	111,530	4,323,343	198,892
Interest rate swap agreements	100,624	-	-	-
Interest rate and foreign currency options	270,402	326,142	139,887	36,966
Future rate agreements and foreign currency futures	230,945	149,600	149,122	52,677
Forward agreements for gold trading	10,164	64,659	3,650	118,065
Spot foreign currency transactions	8,912	23,318	77,935	116,333
	4,092,351	971,433	4,800,085	591,189

22 Risk management disclosures

This section provides details of the Bank and its affilates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affilates are exposed, are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 22.2 contains risk management information related to the trading portfolio and section 22.3 deals with the non-trading portfolio.

22.1 Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the balance sheet dates are set out in note 21. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:-

Swaps

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in market rates relative to the contractual rates of the contract.

22 Risk management disclosures (continued)

Futures and forwards

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually-traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are futures exchanges. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

22.2 Trading activities

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

The Bank and its affiliates' counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

22 Risk management disclosures (continued)

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

22.3 Non-trading activities

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

Liquidity risk

Liquidity risk arises in the general funding of the Bank and its affiliates' activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank and its affiliates have access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed through identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall strategy. In addition, a portfolio of liquid assets is held as a part of the Bank's liquidity risk management strategy.

(Currency: Billions of Turkish Lira as adjusted for the effects of

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2004						*31 December 2003*					
	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*	*Up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
MONETARY ASSETS												
Turkish Lira												
Cash and cash equivalents	422.352	-	-	-	-	422.352	395.720	-	-	-	-	395.720
Financial assets held for trading	2.762	5.814	134.465	61.570	114.621	319.232	3.007	17.418	5.986	39.388	37.721	103.520
Loans and advances to banks	93.088	-	-	40.344	-	133.432	186.776	10.776	-	-	-	197.552
Loans and advances to customers	3.410.971	341.126	418.502	843.910	2.033.237	7.047.746	1.925.725	182.082	209.977	774.876	1.099.717	4.192.376
Other assets	40.269	78.403	-	-	-	118.672	164.898	4.318	56.672	-	-	225.888
Security investments	16.213	341	782.514	243.537	992.221	2.034.826	359.977	125.263	16.559	486.580	999.532	1.987.911
Deferred tax assets	-	-	-	-	191.464	191.464	-	-	-	-	528.311	528.311
Total Turkish Lira monetary assets	3.985.655	425.684	1.335.481	1.189.361	3.331.543	10.267.724	3.036.104	339.857	289.193	1.300.843	2.665.281	7.631.278
Foreign currency												
Cash and cash equivalents	2.339.429	-	-	-	-	2.339.429	1.474.982	-	-	-	-	1.474.982
Financial assets held for trading	1.363	609	18.435	146.017	132.965	299.389	3.391	338.396	7.894	559.586	179.073	1.088.340
Loans and advances to banks	1.058.971	173.795	247.811	103.023	20.179	1.603.779	816.423	102.458	170.026	180.118	16.882	1.285.907
Loans and advances to customers	505.324	1.038.916	1.232.573	1.309.359	4.013.018	8.099.190	676.508	720.378	1.061.520	974.141	3.456.924	6.889.469
Other assets	180.953	20.906	-	-	-	201.859	56.846	58.238	52.814	24.994	936	193.829
Security investments	70.455	141.923	71.808	163.960	4.072.274	4.520.420	49.107	176.785	1.580.187	59.988	5.390.852	7.256.920
Deferred tax assets	-	-	-	-	3.014	3.014	-	-	-	-	3.987	3.987
Total foreign currency monetary assets	4.156.495	1.376.149	1.570.627	1.722.359	8.241.450	17.067.080	3.077.256	1.396.256	2.872.441	1.798.827	9.048.654	18.193.434
Total Monetary Assets	8.142.150	1.801.833	2.906.108	2.911.720	11.572.993	27.334.804	6.113.360	1.736.113	3.161.634	3.099.670	11.713.935	25.824.712
MONETARY LIABILITIES												
Turkish Lira												
Deposits	6.766.571	1.240.231	69.033	57.962	67.557	8.201.354	5.550.391	1.028.011	254.885	91.676	508	6.925.471
Obligations under repurchase agreements	258.956	-	-	-	53.681	312.637	86.036	-	-	-	-	86.036
Loans and advances from banks	43.426	35.664	44.405	43.463	-	166.958	51.188	30.431	42.680	29.104	-	153.403
Other liabilities and accrued expenses	297.883	48.173	58.073	65.822	82.941	552.892	264.079	52.364	41.313	81.644	57.168	496.568
Total Turkish Lira monetary liabilities	7.366.836	1.324.068	171.511	167.247	204.179	9.233.841	5.951.694	1.110.806	338.878	202.424	57.676	7.661.478
Foreign currency												
Deposits	9.965.329	1.641.028	445.020	398.580	188.430	12.638.387	9.901.750	1.561.533	426.198	309.495	439.884	12.638.860
Obligations under repurchase agreements	133.606	50.622	111.866	104.346	211.684	612.124	500.562	372.193	173.196	708.079	-	1.754.029
Loans and advances from banks	142.213	177.422	277.589	2.032.886	1.255.830	3.885.940	94.828	40.013	332.189	2.283.633	769.254	3.519.917
Other liabilities and accrued expenses	530.036	185	7.503	74.985	3.631	616.340	174.387	219.570	161.990	23.554	5.140	584.641
Total foreign currency monetary liabilities	10.771.184	1.869.257	841.978	2.610.797	1.659.575	17.752.791	10.671.527	2.193.309	1.093.573	3.324.761	1.214.277	18.497.447
Total Monetary Liabilities	18.138.020	3.193.325	1.013.489	2.778.044	1.863.754	26.986.632	16.623.221	3.304.115	1.432.451	3.527.185	1.271.953	26.158.925

22 Risk management disclosures (continued)

Market risk

Interest rate risk: The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and six months libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have indefinite maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

The following table provides an analysis of interest rate sensivity of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupi

	31 December 2004						
	Up to 1 month	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Non-Interest Bearing***	***Total***
MONETARY ASSETS							
Cash and cash equivalents	2.541.628	-	-	-	-	220.153	2.761.781
Financial assets held for trading	2.989	7.582	159.695	211.935	231.694	4.726	618.621
Loans and advances to banks	1.090.041	173.795	247.811	143.366	20.177	62.021	1.737.211
Loans and advances to customers	3.680.187	1.380.042	1.651.075	2.153.269	6.046.255	236.108	15.146.936
Other assets	-	-	-	-	-	320.531	320.531
Security investments	71.433	1.605.201	1.710.575	393.566	2.582.216	192.255	6.555.246
Deferred tax assets	-	-	-	-	-	194.478	194.478
Total Monetary Assets	7.386.278	3.166.620	3.769.156	2.902.136	8.880.342	1.010.119	27.334.804
MONETARY LIABILITIES							
Deposits	10.095.819	2.863.483	511.662	454.644	255.277	6.658.856	20.839.741
Obligations under repurchase agreements	389.587	50.232	111.567	103.412	253.999	15.964	924.761
Loans and advances from banks	184.729	209.535	317.409	2.048.016	1.248.441	44.768	4.052.898
Other liabilities and accrued expenses	198	-	1.197	-	13.708	1.154.129	1.169.232
Total Monetary Liabilities	10.670.333	3.123.250	941.835	2.606.072	1.771.425	7.873.717	26.986.632

	31 December 2003						
	Up to 1 month	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Non-Interest Bearing***	***Total***
MONETARY ASSETS							
Cash and cash equivalents	1.457.458	-	-	-	-	413.244	1.870.702
Financial assets held for trading	6.445	834.155	13.872	115.873	213.803	7.711	1.191.859
Loans and advances to banks	835.385	113.234	170.026	180.118	16.882	167.814	1.483.459
Loans and advances to customers	2.343.040	902.458	1.271.497	1.749.019	4.557.216	258.616	11.081.846
Other assets	-	-	-	-	-	419.717	419.717
Security investments	379.503	1.541.034	3.397.081	302.679	3.194.377	430.157	9.244.831
Deferred tax assets	-	-	-	-	-	532.298	532.298
Total Monetary Assets	5.021.831	3.390.881	4.852.476	2.347.689	7.982.278	2.229.557	25.824.712
MONETARY LIABILITIES							
Deposits	9.462.946	2.561.566	674.665	397.414	439.844	6.027.896	19.564.331
Obligations under repurchase agreements	584.803	371.342	172.452	704.454	-	7.014	1.840.065
Loans and advances from banks	132.718	68.644	372.326	2.298.268	764.760	36.604	3.673.320
Other liabilities and accrued expenses	33.937	30.730	7.160	1.360	5.314	1.002.708	1.081.209
Total Monetary Liabilities	10.214.404	3.032.282	1.226.603	3.401.496	1.209.918	7.074.222	26.158.925

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

22 Risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the years 2004 and 2003:

	2004			
	US$ %	*EURO %*	*TL %*	*Other Currencies %*
Assets				
Loans and advances to banks	1.61-5.90	1.95-4.00	18.00-22.77	2.00-6.00
Debt and other fixed or floating income instruments	4.72-12.75	5.75-11.63	21.87-25.88	16.30-18.00
Loans and advances to customers	4.43-12.08	4.71-7.05	25.71-35.77	2.54-14.00
Liabilities				
Deposits:				
- Foreign currency deposits	1.50-6.75	1.50-5.75	-	1.50-12.50
- Bank deposits	2.47-6.50	2.47-4.17	19.64-19.72	1.50
- Saving deposits	-	-	17.83-18.28	-
- Commercial deposits	-	-	18.28-19.14	-
- Public and other deposits	-	-	18.28	-
Obligations under repurchase agreements	2.67-3.88	3.63	18.59	-
Loans and advances from banks	1.25-9.29	2.00-7.18	18.80-21.63	4.32

	2003			
	US$ %	*EURO %*	*TL %*	*Other Currencies %*
Assets				
Loans and advances to banks	0.63-6.30	2.12-5.87	17.24-27.82	3.00-14.00
Debt and other fixed or floating income instruments	3.7-8.5	3.7-8.81	32.26-43.88	-
Loans and advances to customers	3.00-13.00	4.90-6.69	30.20-52.78	3.26-18.00
Liabilities				
Deposits:				
- Foreign currency deposits	1.00-6.00	1.50-5.75	-	2.85-12.50
- Bank deposits	1.25-5.25	3.00-3.33	24.99-26.55	2.75-6.00
- Saving deposits	-	-	25.40-31.50	-
- Commercial deposits	-	-	23.51-31.92	-
- Public and other deposits	-	-	28.86	-
Obligations under repurchase agreements	2.52	2.55	28.86	-
Loans and advances from banks	1.10-13.96	2.00-9.50	26.78-30.24	4.90-5.40

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

22 Risk management disclosures (continued)

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The primary exposure to equity prices arises from trading activities and the Bank limits the risk by maintaining a small portfolio. Exposure to market risk is formally managed in accordance with risk limits.

Currency risk

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

The Bank and its affiliates' main foreign operations are in Holland and Moscow. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is Turkish Lira (TL), the consolidated financial statements are affected by currency exchange rate fluctuations against TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved, excluding borrowings treated as hedges of net investments in foreign operations.

These exposures are as follows:

	2004			
	US$	EURO	Other Currencies	Total
Assets				
Cash and cash equivalents	374,291	1,946,362	18,776	2,339,429
Financial assets held for trading	197,359	56,566	45,464	299,389
Loans and advances to banks	1,143,033	398,664	62,082	1,603,779
Loans and advances to customers	6,596,515	1,403,479	98,049	8,098,043
Other assets	65,361	133,662	11,367	210,390
Security investments	4,031,043	488,385	992	4,520,420
Investments in equity participations	-	463	6,898	7,361
Tangible assets	471	67,519	1,910	69,900
Intangible assets	-	-	-	-
Deferred tax asset	323	2,639	52	3,014
Total Assets	12,408,396	4,497,739	245,590	17,151,725

(Currency: Billions of Turkish Lira as adjusted for the effects of
inflation in TL units current at 31 December 2004 pursuant to IAS 29)

22 Risk management disclosures (continued)

	2004			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	12,408,396	4,497,739	245,590	17,151,725
Liabilities				
Deposits	6,781,152	5,429,432	427,803	12,638,387
Obligations under repurchase agreements	527,931	84,193	-	612,124
Loans and advances from banks	2,809,661	1,060,271	16,008	3,885,940
Current tax liability	-	25,860	48	25,908
Other liabilities and accrued expenses	445,234	136,688	8,510	590,432
Total Liabilities	10,563,978	6,736,444	452,369	17,752,791
Net On Balance Sheet Position	1,844,418	(2,238,705)	(206,779)	(601,066)
Net Off Balance Sheet Position	(1,842,129)	2,178,730	288,605	625,206
Net Position	2,289	(59,975)	81,826	24,140

	2003			
	US$	***EURO***	***Other Currencies***	***Total***
Total Assets	15,112,806	2,865,161	294,033	18,272,000
Total Liabilities	11,284,603	6,847,236	365,608	18,497,447
Net On Balance Sheet Position	3,828,203	(3,982,075)	(71,575)	(225,447)
Net Off Balance Sheet Position	(3,973,034)	3,983,397	148,031	158,394
Net Position	(144,831)	1,322	76,456	(67,053)

Of the amounts shown in the table above, at 31 December 2004, 104 % (2003: 70%) are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The net of Russian Rubles denominated assets and liabilities as included in the above table at their TL equivalents, comprise net asset of TL 53,309 billions at 31 December 2004 (2003: TL 38,196 billions). For the purposes of the evaluation of the table above, these amounts should not be considered as hard currency.

For the year ended 31 December 2004, volume of transactions in foreign currency, comprising foreign exchange operations, workers' remittances, capital movements, etc. amounts approximately to US$ 189,998 millions (2003: US$ 95,138 millions).

22 Risk management disclosures (continued)

Credit risk

The Bank and its affiliates are subject to credit risk through its trading, lending, hedging and investing activities and in cases where they act as intermediaries on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The Bank and its affiliates' primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (note 21).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Bank and its affiliates' investments, loans and advances and guarantees issued. There is no exposure to any individual customer or counterparty.

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22 Risk management disclosures (continued)

Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	2004				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	14,460,055	27,383,922	18,960,365	6,756,714	124,801
Holland	137,248	709,057	1,030,636	12,538	2,726
USA	62,450	413,458	1,465,969	55,765	-
Russia	139,201	314,686	45,357	39,841	258
Germany	25,855	246,257	2,263,033	6,019	-
Luxembourg	148,175	200,372	33,070	4,645	-
Romania	76,155	197,331	94,578	14,076	-
England	33,206	129,477	1,759,571	13,672	-
France	11,364	117,182	17,915	2,740	-
Switzerland	104,324	112,196	341,541	64,590	-
Others	84,726	442,125	976,691	105,069	-
TOTAL	15,282,759	30,266,063	26,988,726	7,075,669	127,785

	2003				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	10,370,407	25,923,125	16,920,537	5,801,159	149,191
Holland	84,959	1,138,712	1,445,003	350,561	2,135
Switzerland	157,244	415,422	405,620	2,659	-
England	121,712	398,562	2,225,495	5	-
Russia	161,761	337,388	84,236	43,522	254
USA	11,000	181,271	1,206,509	114	-
Germany	79,590	136,509	2,407,314	288	-
Romania	71,478	117,591	93,306	-	-
Luxembourg	-	34,038	362,888	10,180	-
France	10,211	14,949	11,399	172	-
Others	136,922	508,094	998,864	34,430	-
TOTAL	11,205,284	29,205,661	26,161,171	6,243,090	151,580

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility. The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Approximately 72 % of the balance of outstanding loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for guarantees and letters of credit is around 77 %.

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22 Risk management disclosures (continued)

The Bank generally seeks collateral security comprising real estate and other mortgages of varying ranking, charges on commodity inventories, letters of guarantee, promissory notes and similar items. The breakdown of cash and non-cash loans and advances to customers by type collateral is as follows:

	2004	2003
Cash loans		
Secured loans:	10,682,373	7,676,171
Secured by cash collateral	464,815	340,299
Secured by mortgages	1,148,418	619,723
Secured by government institutions or government securities	3,960,814	2,661,862
Guarantees issued by financial institutions	86,014	154,869
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	5,022,312	3,899,418
Unsecured loans	4,228,455	3,147,058
Total performing loans and financial lease receivables	14,910,828	10,823,229
Non-cash loans		
Secured loans:	5,424,968	5,147,518
Secured by cash collateral	539,119	784,575
Secured by mortgages	-	195,649
Secured by government institutions or government securities	146	51,564
Guarantees issued by financial institutions	43,683	126,383
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	4,842,020	3,989,347
Unsecured loans	1,650,701	1,095,572
Total non-cash loans	7,075,669	6,243,090

22.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

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22 Risk management disclosures (continued)

In 2004, the Bank has entered into interest rate swap transactions in order to hedge its certain cash flow exposures primarily on floating rate liabilities, through converting its floating rate payments into fixed rate payments. The following table includes certain characteristics of these swap transactions:

Notional amount	*Fixed payer rate (%)*	*Floating payer rate (%)*	*Fixed payment frequency*	*Maturity*
US$ 175 millions	5.445	3 month libor + 175	quarterly	2009
US$ 100 millions	5.005	3 month libor +240	quarterly	2007
US$ 100 millions	5.255	3 month libor +240	quarterly	2007

23 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 31 December 2004:

Affiliates	*Shareholding Interest (%)*
Garanti Bank International NV	100.00
Garanti Bank Moscow	100.00
Garanti Sigorta AŞ	100.00
Garanti Emeklilik ve Hayat AŞ	100.00
Garanti Portföy Yönetimi AŞ	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00
Garanti Financial Services plc.	100.00
Garanti Fund Management Co. Ltd.	100.00
Bosphorus Financial Services Ltd.	100.00
Clover Investments Co.	100.00
Garanti Bilişim Teknolojisi	100.00
Ana Konut Danışmanlık AŞ	100.00
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	100.00
Galata Araştırma Yay.Tanıtım ve Bil.Tek.Hiz. AŞ	100.00
Şahintur Şahinler Otelcilik Turizm Yatırım İşl. AŞ	100.00
Doğuş Hava Taşımacılığı AŞ	100.00
Lasaş Lastikleri San ve Tic. AŞ	99.99
Konaklı Tur.Tem.Yapı.San. ve Tic. AŞ	99.97
Sititur Tur.Tem.Taş. Org.Bilgisayar Danışm.Yapı San.ve Tic.AŞ	99.95
Garanti Finansal Kiralama AŞ	98.89
Garanti Faktoring Hizmetleri AŞ	81.81
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.06
Tansaş Perakende Mağazacılık Ticaret AŞ	24.11 ***(a)***

(Currency: Billions of Turkish Lira as adjusted for the effects of
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23 Affiliates and associates (continued)

(a) *Although its ownership percentage in Tansaş Perakende Mağazacılık Ticaret AŞ is less than 50%, the Bank has the controlling power on the operations and the financial policies of the company. Accordingly, it has been consolidated since 1999.*

The liquidation of Imperial Ottoman Bank Offshore Ltd. was completed in July 2004. Bosphorus Financial Services Ltd., Clover Investments Co. and Garanti Fund Management Co. Ltd. are under liquidation as of the reporting date. The liquidation procedures are expected to complete during the year 2005.

The table below sets out the Associates and shows their shareholding structure as at 31 December 2004:

Associates	*Shareholding Interest (%)*
İksir Ulusl. El. Tic. Bilg.ve Hab. Hiz. AŞ	46.65
Garanti Turizm ve Yatırım İşl. AŞ	44.89
Doc Finance SA	29.00

Garanti Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions explained in note 16. The Bank or any of its affiliates does not have any shareholding interest in this company.

24 Subsequent events

24.1 Removal of six digits in the national currency

Turkish Lira (TL) has ended up in large denominations unprecedented in the world creating several problems for expressing and writting the figures. Starting from 1 January 2005, the currency unit is set as the New Turkish Lira (YTL) per the Law on the Currency Unit of the Republic of Turkey no.5083 dated 28 January 2004. Six digits have been removed from the Turkish Lira, and one million Turkish Liras became one New Turkish Lira (1,000,000 TL=1 YTL). For this reason, removing six zeros from banknotes, adopting a new unit of currency based on a conversion rate, with which one million Turkish Lira equals one New Turkish Lira (1,000,000 TL=1 YTL), and thus bringing a general simplification in expressing and writing the monetary values and records within the scope of the national economy is considered useful for practical reasons. The related legislation for local accounting applications, the Accounting System Application Communiqué no.13, was published in the Official Gazette no.25605 on 6 October 2004.

24.2 Sale of equity participations

The Bank sold its shares in Türkiye Sınai Kalkınma Bankası AŞ amounting TL 5,817 billions, an equity participation available-for-sale classsified under Investments in Equity Participations as of 31 December 2004, at a price of TL 7,574 billions as at 31 January 2005.

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