Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements

30 June 2005

With Independent Auditors'

Review Report Thereon

4 August 2005

This report contains the "Independent Auditors' Review Report" comprising 1 page and; the "Consolidated financial statements and their explanatory notes" comprising 64 pages.

Türkiye Garanti Bankası Anonim Şirketi

And Its Affiliates

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Independent Auditors' Review Report

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

We have reviewed the accompanying consolidated balance sheet of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 30 June 2005; and the consolidated statements of income, changes in shareholders' equity and cash flows for the six-month period then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our review. We did not review the financial statements of certain consolidated companies as of 30 June 2005, which statements reflect total assets constituting 3.75%; and total operating income constituting 2.79% after elimination of inter-company balances and transactions as of and for the six-month period ended 30 June 2005 of the related consolidated totals. Those statements were reviewed by other auditors whose reports have been furnished to us, and our report, insofar as it relates to the amounts included for those companies is based solely on the review reports of other auditors.

We conducted our review in accordance with International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the personnel of the Bank and its affiliates and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true and fair view in accordance with International Financial Reporting Standards.

As discussed in Significant Accounting Policies note to the consolidated financial statements, the Bank and its affiliates changed the accounting policies, in accordance with the amendments on International Financial Reporting Standards (IFRS) at the beginning of the year 2005. Consequently, the consolidated financial statements of Bank and its affiliates for the year 2004 have been restated in accordance with IFRS.

İstanbul,
4 August 2005

KPMG Akis Serbest Muhasebeci
Mali Müşavirlik A.Ş.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet
At 30 June 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

	Notes	30 June 2005	31 December 2004
Assets			
Cash and balances with Central Banks	*4*	2.484.988	2.851.614
Financial assets at fair value through profit or loss	*5*	783.748	638.742
Loans and advances to banks	*6*	1.829.962	1.793.717
Loans and advances to customers	*7*	15.086.218	12.361.012
Other assets	*9*	905.325	1.035.824
Security investments	*10,21*	10.028.874	10.245.118
Investments in equity participations	*11*	113.387	130.193
Tangible assets, net	*12*	1.922.298	1.995.874
Intangible assets, net	*13*	118.878	118.878
Deferred tax assets	*18*	155.454	189.980
Total assets		**33.429.130**	**31.360.952**
Liabilities			
Deposits from banks	*14*	908.527	1.170.907
Deposits from customers	*15*	20.552.311	20.346.687
Obligations under repurchase agreements	*16*	1.726.786	954.841
Loans and advances from banks	*17*	4.922.247	4.184.727
Current tax liability	*18*	67.398	30.443
Deferred tax liabilities	*18*	1.507	1.436
Other liabilities and accrued expenses	*19*	1.540.196	1.187.598
Total liabilities		**29.718.972**	**27.876.639**
Shareholders' equity and minority interest			
Share capital	*20*	3.010.429	2.646.548
Minority interest	*20*	249.616	246.449
Revaluation of available-for-sale assets	*10,20*	69.299	126.183
Hedging reserve	*24*	5.608	5.399
Legal reserves	*20*	77.765	54.264
Retained earnings	*20*	297.441	405.470
Total shareholders' equity and minority interest		**3.710.158**	**3.484.313**
Total liabilities, shareholders' equity and minority interest		**33.429.130**	**31.360.952**
Commitments and contingencies	*22*		

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Income Statement
For The Six-Month Period Ended 30 June 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

	Notes	Six-month period ended 30 June 2005	Three-month period ended 30 June 2005	Six-month period ended 30 June 2004	Three-month period ended 30 June 2004
Interest income:-					
Interest on loans		946.236	484.314	686.458	351.083
Interest on securities		756.638	352.441	789.599	391.880
Interest on deposits at banks		90.707	47.679	92.430	49.910
Interest on lease business		30.492	16.207	22.299	12.337
Others		32.578	13.079	42.064	9.304
		1.856.651	913.720	1.632.850	814.514
Interest expense:-					
Interest on saving, commercial and public deposits		(650.276)	(326.369)	(768.219)	(384.515)
Interest on borrowings		(188.965)	(96.560)	(141.156)	(64.940)
Interest on bank deposits		(46.545)	(23.163)	(51.092)	(28.731)
Others		(25.246)	(21.353)	(18.142)	(9.311)
		(911.032)	(467.445)	(978.609)	(487.497)
Net interest income		**945.619**	**446.275**	**654.241**	**327.017**
Fee and commission income		514.652	262.786	418.903	218.644
Fee and commission expense		(140.715)	(72.694)	(126.600)	(66.993)
Net fee and commission income		**373.937**	**190.092**	**292.303**	**151.651**
Gross profit from retail business		134.012	68.264	112.304	62.941
Premium income from insurance business		70.487	39.201	48.861	26.904
Foreign exchange gain, net		28.204	6.969	-	-
Trading account income, net		8.136	3.887	79.081	14.334
Others		42.341	22.089	40.404	11.527
Other operating income		**283.180**	**140.410**	**280.650**	**115.706**
Total operating Income		**1.602.736**	**776.777**	**1.227.194**	**594.374**
Impairment losses	*7,8,9,11,12,13,19*	(302.822)	(102.539)	(102.519)	(71.976)
Salaries and wages		(231.182)	(120.410)	(208.670)	(103.236)
Depreciation and amortization	*12,13*	(94.990)	(45.012)	(113.012)	(55.643)
Employee benefits		(70.689)	(42.450)	(56.437)	(26.930)
Advertising expenses		(53.591)	(31.463)	(40.471)	(22.223)
Communication expenses		(40.259)	(18.542)	(35.133)	(14.378)
Rent expenses		(37.288)	(18.784)	(36.037)	(17.900)
EDP expenses		(29.001)	(16.530)	(25.242)	(17.539)
Claim loss from insurance business		(19.140)	(10.977)	(33.960)	(27.651)
Taxes and duties other than on income		(16.973)	(9.239)	(14.983)	(6.041)
Utility expenses		(16.081)	(7.849)	(16.846)	(6.914)
Saving deposits insurance fund		(15.639)	(8.055)	(26.725)	(14.071)
Repair and maintenance expenses		(9.922)	(5.703)	(9.530)	(5.513)
Stationary expenses		(7.910)	(3.974)	(6.039)	(3.258)
Foreign exchange loss, net		-	-	(10.715)	(65.609)
Other operating expenses		(194.928)	(116.077)	(125.441)	(47.426)
Total operating expenses		**(1.140.415)**	**(557.604)**	**(861.760)**	**(506.308)**
Income from operations		**462.321**	**219.173**	**365.434**	**88.066**
Gain/(loss) on monetary position, net		(38.427)	(18.809)	5.020	44
Income before tax		**423.894**	**200.364**	**370.454**	**88.110**
Taxation charge	*18*	(121.676)	(62.368)	(137.068)	(25.246)
Net income for the period		**302.218**	**137.996**	**233.386**	**62.864**
Net income for the period attributable to:					
Equity holders of the Bank		297.441	133.832	261.951	72.215
Minority interest		4.777	4.164	(28.565)	(9.351)
		302.218	**137.996**	**233.386**	**62.864**
Weighted average number of shares with a face value of YTL 1,000 each	*20*	**2,100 billion**	**2,100 billion**	**791.7 billion**	**791.7 billion**
Earnings per share (full YTL amount per YTL'000 face value each)		**143,91**	**65,71**	**294,77**	**79,40**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity
For The Six-Month Period Ended 30 June 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

	Notes	Share Capital	Minority Interest	Revaluation of Available-For Sale Assets	Hedging Reserves	Legal Reserves	Retained Earnings	Total Shareholders' Equity
Balances at 1 January 2004	*23*	**2.239.080**	**297.817**	**238.300**	**-**	**64.758**	**395.744**	**3.235.699**
Reversal of restatement effects of inflation		-	(4.565)	-	-	-	-	(4.565)
Reserve for general banking risks, net		-	-	-	-	8.832	(8.832)	-
Net market value gains from available-for-sale portfolio		-	-	(134.286)	8.454	-	-	(125.832)
Transferred to net income from fair value increases		-	-	(111.511)	-	-	-	(111.511)
Net income for the six-month period		-	(28.565)	-	-	-	261.951	233.386
Balances at 30 June 2004	*23*	**2.239.080**	**264.687**	**(7.497)**	**8.454**	**73.590**	**648.863**	**3.227.177**
Transfer from unappropriated earnings	*20*	407.468	-	-	-	21.309	(428.777)	-
Reversal of restatement effects of inflation		-	(4.793)	-	-	-	-	(4.793)
Release from general banking risks, net		-	-	-	-	(40.635)	40.635	-
Net market value gains from available-for-sale portfolio		-	-	153.805	-	-	-	153.805
Transferred to net income from fair value increases		-	-	(20.125)	-	-	-	(20.125)
Net fair value gains from cash flow hedges	*24*	-	-	-	(3.055)	-	-	(3.055)
Net income for the six-month period		-	(13.445)	-	-	-	144.749	131.304
Balances at 31 December 2004	*23*	**2.646.548**	**246.449**	**126.183**	**5.399**	**54.264**	**405.470**	**3.484.313**
Effect of change in an accounting policy	*23*	-	-	-	-	-	-18.088	(18.088)
Restated balances at 1 January 2005		**2.646.548**	**246.449**	**126.183**	**5.399**	**54.264**	**387.382**	**3.466.225**
Transfer from unappropriated earnings		363.881	-	-	-	25.211	(389.092)	-
Reversal of restatement effects of inflation		-	(1.610)	-	-	(1.710)	1.710	(1.610)
Net market value losses from available-for-sale portfolio		-	-	(15.739)	-	-	-	(15.739)
Transferred to net income from fair value increases		-	-	(41.145)	-	-	-	(41.145)
Net fair value gains from cash flow hedges	*24*	-	-	-	209	-	-	209
Net income for the six-month period		-	4.777	-	-	-	297.441	302.218
Balances at 30 June 2005		**3.010.429**	**249.616**	**69.299**	**5.608**	**77.765**	**297.441**	**3.710.158**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Six-Month Period Ended 30 June 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

	Notes	30 June 2005	30 June 2004
Cash flows from operating activities:-			
Interest and commission received		942.674	1.048.522
Interest expense paid		(738.783)	(1.012.637)
Other operating activities, net		(109.768)	23.320
Cash payments to employees and supplies		(365.678)	(322.765)
Gain/(loss) on monetary position, net		(38.427)	5.020
		(309.982)	(258.540)
(Increase)/decrease in operating assets:-			
Loans and advances to banks		(246.789)	39.658
Balances with Central Banks		47.206	(130.746)
Financial assets at fair value through profit or loss		(142.897)	235.565
Loans and advances to customers		(2.662.800)	(2.063.214)
Consumer loans		(297.412)	(554.630)
Other assets		(83.686)	84.039
Increase/(decrease) in operating liabilities:-			
Deposits from banks		(264.730)	291.757
Deposits from customers		192.606	455.074
Obligations under repurchase agreements		771.494	169.304
Other liabilities		153.109	55.174
Net cash used in operating activities before income taxes paid		**(2.843.881)**	**(1.676.559)**
Income taxes paid		**(71.286)**	**(21.578)**
Net cash used in operating activities		**(2.915.167)**	**(1.698.137)**
Cash flows from investing activities:-			
Proceeds from sale of security investments		1.043.611	2.999.063
Purchase of security investments		(988)	(1.595.524)
Interest received		545.608	1.068.940
Decrease/(increase) in investments in equity participations, net		17.758	(1.227)
Dividends received		1.165	-
Increase in tangible assets, net		8.547	(7.359)
Net cash from investing activities		**1.615.701**	**2.463.893**
Cash flows from financing activities:-			
Increase in loans and advances from banks, net		735.251	378.085
Dividends paid		-	-
Net cash from financing activities		**735.251**	**378.085**
Effect of exchange rate changes		**28.204**	**(10.715)**
Net (decrease)/increase in cash and cash equivalents		**(536.011)**	**1.133.126**
Cash and cash equivalents at beginning of the period	*2*	2.437.992	1.597.493
Cash and cash equivalents at end of the period	*2*	**1.901.981**	**2.730.619**

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 period ended 30 June 2005 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 and 48 offices. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Moscow. The Bank and its affiliates in total have 16,317 employees. 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 47.46% of the issued capital. The total ownership interest of Doğuş Group Companies in the Bank is 55.11% of the issued capital after a decrease by 7.78% from 62.89% since November 2004 as explained below:

As per the resolution of Board of Directors dated 8 November 2004, Doğuş Holding AŞ had an agreement with a foreign portfolio investor for issuing an option to purchase a portion of the shares of the Bank owned by Doğuş Holding AŞ. In accordance with the related Security's Lending Agreement, the investor took over all the ownership rights including sale of 12,013,037,274 shares representing 5.72% of the Bank's capital (per 1 New Kuruş) throughout the option period.

With the same foreign portfolio investor, a second contract was signed in 2005 for issuing an option to purchase further shares. According to the second contract, the notional amount of this option was US$ 250 millions and the investor took over all the ownership rights including sale of 8,677,689,975 shares representing 4.13% of the Bank's capital (per 1 New Kuruş) throughout the option period agreed. Subsequently, the investor has purchased 4,331,683,125 shares representing 2.06% of the Bank's capital. The term of this Security's Lending Agreement is 18 months and an additional right has been provided to the investor to purchase a further 40% of the shares subject to this option which represents 1.653% of the Bank's capital. For these shares, the purchasing price was determined based on a market price of US$ 6,250 millions. Shares in the number of 7,817,077,275 representing 3.72% of the Bank's capital were pledged to the investor for its unused and additionally provided purchase rights.

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 New Turkish Lira (YTL) 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 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 August 2005.

(b) Basis of preparation

Starting from 1 January 2005, the currency unit is set as the new Turkish Lira per the Law on the currency unit of the Republic of Turkey no.5083 dated 31 January 2004. Six digits have been removed from the Turkish Lira (TL) and one million TL become one YTL.

The accompanying consolidated financial statements are presented in YTL, rounded to the nearest value as adjusted for the effects of inflation in YTL units current at 30 June 2005.

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.

The Bank and its affiliates adopted revised standards of IFRS effective from 1 January 2005. The 2004 accounts have been amended as required by IFRS, which are disclosed in note 23.

(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.

Significant accounting policies (continued)

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.

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 New 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

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

Significant accounting policies (continued)

rate in Turkey has been 55.73% as at 30 June 2005, 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 30 June 2005, other characteristics; such as 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 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 YTL as at 30 June 2005 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***
30 June 2005	8,677.2	1.000
31 December 2004	8,403.8	1.033
30 June 2004	7,982.7	1.087
31 December 2003	7,382.1	1.175

The main guidelines for the restatement mentioned above 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".

Significant accounting policies (continued)

(e) Foreign currency

Foreign currency transactions

Transactions are recorded in YTL, 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 YTL 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.

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 YTL at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to YTL 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 YTL 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

Goodwill consists of the excess of the total acquisition costs over 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 accompanying consolidated balance sheets, and assessed annually 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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its affiliates provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Significant accounting policies (continued)

Available-for-sale assets are financial assets that are not held for trading purposes, provided 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 at fair value through profit or loss 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 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 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, 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.

Fair value measurement principles

The fair values of financial instruments are based on their quoted market prices 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 values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the balance sheet

Significant accounting policies (continued)

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 values of financial instruments at fair value are recognized in the income statement. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity.

Specific instruments

Cash and balances with Central Banks: Cash and balances with Central Banks comprise cash balances on hand, cash deposited with Central Banks and other cash items. Money market placements are classified in loans and advances to banks.

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 provided by the Bank and its affiliates are classified as 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.

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.

Significant accounting policies (continued)

Held-to-maturity instruments and 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 the related assets 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.

(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 the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

(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.

Significant accounting policies (continued)

(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. 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 YTL.

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 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 30 June 2005.

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 amounts are YTL 1,649 and YTL 1,574 at 30 June 2005 and 31 December 2004, respectively.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

Significant accounting policies (continued)

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 30 June 2005 and 31 December 2004 are as follows:

	30 June 2005	***31 December 2004***
	%	*%*
Expected inflation rate	10	10
Expected rate of salary/limit increase	16	16
Turnover rate to estimate the probability of retirement	5.1	4.3

(m) Taxes on income

Taxes on income for the period comprise current tax and deferred taxes. Current taxes on income comprises tax payable calculated on the basis of expected taxable income for the period 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.

An individual consolidated affiliate offsets deferred tax assets and deferred tax liabilities if the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

Deferred taxes related to fair value remeasurement of available-for-sale assets and cash flow hedges, are charged or credited directly to equity and subsequently recognised in the income statement together with the deferred gains or losses that are realized.

(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.

Significant accounting policies (continued)

(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 period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. 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.

Loans and receivables and held-to-maturity instruments

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values 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 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.

Significant accounting policies (continued)

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 the 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 a 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 collected.

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 issued and other similar banking services, are usually recognized as income only when collected.

Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss and available-for-sale.

Dividend income

Dividend income is recognized in the income statement when received.

Significant accounting policies (continued)

Insurance business

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

Unearned premium reserve: 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 settleement 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.

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: Thousands of New Turkish Lira (YTL) as adjusted for the effects of
inflation in YTL units current at 30 June 2005 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:

30 June 2005	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	1,805,370	37,962	8,701	59	4,250	9,138	1,630	1,867,110	(10,459)	1,856,651
Interest expense	(895,877)	(11,448)	-	(3,675)	(6)	(10,280)	(206)	(921,492)	10,460	(911,032)
Net interest income/(expense)	909,493	26,514	8,701	(3,616)	4,244	(1,142)	1,424	945,618	1	945,619
Fee and commission income, net	363,262	-	(5,328)	8,794	11,727	(6,354)	-	372,101	1,836	373,937
Gross profit from retail business	-	-	-	-	-	134,012	-	134,012	-	134,012
Premium income from insurance business	-	-	70,487		-	-	-	70,487	-	70,487
Foreign exchange gain, net	30,144	(1,023)	8	(1,869)	(285)	431	798	28,204	-	28,204
Trading account income, net	7,148	(453)	9	-	1,524	-	(92)	8,136	-	8,136
Other operating income	35,746	-	15	153	6,008	-	14,567	56,489	(14,148)	42,341
Impairment losses	(303,433)	(3)	-	-	(400)	(30)	(7,725)	(311,591)	8,769	(302,822)
Salaries and wages	(170,993)	(3,915)	(15,022)	(710)	(4,583)	(27,767)	(8,192)	(231,182)	-	(231,182)
Other operating expenses	(435,307)	(9,820)	(49,941)	(749)	(7,845)	(99,536)	(15,674)	(618,872)	12,461	(606,411)
Gain/(loss) on monetary position,net	(31,702)	(2,416)	(2,863)	(479)	(1,641)	3,977	(1,281)	(36,405)	(2,022)	(38,427)
Taxation (charge)/credit	(117,865)	(223)	(3,265)	(370)	(1,448)	(1,300)	2,795	(121,676)	-	(121,676)
Net income/(loss) for the period	286,493	8,661	2,801	1,154	7,301	2,291	(13,380)	295,321	6,897	302,218
Segment assets	30,836,982	623,158	321,550	127,657	161,364	491,105	861,609	33,423,425	(107,682)	33,315,743
Investments in equity participations	1,685,509	484	677	9,516	7,284	121	66,591	1,770,182	(1,656,795)	113,387
Total assets	32,522,491	623,642	322,227	137,173	168,648	491,226	928,200	35,193,607	(1,764,477)	33,429,130
Segment liabilities	28,661,322	523,744	240,415	110,354	40,596	285,980	49,317	29,911,728	(192,756)	29,718,972

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

1 **Segment reporting** (continued)

30 June 2004	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	1,594,598	33,641	5,469	-	3,890	5,236	334	1,643,168	(10,318)	1,632,850
Interest expense	(961,554)	(9,135)	-	(3,747)	(105)	(13,991)	(409)	(988,941)	10,332	(978,609)
Net interest income/(expense)	633,044	24,506	5,469	(3,747)	3,785	(8,755)	(75)	654,227	14	654,241
Fee and commission income, net	277,730	-	(3,531)	8,206	17,975	(8,244)	-	292,136	167	292,303
Gross profit from retail business	-	-	-	-	-	112,304	-	112,304	-	112,304
Trading account income, net	72,772	-	18	-	816	-	-	73,606	5,475	79,081
Premium income from insurance business	-	-	48,861	-	-	-	-	48,861	-	48,861
Other operating income	36,100	577	7	74	1,150	1,931	18,726	58,565	(18,161)	40,404
Salaries and wages	(150,364)	(3,463)	(10,799)	(741)	(4,156)	(31,800)	(7,347)	(208,670)	-	(208,670)
Impairment losses	(97,050)	129	-	-	(333)	-	(5,481)	(102,735)	216	(102,519)
Foreign exchange loss, net	(6,555)	212	(183)	(1,153)	428	(1,909)	(786)	(9,946)	(769)	(10,715)
Other operating expenses	(373,708)	(6,437)	(46,841)	(1,074)	(7,839)	(99,359)	(13,302)	(548,560)	8,704	(539,856)
Gain/(loss) on monetary position, net	32,492	(7,302)	(1,727)	(1,061)	(2,446)	1,739	(4,763)	16,932	(11,912)	5,020
Taxation charge	(125,303)	(3,393)	(1,217)	(523)	(3,409)	(2,699)	(524)	(137,068)	-	(137,068)
Net income/(loss) for the period	299,158	4,829	(9,943)	(19)	5,971	(36,792)	(13,552)	249,652	16,266	233,386

31 December 2004	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Segment assets	29,088,105	470,962	239,810	111,364	129,395	469,844	884,208	31,393,688	(162,929)	31,230,759
Investments in equity participations	1,708,237	486	508	9,515	6,095	121	65,932	1,790,894	(1,660,701)	130,193
Total assets	30,796,342	471,448	240,318	120,879	135,490	469,965	950,140	33,184,582	(1,823,630)	31,360,952
Segment liabilities	27,127,784	380,209	185,951	95,214	12,548	266,586	39,072	28,107,364	(230,725)	27,876,639

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as at 30 June 2005 and 2004, included in the accompanying consolidated statements of cash flows are as follows:

	30 June 2005	***30 June 2004***
Cash at branches	180,440	147,471
Loans and advances to banks with original maturity periods of less than three months	1,721,541	2,568,011
Others	-	15,137
	1,901,981	2,730,619

3 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:

3.1 Outstanding balances

	30 June 2005	***31 December 2004***
Balance sheet		
Loans and advances to customers	306,235	373,169
Loans granted in YTL	*1,111*	*10,344*
Loans granted in foreign currency:	*US$ 227,066,517*	*US$ 251,453,539*
	EUR 809,258	*EUR 5,089,915*
Deposits received	87,572	76,809
Commitments and contingencies		
Non-cash loans	191,052	207,191

3.2 Transactions

	Six-month period ended 30 June 2005	***Three-month period ended 30 June 2005***	***Six-month period ended 30 June 2004***	***Three-month period ended 30 June 2004***
Interest income	7,179	4,499	10,261	7,454
Interest expense	3,214	1,982	5,219	3,676

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

3 Related party disclosures (continued)

In 2005, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 4-7% and 1.50-6.25% (31 December 2004: 1.75-7% and 1.50-2.50%), respectively. The interest rates applied to YTL payables to related parties vary within the ranges of 15-20% (31 December 2004: 14.50-21.50%). Various commission rates are applied to transactions involving guarantees and commitments.

Key management costs for the six-month period ended 30 June 2005 amount to YTL 22,560 thousands on a consolidated basis. Within this total, individual key management costs of the Bank and its financial and retail affiliates amount to YTL 8,475 thousands, YTL 12,290 thousands and YTL 1,795 thousands, respectively.

The equity participation in Doğuş Otomotiv Servis ve Ticaret AŞ was sold to Doğuş İnşaat ve Ticaret AŞ at a total amount of YTL 124,434 thousands 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.

The equity participation in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, a non-financial associate was sold to E Haber Ajansı Reklam ve Ticaret AŞ, a related party at a total price of YTL 2,435 thousands.

4 Cash and balances with Central Banks

	30 June 2005	*31 December 2004*
Cash at branches	180,440	211,911
Balances with Central Banks	2,304,548	2,620,807
Others	-	18,896
	2,484,988	2,851,614

At 30 June 2005, cash and balances with Central Banks included balances with the Central Bank of Turkey amounting YTL 1,372,263 thousands (31 December 2004: YTL 1,391,710 thousands) 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 YTL 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 10.25% (31 December 2004: 12.50%) for YTL deposits and 1.00 % (31 December 2004: 0.99%) for foreign currency deposits.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

5 Financial assets at fair value through profit or loss

	30 June 2005				31 December 2004
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments held at fair value:					
Eurobonds	110,656	138,199	6-12	2034	43,624
Treasury bills in YTL	116,026	106,471	14-19	2006	35,526
Bonds issued by corporations	98,411	103,550	7-18	2009	48,092
Government bonds in YTL	118,466	102,384	13-34	2010	51,249
Discounted government bonds in YTL	62,338	52,860	16-21	2010	198,555
Government bonds in foreign currency	40,461	41,068	6	2008	33,553
Government bonds at floating rates	33,064	34,092	22-29	2010	27,809
Bonds issued by foreign governments	6,690	7,467	5-10	2005	5,957
Others		18,475			1,391
		604,566			445,756
Equity and other non-fixed income instruments:					
Forfaiting receivables		160,635			176,496
Listed shares		18,547			16,490
Total financial assets at fair value through profit or loss		783,748			638,742

Income from debt and other instruments held at fair value is reflected in the consolidated income statement as 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 as a separate component of equity.

For the six-month period ended 30 June 2005, net income from trading of financial assets amounting to YTL 8,136 thousands and to YTL 3,887 thousands for the three-month period ended 30 June 2005 (30 June 2004: YTL 79,081 thousands and three-month period ended 30 June 2004: YTL 14,334 thousands) in total is included in “trading account income, net”.

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 34,425 thousands (31 December 2004:-).

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 foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the income statement, except for contracts of cash flow hedges as stated above. At 30 June 2005, 96% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (31 December 2004: 108%).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

5 Financial assets at fair value through profit or loss (continued)

	Notional amount with remaining life of					
At 30 June 2005	***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	-	-	26,748	53,497	93,619	173,864
Purchases	*-*	*-*	*26,748*	*53,497*	*93,619*	*173,864*
Sales	*-*	*-*	*-*	*-*	*-*	*-*
Interest rate swaps	3,223	3,955	-	-	160,490	167,668
Purchases	*-*	*3,955*	*-*	*-*	*160,490*	*164,445*
Sales	*3,223*	*-*	*-*	*-*	*-*	*3,223*
Interest rate futures	-	2,380	1,700	-	-	4,080
Purchases	*-*	*2,380*	*1,700*	*-*	*-*	*4,080*
Sales	*-*	*-*	*-*	*-*	*-*	*-*
Currency Derivatives						
Spot exchange contracts	199,412	-	-	-	-	199,412
Purchases	*85,053*	*-*	*-*	*-*	*-*	*85,053*
Sales	*114,359*	*-*	*-*	*-*	*-*	*114,359*
Forward exchange contracts	274,500	85,816	35,483	3,913	-	399,712
Purchases	*132,017*	*72,620*	*32,449*	*970*	*-*	*238,056*
Sales	*142,483*	*13,196*	*3,034*	*2,943*	*-*	*161,656*
Currency/cross currency swaps	2,418,079	411,312	417,100	466,801	140,490	3,853,782
Purchases	*1,770,993*	*411,312*	*417,100*	*425,857*	*140,490*	*3,165,752*
Sales	*647,086*	*-*	*-*	*40,944*	*-*	*688,030*
Options	482,073	340,560	79,945	50,606	-	953,184
Purchases	*303,777*	*125,952*	*42,625*	*25,303*	*-*	*497,657*
Sales	*178,296*	*214,608*	*37,320*	*25,303*	*-*	*455,527*
Foreign currency futures	-	2,298	4,356	-	-	6,655
Purchases	*-*	*1,820*	*5*	*-*	*-*	*1,825*
Sale	*-*	*479*	*4,351*	*-*	*-*	*4,830*
Other foreign exchange contracts	94,168	935	-	-	-	95,103
Purchases	*12,021*	*935*	*-*	*-*	*-*	*12,956*
Sale	*82,147*	*-*	*-*	*-*	*-*	*82,147*
Subtotal Purchases	2,303,861	618,974	520,627	505,627	394,599	4,343,688
Subtotal Sales	1,167,594	228,283	44,705	69,190	-	1,509,772
Total of Transactions	3,471,455	847,257	565,332	574,817	394,599	5,853,460

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

5 Financial assets at fair value through profit or loss (continued)

	Notional amount with remaining life of					
At 31 December 2004	***Upto 1 month***	***1 to 3***	***3 to 6 months***	***6 to 12 months***	***over months***	***1 year Total***
Interest Rate Derivatives						
Future rate agreements	-	14,027	56,107	84,161	84,161	238,456
Purchases	*-*	*14,027*	*56,107*	*84,161*	*84,161*	*238,456*
Sales	-	-	-	-	-	-
Interest rate swaps	2,445	73,398	28,054	-	-	103,897
Purchases	*2,445*	*73,398*	*28,054*	-	-	*103,897*
Sales	-	-	-	-	-	-
Interest rate options	1,664	-	-	-	-	1,664
Purchases	-	-	-	-	-	-
Sales	*1,664*	-	-	-	-	*1,664*
Currency Derivatives						
Spot exchange contracts	231,804	-	-	-	-	231,804
Purchases	*65,444*	-	-	-	-	*65,444*
Sales	*166,360*	-	-	-	-	*166,360*
Forward exchange contracts	384,695	56,730	61,766	63,933	-	567,124
Purchases	*267,144*	*48,831*	*39,324*	*63,065*	-	*418,364*
Sales	*117,551*	*7,899*	*22,443*	*867*	-	*148,760*
Currency/cross currency swaps	1,083,305	461,445	363,573	1,331,217	-	3,239,541
Purchases	*1,017,076*	*414,392*	*363,573*	*1,314,569*	-	*3,109,610*
Sales	*66,230*	*47,053*	-	*16,648*	-	*129,931*
Options	239,263	164,520	94,394	116,108	-	614,285
Purchases	*134,432*	*56,740*	*26,668*	*61,358*	-	*279,198*
Sales	*104,831*	*107,780*	*67,726*	*54,750*	-	*335,087*
Foreign currency futures	-	154,466	-	-	-	154,466
Purchases	-	-	-	-	-	-
Sale	-	*154,466*	-	-	-	*154,466*
Other foreign exchange contracts	10,495	66,762	-	-	-	77,257
Purchases	*10,495*	-	-	-	-	*10,495*
Sale	-	*66,762*	-	-	-	*66,762*
Subtotal Purchases	1,497,036	607,388	513,726	1,523,153	84,161	4,225,464
Subtotal Sales	456,636	383,960	90,169	72,265	-	1,003,030
Total of Transactions	1,953,672	991,348	603,895	1,595,418	84,161	5,228,494

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

6 Loans and advances to banks

	30 June 2005			*31 December 2004*		
	YTL	*Foreign Currency*	*Total*	*YTL*	*Foreign Currency*	*Total*
Loans and advances-demand						
Domestic banks	17,032	1,590	18,622	9,307	523	9,830
Foreign banks	6,174	96,529	102,703	2,034	64,759	66,793
	23,206	98,119	121,325	11,341	65,282	76,623
Loans and advances-time						
Domestic banks	104,738	623,824	728,562	10,708	587,889	598,597
Foreign banks	252,344	717,569	969,913	112,994	1,001,384	1,114,378
	357,082	1,341,393	1,698,475	123,702	1,589,273	1,712,975
Accrued interest on loans and advances	8,048	2,114	10,162	2,728	1,391	4,119
Total loans and advances to banks	388,336	1,441,626	1,829,962	137,771	1,655,946	1,793,717
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	388,336	1,441,626	1,829,962	137,771	1,655,946	1,793,717

As at 30 June 2005, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1-8.50% per annum for foreign currency time deposits and 6-26% per annum for YTL time deposits (31 December 2004: 1-6% and 18-26%, respectively).

As at 30 June 2005, demand deposits at foreign banks include blocked accounts of YTL 52,288 thousands (31 December 2004: YTL 46,613 thousands) against the securitisation transactions on cheques and credit card receivables, and the insurance business.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

7 Loans and advances to customers

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

	30 June 2005	*31 December 2004*
Industrial	4,377,619	3,603,983
Consumer loans	4,363,686	3,430,069
Service sector	1,311,547	1,161,729
Financial institutions	1,291,641	1,332,324
Agriculture	516,749	419,496
Tourism	489,718	293,897
Construction	445,786	451,000
Foreign trade	366,761	223,833
Transportation	325,706	198,957
Others	529,748	368,138
Total performing loans	14,018,961	11,483,426
Non-performing loans	644,420	459,237
Total gross loans	14,663,381	11,942,663
Accrued interest income on loans	201,185	184,670
Financial lease receivables, net of unearned income (Note 8)	540,492	399,224
Factoring receivables	125,371	104,531
Forfaiting receivables	54,464	48,920
Allowance for possible losses from loans and lease receivables	(498,675)	(318,996)
Loans and advances to customers	15,086,218	12,361,012

As at 30 June 2005, interest rates on loans granted to customers range between 2-14% (31 December 2004: 1-14%) per annum for foreign currency loans and 15.75-32% (31 December 2004: 15-32%) per annum for YTL loans.

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.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

7 Loans and advances to customers (continued)

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

	30 June 2005	***31 December 2004***
Balance at the beginning of the period	318,996	238,307
The effect of inflation on the beginning balance and current period transactions	(3,769)	(27,635)
Write-offs	(56,529)	(12,041)
Recoveries	(9,353)	(33,162)
Provision for the period	249,330	153,527
Balance at the end of the period	498,675	318,996

8 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:

	30 June 2005	***31 December 2004***
Financial lease receivables, net of unearned income (Note 7)	540,492	399,224
Less: allowance for possible losses from lease receivables	(6,043)	(6,174)
	534,449	393,050
Analysis of net financial lease receivables		
Due within 1 year	308,350	298,023
Due between 1 and 5 years	296,862	160,957
Financial lease receivables, gross	605,212	458,980
Unearned income	(70,763)	(65,930)
Financial lease receivables, net	534,449	393,050
Analysis of net financial lease receivables, net		
Due within 1 year	269,735	255,712
Due between 1 and 5 years	264,714	137,338
Financial lease receivables, net	534,449	393,050

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

9 Other assets

	30 June 2005	*31 December 2004*
Tangible assets held for resale	457,155	508,162
Insurance premium receivables	134,944	102,539
Prepaid expenses, insurance claims and similar items	93,125	99,479
Retail business stocks	64,875	64,948
Miscellaneous receivables	52,258	23,199
Advances given	16,948	3,134
Taxes and funds to be refunded	11,495	12,467
Accrued gain on derivatives	-	165,219
Others	74,525	56,677
	905,325	1,035,824

The portion amounting to YTL 205,148 thousands (31 December 2004: YTL 217,542 thousands) 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. In case of real estates held for resale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

Impairment losses provided on real estates held for resale were determined based on the appraisals of independent appraiser firms. As of 30 June 2005, real estates held for resale with cost amounting YTL 409,046 thousands (31 December 2004: YTL 255,337 thousands) impaired by YTL 154,528 thousands (31 December 2004: YTL 106,870 thousands).

10 Security investments

	30 June 2005				*31 December 2004*
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments available-for-sale:					
Government bonds at floating rates	3,292,311	3,459,923	21-26	2010	2,133,231
Government bonds in foreign currency	1,627,185	1,652,134	4-6	2008	1,762,149
Eurobonds	500,493	602,832	5-12	2034	820,819
Bonds issued by corporations	410,298	424,844	7-13	2012	158,238
Government bonds in YTL	189,381	203,565	18-29	2010	36,312
Discounted government bonds in YTL	197,633	162,843	15-17	2007	689,342
Bonds issued by foreign governments	141,886	143,172	2-11	2008	153,657
Others		16,424			16,088
Total securities available-for-sale		6,665,737			5,769,836

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

10 Security investments (continued)

	30 June 2005				31 December 2004
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Total securities available-for-sale		6,665,737			5,769,836
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	1,505,227*	1,430,662	***(a)***	2007	1,505,806
Eurobonds	1,097,161	1,210,039	7-12	2030	1,456,488
Government bonds in YTL	302,753	311,954	20-27	2007	273,137
Bonds issued by foreign governments	136,266	139,344	3-6	2008	145,399
Bonds issued by financial institutions	79,948	83,873	7-12	2014	87,998
Discounted government bonds in YTL	53,626	47,953	20	2006	11,148
Government bonds at floating rates	36,055	36,450	***(b)***	2006	757,049
Bonds issued by corporations	33,245	33,373	13	2005	99,245
		3,293,648			4,336,270
Accrued interest on held-to-maturity portfolio		69,489			139,012
Total securities held-to-maturity		3,363,137			4,475,282
Total security investments		10,028,874			10,245,118

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

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

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

Interest income from debt and other fixed- or floating-income instruments is reflected in interest on securities. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity.

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 2,146,943 thousands (31 December 2004: YTL 1,113,665 thousands).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

10 Security investments (continued)

In the second quarter of 2004, the Bank management has decided to transfer the available-for-sale securities (eurobonds and government bonds in YTL and at floating rates) with a total face value of YTL 1,179,857 thousands to its held-to-maturity portfolio. Despite this reclassification, the size of the securities held-to-maturity portfolio decreased from YTL 5,729,530 thousands as of 31 December 2003 to YTL 4,475,282 thousands as of 31 December 2004 as some securities have been matured and collected during the period.

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

	30 June 2005		*31 December 2004*	
	Face Value	*Carrying value*	*Face Value*	*Carrying value*
Collateralised to foreign banks	1,187,011	1,273,128	692,550	748,872
Deposited at Istanbul Stock Exchange	570,466	601,982	228,867	235,609
Deposited at CBT for interbank transactions	380,000	442,145	380,000	462,427
Reserve requirements at CBT	340,000	395,603	340,000	413,750
Deposited at CBT for foreign currency money market transactions	320,000	372,333	320,000	389,413
Deposited at Clearing Bank (Takasbank)	270,000	277,606	255,000	275,932
Deposited at CBT for repurchase transactions	41,572	42,827	58,803	62,163
Others		78,166		232,645
		3,483,790		2,820,811

11 Investments in equity participations

	30 June 2005		*31 December 2004*	
	Carrying Value	*Ownership %*	*Carrying Value*	*Ownership %*
Investments in associated companies:				
Garanti Turizm ve Yatırım İşl. AŞ	26,156	44.89	31,377	44.89
Others	11,384		7,761	
	37,540		39,138	
Equity participations available-for-sale:				
Datmar Turizm AŞ	49,823	14.00	50,500	14.00
IMKB Takasbank AŞ	11,767	5.83	11,767	5.83
Petrotrans Nakliyat ve Tic. AŞ	-	-	10,100	99.99
Others	14,257		18,688	
	75,847		91,055	
	113,387		130,193	

11 Investments in equity participations (continued)

The Bank sold its shares in Türkiye Sınai Kalkınma Bankası AŞ amounting YTL 6,006 thousands, classified in equity participations available-for-sale as of 31 December 2004, at a price of YTL 7,891 thousands on 31 January 2005.

On 23 March 2005, the Bank signed a Term Sale Agreement to sell its shares in Petrotrans Nakliyat Ticaret AŞ, classified in equity participations available-for-sale with a net book value of YTL 9,782 thousands as at 31 March 2005, at a total selling price of US$ 10 millions of which US$ 9 millions will be collected according to the payment periods agreed. In compliance with this Agreement, following the collection of the installments set the transfer of the shares took place as of 30 June 2005.

In the current period, the Bank sold its shares in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, a non-financial associate at a total price of YTL 2,435 thousands to E Haber Ajansı Reklam ve Ticaret AŞ, a related party.

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 YTL units current at the balance sheet date.

Impairment losses are provided for decreases in the value of certain investments in equity participations amounting to YTL 5,347 thousands in the current period. Accordingly, the cumulative provisions for such impairment losses amounted to YTL 76,658 thousands as of 30 June 2005 (31 December 2004: YTL 224,213 thousands).

12 Tangible assets

Movement in tangible assets for the period of 1 January – 30 June 2005 is as follows:

	1January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*30 June*
Costs					
Land and buildings	1,826,059	3,517	(12,237)	(47,594)	1,769,745
Furniture, fixture and equipments	1,140,139	62,670	(3,021)	(9,367)	1,190,421
Leasehold improvements	376,738	12,855	(1,302)	(18,645)	369,646
	3,342,936	79,042	(16,560)	(75,606)	3,329,812
Less: Accumulated depreciation					
Buildings	215,043	19,825	(892)	(2,323)	231,653
Furniture, fixture and equipments	825,426	59,368	(1,319)	(8,432)	875,043
Leasehold improvements	210,481	15,797	(622)	(13,204)	212,452
	1,250,950	94,990	(2,833)	(23,959)	1,319,148
Construction in progress	49,691	259*(a)*	-	-	49,950
	2,141,677		(13,727)	(51,647)	2,060,614
Impairment in value of tangible assets	(145,803)				(138,316)
	1,995,874				1,922,298

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

12 Tangible assets (continued)

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	1,871,281	15,397	(14,559)	(46,060)	1,826,059
Furniture, fixture and equipments	1,126,579	76,986	(3,851)	(59,575)	1,140,139
Leasehold improvements	418,455	33,368	-	(75,085)	376,738
	3,416,315	125,751	(18,410)	(180,720)	3,342,936
Less: Accumulated depreciation					
Buildings	193,422	35,316	(3,576)	(10,119)	215,043
Furniture, fixture and equipments	761,542	117,148	(180)	(53,084)	825,426
Leasehold improvements	231,493	49,838	-	(70,850)	210,481
	1,186,457	202,302	(3,756)	(134,053)	1,250,950
Construction in progress	43,453	6,238***(a)***	-	-	49,691
	2,273,311		(14,654)	(46,667)	2,141,677
Impairment in value of tangible assets	(149,300)				(145,803)
	2,124,011				1,995,874

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

Depreciation expense for the six-month period ended 30 June 2005 and for three-month period ended 30 June 2005 amounts to YTL 94,990 thousands and YTL 45,012 thousands respectively (the six-month period ended 30 June 2004: YTL 101,572 thousands and the three-month period ended 30 June 2004: YTL 49,919 thousands). The premises are depreciated at the annual rate of 2% and the rates applied to furniture, fixtures and equipment range from 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 30 June 2005, land and buildings at a total cost of YTL 507,649 thousands (31 December 2004: YTL 522,211 thousands) have been impaired by YTL 138,316 thousands (31 December 2004: YTL 145,803 thousands).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

13 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 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.

Intangible assets comprise of the following goodwills:

	30 June 2005	***31 December 2004***
Tansaş Perakende Mağazacılık Ticaret AŞ	83,264	83,264
Doğuş Hava Taşımacılığı AŞ	37,833	37,833
Garanti Yatırım Menkul Kıymetler AŞ	20,733	20,733
Doc Finance SA	7,856	7,856
Garanti Finans Faktoring Hizmetleri AŞ	6,614	6,614
Garanti Finansal Kiralama AŞ	5,168	5,168
Sititur Tur.T.Taş.Org.Bilg.Dan.Y. San.veTic. AŞ	3,198	3,198
Doğuş Turizm Sağlık Yatırımları ve İşl. AŞ	1,467	1,467
Garanti Sigorta AŞ	1,085	1,085
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	508	508
Garanti Emeklilik AŞ	39	39
Goodwill	167,765	167,765
Impairment in value of goodwill	(48,887)	(48,887)
	118,878	118,878

Impairment losses are provided for decreases in the value of consolidated entities by way of assessing their internal and external sources. As of 30 June 2005, goodwill on Doğuş Hava Taşımacılığı AŞ, Doc Finance SA and Sititur Tur. Tem. Taş. Org. Bilg. Dan. Yap.San. ve Tic. AŞ as disclosed in the table above has been impaired by YTL 48,887 thousands in total (31 December 2004: YTL 48,887 thousands).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

14 Deposits from banks

Deposits from banks comprise the following:

	30 June 2005	*31 December 2004*
Payable on demand	77,855	42,445
Term deposits	822,768	1,122,908
	900,623	1,165,353
Accrued interest on deposits from banks	7,904	5,554
	908,527	1,170,907

Deposits from banks include both YTL accounts of YTL 544,307 thousands (31 December 2004: YTL 756,246 thousands) and foreign currency accounts of YTL 356,316 thousands (31 December 2004: YTL 409,107 thousands). As at 30 June 2005, interest rates applicable to YTL bank deposits and foreign currency bank deposits vary within ranges of 14-26% and 1-9% (31 December 2004: 15-27% and 1-8%), respectively.

15 Deposits from customers

Deposits from customers comprise the following:

	30 June 2005			*31 December 2004*
	Demand	***Time***	***Total***	***Total***
Foreign currency	4,217,824	7,059,607	11,277,431	12,593,325
Saving	637,848	4,234,166	4,872,014	3,931,696
Commercial	1,530,257	2,333,002	3,863,259	3,343,270
Public and other	284,764	132,610	417,374	369,178
	6,670,693	13,759,385	20,430,078	20,237,469
Accrued interest expense on deposits from customers	-	122,233	122,233	109,218
	6,670,693	13,881,618	20,552,311	20,346,687

As at 30 June 2005, interest rates applicable to YTL deposits and foreign currency deposits vary within ranges of 14-24% and 1-10% (31 December 2004: 17-23% and 1.50-6.50%), respectively.

As at 30 June 2005, YTL 61,412 thousands of foreign currency time deposits composed of subordinated deposits obtained by the consolidated banking subsidiary in Netherlands.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

16 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:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
30 June 2005					
Financial assets at fair value through profit or loss	34,425	34,425	29,882	July'05-Aug'05	34,690
Security investments	2,146,943	2,217,633	1,696,904	July'05-Apr'08	1,770,908
	2,181,368	2,252,058	1,726,786		1,805,598
31 December 2004					
Security investments	1,113,665	1,190,239	954,841	Jan'05-Apr'08	1,018,224

Accrued interest on obligations under repurchase agreements amounting to YTL 16,934 thousands (31 December 2004: YTL 16,484 thousands) 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 the 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 30 June 2005, the maturities of the obligations from one day to three years and interest rates varied between 3-25% (31 December 2004: 3-25%).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

17 Loans and advances from banks

Loans and advances from banks comprise the following:

	30 June 2005	*31 December 2004*
Short-term borrowings		
Domestic banks	297,327	280,828
Foreign banks	2,595,731	2,374,343
	2,893,058	2,655,171
Long-term debts		
Short-term portion	319,199	198,668
Medium and long-term portion	1,661,501	1,284,664
	1,980,700	1,483,332
Accrued interest on loans and advances from banks	48,489	46,224
	4,922,247	4,184,727

As at 30 June 2005, short-term borrowings include a syndication loan in the amount of US$100 millions obtained by one of the affiliates of the Bank in February 2005 with twelve banks from seven countries.

As at 30 June 2005 and 31 December 2004, short-term borrowings from foreign banks included a one-year syndicated term-loan facility amounting US$ 600 millions (equivalent of YTL 802,800 thousands) obtained on 6 December 2004 as signed with the 25 mandated arrangers, and a one-year syndicated facility to finance pre-finance export contracts of the Bank's corporate customers with a total amount of EUR 450 millions (equivalent of YTL 727,740 thousands) obtained on 9 July 2004 as signed with the 25 mandated arrangers.

Long-term debts comprise the following:

	30 June 2005					*31 December 2004*
	Interest rate%	*Latest Maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
DPR Securitisation-I	3.78-5.53	2008	US $ 350 mio	89,826	378,474	491,483
DPR Securitisation-II	3.48-3.51	2012	US $ 325 mio	8,708	426,142	456,377
DPR Securitisation-III	3.41	2013	US $ 300 mio	-	401,400	-
Cobank	2.92-3.81	2008	US $ 60 mio	41,285	38,701	40,596
Deutsche Bank	2.99-3.63	2007	US $ 43 mio	31,330	26,450	25,459
Kuveyt Turk	6.41	2006	US $ 28 mio	-	37,541	38,801
Murabaha Syndication	2.49	2006	US $ 24 mio	27,073	4,783	19,246
Standard Chartered	3.05-4.05	2006	US $ 18 mio	8,106	16,184	5,919
Others				112,871	331,826	206,783
				319,199	1,661,501	1,284,664

17 Loans and advances from banks (continued)

In May 2005, the Bank completed a securitization (the “DPR Securitisation-III”) transaction by issuance of certificate: US$ 300 millions with a guarantee issued by MBIA Insurance Corporation, a final maturity of 8 years.

In December 2004, the leasing affiliate of the Bank obtained a two-year syndicated facility of US$ 28 millions.

In August 2004, the leasing affiliate of the Bank has secured a syndicated “Murabaha” facility of US$ 30 millions 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 30 June 2005 is US$ 24 millions.

In June 2004, the Bank completed a securitization (the “DPR Securitization-II”) transaction by issuance of two classes of certificates: US$175 millions Floating Rate Series 2004-B and US$150 millions 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.

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.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

18 Taxation on income

Corporate income tax is levied at the rate of 30% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2005. 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 accompanying 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 five 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.

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:

	30 June 2005	%	*30 June 2004*	%
Taxes on income per statutory tax rate	127,168	30.00	122,250	33.00
Income items exempt from tax	(10,285)	(2.43)	(12,777)	(3.45)
Effect of change in legal tax rate	-	-	(14,061)	(3.80)
Disallowable expenses	49,952	11.78	29,302	7.91
Non-tax deductable impairment losses	12,020	2.84	3,666	0.99
Reversal of impairment losses	(57,009)	(13.45)	-	-
Permanent differences relating to restatement of non-monetary items per IAS29	8,995	2.12	-	-
Investment incentives	(14,400)	(3.40)	(6,217)	(1.68)
Others	5,235	1.24	14,905	4.03
Taxation charge	121,676	28.70	137,068	37.00

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

18 Taxation on income (continued)

The taxation charge comprise the following:

	For the six-month periods ended	
	30 June 2005	***30 June 2004***
Current taxes	71,286	21,578
Deferred taxes	50,390	115,490
Taxation charge	121,676	137,068

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:

	30 June 2005	***31 December 2004***
Provision for current taxes payable on income before deductions	121,676	297,424
Add: Taxes payable carried forward	-	1,926
Add/(less): Deferred tax asset/liability	(50,390)	(264,253)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of YTL at 30 June 2005	(3,888)	(4,654)
Taxes payable on income	67,398	30,443

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

	30 June 2005	***31 December 2004***
Deferred tax assets		
Tax losses carried forward	63,797	78,557
Impairment in value of investments in associated companies and tangible assets	35,493	29,326
Specific and general allowance for loan losses	20,989	18,146
Investment incentives and exemptions	12,634	9,930
Reserve for severance payments	8,745	6,045
Leasing obligations	5,601	3,900
Valuation difference on financial assets and liabilities	2,477	12,817
Pro-rata basis depreciation expenses	(4,260)	20,313
Others, net	9,978	10,946
Total deferred tax assets	155,454	189,980
Deferred tax liabilities		
Total deferred tax liabilities	1,507	1,436

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

19 Other liabilities and accrued expenses

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

	30 June 2005	*31 December 2004*
Transfer orders	445,266	411,693
Miscellaneous payables	212,838	239,074
Expense accruals	183,514	29,352
Insurance business related provisions	121,221	105,719
Unearned income	115,051	60,322
Payables to insurance and reinsurance companies relating to insurance operations	94,505	60,685
Withholding taxes	53,591	52,759
Advances received	52,500	9,944
Factoring payables	40,048	26,966
Reserve for severance payment	33,410	24,308
Blocked accounts	27,155	27,193
Payables to suppliers relating to financial leasing activities	23,088	12,134
General provision for non-cash loans	13,126	15,227
Others	124,883	112,222
	1,540,196	1,187,598

Insurance business related provisions are detailed in the table below:

	30 June 2005			*31 December 2004*		
	Garanti Sigorta AŞ	*Garanti Emeklilik AŞ*	*Total*	*Garanti Sigorta AŞ*	*Garanti Emeklilik AŞ*	*Total*
Reserve for unearned premiums, net	37,988	8,847	46,835	32,737	5,851	38,588
Gross	*94,621*	*9,763*	*104,384*	*72,557*	*6,459*	*79,016*
Reinsurers' share	*(56,633)*	*(916)*	*(57,549)*	*(39,820)*	*(608)*	*(40,428)*
Provision for claims, net	15,554	1,368	16,922	14,353	814	15,167
Gross	*48,779*	*1,492*	*50,271*	*58,025*	*933*	*58,958*
Reinsurers' share	*(33,225)*	*(124)*	*(33,349)*	*(43,672)*	*(119)*	*(43,791)*
Provision for earthquake claims	14,642	-	14,642	13,218	-	13,218
Life mathematical reserves	-	42,822	42,822	-	38,746	38,746
	68,184	53,037	121,221	60,308	45,411	105,719

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

19 Other liabilities and accrued expenses (continued)

Movements in the reserve for severance payment are as follows:

	30 June 2005	*31 December 2004*
Balance, beginning of period	24,308	39,957
Effects of inflation on the beginning balance	(423)	(4,114)
Reversals	-	(8,559)
Payments during the period	(58)	(4,829)
Provision for the period	9,583	1,853
Balance, end of period	33,410	24,308

Movements in the general provision for non-cash loans are as follows:

	30 June 2005	*31 December 2004*
Balance, beginning of period	15,227	13,254
Effects of inflation on the beginning balance	(480)	(1,751)
Reversals	(1,892)	(301)
Provision for the period	271	4,025
Balance, end of period	13,126	15,227

20 Shareholders' equity

The authorized nominal share capital of the Bank amounted to YTL 2,100,000 thousands.

Increases in share capital arising from the amounts paid in by the shareholders are 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 are eliminated. In 2004, the Bank's nominal share capital increased from YTL 822,038 thousands to YTL 1,200,000 thousands by way of appropriation of gain on sales of real estate amounting YTL 20,515 thousands, gain on sales of equity participation amounting YTL 6,947 thousands and retained earnings of YTL 350,500 thousands in the third quarter of 2004 as reflected in the equity of statutory financial statements.

As per the resolution of the Board of Directors on 7 March 2005, it has been decided to increase the Bank's registered share capital ceiling from YTL 1,200,000 thousands to YTL 7,000,000 thousands. The decision was approved during the Annual General Assembly held on 4 April 2005.

As per the resolution of the Board of Directors on 8 April 2005, it has been decided to increase the Bank's share capital from YTL 1,200,000 thousands to YTL 2,100,000 thousands through appropriation of capital reserves from inflation adjustments to paid in capital of YTL 450,000 thousands, extraordinary reserves of YTL 442,917 thousands and income from sale of real estates of YTL 7,083 thousands, and the number of shares to 210 billions. The increase has been registered on 27 June 2005.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

20 Shareholders' equity (continued)

According to the Articles of Association of the Bank, there are 370 founder shares. It is required in the Articles of Association to distribute 10% of the distributable profit to the holders of these founder shares after allocating 5% to legal reserves, distributing dividend at an amount equal to 5% of the capital and allocating 5% of the remaining to extraordinary reserves.

The reserves include legal reserves amounting to YTL 77,765 thousands 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.

In compliance with the revised standards of IFRS effective from 1 January 2005, minority interest is classified under different components of shareholders' equity (refer to note 23). As at 30 June 2005 net minority interest amounts to YTL 249,616 thousands (31 December 2004: YTL 246,449 thousands).

Minority interest is detailed as follows:

	30 June 2005	*31 December 2004*
Capital and other reserves	553,075	554,689
Accumulated losses	(308,236)	(266,230)
Current period net income/(loss)	4,777	(42,010)
	249,616	246,449

Revaluation reserve of available-for-sale assets is detailed as follows:

	30 June 2005
At 1 January 2005	126,183
Net gains/(losses) from changes in fair value	(15,659)
Deferred and current income taxes	(80)
Net (gains)/losses transferred to net income on disposal and impairment	(48,464)
Deferred and current income taxes	7,319
	69,299

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

21 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 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, judgment 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.

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. These balance sheet instruments include loans and advances to banks and customers, 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 is YTL 10,088,596 thousands (31 December 2004: YTL 10,345,007 thousands), whereas the carrying amount is YTL 10,028,874 thousands (31 December 2004: YTL 10,245,118 thousands) in the accompanying consolidated balance sheet as at 30 June 2005.

22 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:

	30 June 2005	***31 December 2004***
Letters of guarantee	4,926,158	4,823,071
Letters of credit	1,591,648	1,863,240
Acceptance credits	335,811	619,090
Other guarantees and endorsements	-	416
	6,853,617	7,305,817

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

22 Commitments and contingencies (continued)

As at 30 June 2005, commitment for uncalled capital of affiliated companies amounts approximately to YTL 13 thousands (31 December 2004: YTL 13 thousands).

As at 30 June 2005, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to YTL 5,853,460 thousands (31 December 2004: YTL 5,228,494 thousands), over 93% due within a year.

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

	30 June 2005		*31 December 2004*	
	Purchases	*Sales*	*Purchases*	*Sales*
Forward agreements for customer dealing activities	123,081	119,825	58,745	74,437
Currency swap agreements for customer dealing activities	163,501	163,202	85,446	14,773
Spot foreign currency transactions for customer dealing activities	28,312	19,055	56,242	142,284
Forward agreements for hedging purposes	114,975	41,831	359,619	74,323
Currency swap agreements for hedging purposes	3,002,251	524,828	3,024,164	115,158
Interest rate swap agreements	164,445	3,223	103,897	-
Interest rate and foreign currency options	497,657	455,527	279,198	336,751
Future rate agreements and foreign currency futures	179,769	4,830	238,456	154,466
Forward agreements for gold trading	12,956	82,147	10,495	66,762
Spot foreign currency transactions	56,741	95,304	9,202	24,076
	4,343,688	1,509,772	4,225,464	1,003,030

23 Change in accounting policies

As of 1 January 2005, the Bank and its affiliates adopted revised standards of IFRS. These changes have been accounted by adjusting the previous years' results.

The changes accounted are as follows:

- the quoted securities previously classified as "originated loans and receivables" at the date of their acquisitions, are reclassified to security investments,
- the changes in fair value of available-for-sale portfolio over its amortised cost are reclassified as a separate component of shareholders' equity,
- the negative goodwill is charged to retained earnings,
- all the affiliates even if they are in liquidation process or kept as equity participations available-for-sale are consolidated, and
- the minority interest is reclassified to shareholders' equity.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

23 Change in accounting policies (continued)

			Retained Earnings		
As of 31 December 2003	Minority interest	Revaulation of available- for-sale assets	Previous Years' income	Current period income	Total
Reported balances at 31 December 2003	239,093	-	(30,031)	630,623	600,592
Minority interest on a consolidated affiliate	58,724	-	-	-	-
Reclassification of net market value gains on available for sale portfolio	-	238,300	(14,861)	(223,439)	(238,300)
Elimination of reclassification for originated loans and receivables	-	-	3,591	25,871	29,462
Booking of net market value gains	-	-	-	1,671	1,671
Reversal of negative goodwill	-	-	2,319	-	2,319
Adjusted balances at 31 December 2003	297,817	238,300	(38,982)	434,726	395,744

For the six-month period ended 30 June 2004

Adjusted balances at 1 January 2004	297,817	238,300	395,744	-	395,744
Reserve for general banking risks, net	-	-	(8,832)	-	(8,832)
Reversal of restatement effects of inflation	(4,565)	-	-	-	-
Reclassification of minority interest's losses to unappropriated earnings	(28,565)	-	-	-	-
Reported net income for the six-month period ended 30 June 2004	-	-	-	72,276	72,276
Adjustments to the six-month period reported net income					
Net change in revaluation of available- for-sale assets	-	(245,797)	-	245,797	245,797
Elimination of reclassification for originated loans and receivables	-	-	-	(54,373)	(54,373)
Booking of net market value losses	-	-	-	(1,671)	(1,671)
Reversal of negative goodwill	-	-	-	(78)	(78)
Adjusted balances at 30 June 2004	264,687	(7,497)	386,912	261,951	648,863

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of
inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

23 Change in accounting policies (continued)

			Retained Earnings		
For the year 2004	Minority interest	Revaluation of available-for-sale assets	Previous Years' income	Current period income	Total
Adjusted balances at 1 January 2004	297,817	238,300	395,744	-	395,744
Transfer from unappropriated earnings	-	-	(418,149)	-	(418,149)
Release from general banking risks, net	-	-	21,175	-	21,175
Reversal of restatement effects of inflation	(9,358)	-	-	-	-
Reclassification of minority interest's losses to unappropriated earnings	(42,010)	-	-	-	-
Reported net income for the year ended 31 December 2004	-	-	-	278,576	278,576
Adjustments to the reported net income of the year 2004					
Net change in revaluation of available-for-sale assets	-	(112,117)	-	112,117	112,117
Elimination of reclassification for originated loans and receivables	-	-	-	17,514	17,514
Booking of net market value losses	-	-	-	(1,348)	(1,348)
Reversal of negative goodwill	-	-	-	(159)	(159)
Adjusted balances at 31 December 2004	246,449	126,183	(1,230)	406,700	405,470

Beside the changes in accounting policies made in accordance with the revised standards of IFRS as explained above, the Bank made a change in one of the accounting policies applied; the Bank decided to allocate provision for bonus points on Bonus credit cards, a banking product in the period that are earned by the customers. The related points earned amounted to YTL 25,840 thousands as of 31 December 2004. Accordingly, the effect of this change in accounting policy on the prior period's net profit amounted to YTL 18,088 thousands net of deferred tax asset effect of YTL 7,752 thousands as of 31 December 2004 and recorded as a correction to the opening balances of the current period. There is no current period profit effect of this accounting policy change.

24 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 24.2 contains risk management information related to the trading portfolio and section 24.3 deals with the non-trading portfolio.

24.1 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 22. 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.

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.

24 **Risk management disclosures** (continued)

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.

24.2 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.

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.

24 Risk management disclosures (continued)

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.

24.3 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: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29

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:

	30 June 2005						*31 December 2004*					
	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												
New Turkish Lira												
Cash and balances with Central Banks	459.775	-	-	-	-	459.775	436.091	-	-	-	-	436.091
Financial assets at fair value through profit or loss	12.288	2.905	60.611	137.794	113.164	326.762	2.851	6.003	138.839	63.573	118.349	329.615
Loans and advances to banks	341.164	9.645	37.527	-	-	388.336	96.115	-	-	41.656	-	137.771
Loans and advances to customers	4.227.665	604.405	532.082	652.798	1.098.485	7.115.435	3.507.236	352.188	432.115	566.774	629.847	5.488.160
Other assets	63.212	120.822	-	-	-	184.034	41.579	80.953	-	-	-	122.532
Security investments	1.521	236	307.383	1.223.892	2.697.011	4.230.043	31.426	386	807.967	557.413	2.529.671	3.926.863
Deferred tax assets	-	-	-	-	149.993	149.993	-	-	-	-	186.868	186.868
Total New Turkish Lira monetary assets	5.105.625	738.013	937.603	2.014.484	4.058.653	12.854.378	4.115.298	439.530	1.378.921	1.229.416	3.464.735	10.627.900
Foreign currency												
Cash and balances with Central Banks	2.025.213	-	-	-	-	2.025.213	2.415.523	-	-	-	-	2.415.523
Financial assets at fair value through profit or loss	27.408	16.300	26.831	50.344	336.103	456.986	1.407	629	19.035	150.766	137.290	309.127
Loans and advances to banks	909.600	241.765	152.039	87.251	50.971	1.441.626	1.093.416	179.448	255.872	106.374	20.836	1.655.946
Loans and advances to customers	638.124	903.436	1.082.512	1.480.249	3.720.717	7.825.038	521.761	1.072.709	1.121.386	1.061.522	2.955.233	6.732.611
Other assets	42.795	14.122	-	-	-	56.917	186.839	21.586	-	-	-	208.425
Security investments	79.509	165.924	272.093	1.669.400	3.611.905	5.798.831	72.747	146.539	226.949	461.053	5.410.967	6.318.255
Deferred tax assets	-	-	-	-	5.461	5.461	-	-	-	-	3.112	3.112
Total foreign currency monetary assets	3.722.649	1.341.547	1.533.475	3.287.244	7.725.157	17.610.072	4.291.693	1.420.911	1.623.242	1.779.715	8.527.438	17.642.999
Total Monetary Assets	8.828.274	2.079.560	2.471.078	5.301.728	11.783.810	30.464.450	8.406.991	1.860.441	3.002.163	3.009.131	11.992.173	28.270.899
MONETARY LIABILITIES												
New Turkish Lira												
Deposits	8.040.280	1.364.393	242.598	117.905	1.800	9.766.976	6.986.669	1.280.571	71.279	59.847	69.754	8.468.120
Obligations under repurchase agreements	612.007	-	-	31.957	8.709	652.673	267.380	-	-	-	55.427	322.807
Loans and advances from banks	95.946	37.370	44.792	41.688	-	219.796	44.836	36.825	45.849	44.877	-	172.387
Other liabilities and accrued expenses	357.444	90.229	113.049	125.219	124.985	810.926	297.627	49.740	59.962	67.963	97.854	573.146
Total New Turkish Lira monetary liabilities	9.105.677	1.491.992	400.439	316.769	135.494	11.450.371	7.596.512	1.367.136	177.090	172.687	223.035	9.536.460
Foreign currency												
Deposits	9.350.505	1.355.797	309.014	386.127	292.419	11.693.862	10.289.471	1.694.405	459.495	411.544	194.559	13.049.474
Obligations under repurchase agreements	31.004	104.329	402.188	199.072	337.520	1.074.113	137.952	52.268	115.504	107.740	218.570	632.034
Loans and advances from banks	866.730	167.444	999.538	991.073	1.677.666	4.702.451	146.839	183.193	286.619	2.099.010	1.296.679	4.012.340
Other liabilities and accrued expenses	316.146	20.387	70.281	277.381	61.480	745.675	547.276	191	7.747	77.424	3.749	636.387
Total foreign currency monetary liabilities	10.564.385	1.647.957	1.781.021	1.853.653	2.369.085	18.216.101	11.121.538	1.930.057	869.365	2.695.718	1.713.557	18.330.235
Total Monetary Liabilities	19.670.062	3.139.949	2.181.460	2.170.422	2.504.579	29.666.472	18.718.050	3.297.193	1.046.455	2.868.405	1.936.592	27.866.695

24 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: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 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 groupings:

	30 June 2005						
	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 balances with Central Banks	1.506.467	-	-	-	-	978.521	2.484.988
Financial assets at fair value through profit or loss	21.609	58.614	102.546	170.685	382.502	47.792	783.748
Loans and advances to banks	1.124.857	270.134	184.608	68.527	50.912	130.924	1.829.962
Loans and advances to customers	4.784.737	1.517.905	1.640.966	2.073.058	4.666.943	256.864	14.940.473
Other assets	-	-	-	-	-	240.951	240.951
Security investments	477.573	3.836.739	2.491.779	264.417	2.616.525	341.841	10.028.874
Deferred tax assets	-	-	-	-	-	155.454	155.454
Total Monetary Assets	7.915.243	5.683.392	4.419.899	2.576.687	7.716.882	2.152.347	30.464.450
MONETARY LIABILITIES							
Deposits	10.542.445	2.699.760	552.365	504.959	285.874	6.875.435	21.460.838
Obligations under repurchase agreements	641.162	101.740	401.410	231.028	334.506	16.940	1.726.786
Loans and advances from banks	944.708	208.518	1.056.667	1.002.365	1.661.501	48.488	4.922.247
Other liabilities and accrued expenses	83.731	22.406	13.080	274.873	60.994	1.101.517	1.556.601
Total Monetary Liabilities	12.212.046	3.032.424	2.023.522	2.013.225	2.342.875	8.042.380	29.666.472

	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 balances with Central Banks	2.624.301	-	-	-	-	227.313	2.851.614
Financial assets at fair value through profit or loss	3.084	7.829	164.889	218.829	239.231	4.880	638.742
Loans and advances to banks	1.125.494	179.448	255.872	148.030	20.834	64.039	1.793.717
Loans and advances to customers	3.788.743	1.424.901	1.558.335	1.634.251	3.629.870	184.671	12.220.771
Other assets	-	-	-	-	-	330.957	330.957
Security investments	84.905	1.657.443	1.912.659	995.424	5.279.258	315.429	10.245.118
Deferred tax assets	-	-	-	-	-	189.980	189.980
Total Monetary Assets	7.626.527	3.269.621	3.891.755	2.996.534	9.169.193	1.317.269	28.270.899
MONETARY LIABILITIES							
Deposits	10.424.203	2.956.624	528.305	469.432	263.581	6.875.449	21.517.594
Obligations under repurchase agreements	402.259	51.866	115.196	106.776	262.260	16.484	954.841
Loans and advances from banks	190.739	216.350	327.733	2.114.631	1.289.049	46.225	4.184.727
Other liabilities and accrued expenses	201	-	1.236	-	14.154	1.193.942	1.209.533
Total Monetary Liabilities	11.017.402	3.224.840	972.470	2.690.839	1.829.044	8.132.100	27.866.695

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the first half of 2005 and the year of 2004:

	30 June 2005			
	US$ %	*EUR %*	*YTL %*	*Other Currencies %*
Assets				
Loans and advances to banks	2.50-6.94	2.08-4.00	14.76-18.00	-
Debt and other fixed or floating income instruments	6.73-11.31	7.31-9.11	15.79-20.62	11.11
Loans and advances to customers	5.14-8.07	4.31-5.86	20.03-38.43	10.77-14.61
Liabilities				
Deposits:				
- Foreign currency deposits	2.77-4.67	2.30-3.98	-	5.12-6.03
- Bank deposits	3.88-4.94	2.29-2.37	15.13-16.23	4.35
- Saving deposits	-	-	14.76-18.45	-
- Commercial deposits	-	-	14.73-17.90	-
- Public and other deposits	-	-	18.31	-
Obligations under repurchase agreements	3.94-4.14	2.38	14.70-16.22	-
Loans and advances from banks	1.86-7.7	2.00-7.18	15.02-15.97	4.32-5.17

	31 December 2004			
	US$ %	*EUR %*	*YTL %*	*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

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

24 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 YTL, the consolidated financial statements are affected by currency exchange rate fluctuations against YTL.

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:

	30 June 2005			
	US$	*EUR*	*Other Currencies*	*Total*
Assets				
Cash and balances with Central Banks	73,042	1,935,760	16,411	2,025,213
Financial assets at fair value through profit or loss	307,786	82,801	66,399	456,986
Loans and advances to banks	1,008,805	346,163	86,658	1,441,626
Loans and advances to customers	5,945,974	1,756,083	122,138	7,824,195
Other assets	39,762	29,473	5,179	74,414
Security investments	5,400,343	398,488	-	5,798,831
Investments in equity participations	-	512	10,267	10,779
Tangible assets	206	57,748	1,762	59,716
Deferred tax asset	51	5,410	-	5,461
Total Assets	12,775,969	4,612,438	308,814	17,697,221

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

	30 June 2005			
	US$	*EUR*	*Other Currencies*	*Total*
Total Assets	12,775,969	4,612,438	308,814	17,697,221
Liabilities				
Deposits	6,300,599	4,935,827	457,436	11,693,862
Obligations under repurchase agreements	982,744	91,369	-	1,074,113
Loans and advances from banks	3,669,566	1,017,935	14,950	4,702,451
Current tax liability	-	2,508	6	2,514
Other liabilities and accrued expenses	549,320	185,946	7,895	743,161
Total Liabilities	11,502,229	6,233,585	480,287	18,216,101
Net On Balance Sheet Position	1,273,740	(1,621,147)	(171,473)	(518,880)
Net Off Balance Sheet Position	(1,423,678)	1,687,632	236,261	500,215
Net Position	(149,938)	66,485	64,788	(18,665)

	31 December 2004			
	US$	*EUR*	*Other Currencies*	*Total*
Total Assets	12,832,782	4,644,036	253,579	17,730,397
Total Liabilities	10,907,592	6,955,560	467,083	18,330,235
Net On Balance Sheet Position	1,925,190	(2,311,524)	(213,504)	(599,838)
Net Off Balance Sheet Position	(1,902,047)	2,249,598	297,992	645,543
Net Position	23,143	(61,926)	84,488	45,705

Of the amounts shown in the table above, at 30 June 2005, 96% (31 December 2004: 108%) 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 YTL equivalents, comprise net asset of YTL 51,382 thousands at 30 June 2005 (31 December 2004: YTL 55,043 thousands). For the purposes of the evaluation of the table above, these amounts should not be considered as hard currency.

24 **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 exposures to credit risk arise 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 22).

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.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

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

	30 June 2005				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	14,175,426	30,303,204	20,638,748	6,088,207	79,118
Germany	20,478	516,847	2,126,089	69,546	-
Russia	178,650	454,746	101,164	24,627	-
Holland	186,737	354,454	1,036,118	16,197	183
USA	49,826	335,043	2,152,999	85,913	-
France	13,667	316,219	32,318	57,731	-
Luxembourg	145,778	206,274	64,155	21,272	-
Romania	75,042	170,406	76,160	17,902	-
England	67,374	109,108	1,919,516	69,557	-
Switzerland	83,682	104,736	230,343	34,688	-
Others	89,558	558,093	1,341,362	367,977	-
	15,086,218	33,429,130	29,718,972	6,853,617	79,301

	31 December 2004				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	11,511,548	28,385,066	19,587,142	6,976,489	128,909
Holland	141,712	732,120	1,064,159	12,946	2,814
USA	64,482	426,906	1,513,652	57,579	-
Russia	143,729	324,922	46,833	41,137	266
Germany	26,696	254,267	2,336,643	6,214	-
Luxembourg	152,995	206,890	34,146	4,796	-
Romania	78,632	203,749	97,654	14,534	-
England	34,286	133,689	1,816,805	14,116	-
France	11,734	120,994	18,498	2,830	-
Switzerland	107,717	115,845	352,650	66,691	-
Others	87,481	456,504	1,008,457	108,485	-
	12,361,012	31,360,952	27,876,639	7,305,817	131,989

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 64% 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 74%.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

24 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:

	30 June 2005	*31 December 2004*
Cash loans		
Secured loans:	9,397,619	7,670,099
Secured by cash collateral	554,851	479,934
Secured by mortgages	1,692,295	1,185,772
Secured by government institutions or government securities	892,997	729,909
Guarantees issued by financial institutions	57,955	88,811
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	6,199,521	5,185,673
Unsecured loans	5,341,669	4,366,002
Total performing loans and financial lease receivables	14,739,288	12,036,101
Non-cash loans		
Secured loans:	5,062,350	5,601,426
Secured by cash collateral	188,253	556,655
Secured by mortgages	11,790	-
Secured by government institutions or government securities	-	151
Guarantees issued by financial institutions	7,915	45,104
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	4,854,392	4,999,516
Unsecured loans	1,791,267	1,704,391
Total non-cash loans	6,853,617	7,305,817

24.4 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.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

24 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	5.275	3 month libor +240	quarterly	2007

25 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 30 June 2005:

Affiliates	*Shareholding Interest (%)*
Garanti Bank International NV	100.00
Garanti Bank Moscow	100.00
Garanti Sigorta AŞ	100.00
Garanti Emeklilik 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
Akarnet Konakl. Tes. Yat. İşl. AŞ	100.00
Lasaş Lastikleri San ve Tic. AŞ	99.99

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

25 Affiliates and associates (continued)

Affiliates (continued)	***Shareholding Interest (%)***
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
Voyager Med. Tur. End. Ve Tic. AŞ	77.00
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.06
Tansaş Perakende Mağazacılık Ticaret AŞ	24.11 ***(a)***
Garanti Diversified Payment Rights Finance Company	- ***(b)***

(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.*

(b) *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.*

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.

In the current period, the Bank completed the sale of its shares in Konaklı Temizlik Taşımacılık Org. Bilgisayar Danışmanlık Yapı ve Tic. AŞ, a consolidated non-financial affiliate at a price of YTL 11,579 thousands resulting a loss of YTL 84 thousands in the accompanying consolidated income statement.

The table below sets out the Associates and shows their shareholding structure as at 30 June 2005:

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

In the current period, the Bank sold its shares in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, one of its non-financial associates listed above at a total price of YTL 2,435 thousands to E Haber Ajansı Reklam ve Ticaret AŞ, a related party.

26 Significant events

Doğuş Holding AŞ, has given a mandate to Morgan Stanley & Co. Ltd. for the Bank in connection with the identification and assessment of potential merger, joint venture, share purchase and sale prospects in the banking sector. As of the reporting date, negotiations with various prospective strategic investors continue.

As per the resolution of the Board of Directors dated 1 April 2005, the Bank, and also Doğuş Holding AŞ, have signed a mandate with ABN AMRO Corporate Finance Ltd for Tansaş Perakende Mağazacılık Ticaret AŞ, a consolidated non-financial affiliate, in connection with the identification and assessment of potential merger, joint venture, share purchase and sale prospects in the retail sector. As of the reporting date, negotiations have continued.

As per the resolution of the Board of Directors on 5 May 2005, it is decided to sell the Bank's shares in Akarnet Konaklama Tesisleri Yatırım ve İşletme AŞ, a consolidated non-financial affiliate. As of the reporting date, sale procedures have not been completed yet.

As per the resolution of the Board of Directors on 11 May 2005, it is decided to obtain all the necessary legal permissions in order to merge the Bank with Ana Konut Danışmanlık AŞ, a consolidated non-financial affiliate, taking over all the rights, assets, liabilities and obligations of the company ceasing its legal corporate existence after merger. As of the reporting date, legal procedures related with this merger have not been finalized yet.

27 Subsequent event

On 8 July 2005, the Bank signed a one year syndicated term-loan facility contract amounting EUR 600 millions at an interest cost of Eurolibor+0.40 % for export financing activities.

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