KPMG

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements

31 December 2005

With Independent Auditors' Report Thereon

21 February 2006

This report contains the "Independent Auditors' Report" comprising 1 page; and the "Consolidated financial statements and their explanatory notes" comprising 69 pages.

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 31 December 2005; and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain consolidated companies as of 31 December 2005, which statements reflect total assets constituting 4.23 percent; and total operating income constituting 6.39 percent after elimination of inter-company balances and transactions as of and for the year ended 31 December 2005 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our audit report, insofar as it relates to the amounts included for those companies is based solely on the reports of the other auditors.

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

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Garanti Bankası Anonim Şirketi and its affiliates as of 31 December 2005; and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

As discussed in Note 23, "Change in accounting policies" to the 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 the Bank and its affiliates for the year 2004 have been restated in accordance with IFRS.

İstanbul,
21 February 2006

KPMG Akis Serbest Muhasebeci
Mali Müşavirlik A.Ş.

Türkiye Garanti Bankası Anonim Şirketi

And Its Affiliates

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Türkiye Garanti Bankası A.Ş. And Its Affiliates

Consolidated Balance Sheet
At 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	31 December 2005	31 December 2004
Assets			
Cash and balances with Central Banks	*4*	4.342.644	2.887.300
Financial assets at fair value through profit or loss	*5*	982.316	646.736
Loans and advances to banks	*6*	2.177.017	1.816.164
Loans and advances to customers	*7*	19.207.232	12.515.704
Other assets	*9*	1.188.204	1.048.790
Security investments	*10,21*	11.909.044	10.373.330
Investments in equity participations	*11*	55.362	131.822
Tangible assets, net	*12*	1.219.413	2.020.851
Intangible assets, net	*13*	34.566	120.365
Deferred tax asset	*18*	81.746	200.204
Total assets		**41.197.544**	**31.761.266**
Liabilities			
Deposits from banks	*14*	1.059.709	1.185.560
Deposits from customers	*15*	25.408.528	20.601.316
Obligations under repurchase agreements	*16*	2.340.129	966.790
Loans and advances from banks	*17*	6.689.080	4.237.097
Current tax liability	*18*	67.938	30.827
Deferred tax liability	*18*	596	1.454
Other liabilities and accrued expenses	*19*	1.599.589	1.228.614
Total liabilities		**37.165.569**	**28.251.658**
Shareholders' equity and minority interest			
Share capital	*20*	3.046.371	2.679.668
Minority interest	*20*	43.134	249.534
Revaluation of available-for-sale assets	*10,20*	162.522	127.762
Hedging reserve	*24*	3.553	5.467
Legal reserves	*20*	78.600	54.943
Retained earnings	*20*	697.795	392.234
Total shareholders' equity and minority interest		**4.031.975**	**3.509.608**
Total liabilities, shareholders' equity and minority interest		**41.197.544**	**31.761.266**
Commitments and contingencies	*22*		

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Consolidated Income Statement
For The Year Ended 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	2005	2004
Interest income:-			
Interest on loans		2.076.363	1.568.971
Interest on securities		1.432.760	1.582.343
Interest on deposits at banks		202.253	192.608
Interest on lease business		73.069	51.992
Others		51.354	73.852
		3.835.799	3.469.766
Interest expense:-			
Interest on saving, commercial and public deposits		(1.445.688)	(1.530.670)
Interest on borrowings		(389.510)	(344.571)
Interest on bank deposits		(103.114)	(99.322)
Others		(53.477)	(41.925)
		(1.991.789)	(2.016.488)
Net interest income		**1.844.010**	**1.453.278**
Fee and commission income		1.123.113	904.633
Fee and commission expense		(318.688)	(264.824)
Net fee and commission income		**804.425**	**639.809**
Gross profit from retail business		258.902	258.323
Premium income from insurance business		162.736	114.754
Foreign exchange gain, net		71.714	49.472
Income on sale of equity participations and consolidated affiliates		60.708	-
Trading income, net		4.506	109.529
Others		60.589	81.498
Other operating income		**619.155**	**613.576**
Total operating Income		**3.267.590**	**2.706.663**
Salaries and wages		(504.544)	(450.638)
Impairment losses	*7,8,9,11,12,13,19*	(455.985)	(359.765)
Depreciation and amortization	*12,13*	(192.140)	(227.999)
Employee benefits		(155.332)	(123.206)
Advertising expenses		(92.953)	(92.194)
Claim loss from insurance business		(91.340)	(39.499)
Communication expenses		(88.782)	(85.894)
Rent expenses		(73.523)	(75.758)
EDP expenses		(62.124)	(50.514)
Taxes and duties other than on income		(50.861)	(32.103)
Utility expenses		(34.204)	(35.248)
Saving deposits insurance fund		(30.468)	(47.089)
Repair and maintenance expenses		(21.222)	(24.089)
Stationary expenses		(16.805)	(14.128)
Other operating expenses		(396.861)	(335.266)
Total operating expenses		**(2.267.144)**	**(1.993.390)**
Income from operations		**1.000.446**	**713.273**
Loss on monetary position, net		(52.871)	(42.873)
Income before tax		**947.575**	**670.400**
Taxation charge	*18*	(249.662)	(301.146)
Net income for the year		**697.913**	**369.254**
Net income for the year attributable to:			
Equity holders of the Bank		695.921	411.790
Minority interest		1.992	(42.536)
		697.913	**369.254**
Weighted average number of shares with a face value of YTL 1,000 each	*20*	**2,100 billion**	**1,709.5 billion**
Earnings per share (full YTL amount per YTL'000 face value each)		**331,39**	**240,88**

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Consolidated Statement of Changes in Shareholders' Equity
For The Year Ended 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 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 31 December 2003		**2.267.101**	**-**	**-**	**-**	**65.568**	**608.108**	**2.940.777**
Effect of change in accounting policies	*23*	-	301.544	241.282	-	-	(225.722)	317.104
Restated balances at 31 December 2003		**2.267.101**	**301.544**	**241.282**	**-**	**65.568**	**382.386**	**3.257.881**
Transfer from unappropriated earnings	*20*	412.567	-	-	-	21.576	(434.143)	-
Reversal of restatement effects of inflation		-	(9.474)	-	-	-	-	(9.474)
Release from general banking risks, net		-	-	-	-	(32.201)	32.201	-
Net market value losses from available-for-sale portfolio		-	-	43.614	-	-	-	43.614
Net gains as available-for-sale assets transferred to the								-
income statement on disposal		-	-	(157.134)	-	-	-	(157.134)
Net fair value gains from cash flow hedges		-	-	-	5.467	-	-	5.467
Net income for the year		-	(42.536)	-	-	-	411.790	369.254
Balances at 31 December 2004	*23*	**2.679.668**	**249.534**	**127.762**	**5.467**	**54.943**	**392.234**	**3.509.608**
Transfer from unappropriated earnings	*20*	366.703	-	-	-	25.531	(392.234)	-
Reversal of restatement effects of inflation		-	(569)	-	-	(1.874)	1.874	(569)
Net market value gains from available-for-sale portfolio		-	-	85.758	-	-	-	85.758
Net gains as available-for-sale assets transferred to the				-				-
income statement on disposal		-	-	(50.998)	-	-	-	(50.998)
Release of minority interest due to sale of consolidated affiliates		-	(207.823)	-	-	-	-	(207.823)
Net fair value gains from cash flow hedges	*24*	-	-	-	(1.914)	-	-	(1.914)
Net income for the year		-	1.992	-	-	-	695.921	697.913
Balances at 31 December 2005		**3.046.371**	**43.134**	**162.522**	**3.553**	**78.600**	**697.795**	**4.031.975**

Türkiye Garanti Bankası A.Ş. And Its Affiliates

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	2005	2004
Cash flows from operating activities:-			
Interest and commission received		3.463.530	2.872.853
Interest expense paid		(1.814.279)	(2.069.505)
Other operating activities, net		(239.501)	(31.765)
Cash payments to employees and suppliers		(794.231)	(697.824)
Loss on monetary position, net		(52.878)	(42.871)
		562.641	30.888
(Increase)/decrease in operating assets:-			
Loans and advances to banks		408.193	(199.578)
Balances with Central Banks		(614.049)	(165.503)
Financial assets at fair value through profit or loss		(335.193)	600.627
Loans and advances to customers		(4.004.069)	(1.733.450)
Consumer loans		(2.979.214)	(1.190.823)
Other assets		(378.885)	72.823
Increase/(decrease) in operating liabilities:-			
Deposits from banks		(131.963)	103.967
Deposits from customers		4.777.350	1.300.768
Obligations under repurchase agreements		1.374.032	(966.260)
Other liabilities		206.122	44.737
Net cash used in operating activities before income taxes paid		**(1.115.035)**	**(2.101.804)**
Income taxes paid		**(176.967)**	**(31.873)**
Net cash used in operating activities		**(1.292.002)**	**(2.133.677)**
Cash flows from investing activities:-			
Proceeds from sale of security investments		1.609.350	2.656.660
Purchase of security investments		(2.771.498)	(1.871.123)
Interest received		969.315	1.642.324
Decrease in investments in equity participations, net		68.677	149.955
Dividends received		1.179	-
Decrease/(increase) in tangible assets, net		716.889	(51.440)
Net cash from investing activities		**593.912**	**2.526.376**
Cash flows from financing activities:-			
Increase in loans and advances from banks, net		2.438.917	388.301
Disposal of minorities due to sale of consolidated affiliates		(207.823)	-
Net cash from financing activities		**2.231.094**	**388.301**
Effect of exchange rate changes		**71.714**	**49.472**
Net increase in cash and cash equivalents		**1.604.718**	**830.472**
Cash and cash equivalents at beginning of the year	*2*	2.421.307	1.590.835
Cash and cash equivalents at end of the year	*2*	**4.026.025**	**2.421.307**

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 31 December 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 366 domestic branches, five foreign branches, five representative offices abroad and 61 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 11,935 employees. The Bank's head office is located in the following address: Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 İstanbul.

(b) Ownership

The Companies owned by Doğuş Holding AŞ, called as Doğuş Group, currently holds 27.54% of the issued capital. On 22 December 2005, Doğuş Holding AŞ has completed the sale of 53,550,000,000 shares representing 25.5% of the Bank's issued share capital to "GE Araştırma ve Müşavirlik Limited Şti." of the General Electric (GE) Group as explained in Note 20. Accordingly, GE acquired a joint control in the Bank's management.

In 2004 and 2005, Doğuş Holding AŞ had two separate agreements with a foreign portfolio investor for issuing options to purchase a portion of the shares of the Bank owned by Doğuş Holding AŞ. In accordance with the related Security's Lending Agreements, the investor took over all the ownership rights including sale of 20,690,723,199 shares representing 9.85% of the Bank's capital (per 1 New Kuruş) throughout the option period agreed. Shares in the number of 3,471,074,325 representing 1.653% of the Bank's capital were pledged to the investor for its unused additional 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.

Significant accounting policies (continued)

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 21 February 2006.

(b) Basis of preparation

Starting from 1 January 2005, the currency unit is set as the New Turkish Lira (YTL) per the Law on the currency unit of the Republic of Turkey no.5083 dated 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 thousands of YTL as adjusted for the effects of inflation in YTL units current at 31 December 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.

Affiliates

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

Significant accounting policies (continued)

Associates

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized 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. Unrealized 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. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized 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 rate in Turkey has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Institute of Statistics (TIS). Although this rate is below the 100% threshold as of 31 December 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

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Significant accounting policies (continued)

YTL as at 31 December 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*
31 December 2005	8,785.74	1.000
31 December 2004	8,403.80	1.045
31 December 2003	7,382.10	1.190

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".

(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 year.

Significant accounting policies (continued)

Financial statements of foreign operations

The foreign operations of the Bank and its affiliates are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to 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 to 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 to 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.

Depreciation

Tangible assets purchased before 2005 are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition. Assets acquired after this date are depreciated based on the declining balance method which is one of the accelerated depreciation methods.

Significant accounting policies (continued)

The estimated useful lives are as follows:

Tangible assets	**Estimated useful lives (years)**	**Current Period Depreciation Rates (%)**	**Prior Period Depreciation Rates (%)**
Buildings	50	4	2
Furniture, fixture and equipments	4-20	10-50	5-25
Leasehold improvements	5-10	10-20	5

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 represents 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.

Significant accounting policies (continued)

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.

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 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.

Significant accounting policies (continued)

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 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 derecognized 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 derecognized 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 recognized 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.

As per the temporary Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to the Social Security Foundation (SSF) within a period of three years. As per this new Law, a commission established by the representatives from various organizations will calculate the commitment for each fund based on the actuarial calculations made taking into account the revenues and expenses of the funds. The commitment to be calculated will be paid maximum in 15 years in equal instalments. The commission established under the coordination of the Ministry of Labour and Social Security is currently working on the methodology and parameters to be used for the calculation of such commitments. However, on 2 November 2005 the President has applied to the Constitution Court for the annulment of certain statements of this Article.

As per the actuarial calculation made on the technical financial statements of the Fund as of 31 December 2005 taking into account 10.24% as the technical interest rate that was defined during the studies under the coordination of the Ministry of Labor and Social Security, there is no technical or actual deficit that needs to be provided against. Furthermore, the Bank management believes that the Fund is capable of meeting its liabilities to be calculated by the commission mentioned above during the transfer of the Fund without any burden to the Bank.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Significant accounting policies (continued)

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents 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 Labor 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 1,727.15 and YTL 1,646.31 at 31 December 2005 and 2004, respectively.

International Financial Reporting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2005 and 2004 are as follows:

	2005	2004
	%	%
Expected rate	12	10
Expected rate of salary/limit increase	6.175	16
Turnover rate to estimate the probability of retirement	5.0	4.3

The above rate for salary/limit increase was determined based on the government's future targets for annual inflation.

(m) Taxes on income

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

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

Significant accounting policies (continued)

An individual consolidated affiliate offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability 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 recognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(o) Earnings per share

Earnings per share disclosed in the accompanying consolidated income statement are determined by dividing net income 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.

Significant accounting policies (continued)

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.

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.

Significant accounting policies (continued)

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.

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 premium 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 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.

Significant accounting policies (continued)

Claims and provision for claims: Claims incurred include all claims (including claim estimates) and claims settlement payments made in respect of the financial period and the movement in provision for outstanding claims and settlement expenses. Provisions for outstanding claims and settlement expenses include claims incurred but not reported (IBNR), net of salvage and subrogation recoveries. Along with the provisions for IBNR claims; the Bank's affiliates in insurance business also make provisions for general business risks (equalization 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 deliveries 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) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(s) 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 Netherlands, Russia, Ireland, Turkish Republic of Northern Cyprus, Malta, Luxembourg, Germany and Romania. 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 31 December 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:

31 December 2005	*Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial Sectors*	*Retail*	*Other Non-Financial Sectors*	*Combined*	*Eliminations*	*Total*
Interest income	3,733,033	80,895	18,002	2,470	8,396	10,540	2,994	3,856,330	(20,531)	3,835,799
Interest expense	(1,962,269)	(26,833)	-	(10,114)	(53)	(13,328)	(435)	(2,013,032)	21,243	(1,991,789)
Net interest income/(expense)	1,770,764	54,062	18,002	(7,644)	8,343	(2,788)	2,559	1,843,298	712	1,844,010
Fee and commission income/(expense), net	777,247	3,589	(9,993)	19,217	23,655	(10,116)	-	803,599	826	804,425
Gross profit from retail business	-	-	-	-	-	258,902	-	258,902	-	258,902
Premium income from insurance business	-	-	162,736	-	-	-	-	162,736	-	162,736
Foreign exchange gain/(loss), net	82,378	(7,006)	(1,001)	(3,307)	39	3	608	71,714	-	71,714
Trading income, net	1,847	-	11	-	2,648	-	-	4,506	-	4,506
Other operating income	102,212	1,211	2,888	361	5,022	-	27,098	138,792	(17,495)	121,297
Salaries and wages	(394,966)	(8,666)	(32,124)	(1,695)	(9,258)	(42,608)	(15,227)	(504,544)	-	(504,544)
Impairment losses	(453,460)	(1,222)	(1,303)	-	(417)	(1,619)	2,273	(455,748)	(237)	(455,985)
Other operating expenses	(962,924)	(15,553)	(125,707)	(1,858)	(21,014)	(182,851)	(28,290)	(1,338,197)	31,582	(1,306,615)
Gain/(loss) on monetary position, net	(44,200)	(1,679)	(2,071)	66	(2,284)	6,790	(4,757)	(48,135)	(4,736)	(52,871)
Taxation charge	(221,649)	(164)	(9,154)	(1,614)	(1,937)	(15,144)	-	(249,662)	-	(249,662)
Net income/(loss) for the year	657,249	24,572	2,284	3,526	4,797	10,569	(15,736)	687,261	10,652	697,913
Segment assets	39,431,913	963,343	410,465	352,001	172,700	-	9,215	41,339,637	(197,455)	41,142,182
Investments in equity participations	446,965	-	370	9,635	7,202	-	1,140	465,312	(409,950)	55,362
Total assets	39,878,878	963,343	410,835	361,636	179,902	-	10,355	41,804,949	(607,405)	41,197,544
Segment liabilities	35,837,156	846,392	331,071	332,124	52,900	-	2,483	37,402,126	(236,557)	37,165,569

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

1 Segment reporting (continued)

31 December 2004	***Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial Sectors***	***Retail***	***Other Non-Financial Sectors***	***Combined***	***Eliminations***	***Total***
Interest income	3,383,874	71,940	17,699	159	8,035	12,773	893	3,495,373	(25,607)	3,469,766
Interest expense	(1,983,522)	(23,136)	-	(7,101)	(158)	(27,534)	(754)	(2,042,205)	25,717	(2,016,488)
Net interest income/(expense)	1,400,352	48,804	17,699	(6,942)	7,877	(14,761)	139	1,453,168	110	1,453,278
Fee and commission income/(expense), net	617,348	-	(6,699)	17,139	33,290	(17,653)	-	643,425	(3,616)	639,809
Gross profit from retail business	-	-	-	-	-	258,323	-	258,323	-	258,323
Trading income/(loss), net	107,551	-	38	-	2,185	-	(245)	109,529	-	109,529
Premium income from insurance business	-	-	114,754	-	-	-	-	114,754	-	114,754
Foreign exchange gain/(loss), net	56,678	1,101	(1,635)	(3,431)	(714)	(1,095)	(653)	50,251	(779)	49,472
Other operating income	80,335	2,012	155	106	4,789	9,371	32,612	129,380	(47,882)	81,498
Salaries and wages	(321,529)	(8,175)	(22,927)	(1,354)	(8,023)	(73,763)	(14,867)	(450,638)	-	(450,638)
Impairment losses	(370,229)	(235)	-	-	(546)	-	(3,874)	(374,884)	15,119	(359,765)
Other operating expenses	(825,516)	(16,007)	(103,052)	(2,319)	(15,661)	(210,242)	(28,031)	(1,200,828)	17,841	(1,182,987)
Gain/(loss) on monetary position, net	(13,742)	(14,646)	(3,165)	(1,850)	(4,642)	4,492	(7,537)	(41,090)	(1,783)	(42,873)
Taxation charge	(237,198)	(40,601)	(5,124)	(767)	(5,353)	(11,563)	(540)	(301,146)	-	(301,146)
Net income/(loss) for the year	494,050	(27,747)	(9,956)	582	13,202	(56,891)	(22,966)	390,244	(20,990)	369,254
Segment assets	29,459,973	476,855	242,812	112,758	131,014	475,724	895,273	31,794,409	(164,965)	31,629,444
Investments in equity participations	1,729,615	492	515	9,634	6,171	123	66,757	1,813,307	(1,681,485)	131,822
Total assets	31,189,588	477,347	243,327	122,392	137,185	475,847	962,030	33,607,716	(1,846,450)	31,761,266
Segment liabilities	27,493,429	384,968	188,278	96,406	12,705	269,922	39,561	28,485,269	(233,611)	28,251,658

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 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 31 December 2005 and 2004, included in the accompanying consolidated statements of cash flows are as follows:

	2005	2004
Cash at branches	203,755	214,563
Loans and advances to banks with original maturity periods of less than three months	3,822,270	2,187,612
Others	-	19,132
	4,026,025	2,421,307

3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğuş Holding AŞ and GE and all their subsidiaries, and their ultimate owners, directors and executive officers 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*

	2005	2004
Balance sheet		
Loans and advances to customers	154,475	377,839
Loans granted in YTL	*5,445*	*10,473*
Loans granted in foreign currencies:	*US$ 110,762,303*	*US$ 251,453,539*
	EUR 809,589	*EUR 5,089,915*
Miscellaneous receivables	222,555	4,353
Deposits received	1,547,268	77,771
Commitments and contingencies		
Non-cash loans	306,862	209,784

3.2 *Transactions*

	2005	2004
Interest income	14,425	8,736
Interest expense	6,846	9,367

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 2.8%-9.7% and 1.50%-5.50% (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 9.75%-19% (2004: 14.50%-21.50%). Various commission rates are applied to transactions involving guarantees and commitments.

Key management costs for the year ended 31 December 2005 amount to YTL 61,866 thousands on a consolidated basis. Within this total, individual key management costs of the Bank amounted YTL 31,880 thousands, of its financial affiliates amounted YTL 26,872 thousands and of its retail affiliate amounted YTL 3,114 thousands.

The equity participation in Doğuş Otomotiv Servis ve Ticaret AŞ was sold to Doğuş İnşaat ve Ticaret AŞ at a total amount of YTL 125,991 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.

During the year, 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 in two transactions at a total price of YTL 3,470 thousands. Accordingly, a gain of YTL 428 thousands on this sale is recorded in the accompanying consolidated income statement.

Doğuş Holding AŞ, had signed the Agreement (Agreement) with General Electric (GE) on 24 August 2005 for the sale of 53,550,000,000 shares representing 25.5% of the Bank's issued share capital. According to the terms of the Agreement, certain affiliates, associates and real estates decided to be taken over by Doğuş Holding AŞ at a total price of YTL 958 millions calculated based on the consolidated financial statements as of 31 March 2005 of which 50% was paid at the closing date and the remaining to be paid in two equal instalments at the first and second anniversaries. Accordingly, the shares of Voyager Mediterranean Turizm End. ve Tic. AŞ, Sititur Turizm Taşımacılık Org. AŞ, Lasaş Lastik San. ve Tic. AŞ, Doğuş Hava Taşımacılığı AŞ and, Şahintur Şahinler Otelcilik Turizm Yatırım İşletmeleri AŞ as its consolidated affiliate and Doğuş Turizm Sağlık Yat. İşlt. Tic. AŞ. having a total book value of YTL 508,432 thousands (31 December 2004: YTL 516,106 thousands) have been sold to Doğuş Holding AŞ at a total sale price of YTL 503,490 thousands. The Bank recorded a net total loss of YTL 4,942 thousands on these sales and a net receivable from Doğuş Holding AŞ amounting YTL 220,633 thousands, which is reflected in "miscellaneous receivables" (Note 9), in the accompanying consolidated financial statements.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

4 Cash and balances with Central Banks

	2005	*2004*
Cash at branches	203,755	214,563
Balances with Central Banks	4,138,889	2,653,605
Others	-	19,132
	4,342,644	2,887,300

At 31 December 2005, cash and balances with Central Banks included balances with the Central Bank of Turkey amounting YTL 2,119,213 thousands (2004: YTL 1,409,127 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% (2004: 12.50%) for YTL deposits and 1.14%-2.03% (2004: 0.99%) for foreign currency deposits.

5 Financial assets at fair value through profit or loss

	2005				*2004*
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments held at fair value:					
Eurobonds	118,462	155,996	5-12	2034	44,169
Bonds issued by corporations	102,510	107,193	7-15	2012	48,694
Government bonds in foreign currency	60,179	60,734	4-7	2010	33,973
Discounted government bonds in YTL	65,746	59,939	12-21	2010	201,040
Government bonds in YTL	44,034	40,878	14-21	2010	51,890
Bonds issued by foreign governments	20,677	37,535	9-13	2028	6,031
Government bonds at floating rates	32,764	32,405	15-21	2010	28,157
Treasury bills in YTL	6,791	6,167	14-24	2006	35,970
Others		17,594			1,411
		518,441			451,335
Equity and other non-fixed income instruments:					
Forfaiting receivables		463,870			178,705
Listed shares		5			16,696
Total financial assets at fair value through profit or loss		982,316			646,736

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

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 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 year ended 31 December 2005, net income from trading of financial assets amounting to YTL 4,506 thousands (2004: YTL 109,529 thousands) in total is included in “trading income, net”.

The following table summarizes the contractual amounts of the forward, 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 31 December 2005, approximately 97% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (2004: 108%).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 107,433 thousands (2004: -).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of
inflation in YTL units current at 31 December 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 2005	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Forwarde rate agreements	-	-	-	53,336	106,671	160,007
Purchases	-	-	-	*53,336*	*106,671*	*160,007*
Sales	-	-	-	-	-	-
Interest rate swaps	8,953	-	-	-	6,433	15,386
Purchases	*8,953*	-	-	-	*6,433*	*15,386*
Sales	-	-	-	-	-	-
Interest rate futures	-	1,990	-	-	-	1,990
Purchases	-	*1,990*	-	-	-	*1,990*
Sales	-	-	-	-	-	-
Currency Derivatives						
Spot exchange contracts	148,048	-	-	-	-	148,048
Purchases	*81,479*	-	-	-	-	*81,479*
Sales	*66,569*	-	-	-	-	*66,569*
Forward exchange contracts	252,323	51,068	22,542	2,211	1,660	329,804
Purchases	*187,334*	*45,796*	*20,972*	*682*	-	*254,784*
Sales	*64,989*	*5,272*	*1,570*	*1,529*	*1,660*	*75,020*
Currency/cross currency swaps	2,312,062	686,431	355,961	222,324	247,322	3,824,100
Purchases	*1,484,994*	*592,254*	*229,590*	*133,705*	-	*2,440,543*
Sales	*827,068*	*94,177*	*126,371*	*88,619*	*247,322*	*1,383,557*
Options	654,902	455,073	22,826	74,546	-	1,207,347
Purchases	*347,737*	*316,981*	*11,413*	*37,273*	-	*713,404*
Sales	*307,165*	*138,092*	*11,413*	*37,273*	-	*493,943*
Foreign currency futures	5,871	65,377	56,251	128	691	128,318
Purchases	*3,283*	*1,051*	*68*	*2*	-	*4,404*
Sale	*2,588*	*64,326*	*56,183*	*126*	*691*	*123,914*
Other foreign exchange contracts	72,157	-	-	-	-	72,157
Purchases	*48,665*	-	-	-	-	*48,665*
Sale	*23,492*	-	-	-	-	*23,492*
Subtotal Purchases	2,162,445	958,072	262,043	224,998	113,104	3,720,662
Subtotal Sales	1,291,871	301,867	195,537	127,547	249,673	2,166,495
Total of Transactions	3,454,316	1,259,939	457,580	352,545	362,777	5,887,157

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 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	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***over 1 year***	***Total***
Interest Rate Derivatives						
Future rate agreements	-	14,202	56,809	85,215	85,215	241,441
Purchases	-	*14,202*	*56,809*	*85,215*	*85,215*	*241,441*
Sales	-	-	-	-	-	-
Interest rate swaps	2,475	74,317	28,405	-	-	105,197
Purchases	*2,475*	*74,317*	*28,405*	-	-	*105,197*
Sales	-	-	-	-	-	-
Interest rate options	1,685	-	-	-	-	1,685
Purchases	-	-	-	-	-	-
Sales	*1,685*	-	-	-	-	*1,685*
Currency Derivatives						
Spot exchange contracts	234,705	-	-	-	-	234,705
Purchases	*66,263*	-	-	-	-	*66,263*
Sales	*168,442*	-	-	-	-	*168,442*
Forward exchange contracts	389,509	57,440	62,540	64,733	-	574,222
Purchases	*270,487*	*49,442*	*39,816*	*63,855*	-	*423,600*
Sales	*119,022*	*7,998*	*22,724*	*878*	-	*150,622*
Currency/cross currency swaps	1,096,861	467,220	368,123	1,347,877	-	3,280,081
Purchases	*1,029,803*	*419,578*	*368,123*	*1,331,021*	-	*3,148,525*
Sales	*67,058*	*47,642*	-	*16,856*	-	*131,556*
Options	242,258	166,578	95,575	117,561	-	621,972
Purchases	*136,114*	*57,450*	*27,002*	*62,126*	-	*282,692*
Sales	*106,144*	*109,128*	*68,573*	*55,435*	-	*339,280*
Foreign currency futures	-	156,400	-	-	-	156,400
Purchases	-	-	-	-	-	-
Sale	-	*156,400*	-	-	-	*156,400*
Other foreign exchange contracts	10,626	67,598	-	-	-	78,224
Purchases	*10,626*	-	-	-	-	*10,626*
Sale	-	*67,598*	-	-	-	*67,598*
Subtotal Purchases	1,515,768	614,989	520,155	1,542,217	85,215	4,278,344
Subtotal Sales	462,351	388,766	91,297	73,169	-	1,015,583
Total of Transactions	1,978,119	1,003,755	611,452	1,615,386	85,215	5,293,927

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

6 Loans and advances to banks

	2005			2004		
	YTL	Foreign Currency	Total	YTL	Foreign Currency	Total
Loans and advances-demand						
Domestic banks	905	21,305	22,210	9,424	530	9,954
Foreign banks	11,117	126,406	137,523	2,059	65,570	67,629
	12,022	147,711	159,733	11,483	66,100	77,583
Loans and advances-time						
Domestic banks	422,572	909,834	1,332,406	10,842	595,246	606,088
Foreign banks	75,301	599,788	675,089	114,408	1,013,916	1,128,324
	497,873	1,509,622	2,007,495	125,250	1,609,162	1,734,412
Accrued interest on loans and advances	6,649	3,140	9,789	2,763	1,406	4,169
Total loans and advances to banks	516,544	1,660,473	2,177,017	139,496	1,676,668	1,816,164
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	516,544	1,660,473	2,177,017	139,496	1,676,668	1,816,164

As at 31 December 2005, time deposits are almost all short-term, maturing within one year, with interest rates ranging between 1%-9% per annum for foreign currency time deposits and 15%-24% per annum for YTL time deposits (2004: 1%-6% and 18%-26%, respectively).

As 31 December 2005, demand deposits at foreign banks include blocked accounts of YTL 106,353 thousands (2004: YTL 47,197 thousands) against the securitization 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 31 December 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:

	2005	***2004***
Consumer loans	6,452,209	3,472,995
Industrial	4,733,276	3,649,085
Service sector	2,139,007	1,176,267
Financial institutions	1,270,410	1,348,997
Construction	790,285	456,644
Agriculture	585,765	424,746
Tourism	529,759	297,575
Foreign trade	365,947	226,634
Transportation	271,906	201,447
Others	602,761	372,748
Total performing loans	17,741,325	11,627,138
Non-performing loans and lease receivables	729,460	464,980
Total gross loans	18,470,785	12,092,118
Accrued interest income on loans and lease receivables	234,355	186,982
Financial lease receivables, net of unearned income (Note 8)	782,247	404,220
Factoring receivables	268,313	105,839
Forfaiting receivables	20,673	49,533
Allowance for possible losses from loans and lease receivables	(569,141)	(322,988)
Loans and advances to customers	19,207,232	12,515,704

As at 31 December 2005, interest rates on loans granted to customers range between 2%-16% (2004: 1%-14%) per annum for foreign currency loans and 7%-26% (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.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 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:

	2005	2004
Balance at the beginning of the year	322,988	241,290
The effect of inflation on the beginning balance and current year transactions	(2,151)	(27,981)
Write-offs	(69,752)	(12,192)
Recoveries	(18,851)	(33,577)
Provision for the year	336,907	155,448
Balance at the end of the year	569,141	322,988

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.

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

	2005	2004
Financial lease receivables, net of unearned income (Note 7)	782,247	404,220
Less: allowance for possible losses on lease receivables	(6,552)	(6,252)
	775,695	397,968
Analysis of net financial lease receivables		
Due within 1 year	484,846	301,751
Due between 1 and 5 years	400,619	162,972
Financial lease receivables, gross	885,465	464,723
Unearned income	(109,770)	(66,755)
Financial lease receivables, net	775,695	397,968
Analysis of net financial lease receivables, net		
Due within 1 year	417,912	258,912
Due between 1 and 5 years	357,783	139,056
Financial lease receivables, net	775,695	397,968

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

9 Other assets

	2005	2004
Tangible assets held for resale	426,889	514,521
Miscellaneous receivables (Note 3)	340,202	23,489
Insurance premium receivables	203,782	103,822
Prepaid expenses, insurance claims and similar items	104,885	100,724
Advances given	28,134	3,174
Taxes and funds to be refunded	15,803	12,623
Accrued gain on derivatives	-	167,286
Retail business stocks	-	65,761
Others	68,509	57,390
	1,188,204	1,048,790

The portion amounting to YTL 178,475 thousands (2004: YTL 220,265 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 appraisal firms. As of 31 December 2005, real estates held for resale costing YTL 457,421 thousands (2004: YTL 258,532 thousands) have been impaired by YTL 159,071 thousands (2004: YTL 108,208 thousands).

10 Security investments

	2005				2004
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments available-for-sale:					
Government bonds at floating rates	4,080,122	4,464,658	19-22	2010	2,159,928
Government bonds in foreign currency	1,570,078	1,595,198	5-7	2010	1,784,202
Discounted government bonds in YTL	1,745,901	1,466,601	14-15	2007	697,969
Eurobonds	599,001	686,100	5-12	2034	831,091
Bonds issued by corporations *	405,870	420,665	8-10	2012	160,218
Bonds issued by foreign governments	142,838	144,364	2-11	2010	155,580
Government bonds in YTL	35,106	38,431	15-25	2010	36,767
Others		28,390			16,289
Total securities available-for-sale		8,844,407			5,842,044

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

10 Security investments (continued)

	2005				2004
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Total securities available-for-sale		8,844,407			5,842,044
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	1,491,630**	1,417,716	*(a)*	2006	1,524,651
Eurobonds	1,047,944	1,145,900	7-12	2030	1,474,715
Bonds issued by foreign governments	134,838	136,916	3-6	2008	147,219
Government bonds in YTL	109,154	114,609	9-20	2007	276,555
Bonds issued by financial institutions	78,362	85,478	7-12	2014	89,099
Government bonds at floating rates	32,401	32,926	*(b)*	2006	766,523
Discounted government bonds in YTL	33,289	28,397	19	2006	11,287
Other		25,733			100,487
		2,987,675			4,390,536
Accrued interest on held-to-maturity portfolio		76,962			140,750
Total securities held-to-maturity		3,064,637			4,531,286
Total security investments		11,909,044			10,373,330

* *Bonds issued by corporations include credit linked notes with face value amounting to YTL 266,800 thousands (2004: YTL 71,090 thousands) and carrying value amounting to YTL 273,406 thousands (2004: YTL 72,385 thousands) that are linked to the default risk of the Turkish Government. All bonds issued by corporations are valued at amortized cost since these financial assets are not quoted in an active market.*

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

(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.

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 2,587,269 thousands (2004: YTL 1,127,602 thousands).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

10 Security investments (continued)

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

	2005		2004	
	Face Value	*Carrying value*	*Face Value*	*Carrying value*
Deposited at Istanbul Stock Exchange	1,260,773	1,404,110	228,867	238,558
Collateralized to foreign banks	1,188,743	1,235,272	692,550	758,244
Deposited at Clearing Bank (Takasbank)	383,000	435,510	255,000	279,385
Deposited at CBT for interbank transactions	353,510	362,072	380,000	468,214
Deposited at CBT for foreign currency money market transactions	223,420	236,573	320,000	394,286
Deposited at CBT for repurchase transactions	55,081	56,968	58,803	62,941
Reserve requirements at CBT		-	340,000	418,928
Others		67,546		235,557
		3,798,051		2,856,113

11 Investments in equity participations

	2005		2004	
	Carrying Value	*Ownership %*	*Carrying Value*	*Ownership %*
Investments in associated companies:				
Cappadocia Investments Ltd	5,663	76.00	1,829	76.00
Garanti Turizm ve Yatırım İşletmeleri AŞ	-		31,769	44.89
Doc Finance SA	-		5,255	29.00
Others	1,120		774	
	6,783		39,627	
Equity participations available-for-sale:				
Garanti Turizm ve Yatırım İşletmeleri AŞ	27,056	44.89	-	
IMKB Takasbank AŞ	11,915	5.83	11,915	5.83
Doc Finance SA	4,623	29.00	-	
Datmar Turizm AŞ	-		51,132	14.00
Petrotrans Nakliyat ve Ticaret AŞ	-		10,226	99.99
Others	4,985		18,922	
	48,579		92,195	
	55,362		131,822	

11 Investments in equity participations (continued)

As per the Agreement signed between Doğuş Holding AŞ and GE on 24 August 2005 for the sale of 53,550,000,000 shares composing 25.5% of the Bank issued share capital, the Bank's participations in Garanti Turizm Yatırım ve İşletmeleri AŞ and Doc Finance SA are expected to be sold to Doğuş Holding AŞ, as further explained in Note 27. Accordingly, these equity participations are classified under available-for-sale category as of 31 December 2005.

As per the Share Agreement mentioned above, the affiliates Voyager Mediterranean Turizm End. ve Tic. AŞ, Sititur Turizm taşımacılık Org. AŞ, Lasaş Lastik San. ve Tic., Doğuş Hava Taşımacılığı AŞ, Şahintur Şahinler Otelcilik Turizm Yatırım İşletmeleri AŞ, and Doğuş Turizm Sağlık Yat. İşlt. Tic. AŞ that had been consolidated in the prior years were sold to Doğuş Holding AŞ in December 2005. Accordingly the equity participations of these consolidated affiliates have been disposed of.

The Bank sold its shares in Türkiye Sınai Kalkınma Bankası AŞ amounting YTL 6,081 thousands, classified in equity participations available-for-sale as of 31 December 2004, at a price of YTL 7,989 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 million of which US$ 9 million to be collected according to the payment periods agreed. In accordance with this Agreement, the transfer of the shares took place as of 30 June 2005 after the collection of the instalments.

During the year, the shares in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, a non-financial associate were sold in two transactions at a total price of YTL 3,470 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 5,013 thousands in the current year. Accordingly, the cumulative provisions for such impairment losses amounted to YTL 41,112 thousands as of 31 December 2005 (2004: YTL 227,019 thousands).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

12 Tangible assets

Movement in tangible assets from 1 January 2005 to 31 December 2005 is as follows:

	1 January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs					
Land and buildings	1,848,911	12,933	(12,895)	(682,169)	1,166,780
Furniture, fixture and equipments	1,154,408	190,968	(2,343)	(235,692)	1,107,341
Leasehold improvements	381,454	37,732	(935)	(281,764)	136,487
	3,384,773	241,633	(16,173)	(1,199,625)	2,410,608
Less: Accumulated depreciation					
Buildings	217,734	25,513	(856)	(47,286)	195,105
Furniture, fixture and equipments	835,757	133,165	(1,518)	(162,719)	804,685
Leasehold improvements	213,114	33,462	(935)	(158,828)	86,813
	1,266,605	192,140	(3,309)	(368,833)	1,086,603
Construction in progress	50,311		-	(28,300) ***(a)***	22,011
	2,168,479		(12,864)	(859,092)	1,346,016
Impairment in value of tangible assets	(147,628)				(126,593)
	2,020,851				1,219,413

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

	1January	*Additions*	*Adjustment for Currency Translation*	*Disposals*	*31 December*
Costs					
Land and buildings	1,894,699	15,590	(14,741)	(46,637)	1,848,911
Furniture, fixture and equipments	1,140,678	77,949	(3,899)	(60,320)	1,154,408
Leasehold improvements	423,692	33,786	-	(76,024)	381,454
	3,459,069	127,325	(18,640)	(182,981)	3,384,773
Less: Accumulated depreciation					
Buildings	195,842	35,758	(3,620)	(10,246)	217,734
Furniture, fixture and equipments	771,073	118,614	(182)	(53,748)	835,757
Leasehold improvements	234,390	50,461	-	(71,737)	213,114
	1,201,305	204,833	(3,802)	(135,731)	1,266,605
Construction in progress	43,995	6,316 ***(a)***	-	-	50,311
	2,301,759		(14,838)	(47,250)	2,168,479
Impairment in value of tangible assets	(151,169)				(147,628)
	2,150,590				2,020,851

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

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

12 Tangible assets (continued)

A significant portion of the disposals during 2005 amounting to YTL 763,666 thousands mainly represented the tangible assets of the consolidated affiliates that were sold as explained in Note 26.

Depreciation expense for the year ended 31 December 2005 amounts to YTL 192,140 thousands (2004: YTL 204,833 thousands).

Impairment losses provided for decreases in the value of land and buildings were determined based upon assessment of the independent appraiser firms and value in use. As of 31 December 2005, land and buildings at a total cost of YTL 481,675 thousands (2004: YTL 528,746 thousands) have been impaired by YTL 126,593 thousands (2004: YTL 147,628 thousands).

13 Intangible assets

As of 31 December 2005, intangible assets represent goodwill arising from the direct acquisitions of 29% ownership in Doc Finance SA, 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Emeklilik AŞ, 98.94% ownership in Garanti Finansal Kiralama AŞ, 81.84% ownership in Garanti Faktoring Hizmetleri AŞ, and 56.74% ownership in Garanti Gayrimenkul Yatırım Ortaklığı 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 goodwill:

	2005	2004
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Doc Finance SA	7,954	7,954
Garanti Finans Faktoring Hizmetleri AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Sigorta AŞ	1,099	1,099
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	515	515
Garanti Emeklilik AŞ	38	38
Tansaş Perakende Mağazacılık Ticaret AŞ	-	84,307
Doğuş Hava Taşımacılığı AŞ	-	38,306
Sititur Turizm Temizlik Taşımacılık Organizasyon Bilgisayar Danışmanlık Yapı Sanayi ve Ticaret AŞ	-	3,238
Doğuş Turizm Sağlık Yatırımları ve İşletmeleri AŞ	-	1,492
Goodwill	42,520	169,863
Impairment in goodwill	(7,954)	(49,498)
	34,566	120,365

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

13 Intangible assets (continued)

Impairment losses are provided for decreases in the value of consolidated entities by way of assessing their internal and external sources. As of 31 December 2005, goodwill on Doc Finance SA as disclosed in the table above has been impaired by YTL 7,954 thousands. As of 31 December 2004, goodwill on Doc Finance SA, Doğuş Hava Taşımacılığı AŞ, and Sititur Turizm Temizlik Taşımacılık Organizasyon Bilgisayar Danışmanlık Yapı Sanayi ve Ticaret AŞ have been impaired by YTL 49,498 thousands in total.

14 Deposits from banks

Deposits from banks comprise the following:

	2005	2004
Payable on demand	278,910	42,976
Term deposits	769,064	1,136,961
	1,047,974	1,179,937
Accrued interest on deposits from banks	11,735	5,623
	1,059,709	1,185,560

Deposits from banks include both YTL accounts of YTL 572,110 thousands (2004: YTL 765,710 thousands) and foreign currency accounts of YTL 475,864 thousands (2004: YTL 414,227 thousands). As at 31 December 2005, interest rates applicable to YTL bank deposits and foreign currency bank deposits vary within ranges of 14%-19% and 1%-7% (2004: 15%-27% and 1%-8%), respectively.

15 Deposits from customers

Deposits from customers comprise the following:

	2005			2004
	Demand	Time	Total	Total
Foreign currency	4,339,514	8,802,518	13,142,032	12,750,924
Saving	825,140	5,754,300	6,579,440	3,980,899
Commercial	1,922,716	3,276,735	5,199,451	3,385,109
Public and other	186,407	160,750	347,157	373,798
	7,273,777	17,994,303	25,268,080	20,490,730
Accrued interest expense on deposits from customers	-	140,448	140,448	110,586
	7,273,777	18,134,751	25,408,528	20,601,316

As at 31 December 2005, interest rates applicable to YTL deposits and foreign currency deposits vary within ranges of 11%-20% and 1%-10% (2004: 17%-23% and 1.50%-6.50%), respectively.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

15 Deposits from customers (continued)

As at 31 December 2005, subordinated deposits obtained by the consolidated banking affiliate in Netherlands amounting YTL 60,205 thousands (2004: YTL 11,951 thousands) are included in foreign currency time deposits.

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*
2005					
Financial assets at fair value through profit or loss	107,433	107,433	101,827	Mar'06-Oct'07	105,827
Security investments	2,587,269	2,607,389	2,238,302	Jan'06-Apr'08	2,310,575
	2,694,702	2,714,822	2,340,129		2,416,402
2004					
Security investments	1,127,602	1,205,134	966,790	Jan'05-Apr'08	1,030,967

Accrued interest on obligations under repurchase agreements amounting to YTL 15,997 thousands (2004: YTL 16,690 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 31 December 2005, the maturities of the obligations varied from one day to three years and interest rates varied between 2%-15% (2004: 3%-25%).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

17 Loans and advances from banks

Loans and advances from banks comprise the following:

	2005	**2004**
Short-term borrowings		
Domestic banks	458,904	284,342
Foreign banks	3,049,367	2,404,056
	3,508,271	2,688,398
Long-term debts		
Short-term portion	459,132	201,154
Medium and long-term portion	2,661,807	1,300,741
	3,120,939	1,501,895
Accrued interest on loans and advances from banks	59,870	46,804
	6,689,080	4,237,097

As at 31 December 2005, short-term borrowings include a syndication loan amounting US$100 millions obtained by one of the affiliates of the Bank in February 2005 with twelve banks from seven countries.

As at 31 December 2005, short-term borrowings from foreign banks included a one-year syndicated term-loan facility amounting US$ 700 millions (equivalent of YTL 933,800 thousands) (2004: US$ 600 millions) obtained on 6 December 2005 as signed with the 32 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 600 millions (equivalent of YTL 943,800 thousands) (2004: EUR 450 millions) obtained on 8 July 2005 as signed with the 31 mandated arrangers.

Long-term debts comprise the following:

	2005					**2004**
	Interest rate%	***Latest Maturity***	***Amount in original currency***	***Short term portion***	***Medium and long term portion***	***Medium and long term debts***
DPR Securitisation-IV	4.25-5.03	2013	US$ 600 mio	-	800,400	-
DPR Securitisation-V	4.66-5.47	2013	US$ 525 mio	-	700,350	-
DPR Securitisation-II	4.47-4.50	2012	US$ 325 mio	38,908	394,642	462,088
DPR Securitisation-III	4.36	2013	US$ 300 mio	-	400,200	-
DPR Securitisation-I	4.28-5.95	2008	US$ 350 mio	-	-	497,634
Others				420,224	366,215	341,019
				459,132	2,661,807	1,300,741

In November 2005, the Bank completed a securitization (the "DPR Securitization-V") transaction by issuance of certificate: US$ 525 millions with a guarantee issued by XL Capital Insurance and CIFG and arranged by ING Bank and ABN Amro Bank, a final maturity of 7-8 years.

17 Loans and advances from banks (continued)

In September 2005, the Bank completed a securitization (the "DPR Securitisation-IV") transaction by issuance of certificate: US$ 600 millions with a guarantee issued by Radian Asset Assuarance Inc., a final maturity of 8 years.

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 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 of 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 of 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. The Bank has closed the whole risk making an early payment in the last quarter of 2005.

18 Taxation on income

In Turkey, corporate income tax is levied at the rate of 30% (2004: 33%) 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 also a withholding tax levied at the rate of 10% on the dividends paid and is accrued only at the time of such payments. According to the amendments in the tax legislations, which became effective from 24 April 2003, dividends that are paid to the shareholders from the profits of the years between 1999 and 2002 are immune from the withholding tax, if such profits are exempted from corporation tax bases of the companies. 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. 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 the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Netherlands, corporate income tax is levied at the rate of 31.5 % (2004: 34.5%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2005. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward to offset against future taxable income for an unlimited number of years. Tax losses can be carried back to offset profits up to 3 prior years. Companies must file their tax returns within six months following the close of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assesment of the tax return 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 corporate income tax has been calculated using the nominal tax rate of 31.5% over the Dutch taxable income, 40% over the local taxable income of Germany branch and 16% (2004: 25 %) over the local taxable income of Romania branch.

The applicable tax rate for current and deferred tax for the Bank's consolidated affiliate in Russia is 24%. The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

18 Taxation on income (continued)

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

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

	2005	%	2004	%
Taxes on income per statutory tax rate	284,273	30.00	221,232	33.00
Reversal of valuation allowance on impairment of tangible assets	(137,098)	(14.47)	43,996	6.56
Disallowable expenses	91,108	9.62	33,073	4.93
Permanent differences relating to restatement of non-monetary items per IAS29	17,388	1.84	-	-
Investment incentives	(8,971)	(0.95)	14,688	2.19
Income items exempt from tax	(6,558)	(0.69)	(13,895)	(2.07)
Effect of change in legal tax rate	-	-	(7,070)	(1.05)
Others	9,520	1.00	9,122	1.36
Taxation charge	249,662	26.35	301,146	44.92

The taxation charge comprised the following:

	2005	2004
Current taxes	176,646	33,586
Deferred taxes	73,016	267,560
Taxation charge	249,662	301,146

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:

	2005	2004
Provision for current taxes payable on income before deductions	249,662	301,146
Add: Taxes payable carried forward	68,139	1,951
Less: Prepaid corporate taxes	(174,206)	-
Add/(less): Deferred taxes	(73,016)	(267,560)
Less: Restatement effect on current taxes payable on income for the change in the general purchasing power of YTL at 31 December 2005	(2,641)	(4,710)
Taxes payable on income	67,938	30,827

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

18 Taxation on income (continued)

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

	2005	2004
Deferred tax asset		
Impairment in value of investments in associated companies and tangible assets	33,361	29,692
Specific and general allowance for loan losses	27,040	18,373
Reserve for employee severance indemnity	8,545	6,120
Tax losses carried forward	-	79,541
Valuation difference on financial assets and liabilities	4,833	12,978
Pro-rata basis depreciation expenses	(12,697)	20,567
Investment incentives and exemptions	-	10,054
Leasing obligations	2,458	3,949
Others, net	18,206	18,930
Total deferred tax asset	81,746	200,204
Deferred tax liability		
Total deferred tax liability	596	1,454

19 Other liabilities and accrued expenses

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

	2005	2004
Transfer orders	481,409	416,845
Expense accruals	158,875	82,036
Payables to insurance and reinsurance companies relating to insurance operations	156,990	61,444
Insurance business related provisions	154,487	107,042
Payables to suppliers relating to financial leasing activities	85,918	12,286
Advances received	82,511	10,068
Unearned income	74,319	61,077
Withholding taxes	68,798	53,419
Blocked accounts	61,481	27,533
Factoring payables	51,298	27,304
Miscellaneous payables	40,456	248,415
Reserve for employee severance indemnity	32,860	24,612
General provision for non-cash loans	16,587	15,417
Others	133,600	81,116
	1,599,589	1,228,614

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

19 Other liabilities and accrued expenses (continued)

Insurance business related provisions are detailed in the table below:

	2005			2004		
	Garanti Sigorta AŞ	*Garanti Emeklilik AŞ*	*Total*	*Garanti Sigorta AŞ*	*Garanti Emeklilik AŞ*	*Total*
Reserve for unearned premiums, net	45,505	10,872	56,377	33,147	5,925	39,072
Gross	*115,645*	*11,936*	*127,581*	*73,465*	*6,540*	*80,005*
Reinsurers' share	*(70,140)*	*(1,064)*	*(71,204)*	*(40,318)*	*(615)*	*(40,933)*
Provision for claims, net	25,675	1,451	27,126	14,533	824	15,357
Gross	*75,407*	*1,575*	*76,982*	*58,751*	*944*	*59,695*
Reinsurers' share	*(49,732)*	*(124)*	*(49,856)*	*(44,218)*	*(120)*	*(44,338)*
Provision for earthquake claims	18,984	-	18,984	13,383	-	13,383
Life mathematical reserves	-	52,000	52,000	-	39,230	39,230
	90,164	64,323	154,487	61,063	45,979	107,042

Movement in the reserve for employee severance indemnity is as follows:

	2005	2004
Balance, beginning of period	24,612	40,457
Effects of inflation on the beginning balance	(831)	(4,165)
Reversals	(50)	(8,666)
Disposal due to sale of consolidated affiliates	(1,657)	(8,666)
Payments during the period	(176)	(4,889)
Provision for the period	10,962	1,875
Balance, end of period	32,860	24,612

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

	2005	2004
Balance, beginning of period	15,417	13,420
Effects of inflation on the beginning balance	(670)	(1,774)
Reversals	(2,342)	(304)
Provision for the period	4,182	4,075
Balance, end of period	16,587	15,417

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 and transfers from statutory retained earnings that are reflected in the statutory financial statements are disregarded and eliminated for inflation accounting purposes in the accompanying financial statements. 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 the 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 statutory 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.

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.

Doğuş Holding AŞ, had signed the Agreement with GE on 24 August 2005 for the sale of 53,550,000,000 shares representing 25.5% of the Bank's issued share capital. Subsequent to receiving the necessary permission from BRSA, the transfer of the Bank's shares with nominal value of YTL 535,500 thousands representing 25.5% of the Bank's issued share capital and 182 founder shares from Doğuş Holding AŞ to GE Araştırma ve Müşavirlik Limited Şti., an investee company of GE Capital Corporation incorporated in Turkey, has been completed on 22 December 2005. Accordingly, on 22 December 2005 GE Araştırma ve Müşavirlik Limited Şti. made a total cash payment of US$ 1,805,500 thousands to Doğuş Holding AŞ to purchase the shares of the Bank (having a nominal value of YTL 535,500 thousands) for US$ 1,555,500 thousands and to purchase the Bank's 182 founder shares for US$ 250,000 thousands. There will be a call for the Bank's minority shareholders according to the paragraph 17 of the Article IV no.8 "Principles on Voting by Proxy at General Assembly and Gathering Proxy or Common Stock through Calls for Quoted Companies" of the Turkish Capital Market Board.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

20 **Shareholders' equity** (continued)

The reserves include legal reserves amounting to YTL 78,600 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 as a component of shareholders' equity (refer to Note 23). As at 31 December 2005 net minority interest amounts to YTL 43,134 thousands (2004: YTL 249,534 thousands).

Minority interest is detailed as follows:

	2005	***2004***
Capital and other reserves	38,506	561,630
Retained earnings/(accumulated losses)	2,636	(269,560)
Current year net income/(loss)	1,992	(42,536)
	43,134	249,534

The decreases in minority interest in 2005 resulted from the discontinued operations as explained in Note 26.

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

	31 December 2005
At 1 January 2005	127,762
Net gains/(losses) from changes in fair value	127,584
Related deferred and current income taxes	(41,826)
Net (gains)/losses transferred to the income statement on disposal and impairment	(59,773)
Related deferred and current income taxes	8,775
	162,522

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of
inflation in YTL units current at 31 December 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 signs 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 realized 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 11,920,634 thousands (2004: YTL 10,474,469 thousands), whereas the carrying amount is YTL 11,909,044 thousands (2004: YTL 10,373,330 thousands) in the accompanying consolidated balance sheet as at 31 December 2005.

22 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur 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:

	2005	2004
Letters of guarantee	6,015,988	4,883,430
Letters of credit	2,109,524	1,886,558
Acceptance credits	286,255	626,838
Other guarantees and endorsements	-	422
	8,411,767	7,397,248

As at 31 December 2004, commitment for uncalled capital of affiliated companies amounts approximately to YTL 14 thousands (2005: -).

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

22 Commitments and contingencies (continued)

As at 31 December 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 5,887,157 thousands (2004: YTL 5,293,927 thousands), approximately 94% of which are due within a year.

The breakdown of outstanding commitments is presented as follows:

	2005		*2004*	
	Purchases	***Sales***	***Purchases***	***Sales***
Forward agreements for customer dealing activities	174,636	19,621	59,481	75,368
Currency swap agreements for customer dealing activities	64,501	51,361	86,515	14,958
Spot foreign currency transactions for customer dealing activities	5,619	4,813	56,946	144,064
Forward agreements for hedging purposes	80,148	55,399	364,119	75,254
Currency swap agreements for hedging purposes	2,376,042	1,332,196	3,062,010	116,598
Interest rate swap agreements	15,386	-	105,197	-
Interest rate and foreign currency options	351,970	477,262	282,692	340,965
Future rate agreements and foreign currency futures	166,401	123,914	241,441	156,400
Forward agreements for gold trading	48,665	23,492	10,626	67,598
Options for customer dealing activities	361,434	16,681	-	-
Spot foreign currency transactions	75,860	61,756	9,317	24,378
	3,720,662	2,166,495	4,278,344	1,015,583

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 prior year financial statements.

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 amortized costs 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 the liquidation process or kept as equity participations available-for-sale are consolidated, and
- the minority interest is reclassified to shareholders’ equity.

The Bank made a further change in its accounting policy by allocating the provision for the accrued rewards on credit cards amounting YTL 18,310 thousands net of its deferred tax effect of YTL 7,847 thousands to the retained earnings of the earliest period presented.

23 Change in accounting policies (continued)

The "earnings per share" for the year ended 31 December 2004 has increased by YTL 75.89 (full amount) each share representing YTL'000 face value as a result of the change in accounting policies explained above.

			Retained Earnings		
As of 31 December 2003	Minority interest	Revaluation of available- for-sale assets	Previous Years' income	Current period income	Total
Reported balances at 31 December 2003	-	-	(30,407)	638,515	608,108
Minority interest on a consolidated affiliate	59,459	-	-	-	-
Reclassification of minority interest to shareholders' equity	242,085	-	-	-	-
Reclassification of net market value gains on available-for-sale portfolio	-	241,282	(15,047)	(226,235)	(241,282)
Elimination of reclassification for originated loans and receivables	-	-	3,636	26,195	29,831
Booking of net market value gains	-	-	-	1,691	1,691
Reversal of negative goodwill	-	-	2,348	-	2,348
Provision for the accrued rewards on credit cards	-	-	-	(18,310)	(18,310)
Adjusted balances at 31 December 2003	301,544	241,282	(39,470)	421,856	382,386
For the year 2004					
Adjusted balances at 1 January 2004	301,544	241,282	382,386	-	382,386
Transfer from unappropriated earnings	-	-	(434,143)	-	(434,143)
Release from general banking risks, net	-	-	32,201	-	32,201
Reversal of restatement effects of inflation	(9,474)	-	-	-	-
Reclassification of minority interest's losses to unappropriated earnings	(42,536)	-	-	-	-
Reported net income for the year ended 31 December 2004	-	-	-	282,062	282,062
Adjustments to the reported net income of the year 2004					
Net change in revaluation of available-for-sale assets	-	(113,520)	-	113,520	113,520
Elimination of reclassification for originated loans and receivables	-	-	-	17,733	17,733
Booking of net market value losses	-	-	-	(1,364)	(1,364)
Reversal of negative goodwill	-	-	-	(161)	(161)
Adjusted balances at 31 December 2004	249,534	127,762	(19,556)	411,790	392,234

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 unfavorable 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.

Türkiye Garanti Bankası A.Ş. and Its Affiliates
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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:

	2005						*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	1.108.367	-	-	-	-	1.108.367	441.547	-	-	-	-	441.547
Financial assets at fair value through profit or loss	2.398	7.854	19.709	32.805	78.964	141.730	2.889	6.078	140.576	64.368	119.831	333.742
Loans and advances to banks	313.850	171.085	31.609	-	-	516.544	97.318	-	-	42.178	-	139.496
Loans and advances to customers	5.539.307	540.042	637.450	932.908	2.204.404	9.854.111	3.551.128	356.599	437.522	573.867	637.729	5.556.845
Other assets	92.720	168.566	-	113.756	119.472	494.514	42.098	81.962	-	-	-	124.060
Security investments	210.086	368.588	430.386	1.047.113	4.110.197	6.166.370	31.817	391	818.079	564.388	2.561.329	3.976.004
Deferred tax asset	-	-	-	-	81.744	81.744	-	-	-	-	197.053	197.053
Total New Turkish Lira monetary assets	7.266.728	1.256.135	1.119.154	2.126.582	6.594.781	18.363.380	4.166.797	445.030	1.396.177	1.244.801	3.515.942	10.768.747
Foreign currency												
Cash and balances with Central Banks	3.234.277	-	-	-	-	3.234.277	2.445.753	-	-	-	-	2.445.753
Financial assets at fair value through profit or loss	15.519	9.209	42.547	302.422	470.889	840.586	1.424	636	19.273	152.653	139.008	312.994
Loans and advances to banks	1.223.387	161.153	111.277	104.683	59.973	1.660.473	1.107.100	181.694	259.074	107.704	21.096	1.676.668
Loans and advances to customers	601.421	1.114.782	1.523.383	1.318.415	4.634.801	9.192.802	528.291	1.086.134	1.135.419	1.074.807	2.992.216	6.816.867
Other assets	38.665	35.450	3.525	4.690	35.407	117.737	189.177	21.856	-	-	-	211.033
Security investments	16.011	25.859	1.690.115	403.469	3.607.220	5.742.674	73.658	148.373	229.790	466.823	5.478.682	6.397.326
Deferred tax asset	-	-	-	-	2	2	-	-	-	-	3.151	3.151
Total foreign currency monetary assets	5.129.280	1.346.453	3.370.847	2.133.679	8.808.292	20.788.551	4.345.403	1.438.693	1.643.556	1.801.987	8.634.153	17.863.792
Total Monetary Assets	12.396.008	2.602.588	4.490.001	4.260.261	15.403.073	39.151.931	8.512.200	1.883.723	3.039.733	3.046.788	12.150.095	28.632.539
MONETARY LIABILITIES												
New Turkish Lira												
Deposits	10.732.031	1.840.694	138.557	84.357	1.047	12.796.686	7.074.103	1.296.597	72.171	60.596	70.626	8.574.093
Obligations under repurchase agreements	1.257.782	-	3.378	50.000	54.348	1.365.508	270.727	-	-	-	56.121	326.848
Loans and advances from banks	263.130	28.030	41.026	49.011	-	381.197	45.399	37.285	46.423	45.439	-	174.546
Other liabilities and accrued expenses	267.829	47.284	149.772	156.695	143.808	765.388	327.508	50.362	60.712	68.814	99.079	606.475
Total New Turkish Lira monetary liabilities	12.520.772	1.916.008	332.733	340.063	199.203	15.308.779	7.717.737	1.384.244	179.306	174.849	225.826	9.681.962
Foreign currency												
Deposits	11.200.594	1.387.464	398.935	393.680	290.878	13.671.551	10.418.238	1.715.610	465.246	416.694	196.995	13.212.783
Obligations under repurchase agreements	286.127	15.999	200.440	201.928	270.127	974.621	139.679	52.922	116.949	109.088	221.304	639.942
Loans and advances from banks	246.584	323.617	522.869	2.539.657	2.675.156	6.307.883	148.676	185.486	290.205	2.125.278	1.312.906	4.062.551
Other liabilities and accrued expenses	281.266	106.120	283.282	143.319	6.233	820.221	554.127	193	7.844	78.392	3.796	644.352
Total foreign currency monetary liabilities	12.014.571	1.833.200	1.405.526	3.278.584	3.242.394	21.774.276	11.260.720	1.954.211	880.244	2.729.452	1.735.001	18.559.628
Total Monetary Liabilities	24.535.343	3.749.208	1.738.260	3.618.647	3.441.597	37.083.055	18.978.457	3.338.455	1.059.550	2.904.301	1.960.827	28.241.590

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 31 December 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:

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	2.336.481	-	-	-	-	2.006.163	4.342.644
Financial assets at fair value through profit or loss	1.038	42.170	101.962	332.708	476.690	27.748	982.316
Loans and advances to banks	1.370.986	328.601	143.252	104.682	59.973	169.523	2.177.017
Loans and advances to customers	6.036.762	1.734.027	2.171.377	2.192.300	6.651.992	260.455	19.046.913
Other assets	-	-	3.525	118.446	142.507	347.773	612.251
Security investments	339.472	5.014.778	2.142.939	518.391	3.382.603	510.861	11.909.044
Deferred tax asset	-	-	-	-	-	81.746	81.746
Total Monetary Assets	10.084.739	7.119.576	4.563.055	3.266.527	10.713.765	3.404.269	39.151.931
MONETARY LIABILITIES							
Deposits	14.257.879	3.205.758	533.679	475.096	290.956	7.704.869	26.468.237
Obligations under repurchase agreements	1.542.446	15.976	196.254	250.107	319.348	15.998	2.340.129
Loans and advances from banks	504.162	343.157	549.752	2.498.201	2.733.948	59.860	6.689.080
Other liabilities and accrued expenses	140.986	93.218	212.467	139.410	1.625	998.082	1.585.789
Total Monetary Liabilities	16.445.473	3.658.109	1.492.152	3.362.814	3.345.877	8.778.809	37.083.235

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	2.657.142	-	-	-	-	230.158	2.887.300
Financial assets at fair value through profit or loss	3.124	7.927	166.952	221.567	242.225	4.941	646.736
Loans and advances to banks	1.139.580	181.694	259.074	149.883	21.094	64.839	1.816.164
Loans and advances to customers	3.836.157	1.442.733	1.577.837	1.654.703	3.675.296	186.986	12.373.712
Other assets	-	-	-	-	-	335.093	335.093
Security investments	85.967	1.678.185	1.936.595	1.007.881	5.345.326	319.376	10.373.330
Deferred tax asset	-	-	-	-	-	200.204	200.204
Total Monetary Assets	7.721.970	3.310.539	3.940.458	3.034.034	9.283.941	1.341.597	28.632.539
MONETARY LIABILITIES							
Deposits	10.554.658	2.993.625	534.916	475.307	266.879	6.961.491	21.786.876
Obligations under repurchase agreements	407.293	52.516	116.637	108.112	265.542	16.690	966.790
Loans and advances from banks	193.127	219.057	331.834	2.141.095	1.305.181	46.803	4.237.097
Other liabilities and accrued expenses	204	-	1.252	-	14.332	1.235.039	1.250.827
Total Monetary Liabilities	11.155.282	3.265.198	984.639	2.724.514	1.851.934	8.260.023	28.241.590

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 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 years of 2005 and 2004:

	2005			
	US$ %	*EUR %*	*YTL %*	*Other Currencies %*
Assets				
Loans and advances to banks	4.10-7.00	2.37-2.80	11.23-18.75	2.50-9.70
Debt and other fixed or floating income instruments	7.47-10.13	8.16-9.14	17.70-20.00	5.89
Loans and advances to customers	6.07-13.88	4.07-9.74	15.98-23.17	8.00-13.00
Liabilities				
Deposits:				
- Foreign currency deposits	1.00-7.00	2.19-5.25	-	4.98-9.00
- Bank deposits	4.30-6.40	0.28-4.67	10.51-14.58	2.00-6.25
- Saving deposits	-	-	13.89-17.88	-
- Commercial deposits	-	-	14.25-17.20	-
- Public and other deposits	-	-	17.90	-
Obligations under repurchase agreements	4.00-4.87	2.38	14.20-15.20	-
Loans and advances from banks	4.35-7.32	3.08-7.20	14.16-15.75	6.59-8.48

	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 31 December 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 Netherlands 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:

	2005			
	US$	EUR	Other Currencies	Total
Assets				
Cash and balances with Central Banks	90,654	3,122,657	20,966	3,234,277
Financial assets at fair value through profit or loss	658,663	123,204	58,719	840,586
Loans and advances to banks	1,259,584	345,989	54,900	1,660,473
Loans and advances to customers	6,202,853	2,820,222	168,614	9,191,689
Other assets	104,579	30,037	1,223	135,839
Security investments	5,382,099	334,716	25,859	5,742,674
Investments in equity participations	-	500	10,286	10,786
Tangible assets	337	52,772	2,204	55,313
Deferred tax asset	2	-	-	2
Total Assets	13,698,771	6,830,097	342,771	20,871,639

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

	2005			
	US$	***EUR***	***Other Currencies***	***Total***
Total Assets	13,698,771	6,830,097	342,771	20,871,639
Liabilities				
Deposits	8,287,799	4,910,568	473,184	13,671,551
Obligations under repurchase agreements	884,674	89,947	-	974,621
Loans and advances from banks	4,901,030	1,392,529	14,324	6,307,883
Current and deferred tax liability	-	2,625	51	2,676
Other liabilities and accrued expenses	626,884	191,374	8,133	826,391
Total Liabilities	14,700,387	6,587,043	495,692	21,783,122
Net On Balance Sheet Position	(1,001,616)	243,054	(152,921)	(911,483)
Net Off Balance Sheet Position	784,720	(127,497)	223,129	880,352
Net Position	(216,896)	115,557	70,208	(31,131)

	2004			
	US$	***EUR***	***Other Currencies***	***Total***
Total Assets	12,993,378	4,702,154	256,752	17,952,284
Total Liabilities	11,044,095	7,042,605	472,928	18,559,628
Net On Balance Sheet Position	1,949,283	(2,340,451)	(216,176)	(607,344)
Net Off Balance Sheet Position	(1,925,850)	2,277,750	301,722	653,622
Net Position	23,433	(62,701)	85,546	46,278

Of the amounts shown in the table above, at 31 December 2005, approximately 97% (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 65,307 thousands at 31 December 2005 (2004: YTL 55,732 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 31 December 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:

	2005				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	18,292,549	37,988,734	26,041,569	7,349,188	238,825
Russia	221,220	561,687	28,241	26,335	1,441
Netherlands	233,101	525,170	938,153	8,679	1,367
USA	22,787	467,953	3,098,770	7,627	-
Germany	18,875	345,633	1,323,955	2,272	-
Romania	106,487	308,397	109,648	16,184	-
Luxembourg	75,911	169,035	583,261	123,391	-
Switzerland	87,825	152,919	317,279	67,167	-
England	23,934	57,897	3,110,374	44,971	-
France	3,944	57,788	64,436	50,043	-
Others	120,599	562,331	1,549,883	715,910	-
	19,207,232	41,197,544	37,165,569	8,411,767	241,633

	2004				
	Loans	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditure***
Turkey	11,655,609	28,748,137	19,858,419	7,063,797	130,521
Netherlands	143,486	741,282	1,077,476	13,108	2,850
USA	65,289	432,249	1,532,595	58,299	-
Russia	145,527	328,988	47,419	41,652	270
Germany	27,030	257,449	2,365,885	6,292	-
Luxembourg	154,910	209,479	34,573	4,856	-
Romania	79,616	206,299	98,876	14,716	-
England	34,715	135,362	1,839,541	14,293	-
France	11,881	122,508	18,729	2,865	-
Switzerland	109,065	117,295	357,064	67,525	-
Others	88,576	462,218	1,021,081	109,845	-
	12,515,704	31,761,266	28,251,658	7,397,248	133,641

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 approximately 77%.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

The Bank generally seeks collateral security comprised of 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:

	2005	2004
Cash loans		
Secured loans:	12,124,622	7,766,091
Secured by cash collateral	725,240	485,940
Secured by mortgages	3,215,626	1,200,611
Secured by government institutions or government securities	854,852	739,046
Guarantees issued by financial institutions	111,705	89,925
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	7,217,199	5,250,569
Unsecured loans	6,687,936	4,420,639
Total performing loans and financial lease receivables	18,812,558	12,186,730
Non-cash loans		
Secured loans:	6,514,855	5,671,526
Secured by cash collateral	221,195	563,621
Secured by mortgages	13,862	-
Secured by government institutions or government securities	-	153
Guarantees issued by financial institutions	14,214	45,669
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	6,265,584	5,062,083
Unsecured loans	1,896,912	1,725,722
Total non-cash loans	8,411,767	7,397,248

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 31 December 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

25 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 31 December 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
Garanti Bilişim Teknolojisi	100.00
Galata Araştırma Yayıncılık Tanıtım ve Bilişim Teknoloji Hizmetleri AŞ	100.00
Garanti Finansal Kiralama AŞ	98.94
Garanti Faktoring Hizmetleri AŞ	81.84
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.74
Garanti Diversified Payment Rights Finance Company	- ***(a)***

(a)*Garanti Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions explained in Note 17. The Bank or any of its affiliates does not have any shareholding interest in this company.*

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

25 Affiliates and associates (continued)

The Bank merged with Ana Konut Danışmanlık AŞ (100.00%), a consolidated non-financial affiliate on 28 September 2005, taking over all the rights, assets, liabilities and obligation of this company ceasing its legal corporate existence after the merger.

The liquidation processes of Bosphorus Financial Services Ltd.(100.00%) and Clover Investments Co.(100.%) have been completed and the affiliates have been disposed as of 30 September 2005.

Garanti Fund Management Co. Ltd. (100.00%) is under liquidation as of the reporting date. The liquidation procedures are expected to complete in the second half of 2006.

In the current period, the Bank completed the sale of its shares in Konaklı Temizlik Taşımacılık Organizasyon Bilgisayar Danışmanlık Yapı ve Ticaret AŞ (99.97%), a consolidated non-financial affiliate at a price of YTL 11,723 thousands resulting in a loss of YTL 85 thousands as included in the accompanying consolidated income statement.

As required by the Agreement with GE on 24 August 2005 for the sale of 53,550,000,000 shares representing 25.5% of the Bank issued share capital, the Bank sold some of its consolidated affiliates to Doğuş Holding AŞ in December 2005. These affiliates were Voyager Mediterranean Turizm End. ve Tic. AŞ (77.00%), Sititur Turizm taşımacılık Org. AŞ (99.95%), Lasaş Lastik San. ve Tic. (99.99%), Doğuş Hava Taşımacılığı AŞ (100.00%), Şahintur Şahinler Otelcilik Turizm Yatırım İşletmeleri AŞ (100.00%), and Doğuş Turizm Sağlık Yat. İşlt. Tic. AŞ (100.00%) as further explained in Note 26.

The table below sets out the Associates and shows their shareholding structure as at 31 December 2005:

Associates	***Shareholding Interest (%)***
Garanti Turizm ve Yatırım İşletmeleri AŞ	44.89
Doc Finance SA	29.00

During the year, the shares in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, one of its non-financial associates were sold in two transactions at a total price of YTL 3,470 thousands to E Haber Ajansı Reklam ve Ticaret AŞ, a related party.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

26 Discontinued operations

In the current period, the Bank completed the sale of its shares in Konaklı Temizlik Taşımacılık Organizasyon Bilgisayar Danışmanlık Yapı ve Ticaret AŞ, a consolidated non-financial affiliate at a price of YTL 11,723 thousands resulting a loss of YTL 85 thousands in the accompanying consolidated income statement.

A share selling agreement had been signed between Koç Holding AŞ and its participation Migros Türk Ticaret AŞ, and Doğuş Holding AŞ, certain Doğuş Group of companies and also the Bank on 18 August 2005 including the Bank's shares in Tansaş Perakende Mağazacılık Ticaret AŞ (Tansaş) of 27.21%. Accordingly, Tansaş shares owned by Doğuş Group of companies in total representing 70.77% of the company's shares were the subject of the sale. The sale of Tansaş shares at a net book value of YTL 131,430 thousands (2004: YTL 123,564 thousands), have been completed on 10 November 2005 subsequent to receiving the necessary legal permissions from the regulators. According to the share selling agreement, the total value of the company was determined as US$ 547 millions and the value of the shares held by the Bank amounted to US$ 148,850,326. US$ 122,430,063 of the sale price was collected immediately in cash at closing and the remaining US$ 26,420,263 would be collected in ten equal installments in five years semi-annually taking into account the interest of US$ 7,626,468 due to extended payment terms.

The accompanying income statement includes a net gain amounting YTL 67,588 thousands for the year ended 31 December 2005 regarding the disposal of Tansaş.

The results of the discontinued operation included in the accompanying consolidated income statement in 2004 and the period up to the sale of Tansaş are as follows:

	2005	2004
Gross profit from retail business	258,902	258,323
Expenses	(233,189)	(304,167)
Profit before tax	25,713	(45,844)
Attributable tax expense	(15,144)	(11,563)
Net income/(loss) of the discontinued operation	10,569	(57,407)

As at 31 December 2004, Tansaş had YTL 10,863 thousands of interest on deposits at banks and YTL 17,766 thousands of fee and commission expense from intercompany transactions that are eliminated in the accompanying consolidated financial statements during the consolidation process.

During the year of 2004, Tansaş contributed by YTL 60,915 thousands to the Bank's net operating cash flow, paid YTL 33,291 thousands in respect of investing activities and paid YTL 26,666 thousands in respect of financing activities.

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

26 Discontinued operations (continued)

The effect of discontinued operation on segment results is also included in Note 1 under retail segment.

The major classes of assets and liabilities comprising the Tansaş operation discontinued in 2005 are as follows as of 31 December 2005:

	2004
Cash and balances with Central Banks	3,341
Loans and advances to banks	90,429
Other assets	77,450
Security investments	5,739
Investments in equity participations	124
Tangible assets, net	186,294
Intangible assets, net	27,082
Deferred tax asset	85,388
Total assets classified as held for sale	475,847
Loans and advances from banks	19,171
Other liabilities and accrued expenses	250,751
Total liabilities associated with assets classified as held for sale	269,922
Net assets of disposal group	205,925
Bank's share in net assets of disposal group	49,653
Goodwill associated with assets classified as held for sale	57,225
Financial assets at fair value through profit or loss	16,686
Total of net assets of disposal group	123,564

As at 31 December 2004, Tansaş had YTL 87,020 thousands of loans and advances to banks, YTL 231 thousands of other assets, YTL 1,299 thousands of loans and advances from banks, YTL 32,189 thousands of other liabilities and accrued expenses from intercompany balances that are eliminated in the accompanying consolidated financial statements during consolidation process.

On 1 December 2005, the Bank also sold its shares in Akarnet Konaklama Tesisleri Yatırım ve İşletmeleri AŞ having a net book value of YTL 22,678 thousands at a selling price of YTL 22,987 thousands. Accordingly, gain on this sale amounting YTL 309 thousands is included in the accompanying consolidated income statement.

26 **Discontinued operations** (continued)

Doğuş Holding AŞ, had signed the Agreement with GE on 24 August 2005 for the sale of 53,550,000,000 shares representing 25.5% of the Bank issued share capital. According to the Agreement, certain affiliates, associates and real estates decided to be taken over by Doğuş Holding AŞ at a total price of YTL 958 millions calculated based on the consolidated financial statements as of 31 March 2005 of which 50% was paid at the closing date and the remaining to be paid in two equal instalments at the first and second anniversaries. Accordingly, at the date of sale of shares, the following consolidated affiliates were sold to Doğuş Holding AŞ at a total sale price of YTL 503,490 thousands; Voyager Mediterranean Turizm End. ve Tic. AŞ at a net book value of YTL 166,132 thousands (2004: YTL 166,132 thousands), Sititur Turizm taşımacılık Org. AŞ at a net book value of YTL 88,073 thousands (2004: YTL 90,857 thousands), Lasaş Lastik San. ve Tic. AŞ at a net book value of YTL 37,745 thousands (2004: YTL 42,353 thousands), Doğuş Hava Taşımacılığı AŞ at a net book value of YTL 13,805 thousands (2004: YTL 14,035 thousands) including Şahintur Şahinler Otelcilik Turizm Yatırım İşletmeleri AŞ at a net book value of YTL 6,082 thousands (2004: YTL 6,213 thousands) as its consolidated affiliate and Doğuş Turizm Sağlık Yat. İşlt. Tic. AŞ at a net book value of YTL 202,677 thousands (2004: YTL 202,729 thousands). The Bank recorded a net loss of YTL 4,942 thousands on the sale of these affiliates in the accompanying consolidated income statement.

27 **Significant event**

As required by the Agreement signed between Doğuş Holding AŞ and GE on 24 August 2005 for the sale of 53,550,000,000 shares representing 25.5% of the Bank issued share capital, certain affiliates, associates and real estates of the Bank are to be taken over by Doğuş Holding AŞ at a total price of YTL 958 millions calculated based on the consolidated financial statements as of 31 March 2005. Doğuş Holding AŞ paid for 50% sales price at the closing date and the remaining to be paid in two equal instalments at the first and second anniversaries. Accordingly, at the date of sale of shares, the Bank's certain consolidated non-financial affiliates comprised of the first group were sold to Doğuş Holding AŞ as explained in Note 26. In the second group, the equity participations, Garanti Turizm Yatırım ve İşletmeleri AŞ and Doc Finance SA at a total book value of YTL 31,679 thousands and certain real estates either in use or held for resale at a total book value of YTL 241,718 thousands as of 31 December 2005 are expected to be sold to Doğuş Holding AŞ at a total sale price of YTL 273,397 thousands.

28 Subsequent events

Corporate income tax is levied at the rate of 30% on the corporate income tax base of the year 2005. However, according to the draft "Corporate Tax Law" announced by the Ministry of Finance, the corporate tax rate will be reduced to 20% from 30% effective from the taxation periods starting from 1 January 2006. If the draft law becomes effective, after the approval of the Parliament and the President, the corporate income will be levied at the rate of 20%.

The Bank participated with US$ 300 millions share in a consortium established by various banks in order to grant a loan in a total amount of US$ 1.8 billions to a company to be incorporated by Koç Holding AŞ, Aygaz AŞ, OPET Petrolcülük AŞ, Shell Overseas Investment BV and The Shell Company of Turkey Limited.

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