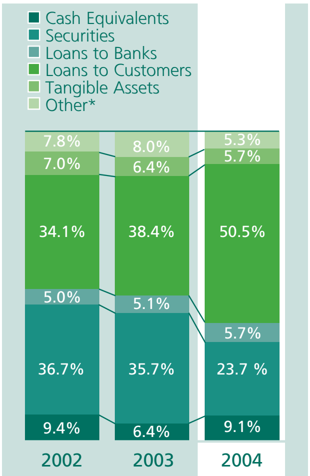
04 Annual Report

Contents

Garanti

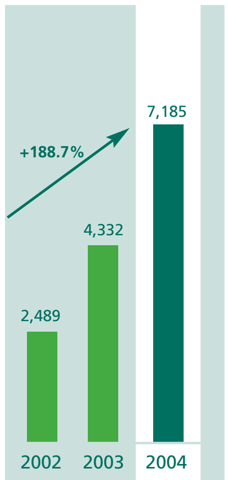
Financial Highlights

Composition of Assets
%

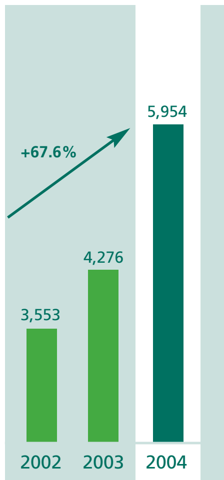


*Other assets include intangible assets, investments in associated companies, deferred tax assets and other assets

TL Loans
YTL million



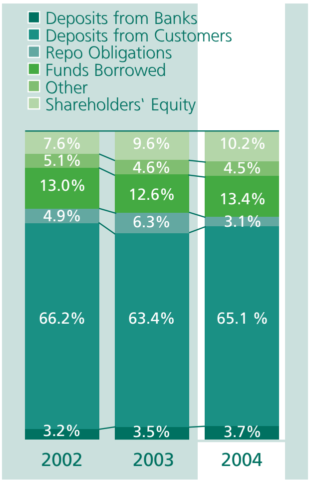
Foreign Currency Loans* US$ million



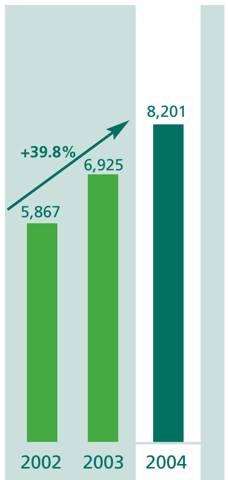
Garanti, while restructuring the balance sheet in line with disinflationary policies, has increased the share of loans in the balance sheet, thus boosting its support for the real sector.

* Foreign currency, not inflation adjusted

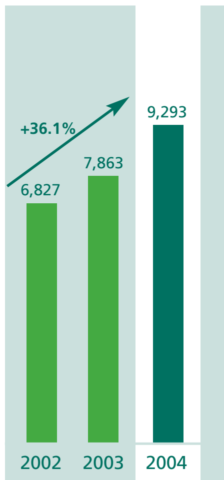
Composition of Liabilities and Shareholders' Equity %



TL Deposits
YTL million



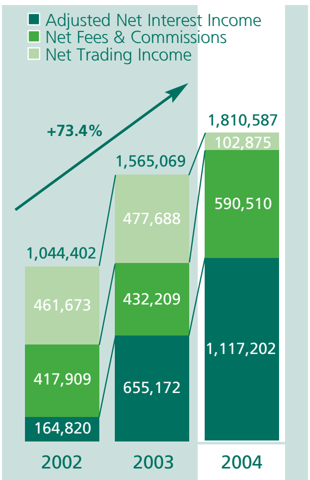
Foreign Currency Deposits* US$ million



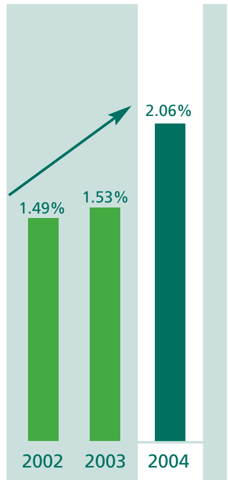
Garanti's deposit base has grown over the sector average and demand deposits – one of the most important indicators of customer confidence and service approach – have steadily increased their share in total deposits to 33.2%.

* Foreign currency, not inflation adjusted

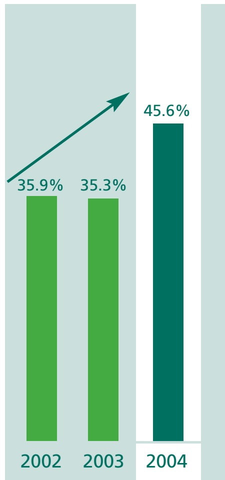
Net Banking Income of the Banking Segment
YTL thousand



Net Fees and Commissions / Average Assets %



Net Fees and Commissions / Operating Expenses %



Garanti, while increasing sustainable sources of income amid changing macroeconomic conditions, has continuously improved operational efficiency.

Consolidated IFRS financial statements of Garanti Bank and its affiliates

(US$ million)	2002	2003	**2004**
Total Assets	13,940	18,169	**22,254**
Loans and Advances to Customers	4,754	6,971	**11,237**
Contingencies	3,097	3,884	**5,203**
Deposits from Customers	9,216	11,528	**14,490**
Shareholders' Equity	1,062	1,750	**2,271**
Paid-in Share Capital	961	1,349	**1,885**
Total Operating Income	719	1,317	**1,823**
Net Income	18	380	**198**
Return on Average Assets (%)	0.12	2.10	**0.91**
Return on Average Shareholders' Equity (%)	1.63	24.36	**9.14**
Adjusted Net Interest Margin (%)	1.38	2.03	**4.69**
Cost/Income Ratio (%)	83.74	63.17	**64.67**

US$ = TL 1,598,755 as of December 31, 2002
US$ = TL 1,412,000 as of December 31, 2003
US$ = TL 1,360,000 as of December 31, 2004

ISTANBUL STOCK EXCHANGE

London STOCK EXCHANGE

Garanti Bank's shares are traded on the Istanbul Stock Exchange (ISE) under the symbol "GARAN.IS" as well as on the London Stock Exchange.

Garanti in a Nutshell

Established in 1946, Garanti (Bank) is **the third largest private sector bank in Turkey.** Garanti's **total assets amounted to US$ 22,254 million** on a consolidated basis at end-2004.

Garanti is the heart of **an integrated financial services group** that includes banking in Turkey and abroad, leasing, factoring, brokerage and portfolio management services, insurance and personal pension plans.

Garanti serves close to **five million customers** in every area of banking with a **customer-focused** approach.

Garanti serves this widespread and large customer base through **384 domestic branches,** 7,809 employees, more than 1,000 ATMs, **Turkey's best internet branch and the largest banking call center.**

Garanti is **the leading financial institution in commercial banking** in Turkey and a preferred business partner of large local companies as well as multinationals.

Garanti owns **Bonus Card, Turkey's first chip-based multi-branded credit and loyalty card program and one of Europe's biggest credit card programs.** With a 20% market share, Garanti ranks second in Turkey's credit card market.

Garanti is **the leader in foreign trade.** In 2004, Garanti once again demonstrated its competency in this area by handling 15% of Turkey's total exports and 13% of total imports.

Garanti is **the leading bank in Turkey in cash management.**

Garanti is **the most preferred provider of custody services** to international institutional investors.

Majority owned by Doğuş Group, a privately held diversified conglomerate with a 59.23% share, 40.77% of Garanti shares were publicly traded at end-2004.

Garanti Financial Services Group

Garanti Financial Services Group is constructed as a financial supermarket composed of subsidiary companies focused on providing integrated and synergetic services.

Garanti

GarantiBank International N.V.

One of the largest Turkish banks abroad
Headquartered in Amsterdam, it is active in international trade finance and private banking. (See p. 56)

GarantiBank Moscow

Garanti's brand in the Russian market
The Bank serves Russian companies as well as Turkish companies active in the Russian market and is also active in retail banking. (See p. 57)

Garanti Securities

A specialist in corporate finance
Awarded as Turkey's best brokerage house, it offers quality services to local and international customers in the fields of corporate finance and the capital markets. (See p. 58)

Garanti Asset Management

A pioneer in the sector
As one of the leading asset management companies in the sector with a 11.5% market share, the company manages mutual funds for Garanti and Garanti Securities, pension funds for Garanti Pension and Life Company and the portfolios of corporate customers. (See p. 59)

Garanti Leasing

The leader of the leasing sector
The company provides high value added leasing services to customers in various sectors with an emphasis on small and medium size enterprises. With a 12% market share it is the fastest growing company in the sector. (See p. 60)

Garanti Factoring

Garanti difference in factoring
One of the first factoring companies established in Turkey, it has a large and diversified customer portfolio. It is the sole Turkish member of IFG and FCI. (See p. 61)

Garanti Insurance

The leader in bancassurance
Active in non-life and health insurance, it serves over 350,000 customers. (See p. 62)

Garanti Pension Company

A new but well-regarded company
Active in individual pensions and life insurance, it is a successful example of bancassurance. (See p. 63)

Garanti Payment Systems

Model applications in payment systems
A leader in credit and bank cards, the company has the reputation for being the most rapid new product developer in the credit card market. (See p. 64)

Garanti Technology

The leading private technology company in Turkey
The company offers business development, security, application, systems, operations and network applications to the banking, financial services, retail and automotive sectors. (See p. 65)

Our Vision, Mission and Core Values

Our Vision:

To be the best bank in Europe.

Our Mission:

To increase in a sustainable and notable way the value we add to our customers, shareholders, employees, society and the environment through our activities, agility and organizational productivity.

Our Core Values:

- Our fundamental objective is to meet the needs of our customers with service quality that exceeds their expectations.
- We comply with all laws and regulations with no exceptions.
- We are an ethical bank and ethical bankers.
- We make the maximum effort to benefit our community, natural environment and people.
- We give priority to human intelligence and continuously invest in people.
- We believe in teamwork.
- We believe in open communications at every level and in every dimension.
- We believe in and seek to nurture the dedication and energy that makes our work creative and productive.
- We believe that everyone who works in our bank is a “leader in his/her own job”.
- We believe that the model of excellence that Garanti represents will be a model for and contribute to the Turkish economy.

Our Strategy

To generate long-term, sustainable growth and continuously create value.

Cornerstones of Our Strategy:

Customer focus
- High product and service quality and innovation
- Unmatched convenience and expertise, best execution
- Process excellence throughout the organization
- Dedication to customer satisfaction

Focus on continuous technological innovation
- State-of-the art IT infrastructure
- Constant improvement of business integrated technology

Focus on human resources
- Continuous development of capabilities and productivity
- Implementation of performance-based incentive system

Focus on disciplined growth
- Sustainable balance sheet growth with focus on real banking
- Superior asset quality
- Superior service and distribution capabilities to reach key markets and customers

Focus on sustainable sources of revenue and profitability
- Focus on high margin products and lucrative business lines
- Increase sources of non-interest income
- Emphasis on generating customer-based income
- Continuous improvement of cost of funding and free equity
- Focus on loyalty products and schemes with an emphasis on successful up and cross-selling

Focus on operating efficiency
- Focus on efficiency gains
- Focus on strong cost reduction and revenue enhancement measures

Focus on strong delivery channels
- Broad and efficient branch network
- Continuous promotion of alternative delivery channel usage

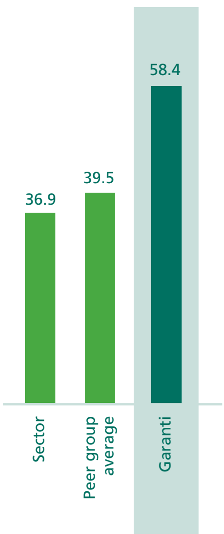
Focus on sound and integrated risk management
- Risk measurement at international standards
- Risk management of income and equity on a portfolio basis
- Proactive auditing systems

Focus on corporate governance and social responsibility
- Commitment to strong governance, ethical conduct and core values
- Assuming an active role and setting high standards for social development in order to add value to society and the environment

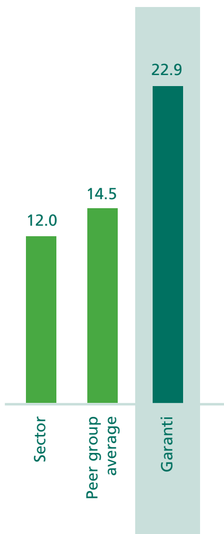
Our Main Competitive Advantages

- Customer focus
- The best technological infrastructure
- Strong multi-channel distribution strategy
- Qualified human resources
- A strong brand that commands respect at home and abroad
- Wide and efficient branch network
- The best solutions to customer relationship management
- Excellent data base and management reporting
- Centralized operations
- The best productivity ratios in the sector
- High market shares in every line of business

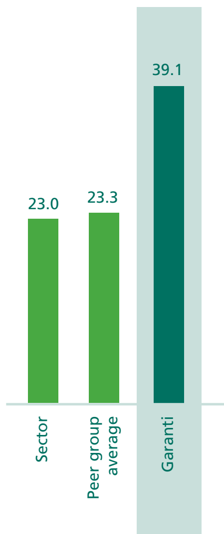
Assets per Branch (December 2004)
US$ million



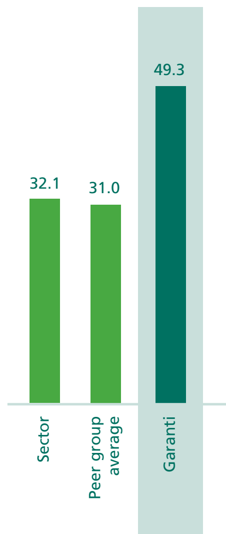
Loans per Branch (December 2004)
US$ million



Deposits per Branch (December 2004)
US$ million



Interest Earning Assets per Branch (December 2004)
US$ million



Analysis based on BRSA bank-only financials.

Garanti has been ready for low inflation environment ahead of the competition. The Bank has been:

- improving productivity per customer while at the same time expanding the customer base
- successful in up- and cross-selling due to its excellent CRM applications
- utilizing its superior technological infrastructure to deliver innovative and fast services to customers
- rapidly increasing its support for the real economy
- developing its loan portfolio in a selective and profitable manner
- maintaining the high quality of its assets
- generating revenues that are sustainable in a disinflationary environment
- increasing market share in every business line in which it is active.

Market Shares %	**December 2000**	**December 2004**	**Increase**
Total Assets	6.3	8.6	2.3
Total Loans	8.4	10.9	2.5
TL Loans	5.4	8.5	3.1
FC Loans	13.1	15.1	2.0
Total Deposits	4.4	8.9	4.5
TL Deposits	2.1	7.1	5.0
FC Deposits	6.9	11.1	4.2
Demand Deposits	6.0	12.3	6.3
Time Deposits	4.1	8.0	3.9
Number of Credit Cards	9.0	15.6	6.6
Number of Debit Cards	3.9	5.9	2.0
Credit Card Transaction Volume	7.8	20.0	12.2
Number of ATMs	4.4	7.4	3.0
Foreign Trade Share	12.0	13.7	1.7
Exports	13.8	15.1	1.3
Imports	11.0	12.8	1.8
Check Payment	7.1	9.5	2.4
Check Collection	6.3	8.0	1.7

Garanti Share Performance

Garanti shares are traded on the İstanbul Stock Exchange (ISE) under the symbol "GARAN.IS".

Garanti Bank went public in 1990. It issued American Depository Shares (ADS) in 1993, the first Turkish company to do so.

Outstanding international ADS are traded on The Stock Exchange Automated Quotations (SEAQ) of the London Stock Exchange. (As of 31 December 2004, 40.77% of Garanti shares were publicly traded.)

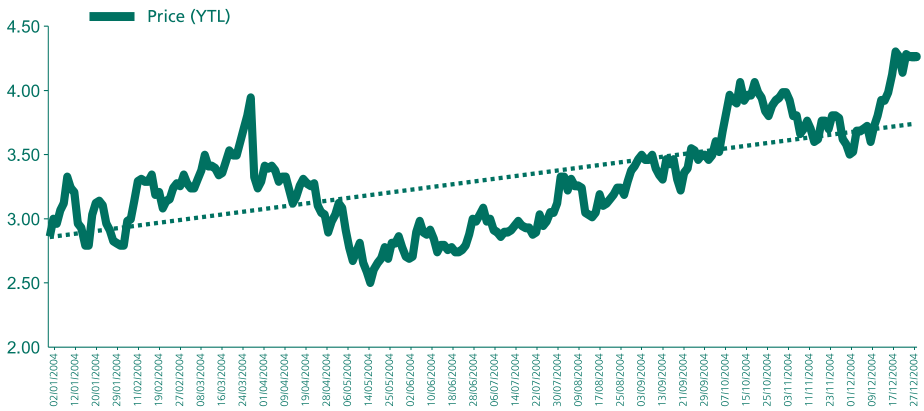
GARAN.IS / LOWEST-HIGHEST PRICES
(At closing prices)

	YTL		US$	
Date	Highest	Lowest	Highest	Lowest
'04 Q4	4.30	3.49	3.17	2.33
'04 Q3	3.55	2.86	2.37	1.98
'04 Q2	3.41	2.50	2.62	1.64
'04 Q1	3.94	2.79	3.00	2.06

Stock Price Performance Compared to ISE Index

Garanti shares out-performed the ISE index throughout the year

Stock Price Performance



Garanti's share price was up by 53% on a dollar basis at year-end 2004.

Garanti according to Bank Analysts

Turkey's best retail bank

Morgan Stanley - February 2005

- "Handling disinflation best..."
- "Garanti has the highest fee generation, which protects earnings in a declining interest rate environment."
- "Garanti has the strongest top-line growth."
- "The strength of Garanti in the credit card segment differentiates the bank from its peers and largely explains the strength of its top line."
- "We expect the bank to show the most resilient net interest margin."

UBS - January 2005

- "Garanti has consistently been a leader in retail banking in Turkey."
- "Garanti has distinguished itself with arguably the most professional management team among the leading banks in Turkey."
- Based on UBS analysis, Garanti ranks second among the top ten global emerging market banks that offer the most attractive investment opportunities and is the only Turkish bank in top five.

Merrill Lynch - February 2004

- "We prefer Garanti Bank as our choice for retail banking."
- "Garanti achieved a difficult job. The most important achievement of the bank is its high growth in the credit card market in the past three years. The bank is the only one to manage consistent and large increases every year in its market share in the card business since 2000."
- "Given the high profitability of the credit card business, Garanti Bank seems to be the only feasible bank in our universe that can be a good proxy to growing the card market."

Smith Barney/Citigroup - February 2004

- "With its strong retail and corporate banking franchise, Garanti should be a major beneficiary of the economic recovery."

HSBC - January 2004

- "Garanti Bank has the strongest mix of know-how and technology of all the Turkish banks to attack key consumer and SME segments, and a powerful marketing tool with its 'Bonus' program."

CAIB - September 2003

- "The best retail bank in Turkey: a retail powerhouse."
- "The bank has a world-class IT system, which is key to gaining customer knowledge and understanding customer profitability."
- "Specifically, the bank has the ability (1) to gain robust customer data at every touch point; (2) to join up this data and give a single-customer view to ensure a consistent treatment of customers across all channels; and (3) to make this information immediately available to front-line staff during their interaction with the customer base, both in order to deliver a better service and to facilitate proactive selling. Only a handful of banks in CEE, let alone in Turkey, can achieve this."

Garanti's Credit Ratings

(as of 31 May 2005)

MOODY'S

Long-Term Foreign Currency Deposit	Long-Term Turkish Lira Deposit	Short-Term Turkish Lira Deposit	Financial Strength	Outlook	TL Deposit Outlook
B2/Positive	**Baa2**	**Primary-2**	**D+**	**Stable**	**Stable**

STANDARD & POOR'S

Long-Term Foreign Currency Counterparty	Long-Term Foreign Currency Deposit	Outlook
BB-	**BB-**	**Stable**

FITCHRATINGS

Foreign Currency				Turkish Lira		
Short-Term	Long-Term	Individual	Support	Short-Term	Long-Term	National
B	**BB- (Stable)**	**C/D**	**4**	**B**	**BB- (Stable)**	**A (Stable)**

CAPITAL INTELLIGENCE

Long-Term Foreign Currency	Short-Term Foreign Currency	Financial Strength	Support	Outlook
B+	**B**	**BBB**	**2**	**Stable**

Garanti according to Rating Agencies

Standard & Poor's - January 2005

- "Garanti has been a leader in the introduction and use of alternative delivery channels."
- "From a commercial and technological point of view, Garanti is among the top-tier banks in Turkey."
- "Banks that have built a real customer franchise, sophisticated IT systems and efficient distribution networks should prosper. Standard & Poor's considers that Garanti is among this group of banks."

Moody's - December 2004

"We believe that Garanti can retain and build on its existing market positions for the following reasons:

- It markets products and services that provide tangible benefits to customers and partners and generate customer loyalty
- It has strong product development capabilities and marketing know-how.
- It has a well appointed branch network and advanced alternative product delivery capabilities, including ATMs, internet banking and phone banking.
- A brand that is actively managed and enjoys good recognition."

Capital Intelligence - November 2004

- "Highly efficient domestic branch network and associated distribution channels"
- "Growing international presence"
- "Excellent technology and operational systems"
- "Garanti has been able to invest heavily in infrastructure, systems, technology and personnel. Garanti has the operation to exploit growing retail and commercial banking demand which, over the long term, has enormous potential in Turkey."

FitchRatings - August 2004

- "Garanti's ratings reflect the transformation it has gone through since 2001, its enhanced profitability and funding profile, healthier asset quality and diversified business mix."
- "Extensive client base and effective CRM systems supported by state of the art technological infrastructure"
- "Overall, the Bank is well positioned to benefit from a lower inflation environment."
- "As the local economy improves and consolidation leaves fewer banks in the system, Garanti is well positioned to continue being one of the leading players in the Turkish banking industry."

2004 Developments at Garanti

Increasing support to the real sector through Foreign Trade Meetings, Anatolian Discussions, financial advisory, trade and project finance… Leading role in retail banking and multi-channel distribution strategy

January

Garanti became **the first bank in Turkey** to apply **EMV** standards to its card and POS infrastructure.

Garanti Payment Systems began cooperating with American e-commerce company DoU Want It (DUWI) and Express Cargo, making it possible for its customers to shop in the United States through 43 different internet portals.

A **Foreign Trade Meeting** was held on **Romania**.

February

Garanti acted as an arranger to secure a **project finance** facility for the sale of **Tekel's Alkollü İçkiler Sanayi ve Ticaret A.Ş.** (Alcoholic Beverages Industry), **the year's largest privatization project.**

Garanti underwrote the entire US$ 74 million in financing required for **the privatization of Gemlik Gübre Sanayi A.Ş** (Gemlik Fertilizer Industry), **the fourth largest privatization deal of the year.**

Garanti signed **loan agreements** with the **Afyon Chamber of Commerce and Industry,** the 28th such agreement the Bank has made with local chambers.

FitchRatings raised Garanti's long-term credit rating to B+.

March

Garanti discounted one-year safety box rental by 50% **for newlyweds and new parents**.

April

Garanti introduced **a product designed to meet the financial advisory needs of Small and Medium Size Enterprises: GANİ.** An electronic cash management software, GANİ was developed in cooperation with Microsoft and Boğaziçi University.

Garanti participated in the project finance facility for the **privatization of Bursagaz** (Natural Gas Distribution Company), a milestone in the liberalization of the energy sector and the year's second largest privatization deal and arranged a **project finance facility** for the Undersecretariat of Treasury to be utilized for the Bursa Ring Motorway Project.

Garanti conducted the year's first Build-Operate-Transfer project and secured **project financing** for the construction of the new **International Terminal at Antalya Airport,** Turkey's most important tourist portal.

Garanti met with SMEs in Kahramanmaraş and Adana within the framework of **"Anatolian Discussions",** a program designed to reach SMEs throughout Turkey to better understand their needs and serve them more efficiently.

May

The **Foreign Trade Meeting on "The Textile Sector and the Chinese Reality"** looked at solutions to the lifting of quotas in 2005 and the future of the Turkish textile sector. As the only Turkish bank with a representative office in China, Garanti shares its impressions with its commercial customers.

Garanti Anatolian Discussions continued **with meetings in Antalya**.

June

Garanti celebrated its **58th anniversary.**

Garanti secured a total of **US$ 325 million** for international capital markets through a securitization, which, at the date of signing, **the lowest pricing for an emerging market and, at eight years, the longest term for a non-sovereign borrower.** The transaction marked Ambac's first involvement in Turkish market and was the first deal shared by MBIA and Ambac for an emerging market.

Garanti was the only bank to secure a confirmed **letter of guarantee** for the Ministry of Transportation **Marmaray Tunnel Crossing Construction Project**.

Garanti arranged a **syndicated loan** for the Undersecretariat of Treasury for the completion of the **Muratlı and Borçka Dams**.

Foreign Trade Meetings began a series on **"Regulations and International Payment Methods"** to inform companies of recent changes in regulations.

July

Garanti completed a record **syndication of EUR 450 million, the biggest ever Turkish deal rate to a private entity in U.S. dollar terms** (US$ 562 million) at the rate of exchange prevailing on the date of the transaction.

Garanti opened its **third overseas branch in Turkish Republic of Northern Cyprus in Girne.**

Garanti introduced loans for **newlyweds and private office loans for physicians**.

S&P raised Garanti's outlook to stable.

Foreign Trade Meetings series on "Regulations and International Payment Methods" continued with a new meeting in İstanbul.

Garanti celebrated its 58th anniversary in June 2004

August

Garanti arranged a **syndicated loan of US$ 831 million** for the Undersecretariat of Treasury for the completion of **the Black Sea Coastal Highway,** the largest commercial loan ever to an infrastructure project in Turkey.

Garanti held a **meeting** on regulations **in Trabzon,** the first such meeting to be held in the Black Sea port city.

S&P raised Garanti's credit rating from B to B+ and affirmed its stable outlook.

FitchRatings raised Garanti's long-term credit rating to A.

September

Garanti Call Center won the right to participate in the **"Success Stories"** panel jointly with Ford and Arçelik at the 2004 IT Summit.

Garanti secured **financing for the privatization of Eti Krom A.Ş.** (Eti Ferrochrome Industry), thus providing acquisition financing for four of the year's five largest privatization projects.

Bonus Card offered installment and bonuses to non-member merchants for the first time in Turkey through the **"Select a Partner"** campaign.

The debut of **&Club** offered Shop&Miles cardholders **prestigious concierge services.**

Garanti introduced the latest model POS machines and **the first musical POS machines** to the market.

Moody's raised Garanti's long-term foreign currency deposit rating from B3 to B2 and confirmed that its outlook was stable.

Garanti Anatolian Discussions continued with **meetings in Elazığ and Malatya**.

October

Garanti established **Affluent Banking** to provide more effective service for upper income customers through personalized investment advisory and banking services along a customer focused model.

Garanti's finance portal, **paragaranti.com** began to publish ISE statistics and daily news.

Garanti initiated 24x24x24 (24 months term **consumer loan** up to 24 million YTL approved in 24 hours) consumer loans.

Garanti structured **Turkey's first electricity export transaction.**

The delivery of the first ship built with the **project finance** scheme structured in 2003 demonstrated the success of Garanti's support for the growing business volume and financing needs of the ship building industry.

Meetings were held in **Edirne** and **Kütahya** within the framework of **Garanti Anatolian Discussions.**

November

Garanti's Customer Satisfaction Department extended its service to Garanti Insurance and Garanti Pension and Life Company.

A large number of regional companies participated in the **Foreign Trade Regulations Meeting** held **in Bursa.**

Garanti opened **a branch in Lefkoşa, Turkish Republic of Northern Cyprus.**

Capital Intelligence raised Garanti's long-term foreign currency credit rating to B+ and its financial strength rating to BBB.

December

Garanti increased its focus on SME banking and established this as **a new business line** to offer its customers more customized and value added services.

Garanti completed a problem-free **transition to YTL in just 45 seconds** thanks to its thorough preparation for adoption of the new currency and strong technological infrastructure.

Garanti secured a syndicated facility for **US$ 600 million, the largest syndication of the year for a Turkish bank.**

Garanti accessed a **10-year direct loan** from National City Bank for **US$ 15 million.** The transaction is significant for its tenor and the fact that it was secured without structuring or collateral with the backing of OPIC for the purpose of initiating mortgage business in Turkey.

Garanti completed work on **g'bank (Teenage Banking)** and **Ünibank (University Banking)** to be launched in 2005 as part of its life cycle banking.

Garanti and İşbank agreed to start **the first joint POS applications** in order to reduce operational costs and increase POS productivity.

Garanti became **the first Turkish bank to quote transaction prices and thus buy and sell Turkish foreign currency denominated government securities on Bloomberg Trading Platform.**

Moody's raised Garanti's financial strength rating (FSR) to stable due to a continuous increase over the last three years in profitability and free capital levels.

Awards - 2004

Local and international recognition for Garanti's continuing record of achievement

The awards are a source of pride for the Garanti team.

Bonus Card - European Co-Brand Partner of the Year
Bonus Card, Turkey's first multibranded EMV chip credit card program, won the "2004 European Co-Brand Partner of the Year" award given by MasterCard Europe in the "Long Term Achievement Award" category. An independent jury selected the program from over 2,500 MasterCard co-brand programs in Europe.

Global Finance - Turkey's Best Internet Bank
garanti.com.tr was chosen as "Turkey's Best Internet Bank" by Global Finance for the fourth consecutive year. Global Finance voted Garanti "Best Corporate Internet Bank" and "Best Retail Internet Bank" for 2004, evidencing the leading position of Garanti in internet banking.

Golden Spider - Best Financial Services
garanti.com.tr won the "Golden Spider Web Competition Grand Prize" in the "Finance" category for the third consecutive year. It also won the "Best Financial Services" award in the "Sector" category. Paragaranti.com was again voted the "Third Best Finance Site" as Turkey's most comprehensive and functional finance portal.

Garanti Call Center - EFQM Committed to Excellence
EFQM (European Foundation for Quality Management) presented Garanti Call Center with the "Committed to Excellence in Europe" award, making it the first Call Center in the world to receive EFQM. The award was given for achievement in the areas of contribution to affiliated company, leadership, sales performance and efficiency/cost management.

Ahmed Dallı Banking Competition - Cardless Credit Card Payments for ATMs
Garanti won first prize in the Ahmed Dallı Banking Competition organized by Turkish Bank for its cardless credit card payment applications for ATMs.

Euromoney Institutional Investor - Best Project Finance Bank in Southeast European Region
Emerging Markets, published by Euromoney Institutional Investor, voted Garanti the "Best Project Finance Bank in Southeast Europe in 2004", citing Garanti's experience and commitment. The award was based on the recommendations and comments of investment banks and credit rating agencies.

EuroWeek - The Year's Best Turkish Syndicated Transactions
The one-year US$ 600 million syndicated finance facility secured by Garanti was voted "Best Turkish Syndicated Transaction" by EuroWeek.

Global Finance - Best Sub-Custodian in Turkey
Global Finance selected Garanti as the “Best Sub-Custodian in Turkey” for the second time from among 35 custodian banks in 35 countries and eight regions, based on the comments of the world’s leading financial institutions.

Global Custodian - Turkey’s Best Bank for Custody Services
Global Custodian awarded Garanti with the “Excellence in Industry: Best Agent Bank in Turkey” prize. Garanti received the highest ratings for the eighth consecutive year, making it the “top-rated” bank to date among banks in Turkey offering custody services to international institutional clients. The survey with 4,300 respondents from various countries was composed of nine service categories, where Garanti received the highest ranks in the Turkish market from a client group of global custodians and international broker dealers.

Citigroup, DB, BONY - Straight Through Processing Excellence
Garanti Bank qualified for the “Citigroup Quality Recognition Award” by achieving over 93% straight through processing rate on US Dollar payments sent to Citibank New York during the year 2004. Garanti also received the “Straight Through Processing Excellence Award“ from Deutsche Bank and Bank of New York for close to 100% error-free international payment transactions.

Active Academy - Retail Customer Satisfaction in Banking
Garanti received Active Academy’s “Retail Customer Satisfaction Award in Banking”.

Active Academy - Best Bank in Foreign Trade
Garanti was named the “Best Bank in Foreign Trade” by Active Academy.

TOSYÖV - The Most Successful Bank Serving SMEs
Garanti was named the “Most Successful Bank Serving SMEs” by TOSYÖV (Turkish Foundation for Small and Medium Size Enterprises, Professionals and Managers).

Microsoft - Small & Medium Size Business Development Award
Microsoft Turkey presented Garanti Bank with the “6th Annual Small & Medium Size Business (KOBİ) Development Award”, citing the contribution Garanti’s Cash Management Package (GANİ) has made to the utilization of information technology by small enterprises.

Capital - Most Admired Company in the Banking Sector
Garanti was selected as the “Most Admired Company in the Banking Sector” for the fourth year in a row as well as “The Fifth Most Admired Company in Turkey” by Capital, a respected Turkish business magazine, in its annual listing of the most admired companies as well.

Dünya - A Company that Put its Stamp on the Banking Sector
Dünya, a Turkish business daily, named Garanti among the companies that put their stamp on the banking sector in its annual survey of “The Year’s Most Successful Companies by Sector”.

ECF - Platform Garanti Contemporary Art Center
Platform Garanti Contemporary Art Center received the “European Cultural Foundation Special Prize” on the occasion of the 50th anniversary of the Foundation for putting Turkey on the map for contemporary art.

The full list of awards Garanti received in previous years is available at www.garantibank.com.

Chairman's Message

Ferit Faik Şahenk
Chairman

The right team has implemented the right strategy at the right time.

Our most successful year in the last decade

2004 was the most successful year for Garanti since 1994. The operational and financial results presented in this report validate this remarkable performance and show clearly that this success is the natural outcome of the right team implementing the right strategy at the right time.

Garanti is one of the most successfully managed banks in Turkey today.
The country and the banking sector have changed exactly as we foresaw in the mid-1990s; and the change strategy we started to apply at the time has enhanced Garanti's already strong position in the sector.

A new era of confidence

Turkey made enormous progress in 2004. The positive overall economic climate brought confidence in the economy to the highest level in recent years. With inflation in the single digits, economic growth has entered the track of becoming sustainable. Political and economic stability set the tone for an upsurge in domestic demand, buoyant domestic sales and record exports.

The historic decision taken by the European Union in December to start entry negotiations with Turkey by October 2005 opened new horizons for the country.
This long awaited validation of Turkey's European aspirations set new benchmarks for Turkey, thus encouraging further economic, political and social reforms.

Winds of change

Banking was directly and positively affected by these developments. Evolving economic realities compelled banks to concentrate on lending and customer acquisition rather than on trading government securities.

The change in macroeconomic conditions has been felt throughout the country.
All economically active segments have come to understand that the only way to prosper in the new Turkey is to increase productivity and operate more efficiently.

It has become obvious that only those businesses that have the ability to adapt to change, respond to customer expectations with appropriate products and services and attain economies of scale, will succeed and profit.

The ability to make a difference in the lives of customers will drive Garanti forward in 2005 and beyond.

Understanding customers in order to make a difference in their lives
Garanti's accomplishments in recent years rest on three basic principles:

- understand the specific needs of various customer segments
- establish long-term, multi-faceted customer relationships
- offer products and solutions that create a difference in the lives of customer through service channels they want to use

The ability to make a difference in the lives of customers will drive Garanti forward in 2005 and beyond. By leveraging its advantages and strengths, Garanti seeks to extend its franchise and thus produce value for all its stakeholders.

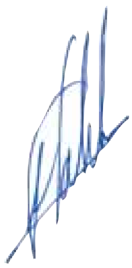
The choice of millions
Garanti serves millions of people from all walks of life and in every cycle of life–from children and students to working people to retirees, from merchants to small entrepreneurs to large corporations–with a wide variety of innovative products and services.

In the years ahead, all our thinking and decisions will revolve around one central theme: how to serve our customers more imaginatively. We are committed to serving an even larger group of customers more efficiently with more and better products.

Honing our strategy to meet our objectives
As Turkey becomes more complex and sophisticated, Garanti will use its intelligence, experience and local knowledge to stay ahead of the market. A strong financial structure, effective management and organizational productivity endow Garanti with the agility to hone its strategy according to changes in the marketplace, making the gains we have made in 2004 sustainable in the years ahead.

Garanti is committed to creating value for its customers, shareholders, employees, society and environment in a continuous and notable way. This will continue to be the Bank's guiding mission in 2005.

On behalf of the Board of Directors and all shareholders, I would like to extend my appreciation to everyone who works for Garanti, for it is your ability and dedication that has made the Bank what it is today. I would also like to thank our customers, correspondents and business partners for the confidence you have shown in Garanti over the years.



Ferit Faik Şahenk
Chairman

Board of Directors

FERİT FAİK ŞAHENK
Chairman
Doğuş Group of Companies and Garanti Bank
1964. A graduate of Boston College, Marketing and Human Resources Department, Mr. Şahenk completed the Owner Management Program (OMP) at Harvard Business School. He was the founder of Garanti Securities and served as its Vice-Chairman. He serves as the Chairman of Doğuş Automotive and the Chairman and CEO of Doğuş Group.

SÜLEYMAN SÖZEN
Vice Chairman
1946. A graduate of Ankara University School of Political Sciences, Mr. Sözen worked in the Finance Ministry as an account specialist. Since 1981, he has worked in various posts in the private sector. He serves on the Board of Directors of various Doğuş Group and Garanti subsidiary companies.

AHMET KAMİL ESİRTGEN, PhD
Member of the Board
1945. A graduate of İstanbul University School of Economics, Mr. Esirtgen earned an MBA at Stanford University and a PhD from İstanbul University School of Business Administration. Following his academic career, he worked in various positions in the private sector. He joined Doğuş Group in 1987 and served as president of the financial group. He serves on the Board of Directors of several Garanti subsidiary companies and other private sector organizations.

SİNCAR TOKER
Member of the Board
1940. A graduate of West London College, Mr. Toker worked in senior managerial posts in international banks. He serves as a consultant to the Doğuş Group as well as an advisor of strategic restructuring to several international companies and banks.

ERGUN ÖZEN
Member of the Board
President and CEO
1960. A graduate of New York State University School of Economics, Mr. Özen completed the Advanced Management Program (AMP) at Harvard Business School. He is Vice-Chairman of the Banks Association of Turkey, Chairman of Garanti Technology and Garanti Payment Systems and a board member of Garanti Securities, Garanti Asset Management, GarantiBank International, Garanti Bank Moscow and the Society for the Protection of Nature.

A. CAN VERDİ
Member of the Board
1961. A graduate of Dokuz Eylül University School of Law, Mr. Verdi earned an M.A. in Law at Boston University and completed Advanced Management Program (AMP) at Harvard Business School. He worked in various law offices. He serves on the Board of Directors of Garanti Technology, Garanti Payment Systems and various Doğuş Group companies.

M. CÜNEYT SEZGİN, PhD
Member of the Board
1961. A graduate of Middle East Technical University in Business Administration, Mr. Sezgin earned an MBA from Western Michigan University and PhD from İstanbul University School of Economics. He worked in managerial positions in various private sector banks. Regional Manager for Global Association of Risk Professionals and Chairman of Turkish Association of Risk Managers.

Garanti Bank is a subsidiary of Doğuş Group.

CEO's Statement

Ergun Özen
President and CEO

Garanti Bank performed exceptionally well in 2004, emerging as a chief beneficiary of Turkey's new economic stability. Recalibration of the balance sheet, adaptability and creativity have positioned Garanti in the top-tier of the banking sector not only in Turkey but also in Europe.

Garanti posted 22.5% growth in US$ terms in 2004 with total consolidated assets increasing to US$ 22.3 billion. Net operating income on a consolidated basis reached YTL 877 million (US$ 645 million), increasing by 39% in real terms over 2003 while net banking income increased by 15.7% in real terms, reaching YTL 1,811 million (US$ 1,331 million).

A chief beneficiary of Turkey's new economic stability

Garanti has achieved this remarkable growth by expanding its presence in the commercial and retail segments. Net cash loans, having increased by 36.4% in real terms, now make up 50.5% of total assets compared to 38.4% the previous year. TL deposits increased by 18.4% in real terms to YTL 8,201 million while foreign currency deposits increased by 18.2%, reaching US$ 9,293 million. Demand deposits showed the highest increase in the sector and now make up 33.2% of total deposits, more than any other bank, reflecting customer trust as well as the success of our sales efforts.

Shareholders' equity increased by 9.8% in consolidated real terms to reach YTL 3,088 million (US$ 2,271 million) at year-end 2004. In line with increasing share of interest earning assets, free equity improved to US$ 217 million and the Bank's capital adequacy stood at 16.8% (BRSA, bank-only), much higher than the official requirement, enabling Garanti to grow without putting pressure on capital requirements. The noteworthy increase in free equity base achieved during the year due to disposal of non-core assets has boosted financial performance by helping to keep margins high.

Higher business volume, market share and profits

In 2004, Garanti was able to increase its business volume, market share and profitability across the board, particularly in retail loans and credit cards, by developing and delivering customer focused products in a quality manner. During the year, the Bank handled 35.5 million transactions totaling US$ 249 billion for close to five million customers, evidence of its power, size and operational efficiency.

The ratio of net fees and commissions to average assets went up to 2.1% in 2004 from 1.5% in 2003, signaling Garanti's increasingly sustainable sources of income and customer focused growth strategy. The Bank has been able to successfully differentiate itself from the competition in a number of value added niches. This is due to the depth and breadth of its customer relationship database, imaginative thinking, motivated sales force, unequalled service quality and advanced technological capabilities.

Number one bank in efficiency ratios

The ambitious branch expansion project continued throughout the year, enabling the Bank to penetrate new markets and acquire new customers all over the country.

Network expansion will continue next year, transforming Garanti into a 420-branch national bank by the end of 2005. Impressive productivity has accompanied physical growth. Garanti is the most efficient member of the Turkish banking sector in terms of assets per branch, loans per branch, deposits per branch as well as interest earning assets per branch.

This makes Garanti a formidable competitive force. Garanti has developed the economies of scale, topnotch people, teamwork, products, services, technology and corporate culture to sustain profitability through long-term growth in a low inflation environment.

Early planning for new economic realities bear fruit

Turkey is experiencing a period of fundamental realignment of market forces. The rules of economic activity have radically changed. This has been felt most strongly in the banking sector, long the beneficiary of high inflation and interest rates.

Garanti started planning for the new realities ten years ago by studying the experiences of other high inflation countries and deciding how to reposition the Bank to flourish in a low-inflation environment. Radical long-term projects, initiated to improve systems, processes and technology to enable growth in all segments of the market while cutting costs are a testament to the Bank's vision, organizational effectiveness and management depth.

With early recognition of the potential impact of disinflationary trends on margins, Garanti focused attention on generation of fees and commissions. Efforts over the years have endowed Garanti with the processes, systems and delivery channels to serve various market segments with differentiated products, increased efficiency and reduced operational costs. Extensive investment in technology has enabled Garanti to channel much of its business to its internet branch, call center and ATMs, reducing operational expenses to a significant degree. Pioneering application of customer focused strategies and customer segmentation has brought Garanti higher market shares in every business line in which it competes.

Continuing emphasis on technology, product management and customer relationship management will drive the development and introduction of new products for mass consumption in the years ahead. The recalibration of the balance sheet in favor of customer lending and operational profits sets a new agenda which the Bank is well prepared to meet.

Targeted growth in all segments, especially retail and SME banking

In this new agenda, product quality and customer loyalty–two intertwined concepts that indicate sustainability of revenue streams–are key determinants of success. With this in mind, Garanti has chosen to compete on quality rather than price and to single out lucrative market niches in which to grow rather than pursuing short-term, one-off business.

The Bank values the opinion of customers and takes the issue of customer satisfaction very seriously. Garanti seeks to win the approbation of customers for its products and services, for positive customer response is the cement that builds loyalty over time.

Value creation for long-term staying power

Garanti aspires to set new benchmarks for the Turkish banking sector in terms of sustainability, quality, innovation, competitiveness, international standing and value creation. By creating value, the Bank seeks to make a distinct and beneficial contribution to the well-being of its customers, country, employees and shareholders.

The ability to make a difference stems from the right structure, strategies and management. Garanti has proven that it has the dynamism, flexibility and boldness to dare to do new things… to establish new agendas… to steer a different course… and thus set new standards of achievement.

Turkey's penetration ratios remain far below that of more developed countries, making the future of banking extremely promising. Garanti envisions becoming a 500-branch bank by the end of 2006, serving a large and diversified customer portfolio with value added high quality products and services. Higher business volumes will generate a bigger share of the market in all key areas, fueling customer-based growth in assets and income.

Garanti is committed to growing in all segments, with special attention to retail and SME banking, by creating lasting value.

Clearly enunciated and understood strategy and goals

2004 marked the transition to a new period of stable growth in Turkey–an era in which Garanti is positioned to make significant gains due to implementation of a long-range, customer centered growth strategy that seeks to create sustainable value over time.

The success of the Bank this year has given rise, not to complacency but to greater ambition. Garanti is more determined than ever to merit the trust of the customers who choose to work with us, the employees who have decided to build their careers with us and a city and country that look to us to enhance the quality of life.

The momentum attained by Garanti in 2004 is the outcome of the valuable guidance of our Board of Directors, the tireless efforts of our uniquely talented management team and the dedication of our motivated staff.

I would like to extend my thanks to the Board of Directors, customers, international business partners and the entire Garanti team for contributing to our ability to produce lasting value.

Ergun Özen
President and CEO

1
ERGUN ÖZEN
President and CEO
Please see his short biography on page 21.

2
KUBİLAY CİNEMRE
Executive Vice President
Treasury and Investment Banking
1966. B.A. and M.A. from Boğaziçi University in Economics. He worked in various managerial positions in domestic and international banks. Currently, he serves on the boards of Garanti Securities, Garanti Asset Management and Garanti Real Estate Investment Company.

3
TOLGA EGEMEN
Executive Vice President
Financial Institutions and Corporate Banking
1969. Graduate of Middle East Technical University in Mechanical Engineering. He worked in managerial positions in various private sector banks. Currently, he serves on the board of Garanti Securities.

4
ALİ FUAT ERBİL
Executive Vice President
Retail Banking, Human Resources and Channel Management
1968. A graduate of Middle East Technical University in Computer Engineering, he earned an MBA from Bilkent University and PhD from İstanbul Technical University in Banking & Finance. He worked in managerial positions in various private sector companies and banks. Currently, he serves on the boards of Garanti Payment Systems, Garanti Asset Management, Garanti Insurance, Garanti Pension and Life Company and Garanti Pension Fund.

5
HÜSNÜ EREL
Executive Vice President
Technology and Operational Services
1952. Graduate of İstanbul Technical University in Electronic and Communications Engineering. He worked in managerial positions in various private sector banks. Currently, he serves on the boards of TANSAŞ, Garanti Payment Systems and Garanti Technology.

6
TURGAY GÖNENSİN
Executive Vice President
Commercial Banking
1962. Graduate of Boğaziçi University in Business Administration. He worked in managerial positions in various private sector banks. Currently, he serves on the boards of Garanti Technology, Garanti Insurance, Garanti Payment Systems and GarantiBank International.

7
NAFİZ KARADERE
Executive Vice President
SME Banking
1957. Graduate of Ankara University in International Relations. He worked in senior managerial positions in various private sector banks. Currently, he serves on the boards of Garanti Insurance, Garanti Pension and Life Company and Garanti Payment Systems.

8
ADNAN MEMİŞ
Executive Vice President
Support Services
1955. B.A. in Economics and M.A. in Business Economics from İstanbul University. He is the Chairman of the Banks Association of Turkey's Financial Restructuring Working Group and serves as either chairman or member of the board of various Garanti subsidiary companies.

9
MURAT MERGİN
Head of Board of Strategic Planning
1963. Graduate of City University of New York. He worked in managerial positions in various private sector banks prior to joining Garanti in 1994.

10
M. CÜNEYT SEZGİN, PhD
Member of the Board
Head of Risk Management and Internal Audit
Please see his short biography on page 21.

11
MEHMET SEZGİN
General Manager
Garanti Payment Systems
1962. A graduate of Middle East Technical University in Business Administration, he earned an MBA from University of Massachusetts. He worked in various private sector banks and Europay International as the Head of Eurasia Region. He serves on the board of directors of MasterCard Europe and Interbank Card Center (BKM).

12
ALİ TEMEL
Executive Vice President
Loans
1968. Graduate of Boğaziçi University in Electrical-Electronic Engineering. He worked in managerial positions in various private sector banks. Currently, he serves on the board of directors of Garanti Leasing and Garanti Factoring.

13
SEMA YURDUM
Executive Vice President
Management Services
1957. Graduate of Boğaziçi University in Business Administration and Harvard Business School's Advanced Management Program (AMP). She joined Garanti as an assistant specialist and worked in various managerial positions in the Bank. Currently, she serves as either chairman or member of the board of directors of various Garanti subsidiary companies.

Senior Management

2004 Business Review

Garanti is the most efficient and productive bank in Turkey.

In 2004, Garanti achieved a great deal:

- Growth in retail and commercial banking continued, raising market share, customer penetration and profitability.
- 2004 was declared the Year of SME Banking. High quality problem solving products were developed for Small and Medium Size Enterprises, the backbone of Turkey's economy. In order to focus on this important segment, a new business line was established separate from retail, commercial and corporate banking.
- The outlook of Corporate Banking was redefined to offer more sophisticated, personalized and competitive services in line with market conditions and customer requirements.
- Garanti strengthened its position in the credit card market even further. Garanti's share in Turkey's credit card market is 20%.
- The record-breaking amount of syndicated facilities demonstrated Garanti's high profile in international markets.
- The domestic branch network increased to 384 with the opening of 41 new branches.
- The Bank continued to serve its customers with the latest technologies, enriching the functions of alternative delivery channels with functional and easy to use products.
- Productivity per branch ratios remained the highest in the sector.
- The Bank continued to listen to customers to develop the most appropriate solutions to their needs and thus make a difference.

Garanti is positioned to be a pivotal player in banking in the years ahead due to its strong franchise value, innovative and popular products such as Bonus Card, expanding nationwide branch network, efficiency and per branch productivity.

For its part, Garanti is determined to stay ahead and indeed lead changes in the market, building on its management capabilities, capital strength, technology, integrated service and customer focused business model to generate lucrative and sustainable growth and thus create value for its customers, shareholders, employees, community and environment.

Garanti is the favorite business partner of large local and multinational corporations.

Corporate Banking

A favored business partner
Garanti is the principal business partner of major local and multinational corporations active in Turkey. The Bank continued to be a force in this market segment, reflecting the strength of its customer focused approach, technology, service quality, product engineering abilities and respected corporate identity.

The corporate customers of Garanti are active in automotive, food and beverage, chemical, household appliances, textiles, petroleum products, telecommunications, finance, energy, iron & steel industries as well as international construction and retail businesses.

Cash management services
Garanti develops tailor-made solutions to the suppliers and distributors of corporate customers, providing these firms with a full range of banking products and services, in order to serve the entire commercial cycle of large corporations. The excellence of the technological infrastructure and service channels contributes to the superiority of Garanti's cash management services.

The Bank's reliable, fast and low-cost collection and corporate payment services are used by an increasing number of customers. In 2004, cash management services continued to play a very important role in the development of the corporate banking business line and the increase in non-interest income.

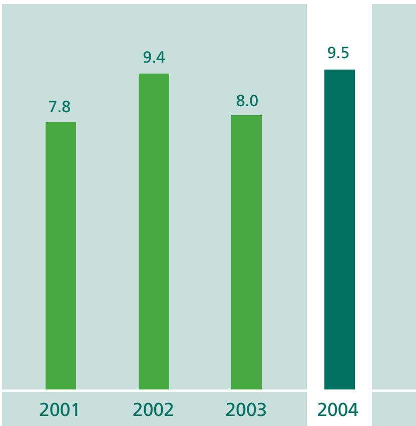
A new perspective on corporate banking
In December 2004, Garanti redefined its corporate customer base. The redefinition process is intended to further improve service quality, efficiency and productivity by taking into account new market conditions and the latest global banking applications.

Through this restructuring, Garanti aims to refine the corporate banking business line in order to provide more sophisticated, tailor-made and competitive services to customers and thus strengthen its position in this area.

2005 and beyond
Garanti is determined to utilize its competitive advantages to remain a strong presence in the corporate banking business line. The Bank's priority is to grow to be the "house bank" of its clients.

Multinationals entering the Turkish market form an important target group for Garanti's Corporate Banking division. The Bank anticipates that foreign capital will begin to invest in Turkey in rising numbers parallel to the sustainability of economic

Cash Management - Check Payment %



The undisputed leader in commercial banking

developments and the rise in confidence in the country. Garanti is the first choice of foreign capital entering Turkey in the banking arena due to its years of experience in working with well-known multinational corporate names. This positive investment environment will certainly provide the Bank with new opportunities.

Garanti has increased its market share significantly in corporate banking due to its leadership in trade finance, cash management and project finance activities. Looking ahead, the Bank anticipates that rising demand for mergers and acquisitions, privatizations, IPOs and corporate finance will contribute to the further growth of corporate banking activities.

Commercial Banking

Rapid growth
Garanti is the undisputed leader in commercial banking in Turkey.

The Bank generated rapid growth in commercial banking in 2004. Commercial banking now accounts for 36% of the bank's balance sheet. Garanti provides banking products and services to commercial companies active in a variety of sectors, component manufacturers and the suppliers and distributors of large corporations.

Higher business volumes with existing customers as well as new customer acquisition through newly opened branches contributed to growth in commercial banking in 2004. The number of customers increased by 5% while the number of credit customers increased by 19%.

Garanti posted a 50% increase in commercial loans in 2004. The volume of TL loans climbed 53% while that of foreign currency loans rose by 49%.

Key sectors
Garanti has a well-entrenched market position in several key sectors, beginning with tourism.

Garanti is the house bank of 48% of tourism service providers in the major tourist areas of Mediterranean and Aegean coasts. The Bank provides financing to customers for a variety of projects, including hotel redecoration and expansion. In 2004, Garanti supplied 33% of the financing utilized by private investors in tourism areas.

The number one intermediary bank for tourism revenues in Turkey, Garanti handled 52% of tourism related foreign currency inflows from travel agencies and tour operators abroad.

Garanti has been involved in the ship building industry for several years. In 2004, the Bank supported this fast growing sector with financing for 23 new ships. The majority of these ships are orders from foreign companies.

Among agricultural products, hazelnuts are Turkey's most important export product with US$ 900 million in annual exports. In 2004, Garanti continued to play an active role in this sector by supplying financing to hazelnut producers and exporters, 25% of foreign currency inflows.

Garanti consolidated a 55% share in the gold sector which exported a total of US$ 710 million worth of gold products in 2004. Garanti has leveraged its first mover advantage, international esteem and international business contacts to become the dominant bank in this rapidly growing sector.

A significant contribution to the funding structure
Deposits of commercial customers continued to increase in 2004. At year-end, commercial customers accounted for 33% of demand deposits and 22% of total deposits.

New and original products
Garanti has earned a reputation for the development and delivery of new and original products. The introduction of innovative, technology intensive products played an important role in acquiring new commercial banking customers.

Products such as direct collection systems, smart card and Partner Card have helped deepen relations with companies that work through distributors. These products, by building a bridge between large industrial companies and small enterprises, have been a decisive factor in the integration of distributor networks into the banking system.

The future of commercial banking
Garanti implemented a new segmentation system for commercial banking at the end of 2004. This will enable the Bank to focus on a smaller number of customers and further develop a seasonal perspective in addition to the existing sector outlook. Delivery of products that meet the specific needs of companies will continue.

The Bank secured financing totaling US$ 300 million for commercial customers for privatizations, mergers and acquisitions. In 2005, Garanti targets increasing these efforts to a wider customer base in order to benefit to the maximum degree from synergy created with our financial subsidiaries.

This growth will bring new customers as well as intensify relationships with existing customers. A broad service network, diversified range of products and services, commercial banking experience are key competitive advantages for Garanti in this business line.

Comprehensive solution packages and financial advisory services

SME Banking

Dynamism of small and medium size enterprises
SMEs in Turkey form the most dynamic sector of the economy and create a significant proportion of the labor force.

In recent years, Turkish banks have made an effort to offer solutions to the financial needs of tradesmen and small business owners. As a result, competition in the area has risen sharply.

Unique products for a unique sector
Garanti was one of the first banks to approach SMEs directly with new and specially designed banking products and services.

SME banking at Garanti started in 1999; since then Garanti has become one of the favorite banks of SMEs. Today, Garanti is a leader in this field due to strong market penetration and high transaction volume. After declaring 2004 the Year of SME Banking, Garanti broadened its definition of SME banking in line with market conditions and changing customer needs and focused on providing original solutions and services to this business group.

Garanti serves 425,000 small and medium size enterprises all over the country.

Solutions not products
The propensity of SMEs to use bank products and services in Turkey has traditionally been low. Research into the expectations and needs of this unique group of customers showed that the actual needs were comprehensive solution packages and services designed with a financial advisory approach.

SMEs differ from commercial and corporate customers in terms of their scale, employment and management structure. They need a long-term, problem-solving partner who listens and gives importance to them, with whom they can share their ideas and act together with, and if necessary, share their risk.

With this knowledge, Garanti developed a new service model for SMEs. The results have been overwhelmingly positive.

Product packages that meet the particular needs of each business group

GANİ: Guaranteed cash management
GANİ is a banking package–a virtual finance manager that meets the needs of small enterprises.

The biggest and most common complaint among SMEs is their need for financial advisory and management. Taking this as a starting point, Garanti designed a product-service package named GANİ that helps SMEs plan and implement all their financial needs. The cash management package provides business owners, partners and managers with an easy to use guide that includes a guide to basic financial knowledge and software that assists them in financial and price planning.

GANİ is now in use by 17,500 customers–a very successful debut. In 2005, steps will be taken to enrich this package by adding new operational modules.

A variety of products and services
Garanti seeks to serve the retail banking needs of small business owners through a wide range of banking products and services.

Specially designed loan packages with flexible repayment terms have been developed to help small enterprises invest in their businesses. In 2004, loans for office modernization, technological development and machinery renewal have been especially popular.

Garanti believes in the added value created by products designed according to the specific requirements of specific business groups and will continue to deliver new and attractive products and services to SMEs.

Looking at the needs of the agricultural sector
The agricultural sector in Turkey represents one quarter of the economy. Garanti has developed new and original secured loans for farmers to help them purchase tractors and plant and harvest their crops.

These loans have different collaterals, payment plans and terms for every agricultural segment. Since 2003, 12,000 farmers have used YTL 25 million.

Garanti has shared its work in this area with the Turkish Agricultural Association and published a guide on "Finance and the Agricultural Sector".

In 2005, Garanti intends to formulate sector specific products and loan packages and offer differentiated service solutions with suitable cash flow and financial structures.

Garanti listens to its customers

Garanti listens to its customers and by assessing their needs and requests, develops a range of unique products and services. This capability underlines the Bank's success in all business lines and is directly reflected in the growing number of customers and higher business volumes.

In 2004, Garanti held a series of gatherings to determine the needs and requests of SMEs on their home turf. These gatherings, known as Anatolian Discussions, are organized jointly with Dünya, a business daily. In the last three years, 7,000 small business owners have met with Garanti managers in 19 provinces, providing an opportunity to understand their point of view and their needs.

GANİ workshops are another way in which Garanti seeks to understand its customers and produce joint solutions. Meetings in 25 cities with an average participation of 40 SMEs have been organized with the purpose of communicating practical and technical information concerning GANİ.

Cooperation with Chambers of Commerce & Industry and Professional Organizations

Garanti moved ahead in 2004 to increase cooperation with Chambers of Commerce and Industry, a business strategy that was initiated in the second half of 2002. This program, which supports lending to chamber members with attractive conditions, has grown to include 31 regional chambers in 2004 and is expected to reach 43 in the first quarter of 2005.

In 2004, the Bank established relationship with various professional organizations and started to offer their members package solutions. Agreements with 26 Chambers of Pharmacists have been signed and lending to their members has started. The specially designed pharmacist package combines loans, POS machines, pension plans and insurance.

Buoyed by the sharp increase in lending through business chambers, Garanti anticipates continuing its activities in this area by serving more small businesses and thus growing in the area of SME banking.

Loan Guarantee Fund

Garanti is one of the few banks in Turkey to accept the Loan Guarantee Fund (KGF) as security for loans where no other collateral is available.

Garanti is the second bank to sign an agreement with KGF and will increase its activity in this area.

The ability to make a difference in the life of customers

Garanti wins acclaim for its efforts
Garanti continued to win acclaim from the general public as well as from customers for its original and successful activities in SME banking.

TOSYÖV (Turkish Foundation for Small and Medium Size Enterprises, Professionals and Managers) voted Garanti "The Most Successful Bank Serving SMEs" while Microsoft Turkey presented Garanti Bank with the 6th Annual Small and Medium Size Business (KOBİ) Development Award, citing the contribution made by Garanti's Cash Management Package (GANİ).

Retail Banking

To make a difference
Garanti has the ability to make a difference in the life of customers.

The Bank possesses a superior technological infrastructure that can discern and monitor the propensities and needs of customers. At the same time, it has developed a diversified range of retail products and services to satisfy the needs of customers. The Bank has the market share and distribution network to deliver these products and services to the right customer at the right time and place. Making this all possible is a team capable of moving the Bank's retail operations forward.

The astute and planned utilization of this ability over the years has strengthened Garanti's market share and presence in retail banking, making it the favorite bank of millions of individuals from different social groups.

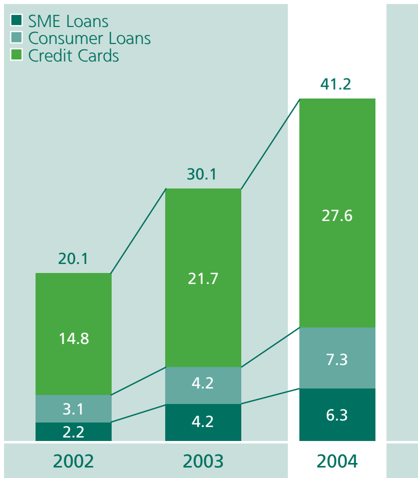
Impressive figures
Garanti serves 2,200,000 retail customers. This business line made up 50% of total liabilities at end-2004.

The Bank provides non-stop service to its customers through a broad network of 384 domestic branches, over 1000 ATMs, the call center and the internet branch.

Increase in consumer loans
Garanti offers a variety of loan packages designed to meet a wide range of requirements, from marriage loans to housing credits. Loan utilization soared by 200% during the year, reflecting heavy demand.

The launch of 24x24x24 (24 hour approval, 24 month term, up to 24,000 YTL consumer loan) had a positive impact in increasing the consumer loan demand and utilization. Housing loans with terms of up to 120 months were also very popular.

Share of Retail Banking In Total Loan Portfolio %



A 200% increase in consumer loans

Garanti continued with the pre-approved consumer credit limit program in 2004. During the year, three separate campaigns were conducted within this program, strengthening relationships with new customers and creating opportunities for cross-selling of products.

423,000 salary payment customers
Salary payments are an important way to promote loyalty and thus an area of considerable interest for Garanti.

At end-2004, Garanti handled the salary payments of 423,000 people working in a wide range of private and public sector institutions.

Salary payment customers are generally very loyal, providing the Bank with important opportunities for cross-selling. Products ranging from loans to bill payments are offered to individuals who receive their salary payments through Garanti with a high sales success rate.

In Garanti, a separate and dedicated unit handles the salary payment business. It pays close attention to raising the level of customer satisfaction as well as to making salary payment agreements with new institutions.

Universities are important customers for Garanti for this line of business. Payment of employee salaries and collection of student fees are growing businesses for the Bank. Currently, Garanti works with 30 universities in Turkey.

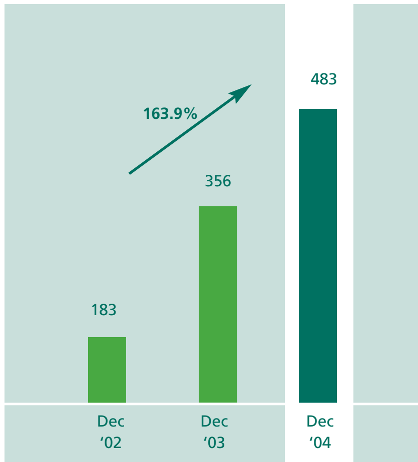
In addition to salaries and student fees, Garanti is active in fee collection for private schools and residential complexes. The Bank is keen to increase its market share in these areas.

Life-cycle banking
The mission of life-cycle banking is to design and offer products and services to meet the specific needs of every stage of life, from childhood to retirement. This approach has done much to differentiate Garanti from other banks in the field of retail banking.

In 2003, Garanti launched Minibank, a banking program for children and their parents. The program soon became very popular, attracting 44,000 members by end-2004.

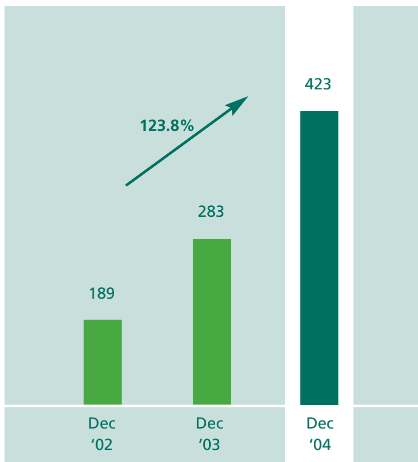
In 2004, the Bank prepared two new packages–g'bank for teenagers and Ünibank for university students–both of which were introduced in early 2005.

Number of E.L.M.A* Accounts
Thousands



* Excess Liquidity Management Account is a cash management product offered by Garanti.

Number of Salary Payment Accounts
Thousands



Positioned for growth

Açık Banking
Açık Banking (Open Banking) is Garanti's mass banking brand.

In 2004, the Bank served 1.7 million customers in this segment, accounting for 6% of balance sheet, compared to 4.4% the previous year. Açık Banking acquires new customers mainly through credit card and payroll services. In 2004, emphasis was on consumer loans as well. This has been very successful: at year-end the Açık Banking loan portfolio amounted to 100 million YTL, an increase of 355% over the previous year's figure of 22 million YTL.

Private Pension Plans
Private pension plans, which were introduced to the Turkish market in the second half of 2003, experienced substantial growth in 2004. Garanti services the needs of its customers in this area in cooperation with Garanti Pension and Life Company.

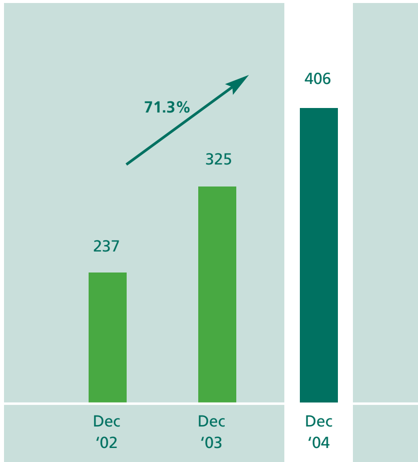
Effective utilization of Garanti's distribution channels created a synergetic platform that enabled Garanti Pension and Life Company to offer private pension products to a wider group in a more efficient way, making the company one of the top three in the sector.

In view of rising demand, Garanti is convinced that the importance of private pension plans will grow in the coming year, both for individuals and for the economy as a whole.

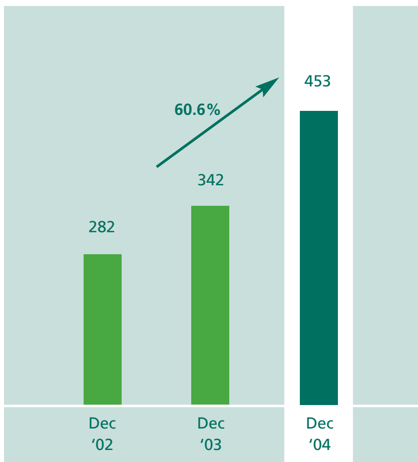
Positioned for growth
Garanti has the reach, size and power to grow in retail banking, due to its
- 384 domestic branches in 50 provinces
- flexibility
- customer focused product engineering
- innovative approach

For Garanti, customer satisfaction is identical to corporate success. With this conviction, it will continue to create a difference in the life of individuals, and thus grow in the retail banking area.

Number of Overdraft Accounts
Thousands



Number of Utility Payment Accounts
Thousands



A new concept for high income customers

Affluent Banking

Responding to the distinct financial expectations of high-income customers
In recognition of the special needs of affluent individuals, Garanti developed Affluent Banking, a customer focused service concept that seeks to respond to the distinct financial expectations of high-income customers through investment advisory and personalized banking services.

Garanti has dedicated seven branches to Affluent Banking, four in various districts of İstanbul and one each in Ankara, İzmir and Bursa. The number of branches will increase in 2005.

Payment Systems/Credit & Bank Cards

Making credit cards a way of life
Garanti is an internationally recognized leader and pioneer in payment systems and credit card programs.

The immense popularity of Garanti's card programs has revolutionized the market, spawning a large number of imitative products, and contributing to the more widespread usage of credit cards in the country.

Garanti Payment Systems, a part of the Garanti Financial Services Group, is the service provider for the Bank's credit and bank cards.

Continuous growth in the number of cards
Garanti continued its high level of growth in 2004 in the card market despite the very competitive environment.

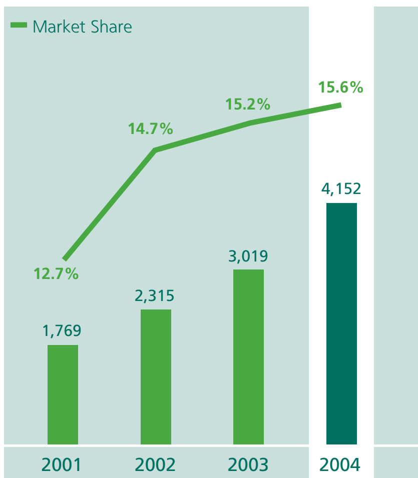
The Bank issued more than one million new cards in 2004 to reach a total of 4.2 million cards by year-end, an increase of 38%.

The number of Garanti POS terminals soared by 50% from 80,000 to 120,000 during the year, attesting to its high degree of penetration.

Garanti's issuing volume market share rose to 20% while total credit card receivables reached US$ 2.1 billion. Credit cards generate 57% of the Bank's commission income, an indication of how important they have become to the Bank's non-interest earning power.

This performance attests to Garanti's muscle in the credit card market.

Number of Credit Cards
Thousands



1.1 million cards issued in 2004

Garanti was the only bank to gain market share in the acquiring side with a 19.2% acquiring volume market share as of December 2004. Its success in this area enabled the Bank to increase volume by 60% to US$ 8.5 billion, up from US$ 5 billion a year ago. Acquiring business fits with Garanti's focus on small business and was instrumental in increasing profits in 2004.

Bonus Card

Bonus Card is a success story.

One of the first two credit card programs launched by Garanti, Bonus Card grew by one million cards in 2004 to 3.5 million. With the number of its merchant partners soaring by 85% from 35,000 to 65,000, it ranks as one of the biggest programs not only in Turkey but in Europe.

Bonus Card program in its fourth year was singled out as the "Best Card Program for the Long-Term" among European banks by MasterCard. In making the award, MasterCard cited the credit card revolution in the Turkish market initiated by Bonus Card and the value delivered to all participants by the card.

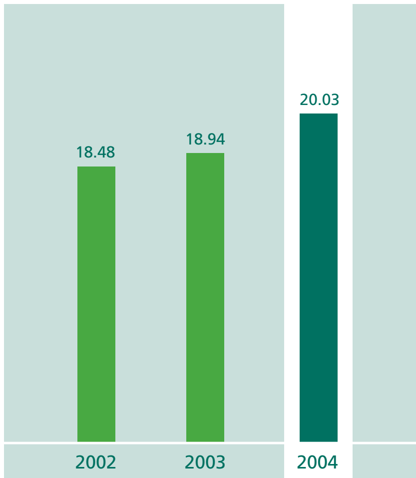
Adding value to Bonus Card

Continuous product innovation has kept Bonus Card at the forefront of both the Turkish and European market.

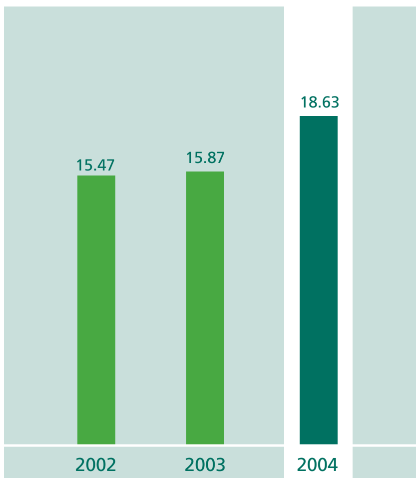
Bonus Plus and Bonus Premium are brand new concepts introduced to increase cardholder loyalty. Other innovations include an advance bonus for an advance commitment to spend a certain amount each month and the Select a Partner program in which cardholders can make a store of their choice a Bonus Card partner. Fun was introduced into Bonus Card with POS machines that sing when cardholders redeem their bonuses and Bonus Game, a game of chance that aimed to increase business volume among merchant partners and emphasize the Card's distinct identity.

A website–www.bonusloyalty.com–provides merchant partners with aggregate data on demographic information, spending behavior, volumes by day and hour and customer behavior.

Credit Card Issuing Volume Market Share (December 2004) %



Credit Card Acquiring Volume Market Share (December 2004) %



International acclaim for Bonus Card

International acclaim
Bonus Card has been widely praised abroad from its sustainable performance and remarkable success.

During 2004, Garanti conducted workshops for eight foreign banks to explain the Bonus Card program and the reasons behind its success. Garanti is interested in making license agreements for Bonus Card with banks in other countries in the future.

Shop&Miles
Shop&Miles, the official air miles card of Turkish Airlines, is Garanti's other credit card program with 296,000 cardholders at the end of the year.

Towards the end of the year, Shop&Miles card launched an exclusive 24-hour concierge service called & club for discerning cardholders who desire the best of everything to fit their premium life style.

Cards for business
Garanti offers its commercial customers Business and Corporate Cards. In 2004, Garanti had a 27.2% market share in commercial cards.

Partner Card has been developed to help small businesses and suppliers finance purchases of goods. It gained in popularity during the year.

The Bank has four different virtual credit card programs. In addition to virtual versions of Bonus Card and Shop&Miles, Garanti issues virtual version of classic VISA and MasterCard linked to the customer's current account.

A new debit card
ATM cards were relaunched as Paracard (MoneyCard) with the feature of earning bonuses when shopping in order to encourage use of debit cards in purchases.

Garanti had 2.6 million debit cards at end-2004.

A competitive edge in payment systems and credit cards

Garanti E-Commerce
Garanti E-Commerce leads the sector with a dedicated e-commerce unit, high transaction capability, a user-friendly Turkish language interface and 1,300 virtual stores.

The Bank owns one of the five top e-commerce portals (garantialisveris.com). The portal enables over 80,000 merchants to start selling over the internet easily and efficiently.

Garanti-İşbank joint POS machines
Garanti and İşbank, two of the most powerful players in the Turkish banking sector, made an historic agreement to share their POS networks in 2004.

The first such cooperation agreement in the sector, it showed the market that two competitors can coexist, establishing a new model in the banking system to promote efficiency. The cooperation agreement will lower the costs for acquiring by about US$ 5 million in the first year.

Problem-free transition to YTL
Garanti started planning for the transition to the new currency well in advance. A team led by Garanti Technology prepared all systems to switchover to the YTL without interrupting service.

As a result, the switchover to the new currency was completed in the early hours of January 1st in just 45 seconds, faster than any other financial institution, enabling the Bank to provide uninterrupted service to customers through POS and credit cards through New Year’s Eve and New Year’s Day.

The increasing importance of credit cards
In the year ahead, despite harsh competition, Garanti is determined to maintain its market share by introducing technological and marketing innovations that will promote customer loyalty.

In 2005, as interest rates and merchant commissions come down, more widespread use of cards is anticipated, indicating the far-reaching changes in purchasing habits taking place in Turkey.

Global reach and esteem

International Relations

Expertise in international trade finance
Trade finance is a core business for Garanti.

The Bank handled 14% of Turkey's total foreign trade in 2004–13% of exports and 15% of imports. A worldwide correspondent network of first tier banks and expertise in all aspects of international trade finance underscores Garanti's success in this area.

Garanti is the only Turkish bank to establish a Foreign Trade Marketing unit to deliver tailor-made solutions to the foreign trade requirements of its customers.

High profile in international syndication and capital markets
Garanti's effectiveness in foreign trade finance is supported by its high profile in international syndication and capital markets.

In the first part of 2004, the Bank completed a record deal of EUR 450 million, the biggest ever Turkish deal rate to a private entity in U.S. dollar terms (US$ 562 million) at the rate of exchange prevailing on the date of the transaction. The syndication attracted the participation of 53 banks from 23 countries.

Later in the year, Garanti set a new benchmark and a new record for Turkish borrowing with a US$ 600 million one-year syndicated loan facility. This transaction is not only the as largest transaction of the year but carried the best terms and attracted 63 participants from 27 countries. EuroWeek named this finance facility the "Best Turkish Syndicated Transaction" of the year.

Taken together, these syndications demonstrate the commitment of the international banking community to Garanti.

In 2005, Garanti's priority is to improve pricing and terms substantially, reflecting Turkey's economic and political gains. The Bank plans to continue with two syndications with the possibility of extending the tenor to two years if the desired pricing level can be attained.

Ground breaking capital market transactions
Garanti, which had returned to the debt capital market in 2003, stepped up its activities in 2004.

The Bank concluded a ground-breaking transaction to become the first non-sovereign institution in Turkey to raise eight year financing. The US$ 325 million facility was divided into two tranches: a US$ 150 million eight-year portion wrapped by Ambac, an AAA rated US insurer, and a US$ 175 million five-year portion wrapped by MBIA.

Commitment of the international banking community

Both tranches were rated AAA/Aaa. The transaction marked Ambac's first involvement in Turkish market and was the first deal shared by MBIA and Ambac for an emerging market.

A 10-year direct loan to initiate the mortgage business
At year-end, Garanti accessed a 10-year direct loan from National Citibank for US$ 15 million. The transaction is significant not for the amount but for its tenor and the fact that it was secured without structuring or collateral with the backing of OPIC for the purpose of initiating mortgage business in Turkey.

Longer assets will make mortgage banking possible in future once the necessary legal structure and secondary market has been developed.

An effective overseas strategy
As the parent of Garanti Bank International, the second largest Turkish owned bank in Europe, Garanti has a presence in The Netherlands, Germany and Romania. In 2004, GBI opened its second branch in Bucharest in line with its ambition to grow in retail banking in Romania due to the country's EU membership and close relations with Turkey.

Garanti is also expanding its presence in Turkish Republic of Northern Cyprus where it opened a second branch in 2004 and plans to open a third in 2006.

Garanti Bank Moscow is expanding along with the gains made by the Russian economy.

The Shanghai representative office continues to be instrumental in developing business in Asia.

Information sharing for international trade
Garanti gives importance to keeping its customers up to date with new developments in foreign trade.

The Bank established a website (mevzuat.garanti.com.tr) dedicated to the laws and regulations governing foreign trade in Turkey. In addition, the Bank reaches out to its customers by organizing Foreign Trade Meetings and seminars regarding regulations.

Success in channeling operations to non-branch channels

Alternative Delivery Channels

A strategic objective
Garanti has been notably successful in channeling the bulk of its operations to non-branch channels in order to reduce operational costs and serve customers more efficiently.

The development and promotion of multi-functional alternative delivery channels–ATMs, Call Center and internet branch–has been a key strategic objective of the Bank for many years.

During the year, Garanti succeeded in
- reducing the Bank's operational workload
- using alternative delivery channels as a sales channel
- deepening customers relationships, and
- acquiring new customers

Garanti witnessed a significant increase in the number of customers in 2004. The alternative delivery channel strategy already in place enabled the Bank to handle higher number of customers and higher business volume easily while preserving the sensitive balance of the cost curve.

In 2004, Garanti attained its goal of conducting 73% of total operations through alternative distribution channels, compared to at most 50-60% for its competitors, clear indication of the Bank's indisputable strategic success.

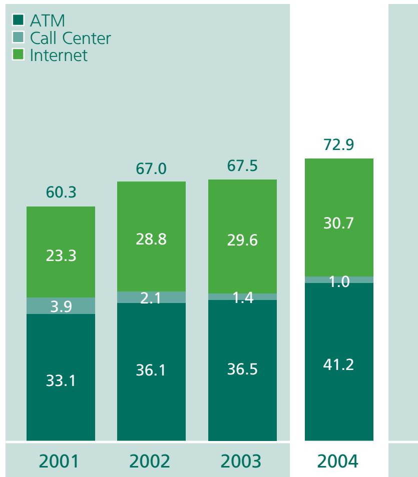
More than 1000 ATMs
Garanti's over 1000-strong chain of ATMs was renamed Paramatik in 2004 to give it a more distinct identity. Emphasis was placed on enriching the function of the ATMs to facilitate a variety of customer transactions.

During the year, the number of cash counting machines reached 140. In the coming years, the Bank plans to convert all ATMs to cash counting machines. By expanding the functions of ATMs, banking will enter a new era in which fewer and fewer people will find it necessary to transact their business in a branch.

Garanti is already a leader in non-card ATM transactions for credit card and utility bill collections. Currently 48% of credit card payments – up 12% from the previous year–are made through non-branch channels, contributing to the efficiency of branches.

The Bank will continue to enlarge its ATM network and add functionalities in 2005.

Alternative Delivery Channels Usage Rate (Including Cash Transactions) %



The first call center in the world to win the EFQM Award

The best Internet Bank in the country
In 2004, Garanti continued to be the most successful Internet Bank in Turkey.

garanti.com.tr was chosen as "Turkey's Best Internet Bank" by Global Finance for the fourth consecutive year as well as the "Best Corporate Internet Bank" and "Best Retail Internet Bank" in 2004.

Garanti exceeded its target of 400,000 internet customers by attracting over 430,000 active customers to the internet branch. More than 50,000 products are sold to customers every month through the internet branch.

Garanti has successfully positioned itself as the best Internet Bank in Turkey and will continue to grow in this area as computer ownership and internet usage becomes more common.

Paragaranti.com
Garanti's finance portal paragaranti.com was renewed in 2004 by expanding its functionality. Users of the internet branch and members of the portal are able to monitor the real-time ISE INDEX on a daily basis and track the value of their own portfolio real-time. In addition, users can check the closing prices and market commentary from personal computers as soon as the markets close.

Garanti believes that internet banking will continue to gain importance in the years to come and is stepping up efforts to deliver an expanded range of products and services to a larger audience through this channel.

Call Center
The Call Center is a strategic distribution channel for sales, after sales customer service and customer relationship management.

The Garanti Call Center is distinguished by the best service quality in the finance sector in Turkey, the widest range of products and services and superior sales effectiveness. Its excellence and effectiveness have been recognized internationally as well: Garanti became the first Call Center in the world to win the European Foundation for Quality Management (EFQM) Award in 2004.

In 2004, the Call Center received 35 million calls, up 10% from the previous year due to high credit card volume. 45,000 products were sold per month, compared to 30,000 in 2003. The Call Center operates 24 hours, seven days a week with 500 employees. IVR is used to answer 65% of calls.

Alternative Delivery Channels Usage Rate in Key Products (December 2004) %

Mutual Fund Transactions	85.2
Equity Trading*	98.1
Foreign Currency Transactions	76.1
EFT Transactions	86.0
Money Transfers	76.5
Tax Payments	55.7

* Excluding Investment Centers.

High transaction volumes and a diversified product range

Mobile Bank: A unique money transfer system
Mobile phone ownership and usage is very widespread in Turkey. In light of this, Garanti developed a unique, cardless money transfer system that uses mobile phones to transfer money from Garanti customers that the recipient collects at the ATM even if he is not a Garanti card-holder. The new system caught on immediately and is being used by 50,000 customers just three months after its introduction.

A first in Europe, and almost unique in the world, this presages the expanded use of mobile phones for banking transactions in the coming years.

Money and Capital Markets

Nimble treasury management
As spreads decline and interest rates come down, nimbleness in treasury management is increasingly important. In this challenging environment, Garanti's proven ability to adapt and change puts it in an excellent position to increase market share.

For the past several years, Garanti has focused on customer trading, with an emphasis on foreign currency trading. Development of intelligent pricing programs has increased customer satisfaction and improved the revenue quality. During 2004, traders started to use artificial intelligence support for pricing.

Eurobond trading by Turkish retail clients remained strong during the year. Better access to derivatives trading of both forwards and options increased volumes. Establishment of a corporate treasury desk for group financial companies helped contain costs, enhance risk management and improve return on assets.

Excellent results were obtained in 2004:
- Daily foreign currency trading volume increased by 50% to US$ 450 million.
- Garanti became the third largest trader in the local market with US$ 13.4 billion in equity trading and the second biggest custodian for domestic investors with US$ 1.03 billion of stocks.
- Volumes climbed to US$ 29.9 billion in the T-bill and government bond organized market and to US$ 18.5 billion in the over-the-counter market.
- Customer transaction volume was up by 5% in the Turkish Lira bond market while market transaction volume rose by 20%.
- Domestic customer custody volume for foreign currency bills and Eurobonds increased by 13%; total transaction volumes soared by 73%.

However, as other banks began to imitate Garanti's out flow business concept, Garanti moved forward to adjust its overall strategy in order to maintain and improve its position in market.

Delivering value-added solutions in project finance

The new strategy rests on two legs: first, cost reduction and operational efficiency and second, penetration. By taking these steps Garanti will be ready for further consolidation in the market and be in a position to increase its market share.

Garanti is keen to diversify investment instruments. Client focus in asset management will be increasingly important as choices widen and competition for business intensifies.

With the securities portfolio of Garanti now lower than the loan portfolio, Treasury began to redefine its functions and change its culture in favor of funding planning, cash management, liquidity and balance sheet optimization rather than focusing on propriety trading. This process will accelerate in 2005 and 2006.

Project Finance

A foremost provider of project financing
Garanti is a foremost provider of project financing on the national and international scene, delivering value-added solutions to private and public sector clients. Garanti takes an investment banking approach to project finance, ensuring that each transaction is conducted to create maximum benefits to all parties.

Garanti handled one quarter of all project finance business in Turkey in 2004, evidence that its expertise and track record are valued in the market.

During 2004, Garanti took a lead role in a variety of projects, with an emphasis on infrastructure development, energy and ship building. Specifically, Garanti:

- was the sole Turkish participant in a two-year US$ 100 million syndicated loan for Koç Holding.
- arranged a US$ 230 million project finance facility for the sale of Tekel's Alkollü İçkiler Sanayi ve Ticaret A.Ş. (Alcoholic Beverages Industry), the year's largest privatization project, and participated with US$ 77 million.
- underwrote the entire US$ 74 million financing, required for the privatization of Gemlik Gübre Sanayi A.Ş (Gemlik Fertilizer Industry), the fourth largest privatization deal of the year.
- participated with US$ 27.5 million as an arranger in the US$ 70 million project finance facility for the privatization of Bursagaz (Natural Gas Distribution Company), a milestone in the liberalization of the energy sector and the year's second largest privatization deal.
- arranged a US$ 130 million project finance facility for the Undersecretariat of Treasury to be utilized for the Bursa Ring Motorway Project.
- conducted the year's first Build-Operate-Transfer project and secured US$ 68 million in project financing for the construction of the new International Terminal at Antalya Airport, Turkey's most important tourist portal.

Asset management is becoming a significant business line for Garanti.

- arranged a syndicated loan for the Undersecretariat of Treasury in the amount of US$ 70 million for the completion of the Muratlı and Borçka Dams.
- arranged a syndicated loan of US$ 831 million for the Undersecretariat of Treasury for the completion of the Black Sea Coastal Highway, the largest commercial loan ever to an infrastructure project in Turkey, and participated with US$ 277 million.
- extended a total financing of US$ 200 million to Turkish shipyards for the building of new ships and acquisition of a floating dock.
- secured US$ 58 million for the privatization of Eti Krom A.Ş (Eti Ferrochrome Industry).
- was the sole Turkish bank to participate in the US$ 150 million international letter of credit syndication for Vestel.

Garanti anticipates a wave of new foreign direct investment and mergers & acquisitions in the coming years. These projects will create new business opportunities for which Garanti is the most likely local facilitator and financial partner.

Asset Management

A virgin market for asset management services
Garanti recognizes the enormous potential in the Turkish market for asset management services, not just for mass market mutual funds but for corporate funds and products designed for institutional investors. The Bank is convinced that asset management will become a more important business line as the size of market grows.

Although at present the industry is held back by the paucity of products and an unfavorable tax structure, asset management is a strategic business that produces significant results.

In 2004, Garanti's mutual funds managed by Garanti Asset Management and sold via Garanti Bank branches and Investment Centers, command 11.5% of the market with a market value of US$ 2.23 billion. The number of investors in Garanti mutual funds was up by 23%. This increase reflects of the good performance of the funds and the quality of customer service. The Investment Centers generated net income of US$ 28 million for the year.

Custody services for local investors became a big business in 2004, with volumes growing by 43% to just over US$ 1 billion.

Garanti Asset Management ranks as the fourth largest in the market out of 20 active companies. The Company created a revenue of US$ 74 million in 2004, for the company itself and Garanti (US$ 60 million), building asset management into a significant business line for Garanti and its parent company Doğuş Group. Important synergies were created in corporate portfolio management that bode well for the future.

Working with the world's most reputable and well-known financial institutions

International Custody Services

The most preferred Turkish sub-custodian
Garanti has long been recognized as one of the most preferred custodians for non-resident institutional investors operating in Turkish capital markets. Garanti, as the only indigenous provider in the market, has a significant market share.

Privacy, promptness, timeliness, precision, quality service and relationship based approach are the distinguishing characteristics of Garanti's custody and clearing services.

The Bank has been "Top-Rated" by Global Custodian for the past eight consecutive years in its annual survey of custodian banks around the world. The responses of a group of reputable and well-known global custodians and international broker dealers ranked Garanti the highest in the Turkish market in all service categories. Garanti's selection as the best Sub-Custodian in Turkey by Global Finance is further evidence of its excellence in this area.

Garanti aims to grow in the custody business using the advantages of its know-how, experience in the market, service quality and strong technological infrastructure.

Risk Management

An integrated and analytical approach to risk management
Garanti is one of the few banks in Turkey to have full scale risk management in place. The Bank utilizes an integrated risk management system that measures trading risks daily with a Value at Risk model. An internal rating based credit risk model for commercial and corporate loans as well as retail and credit card business enables Garanti to measure risk in all areas of the loan portfolio.

Models for market and credit risk have been developed and a standard method of operational risk analysis is in place. Comprehensive auditing on all aspects of banking operations is an on-going process.

Garanti has prepared its risk management and internal audit/control structure to comply with Basel II requirements for risk management and audit principles.
A Basel II committee has been established in the Bank to supervise the preparations for Basel II compliance.

In addition, Garanti has formed a committee to prevent money laundering and designated an officer for this important duty. Policies are in place and consideration is being given to investing in special software for the detection and prevention of money laundering activities.

35.5 million banking transactions and a 95% centralization ratio

ABACUS: Central Operations Unit

ABACUS: Garanti's operations hub
One of the first proponents of centralized operations among Turkish banks, Garanti now processes 95% of total transactions centrally, up from 94% the previous year, at ABACUS, its operations hub.

All back office operations including foreign trade, check processing, collections, POS transactions are handled by Abacus. The operations hub also has responsibility for printing debit and credit cards and managing cash logistic.

Abacus was well prepared for the switchover to the new currency at the end of the year and completed the transition in the early hours of January 1st in just 45 seconds, faster than any other financial institution.

Abacus handles higher transaction volume with less people, reflecting significant gains in per person productivity.

	2004	2003	increase
Number of annual transactions	**35.5 million**	30 million	18%
Transaction volume (US$)	**249 billion**	172 billion	45%
Operational efficiency			
Centralization ratio	**95%**	94%	1ppt
Number of average monthly transactions	**2,958,333**	2,500,000	18%
Number of average daily transactions per person	**193**	165	17%
Total employees	**745**	733	2%

Human Capital

The quality of its employees is one of Garanti's main competitive advantages. The Bank is proud to employ the best qualified and most motivated men and women in the banking sector. Garanti is committed to providing training, guidance and support to employees to help them realize their full potential and to progress in their chosen career.

In 2004, Garanti enlarged its ranks by 10% by hiring 702 people, mainly for entry-level positions such as tellers and Call Center representatives. At end-year, Garanti had a total headcount of 7,809.

Garanti's policy is to move experienced employees to sale positions and to promote successful employees to positions of greater responsibility.

Investing in people

All 1,867 sales representatives attended the Secret of Sales training program which aimed to instill a sales culture within the Bank.

Ninety new graduates were recruited for the Sales Trainee Program, an innovative and successful sales training program combining sales techniques with technical content.

The Assessment & Development Center identified potential branch managers and organized tailor-made competency-based training programs to round out the abilities of branch manager. In 2004, 114 branch manager candidates were assessed and 74 of them became branch managers. This meets an important need as Garanti opened 52 new branches during the year and plans to open the same number of more in 2005.

EVA
Economic Value Added (EVA), the bonus compensation incentive program, has proven to be an effective motivator. In 2005, Garanti will introduce a more transparent incentive bonus program based on a clear percentage of bonuses for each business line.

360 Degree Assessment
First introduced in 2003, Garanti is the first bank in Turkey to apply 360 Degree Assessment to all existing units, regions and branch managers. The Bank intends to extend this assessment program to all levels in 2005.

IIP Certification
Garanti became the first and only institution in Turkey that was established with Turkish capital to qualify for Investors in People (IIP) standards, the first and only measurement of a company's investment in human resources. The Bank received IIP certification in March 2005.

Number of Branches and Personnel

	2000**	2001	2002	2003	2004
Number of Personnel (excluding security staff) (A+B)	5,604	6,173	6,592	7,107	7,809
Number of Personnel (excluding security staff) (B)	4,207	6,173	6,592	7,107	7,809
Number of Contracted Personnel* (A)	1,397	-	-	-	-
Number of Branches	264	319	323	343	384
Number of Personnel Per Branch (excluding security staff)	21.23	19.35	20.41	20.72	20.34

(A) Number of contracted personnel
(B) Number of permanent personnel

* Contracted personnel that were a part of Temaks at end-1999 and of Yön company at end–2000, were transfered to Garanti on 1 April 2001.
** ABACUS was established on 1 May 2000.

Corporate Governance

Commitment to Corporate Governance

Garanti believes that how results are achieved is just as important as achieving remarkable financial results on a sustainable basis. Garanti's strong corporate culture embraces effective corporate governance that supports the franchise that Garanti has built over the years. Integrity and honesty are at the heart of Garanti's business. Garanti complies to the highest standards of corporate governance, ethical conduct and cultural integrity within its organization. In light of this, Garanti constantly builds and protects its corporate culture by promoting its core values to employees at all times, as well as a Code of Ethics, which was created to guide employees in adhering to standards of professional and ethical conduct.

Garanti's corporate governance system is based on four key pillars: good relations with shareholders; transparent and accurate reporting; maintaining full compliance with the laws, rules and regulations that govern the Bank's businesses and continuous commitment to corporate social responsibility.

Garanti holds its Ordinary General Assembly once a year. The Assembly is open to the participation of all shareholders. The İstanbul Stock Exchange (ISE) and Capital Markets Board (CMB) are apprised of the date of the Assembly the same day the Board of the Directors decide on a date. Shareholders may apply at branches to obtain an admission card to the assembly. Branches provide full information and guidance regarding procedure and voting.

Garanti provides timely, reliable, consistent and orderly information in compliance with the regulatory and legal framework. All parties in the investment community have fair access to this information. Garanti provides information through various meetings, conferences, panels, media interviews by its senior management and members of its board of directors as well as through the Investor Relations (IR) department. In addition to these channels, the Bank has two separate internet sites, in Turkish (www.garanti.com.tr) and in English (www.garantibank.com). Through its internet sites, the Bank provides detailed and up-to-date information about the products and services it offers to its customers in banking, credit cards, investment, insurance, leasing, pension funds and e-commerce as well as enabling customer to bank online.

There is a dedicated IR department at Garanti, responsible for conducting relations with current and potential institutional investors, portfolio managers, shareholders, rating agencies and banking analysts and providing them with up-to-date information about Garanti Bank, the Turkish economy, banking sector and financial markets. In this context, Garanti's IR team attended 10 different international conferences organized by various investment banks or securities firms in 2004 as well as holding one-on-one meetings with close to 300 investors. The IR department also provides information through Garanti's IR area on the internet. This is accessible through www.garantibank.com/investor_relations. General corporate and stock information, Garanti's news bulletin specifically published for foreign investors named "Stockwatch", macroeconomic and quarterly financial data in BRSA and IFRS formats, roadshow presentations, annual reports, latest capital structure, special announcements, news releases, analyst reports and frequently asked questions and answers and other materials of interest relating to the Bank can be reached through this website, which is updated on a continuous basis.

Garanti's management processes, structures and policies ensure compliance with laws and regulations and provide clear lines of sight for decision-making and accountability. In compliance with internationally accepted standards, Garanti discloses IFRS financials in addition to Turkish GAAP (BRSA), on quarterly basis. Garanti's common stock is listed on the İstanbul Stock Exchange (ISE) under the symbol 'GARAN.IS'. Existing ADS are admitted on the official list of the London Stock Exchange. In addition, Existing International ADS are quoted on SEAQ International and the Existing Rule 144A ADS are designated as eligible for trading in PORTAL. Therefore, in addition to the disclosures and notifications to Turkish authorities such as ISE and Capital Markets Board; Garanti Bank is obliged to notify international authorities, namely LSE (London Stock Exchange), SEC (Securities and Exchange Commission), BONY (The Bank of New York) and FSA (Financial Services Authority) of its quarterly financials, shareholder meetings, capital structure changes, board member/CEO changes and other pertinent information.

Garanti aspires to add value to society and the environment in a sustainable and notable way. The Bank is committed to being a model corporate citizen. This commitment is reflected in Garanti's efforts to improve quality of life by contributing to culture, art, education, sports and the environment. Original projects that were created and managed by Garanti as well as noteworthy events sponsored in Turkey and abroad are discussed in detail on pages 54-55.

Corporate Citizenship

Garanti is committed to improving quality of life by contributing to culture, art, education, sports and the environment.

Garanti's mission is not limited to banking services

Garanti's mission is to increase in a sustainable and notable way the value it adds to society and the environment. This commitment to society is reflected in the Bank's support of culture, art, education, sports and the environment. The Bank creates and manages original projects as well as sponsoring noteworthy events in Turkey and abroad.

Environmental protection

Since 1992, Garanti has supported various environmental conservation programs of the Society for the Protection of Nature/WWF. Garanti's support for these environmental conservation programs made it the only institution in Turkey to merit the United Nations Global 500 Environment Award in 1996 and one of only 16 institutions in the world to receive "Golden Panda" award from the World Wildlife Fund (WWF) in 2001.

The harmony of jazz and Garanti

Garanti's corporate culture resembles the team work and harmony of jazz. Thus Garanti has been a key promoter of jazz in Turkey over the years under the slogan "Garanti Jazz Green". Garanti has been the main sponsor of the International İstanbul Jazz Festival since 1998 and sponsors a monthly jazz concert at Babylon, a local club. In addition it contributes its support to the Ankara Music Festival.

Employee support for education

An employee-initiated primary school building project known as Denizyıldızları (Sea Stars) resulted in the construction of a school in the Darıca suburb of İstanbul in 1999. The school teaches more than 1,130 elementary students. A second school is now under construction, funded by voluntary donations from employees and is expected to open for the 2005-2006 academic year.

Support for basketball

Garanti has acted as the main sponsor of the National A Team since 2001. Garanti, in cooperation with the Turkish Basketball Federation, sponsors 12 Giant Men Basketball Schools all over Turkey to bring the sport to a larger audience. In the belief that sport is an effective path for international friendship and peace, the Bank gave its support to "Basketball Camp Without Borders", an initiative started by the NBA and the United Nations. In 2005, Garanti will undertake the main sponsorship of the National Women's Basketball Team.

Garanti aims to bring national and global art to the community.

Garanti creates its own institutions

Platform Garanti Center for Contemporary Art
Platform, an exhibition space and research center on contemporary art, opened in 2001 during the 7th International İstanbul Biennale. Platform has held 24 exhibitions, 28 international conferences, nine video screenings and five workshops to date, attracting more to 320,000 visitors.

Ottoman Bank Museum
Located in the historic former head office of the Ottoman Bank, the Museum opened its doors to the visitors in December 2002. The Museum functions as more than a traditional museum: with a café, bookstore, archive, research center and library, it has become a cultural center frequented by students, academicians and the intelligentsia. The Museum has a busy calendar of original exhibitions in addition to weekly meetings on tops related to music, İstanbul, economic history, objects and ritual and contemporary Turkish history. A 46-seat cinema shows classic and neo-classic films.

Garanti Art Gallery
Garanti Art Gallery is dedicated to the art of design, and aims to span all areas of the discipline such as architecture, industrial and product design, graphics, fashion and urban planning. The Gallery seeks to contribute to the local dissemination of design concepts on the international agenda through exhibitions and other related activities. To date Garanti Gallery has hosted 11 exhibitions of leading local and international artists, attended by a total of 82,000 visitors.

Garanti believes in the power of knowledge

Garanti Anatolian Discussions
Garanti initiated discussion meetings that bring together local industrialists and businessmen with leading names in banking and economics. Sponsored jointly with Dünya, a business daily, the Bank has hosted 7,000 people at 20 meetings all over Turkey.

Garanti Foreign Trade Meetings
Garanti seeks to create new opportunities for Turkish companies in international markets. To this end, it has held Foreign Trade Meetings on Russia, China and Romania. The meetings cover a wide range of subjects from the economy to social customs. In line with the interest of participants, in 2004 the Chinese textile sector was examined in depth. In addition, seminars concerning foreign trade regulations, forms of payment and letters of credit have also been held in İstanbul, Bursa and Trabzon.

Garanti Financial Services Group Companies

One of the largest Turkish banks abroad active in international trade finance and private banking

GarantiBank International N.V. (GBI)

Established in Amsterdam in 1990, GarantiBank International N.V. is a wholly owned subsidiary of Garanti Bank with total assets of US$ 2.5 billion and 224 employees. GBI's operating environment extends beyond The Netherlands to Romania and Germany. The Bank's two core business lines are international trade finance and private banking and its strategy going forward is to excel in these two areas of expertise.

GarantiBank International N.V. has successfully diversified the composition of its business during the past three years. In 2004, the total volume of the trade finance business reached US$ 5 billion, representing a remarkable growth rate exceeding 65%. Non-Turkish risk transactions continued expanding for the fourth consecutive year and constituted 56% of the volume. The main contributors to this volume are commodity finance loans and documentary credits. GarantiBank International N.V. is a regional expert in the trade finance markets. The Bank's geographic coverage includes the Black Sea, Caspian and Mediterranean trade flows while its commodity expertise has been in metals and steel-making raw materials, agri-business, coal and chemicals.

Private Banking comprises the provision of investment banking services and products to high net worth individual and institutional clients. The Private Banking client base and product range has been expanded to cover all major emerging and developed markets in equities, securities and derivative products, in addition to traditional Turkish financial instruments. The geographic breakdown of clients has also become more varied, with new corporations and high net worth individuals from Romania, Russia and the CIS countries. The Private Banking Department made a significant contribution to the Bank's revenues. At the end of the year, total Private Banking client assets exceeded US$ 700 million.

Building on a US$ 75 million senior syndication originally executed in January 2004 with twelve banks from seven countries, the Bank signed a successful US$ 100 million syndication in February 2005. The number of banks in the current loan has been increased to 18 from 11 different countries, demonstrating further diversification on the liability side.

In its IFRS financial statements, gross profit reached EUR 33.8 million at end 2004, up 31% over the previous year. Net profit increased by 41% to EUR 23.6 million.

GBI is rated BB+ by Fitch rating agency for its long-term borrowings and the rating agency changed the Bank's outlook to "positive" as of January 2005. The positive outlook reflects the Bank's improved profitability and prudent risk management.

FitchRatings	January 2005
Long-Term Borrowing	BB+
Outlook	positive

One of the few foreign banks operating in Russia

Garanti Bank Moscow

Garanti Bank Moscow (GBM) provides a wide range of banking services in Russia to Turkish and Russian companies through its main branch. GBM started operations in 1996 and currently has a staff of 73.

GBM's vision is to be the bank delivering the best corporate service in Russia. In line with this aspiration, it aims to produce value-added by creating synergy with Garanti's international network and providing innovative solutions.

With ten years experience in the Russian market, GBM serves its 630 corporate and commercial customers with a wide range of products and services tailored to meet the needs of Russian enterprises as well as Turkish entities active in the Russian market. The Bank gives special importance to Turkish tourism operators active in Russia.

The Bank was accepted into the Russian Deposit Insurance System in 2004. GBM ranked among the top 100 banks in Russia in terms of its capital size as of June 2004. A member of the Association of Russian Banks, GBM is one of 41 fully owned subsidiaries of foreign banks in Russia.

In 2004, Garanti Bank Moscow posted pre-tax profit of US$ 4.4 million and an asset size of US$ 157.1 million in its IFRS financial statements.

Turkey’s best brokerage house

Garanti Securities

Wholly owned by Garanti Bank, Garanti Securities is the leading securities house and investment bank in Turkey. It was initially established as a part of Garanti Bank and then spun off as a separate company in 1991. The merger of capital markets operations of Garanti Bank, Ottoman Bank and Körfezbank in 1999 further reinforced Garanti Securities' leading position. For individual and corporate clients "Garanti Securities" has become a brand name that is associated with strength, prestige, reliability and quality.

Garanti Securities has recently been awarded “The Best Equity House” in Turkey by Euromoney, a highly reputed international finance magazine. It was also awarded “Turkey's Most Admired House” by Capital, a reputable Turkish monthly business magazine.

Garanti Securities provides brokerage, trading and research services for equities and fixed income securities to approximately 155,000 customers. In 2004, Garanti Securities obtained a 4% market share in equity trading with a total daily transaction volume of US$ 55 million. Its highly qualified research team produces daily, weekly, and monthly strategy reports, equity analyses and portfolio recommendations for both domestic and foreign investors.

Garanti Securities is also the leading name in advisory services for mergers, acquisitions, tender offers and privatization transactions. It has been the lead manager of countless public offerings. The company has been involved in 87 equity offerings since 1990. It has been the lead manager and bookrunner in 36 equity offerings, co-lead manager and co-manager in 51 equity offerings. Between 1990 and 2004, the total issue size of the equity offerings realized on the ISE amounted to US$ 8.9 billion, of which US$ 2.1 billion (24%) was led by Garanti Securities.

4th largest in its sector with US$ 2.2 billion under management

Garanti Asset Management

Garanti Asset Management was the first asset management company to be established in Turkey. Its performance-focused approach has transformed the investment philosophy in Turkey.

Garanti Asset Management has grown exponentially since its foundation in 1997 by providing high quality asset management services to selected individuals and institutions. Widely recognized for its effectiveness, trustworthiness, and commitment to ethical values, the company manages mutual funds, private pension funds, and institutional portfolios on a technology-intensive platform in a way that creates value-add for all its stakeholders.

As a member of Garanti Bank's Financial Services Group, Garanti Asset Management gives the utmost attention to the concepts of trust, quality, and customer satisfaction that are the hallmarks of the Garanti trademark.

Garanti Asset Management is determined to grow and create increasingly more value for all its stakeholders while continuing to play a pioneering role in Turkey's capital markets.

Controlling a market share of 11.5% in the Turkish mutual fund industry, Garanti Asset Management is the fourth biggest company in its field in Turkey. In 2004 the company generated a net income of US$ 3 million in its IFRS financial statements.

Garanti Asset Management currently manages 16 funds sponsored by Garanti Bank, Garanti Securities and seven pension funds sponsored by Garanti Pension and Life Company. In addition to these, Garanti Asset Management manages one closed-end investment trust listed on İstanbul Stock Exchange and 18 institutional and individual segregated portfolios. The total size of funds reached US$ 2.2 billion as of end-2004 while the value of managed institutional and individual segregated portfolios reached at US$ 118 million.

The fastest growing leasing company in Turkey with 12% market share, the second largest in the sector

Garanti Leasing

Garanti Leasing is recognized in local and international markets for the quality of its service and high international credibility.

Small and medium size enterprises make up a significant portion of Garanti Leasing's customer base. In 2004, Garanti Leasing finalized 4,119 new lease contracts, up 36% over the previous year, to generate transaction volume of US$ 342 million. Market share increased to 12%, making the company the second largest in the sector.

Garanti Leasing, with a staff of 125 people, focuses on the financing of motor vehicles, heavy construction machinery, textile machinery, manufacturing machinery, office equipment, printing equipment and real estate.

The Garanti Partnership Leasing (GPL) Program, a long-term collaboration with vendors in a variety of sectors, provides customers with alternative financing packages and offers vendors many advantages.

Garanti Leasing is the only Turkish leasing company rated by international credit rating institutions, reflecting its corporate management, transparency, accountability and ethical values. In their most recent reports, both S&P and Fitch assigned BB- to the company's long-term foreign and local currency operations, and confirmed its outlook as stable.

During the year, Garanti Leasing accessed a total of US$ 88 million in syndicated financing facilities: a one-year US$ 30 million facility from WLB, a two-year US$ 28 million murabaha syndication facility from Kuveyt Turk and a two-year US$ 30 million murabaha syndication facility from HSBC. In addition, the company was approved for a six-year US$ 25 million credit limit by the World Bank, of which US$ 17 million has already been allocated to customers. Five-year US$ 10 million loans from IFC and FMO further attest to the company's success internationally.

Garanti Leasing brings customer oriented solutions with an innovative approach to the leasing needs of corporate, commercial and consumer banking clients through the Garanti Bank's branches. In 2004, 62% of total transactions were handled through the Bank.

In its IFRS financial statements Garanti Leasing posted total assets of YTL 457 million at end-2004, making it one of the largest companies in the sector.

FitchRatings	**January 2005**
Long-Term Borrowing	BB-
Outlook	stable

The only Turkish factoring company to be internationally rated as well as the only Turkish member of IFG and FCI

Garanti Factoring

Founded in 1990, Garanti Factoring is one of Turkey's oldest factoring companies, with 34.81% of its shares traded on the İstanbul Stock Exchange.

Garanti Factoring seeks to spread its risk as widely as possible. Transaction volume in 2004 increased sharply to a total of US$ 383 million, split between US$ 282 million for domestic and US$ 101 million for international transactions. The company has a 4.4% share of the market. This performance brought the company a net profit of YTL 505,000, according to its IFRS financial statements while total assets reached YTL 110 million.

The Company is the only Turkish factoring company to be internationally rated as well as the only Turkish member of IFG (International Factors Group) and FCI (Factors Chain International). In its most recent last report, Fitch assigned a BB- rating to both long-term foreign and local currency operations and confirmed the company's stable outlook.

Garanti Factoring is distinguished by its management practices, market knowledge experience in addition to the quality of its technical infrastructure and human resources.

FitchRatings	**January 2005**
Long-Term Borrowing	BB-
Outlook	stable

Leader in bancassurance with 24% of the market

Garanti Insurance

In 2004, Garanti Insurance became a more efficient and effective company and as a result witnessed a 20% increase in premiums to YTL 179 million and a 12% increase in technical profit to YTL 30.9 million in its IFRS financial statements.

The company achieved growth above the sector average in 2004 and targets gaining higher market shares in the most lucrative branches to achieve profitable and healthy growth by increasing customer satisfaction and loyalty through advisory services.

Garanti Insurance is the most successful practitioner of bancassurance in the sector with 24% of the market. Active in all non-life branches as well as health insurance, the company offers a range of products designed to meet the needs of its over 350,000 customers. Garanti Insurance currently sells 60% of its policies through Garanti Bank, the highest percentage in the sector. Sales efforts over the Call Center yielded excellent results.

The company is particularly strong in engineering with 10.37% of the market and in transportation with a 6.65% share, making it number four and six respectively in these fields. It ranks seventh in individual accident insurance with 5.91% of market, ninth in fire insurance with a 4.36% share and 15th in car insurance.

Overall, Garanti Insurance has a 3.28% market share, making it the ninth largest insurance company out of 34 companies operating in Turkey.

In 2004, the company adopted a regional rather than central organizational model in order to improve customer relations, changed its systems and modules to further develop its Information Technology, reviewed work processes and procedures and introduced automatic accounting for each policy including foreign currency accounts.

Garanti Insurance works with a network of agents and brokers in Turkey and with major international reinsurance companies internationally. Its focus on innovation and quality service make it one of the most respected in the Turkish insurance sector.

A model of customer-focused product development and service

Garanti Pension and Life Company

Garanti Pension and Life Company started operating in October 2003 as a pension fund company in line with legal changes regarding private pension funds. Following an ambitious debut, the company succeeded in attracting 2.7% of the market for life insurance and 12% for pension business by the end of 2004.

The company sold 37,000 individual pension contracts to reach a fund size of YTL 30 million. As a result, Garanti Pension and Life Company ranks third in number of contracts and fifth in fund size. In life insurance, the company sold a total of 272,705 policies to produce premium income of YTL 36.3 million in its IFRS financial statements. These results represent a 9% increase over the previous year in terms of contribution and premium production.

Backed by Garanti Bank's cost effective and productive sales channels, Garanti Pension and Life Company's customer base has been expanding continuously. The company expanded its own sales team from 8 in 1999 to 140 people in 2003 and plans to increase this even more in 2005.

The company behind the fastest growing and most innovative products in the credit card business

Garanti Payment Systems

Garanti Payment Systems (GÖSAŞ) was established in 1999 as the single service point for the entirety of Garanti's credit card businesses. The company is 99.92% owned by Garanti.

Garanti Payment Systems is recognized as the company behind the fastest growing and most innovative products in the credit card business, not only in Turkey but internationally. Garanti Payment Systems is a pioneer in developing Bonus Card, a chip based multi branded loyalty card, and Shop&Miles, Turkish Airlines official air miles card. It also offers commercial cards, virtual cards, merchant marketing and e-commerce services.

The company continued to receive praise in the credit and bank card market for the innovative products and services it has developed. The success GÖSAŞ has shown in utilization of chip technology has made the company an advisor for many financial institutions both in Turkey and abroad.

At year-end 2004, with over 4.2 million credit cards, 2.6 million debit cards and 110,000 POS machines, Garanti Payment Systems reported total card transaction volume of US$ 8.5 billion and total merchant transaction volume of US$ 8 billion.

Garanti Payment Systems reported total assets of US$ 3,063 million and net income of US$ 625 thousand.

Providing business development, security, applications, systems, operations and network applications for the banking, financial services, retail and automotive sectors

Garanti Technology

Garanti Technology is the information technology provider for the Doğuş Group.

Its knowledge base and customer-focused approach are key elements of its development of business relationships with customers. The company is open to every kind of technical cooperation to provide joint solutions to customers and to establish customer-oriented platforms.

Garanti Technology's outstanding organizational structure and effective work processes support its concentration on design, operation and user support. With a team of 506 people, the company offers business development, security, applications, systems, operations and network applications for the banking, financial services, retail and automotive sectors.

The company's 245-person software development and analysis team develops complete software solutions for credit cards, retail and commercial banking applications. The team also offers technological solutions for investment banking, insurance, leasing, factoring and other financial services. All these services are designed to operate continuously 24 hours a day, seven days a week and are integrated with multi-channel customer relations managements and process-document modules.

Garanti Technology is Turkey's leading technology service provider, with:
- 11,300 Windows 2003 and XP computers
- 1,400 Windows 2000 and Windows 2003 servers
- 50 Unix systems
- 30.6 terabyte disc capacity
- 99.9% system availability

Garanti Technology manages a national communications infrastructure with a 600 Mbps backbone, satellite connections, more than 114,000 POS machines and over 1,020 ATMs. This infrastructure supports data, video and voice communications. Garanti Technology provides the communication infrastructure for 38 Doğuş companies and a total of 200 Mbits/sec internet access.

The company reported total assets of YTL 8,733 thousand, total sales of YTL 18,984 thousand and net income of YTL 2,915 thousand for 2004 in its IFRS financial statements.

2004 Developments in Turkey

January

13 January Efremov Kautschuk GmbH-Zorlu Holding consortium gave the highest bid of US$ 1.3 billion for the privatization of Tüpraş.

14 January The World Bank approved a US$ 303.1 million second Export Finance Intermediary Loan (EFIL II) to be used for capital and investment support in order to assist the exports of SMEs.

20 January The Turkish National Assembly accepted the draft law to drop six zeros from the Turkish Lira. The Draft Law on the currency unit of the Republic of Turkey proposed the name "New Turkish Lira" for the new currency.

Annual Inflation Rate (CPI) (%)	16.2
TL/US Dollar	1,337,001
Benchmark Interest Rate (%)	26.09
ISE-100 (index)	17,259

February

6 February The 13.7 million foreign visitors to Turkey in 2003 spent a total of US$ 9.7 million. The number of tourists was up 6% and total spend was up 7% over the previous year.

11 February Privatizations valued at US$ 2.2 billion took place since the beginning of 2003 with a cash inflow of US$ 248 million.

Annual Inflation Rate (CPI) (%)	14.3
TL/US Dollar	1,321,306
Benchmark Interest Rate (%)	23.95
ISE-100 (index)	18,889

March

2 March Turkish exports exceeded US$ 50 billion for the first time.

3 March Productivity in the manufacturing sector increased by 17% while real wages declined by 15%. Single digit inflation was achieved. Annual wholesale inflation was 9.14%.

4 March State Minister Ali Babacan announced that the European Investment Bank extended a loan of EUR 250 million for infrastructure investment for SMEs.

8 March Standard & Poor's raised Turkey's long term TL rating from B (+) to BB (-) and changed the economic outlook rating from stable to positive.

15 March World Bank President James Wolfensohn said Turkey was "a perfect place to invest".

Annual Inflation Rate (CPI) (%)	11.8
TL/US Dollar	1,310,219
Benchmark Interest Rate (%)	21.78
ISE-100 (index)	20,191

April

3 April Inflation figures for March were announced at 2.10% for WPI and 0.89% for CPI. Annual inflation was 7.9% for WPI and 11.83% for CPI.

15 April The Council of Ministers of Northern Cyprus set a date of 24 April for a referendum on UN Secretary General Annan's plan to reunite Cyprus.

16 April The IMF Executive Board of Directors completed Turkey's 7th Review of Standby Agreement and disbursed US$ 495 million of a new loan.

24 April Turkish Cypriotes approved the UN peace plan while Greek Cypriotes rejected it in a referendum held.

Annual Inflation Rate (CPI) (%)	10.2
TL/US Dollar	1,417,299
Benchmark Interest Rate (%)	24.26
ISE-100 (index)	18,023

May

6 May The agreement to construct a railway tunnel crossing under the Bosphorus to connect Asia and Europe was signed. The Marmaray Project is known as the project of the century.

12 May The Banking Regulatory and Supervisory Authority (BRSA) completed the draft of the new Banking Law.

18 May The State Institute of Statistics (SIS) announced that exports had increased by 25.5% in the first three months of the year while imports had jumped by 40.7%.

Annual Inflation Rate (CPI) (%)	8.9
TL/US Dollar	1,492,017
Benchmark Interest Rate (%)	27.67
ISE-100 (index)	17,081

	15/10/03-04/02/04	05/02/04-16/03/04	17/03/04-07/09/04	08/09/04-19/12/04
Overnight Interest Rate (%)	26	24	22	20

Key Indicators

Inflation: Sustained progress in macroeconomic and institutional fundamentals allowed the Turkish economy to make further disinflationary gains and in turn, pushed inflation down to single digit levels not seen since early 1970s.

IMF: The IMF and Turkey reached an agreement on a new three-year stand-by program, including US$ 10 billion in fresh financing.

Ratings: In the run-up to a new three year stand-by agreement with the IMF, Standard and Poor's raised Turkey's foreign debt rating one notch on August 17, 2004.

Overnight Interest Rate: The Central Bank has lowered the O/N interest rate four times in 2004, each time by 200 basis points, bringing the overnight borrowing rate down from 26% to 18%.

Exchange Rates: With macroeconomic fundamentals in line with the disinflationary strategy, good news from the EU and IMF further strengthened the foreign exchange market dynamics in 2004, enabling the TL to breakthrough the US$/TL 1.35 million.

June

3 June The rate of annual inflation declined to single digits as WPI declined to 9.56% and CPI fell to 8.88%.

22 June The UN Security Council started to discuss a report of General Secretary Kofi Annan to lift the embargo on Turkish Cyprus.

Talks in Ankara with the IMF delegation for the 8th Review of Standby Agreement were concluded.

30 June Growth figures for the first quarter exceeded expectations at 12.4%. GNP for the first quarter at current prices amounted to TL 79,442.9 trillion (TL27.3 trillion at 1987 fixed prices).

Annual Inflation Rate (CPI) (%)	8.9
TL/US Dollar	1,480,911
Benchmark Interest Rate (%)	27.73
ISE-100 (index)	17,968

July

3 July SIS announced that the rate of inflation as of June 2004 was 1.05% for WPI and 0.13% for CPI. Year-on-year inflation stood at 10.53% for WPI and 8.93% for CPI.

30 July Exports for the first half of the year increased by 31.8% to US$ 28.6 billion while imports rose by 47.3% to US$ 45.4 billion, resulting in a foreign trade deficit of US$ 16.8 billion, up 84% over the previous year.

IMF disbursed a tranche of the US$ 661 million loan following the 8th Review of Standby Agreement.

Annual Inflation Rate (CPI) (%)	9.6
TL/US Dollar	1,462,654
Benchmark Interest Rate (%)	26.51
ISE-100 (index)	19,381

August

17 August S&P raised Turkey's local currency rating to BB and foreign currency rating to BB-.

Annual Inflation Rate (CPI) (%)	10.0
TL/US Dollar	1,502,122
Benchmark Interest Rate (%)	25.22
ISE-100 (index)	20,218

September

3 September The total assets of the Turkish banking system amounted to TL 275 quadrillion (US$ 186 billion) as of end-June.

8 September The Central Bank cut the overnight borrowing rate from 22% to 20% and the lending rate from 27% to 24%.

30 September Moody's raised Turkey's local and foreign currency ratings from B3 to B2.

Annual Inflation Rate (CPI) (%)	9.0
TL/US Dollar	1,497,349
Benchmark Interest Rate (%)	24.33
ISE-100 (index)	21,954

October

5 October Agreements were signed for a US$ 27 million package from the World Bank consisting of US$ 20 million in loans and US$ 7 million in aid.

Annual Inflation Rate (CPI) (%)	9.9
TL/US Dollar	1,470,153
Benchmark Interest Rate (%)	22.52
ISE-100 (index)	22,890

November

27 November Turkey made foreign debt repayment of US$ 17.1 billion so far this year.

29 November Turkey exported US$ 50.6 billion and imported US$ 78.2 billion worth of goods during the January-October period.

Annual Inflation Rate (CPI) (%)	9.8
TL/US Dollar	1,426,013
Benchmark Interest Rate (%)	24.29
ISE-100 (index)	22,486

December

14 December Turkey and the IMF reached an agreement on a new program that foresees utilization of US$ 10 billion in funds from the IMF.

17 December An historic decision that is a turning point in Turkey's EU membership hopes was announced. The EU Council decided to open up membership negotiations with Turkey on October 3, 2005. This decision brought Turkey a step closer to the membership talks, providing a firm institutional anchor.

Annual Inflation Rate (CPI) (%)	9.3
TL/US Dollar	1,336,300
Benchmark Interest Rate (%)	20.29
ISE-100 (index)	24,972

20/12/04-10/01/05	11/01/05-08/02/05	09/02/05-08/03/05	09/03/05-10/04/05	10/04/05-11/04/05
18	17	16.5	15.5	15.0

ISE: Market players pushed the ISE-100 Index to a record high of 24,972 on December 29, 2004 on the back of positive macroeconomic sentiment, bringing the year on year rise to 34%.

Growth: Sustained economic and institutional reforms have allowed the Turkish economy to achieve above-trend growth over the last three years. Strong macroeconomic fundamentals pushed GDP growth to 8.9%, far above the government target of 5%.

Foreign Trade: Turkey's foreign trade volume hit a record US$ 160 billion in 2004.

Current deficit: The current account deficit, reflecting the persistent surge in imports, rose to US$ 15.4 million, or 5.1% of GNP in 2004.

Fiscal balance: The pace of fiscal consolidation outperformed program targets for the second consecutive year in 2004. As a result, the consolidated budget deficit remained under the targeted 11.1% level at 7.1%, the lowest level seen since the 1990s.

Financial Review

IFRS Financial Results – Segment Reporting

Segment reporting, outlining the split of income and expense items between business groups, presents the progress in the financial performance of the banking group compared to other business segments in 2004, with net income of the banking segment totaling YTL 348 million. On a consolidated basis, the Group's income before tax and minority interest amounted to YTL 531 million (US$ 390 million), an increase of 11.3% over the previous year.

The net banking income of the banking group, (which includes adjusted net interest margin, net trading income and net fee and commission income), rose by 15.7% to YTL 1,811 million in 2004. Adjusted Net Interest Margin (NIM) of the banking segment increased by 70.5% over the preceding year to YTL 1,117 million while net fee and commission income reached YTL 591 million, an improvement of 36.6% over the previous year.

Summary of Financial Operations and Performance On a Consolidated Basis

Loans:
Total assets increased by 3.6% in real terms, standing at YTL 30,266 million (US$ 22,254 million) on a consolidated basis as of end-2004. In line with the deflationary trends and the restructuring in the balance sheet, the ratio of customer loans to total assets increased to 50.5% in 2004 from 38.4% in 2003, on a consolidated basis. Turkish lira loans (TL loans) soared by 65.9%, reaching YTL 7,185 million while foreign currency loans (FC loans) rose by 39.3%, totaling US$ 5,954 million. In terms of currency breakdown, the share of TL loans in total loans increased to 47.0% in 2004, up from 38.7% in 2003, while FC loans constituted 53.0% of total loans at 2004 year-end, compared to 61.3% in 2003. As of end-2004, 71.6% of cash loans were secured. Consumer loans make up 23.1% of total loans, reflecting economic growth and consumer confidence.

NPLs:
Garanti continued to increase asset quality in 2004. The share of non-performing loans (NPLs) in gross cash loans decreased to 2.9% in 2004 from 3.1% in 2003. A provision of 57.7% was set aside for loans in 2004, compared to 48.7% in 2003, considering the realizable value of collaterals received against loan exposures. The ratio of non-performing loans to total cash and non-cash loans remained steady at 2.0%.

Securities:
Securities classified as "financial assets held for trading" and "security investments" amounted to YTL 7,174 million (US$ 5,275 million) at end–2004. This represents 23.7% of total assets compared to 35.7% the previous year due to the significant increase in loans and advances to customers in 2004.

Deposits:
Sound execution of the branch network expansion strategy contributed to the increase in the number of customers in 2004, resulting in a stronger, broader and more diversified deposit base. Customer deposits increased by 25.7% in US$ terms to YTL 19,706 million (US$ 14,490 million) at year-end 2004. Customer deposits now account for 65.1% of total liabilities and shareholders' equity, compared to 63.4% a year earlier. A large portion of this increase came from demand deposits. Demand deposits increased by 11.7% over 2003, reaching YTL 6,507 million and the share of demand deposits in total deposits increased from 31.7% in 2003 to 33.2% in 2004. The increase in demand deposits had a positive effect on the overall cost of funding.

TL and FC deposits increased by 18.4% and 18.2%, respectively as of year-end 2004 over the previous year. TL deposits reached YTL 8,201 million and FC deposits totaled US$ 9,293 million. FC deposits make up 62.2% of total customer deposits.

IEAs vs IBLs:
The share of interest earning assets (IEAs) in total assets increased to 82.2% (from 80.4% in 2003) and the share of interest bearing liabilities (IBLs) decreased to 63.1% (from 65.1% in 2003). Consequently, the positive gap between IEAs and IBLs further widened to YTL 5,793 million, an increase of 29.8%. The ratio of customer loans to customer deposits improved to 77.6% in 2004 compared to 60.5% a year earlier. At year-end 2004, loans constitute 60.5% of IEAs compared to 46.6% the previous year.

Non-interest income:
Total non-interest income reached YTL1,152 million as of year-end 2004, reflecting a continuous increase in sustainable sources of revenue. When trading income is excluded, non-interest income increased by 19.4% over 2003, reaching YTL 1,047 million. Net fee and commission income increased by 38.1% in 2004, reaching YTL 612 million. As a result, net fee and commission income constituted 53.1% of total non-interest income at end-2004 compared to 32.6% at end-2003. Net fees and commissions to average assets reached 2.1%, compared to 1.5% the preceding year. Garanti covered 45.6% of its operating expenses through net fee and commission income in 2004, compared to 35.3% in 2003.

The share of income from retail business in total non-interest income climbed to 21.5% in 2004 from 14.4% in 2003 while the share of premium income from the sale of insurance policies in total non-interest income increased to 9.5% in 2004, up from 6.3% the preceding year.

Non-interest expense:
Total non-interest expense (including personnel, depreciation and other administrative expenses) increased by 5.2% to YTL 1,561 million. The increase in non-interest expense was mainly attributable to the increase in personnel expenses (13.7%), in line with the branch network expansion strategy. Accordingly, Garanti Bank's "cost to income" ratio increased slightly to 64.7% in 2004, from 63.2% the preceding year. Non-interest expense remained almost flat when personnel expenses are excluded.

Net income:
Garanti reported net consolidated income of YTL 270 million (US$ 198 million) for 2004.

Sharp declines in the market prices of securities, classified under the available-for-sale portfolio, in the second quarter of 2004, limited profitability. Garanti Bank and its affiliates benefited significantly from their deferred tax assets carried forward from prior years in 2004 due to the increase in taxable earnings and the effect of the change in leasing activities-related tax legislation. Net deferred tax assets stock decreased by 63.4% in 2004.

Return on average assets and average equity ratios were 0.9% and 9.1%, respectively in 2004, comparing to the ratios of 2.1% and 24.4% for the year 2003. The decreases were mainly due to the adverse effect of increase in tax expenses as the deferred tax assets stock decreased and the non-recovered adverse effects of sharp declines in the market prices of securities in the second quarter of 2004. The ratios are 1.9% and 19.4%, respectively, when calculations are revised on income before tax figures for the year 2004.

In line with increasing share of IEAs, free equity improved to US$ 217 million as of year-end 2004 from a negative US$ 284 million the preceding year. Free funds (defined as the sum of free equity and total demand deposits) increased by 50.0% over year-end 2003, reaching US$ 5,031 million. Free funds to IEAs increased to 27.5% at year-end 2004 from 23.0% at year-end 2003.

KPMG

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements

31 December 2004

With Independent Auditors' Report Thereon

4 March 2005

This report contains the "Independent Auditors' Report" comprising 1 page; and the "Consolidated financial statements and their explanatory notes" comprising 51 pages.

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Independent Auditors' Report

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

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

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

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

İstanbul,
4 March 2005

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

Türkiye Garanti Bankası AŞ and Its Affiliates
Consolidated Balance Sheet at 31 December 2004

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

	Notes	31 Dec 2004	31 Dec 2003
Assets			
Cash and cash equivalents	3	2,761,781	1,870,702
Financial assets held for trading	4	618,621	1,191,860
Loans and advances to banks	5	1,737,211	1,483,459
Loans and advances to customers	6	15,282,759	11,205,284
Other assets	8	1,003,197	1,230,141
Security investments	9	6,555,246	9,244,831
Investments in equity participations	10	273,716	449,590
Tangible assets, net	11	1,723,920	1,860,108
Intangible assets, net	12	115,134	137,388
Deferred tax assets	17	194,478	532,298
Total assets		**30,266,063**	**29,205,661**
Liabilities			
Deposits from banks	13	1,134,021	1,033,799
Deposits from customers	14	19,705,720	18,530,532
Obligations under repurchase agreements	15	924,761	1,840,065
Loans and advances from banks	16	4,052,898	3,673,320
Current tax liability	17	29,487	34,463
Deferred tax liabilities	17	1,390	5,366
Other liabilities and accrued expenses	18	1,140,449	1,043,626
Total liabilities		**26,988,726**	**26,161,171**
Minority interest		**189,377**	**231,561**
Shareholders' equity	19		
Share capital		2,563,176	2,168,544
Retained earnings		524,784	644,385
Total shareholders' equity		**3,087,960**	**2,812,929**
Total liabilities, minority interest and shareholders' equity		**30,266,063**	**29,205,661**
Commitments and contingencies	21		

Türkiye Garanti Bankası AŞ and Its Affiliates
Consolidated Income Statement for the Year Ended 31 December 2004

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

	Notes	2004	2003
Interest income			
Interest on loans		1,934,900	1,437,595
Interest on securities		969,151	1,314,511
Interest on deposits at banks		184,235	171,065
Interest on lease business		49,732	53,701
Others		70,641	75,503
		3,208,660	3,052,375
Interest expense			
Interest on saving, commercial and public deposits		(1,464,128)	(1,931,888)
Interest on borrowings		(329,592)	(442,975)
Interest on bank deposits		(95,004)	(121,650)
Others		(40,102)	(5,325)
		(1,928,826)	(2,501,838)
Net interest income		**1,279,834**	**550,537**
Fee and commission income		865,306	720,910
Fee and commission expense		(253,311)	(277,665)
Net fee and commission income		**611,994**	**443,245**
Gross profit from retail business		247,093	195,082
Premium income from insurance business		109,765	85,166
Trading account income, net		104,767	480,601
Foreign exchange gain, net		47,321	209,397
Others		78,108	153,677
Other operating income		**587,054**	**1,123,923**
Total operating Income		**2,478,882**	**2,117,705**
Salaries and wages		(431,048)	(389,938)
Impairment losses	6, 7, 8, 10, 11, 12, 18	(344,125)	(133,897)
Depreciation and amortization	11, 12	(218,087)	(229,419)
Employee benefits		(117,850)	(92,850)
Advertising expenses		(88,186)	(71,358)
Communication expenses		(82,160)	(72,450)
Rent expenses		(72,465)	(77,230)
EDP expenses		(48,318)	(65,383)
Saving deposits insurance fund		(45,042)	(36,185)
Claim loss from insurance business		(37,782)	(29,494)
Utility expenses		(33,716)	(39,855)
Taxes and duties other than on income		(30,707)	(35,048)
Repair and maintenance expenses		(23,042)	(22,315)
Stationary expenses		(13,514)	(12,751)
Other operating expenses		(320,692)	(330,020)
Total operating expenses		**(1,906,733)**	**(1,638,193)**
Income from operations		**572,149**	**479,512**
Loss on monetary position, net		(41,560)	(2,671)
Income before tax		**530,589**	**476,841**
Taxation (charge)/credit	17	(301,163)	70,155
Income after tax		**229,426**	**546,996**
Minority interest		40,376	63,761
Net income for the year		**269,802**	**610,757**
Weighted average number of shares with a face value of TL 500 each (including those with TL 100 face value as expressed in terms of TL 500 face value)	19	**1,709.5 billion**	**1,583.5 billion**
Earnings per share (Full TL amount)		**157.83**	**385.70**

Türkiye Garanti Bankası AŞ and Its Affiliates
Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2004

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

			Retained earnings			Total
	Notes	Share capital	Reserves	Unappropriated earnings	Total	shareholders' equity
Balances at 1 January 2003		**1,993,351**	**24,229**	**184,592**	**208,821**	**2,202,172**
Correction of additional paid-in capital	19	175,193	-	(175,193)	(175,193)	-
Transfer from unappropriated earnings	19	-	922	(922)	-	-
Reserve for general banking risks, net		-	37,567	(37,567)	-	-
Net income for the year		-	-	610,757	610,757	610,757
Balances at 31 December 2003		**2,168,544**	**62,718**	**581,667**	**644,385**	**2,812,929**
Transfer from unappropriated earnings	19	394,632	27,404	(422,036)	(394,632)	-
Release from general banking risks, net		-	(37,567)	37,567	-	-
Net fair value gains from cash flow hedges	22	-	5,229	-	5,229	5,229
Net income for the year		-	-	269,802	269,802	269,802
Balances at 31 December 2004		**2,563,176**	**57,784**	**467,000**	**524,784**	**3,087,960**

Türkiye Garanti Bankası AŞ and Its Affiliates
Consolidated Statement of Cash Flows for the Year Ended 31 December 2004

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

	Notes	2004	2003
Cash flows from operating activities			
Net income for the year		269,802	610,757
Adjustments for non-cash items			
Taxation charge/(credit)	17	301,163	(70,155)
Minority interest		(40,376)	(63,761)
Impairment losses	6, 7, 8, 10, 11, 12, 18	344,125	133,897
Insurance technical provision		37,782	29,494
Provision for severance payments		1,795	19,980
Depreciation and amortization	11, 12	218,087	229,419
Loss on sale of premises and equipment		25,658	19,807
Change in accrued interest and other income		310,513	(195,334)
Change in accrued interest and other expense		(50,712)	(12,401)
Monetary loss effect of above corrections		23,664	25,927
Changes in operating assets and liabilities			
Deposits from banks		99,452	118,450
Deposits from customers		1,244,220	(564,766)
Obligations under repurchase agreements		(924,254)	431,387
Financial assets held for trading		574,516	836,889
Loans and advances to banks		(252,498)	(71,864)
Loans and advances to customers		(4,307,614)	(1,249,852)
Other assets		69,658	(169,608)
Other liabilities		43,471	(89,737)
Income taxes paid		(30,487)	(45,270)
Net cash used in operating activities		**(2,042,035)**	**(76,741)**
Cash flows from investing activities			
Decrease/(increase) in security investments		2,467,468	(394,142)
Decrease/(increase) in investments in equity participations-net		143,436	(221,274)
Proceeds from sales of tangible assets and tangible assets held for resale		88,533	120,385
Additions to tangible assets and tangible assets held for resale		(137,737)	(207,373)
Net cash provided by/(used in) investing activities		**2,561,700**	**(702,404)**
Cash flows from financing activities			
Increase in loans and advances from banks		371,414	11,811
Decrease in bonds payable		-	(92,973)
Proceeds from issuance of share capital to minorities		-	25,389
Net cash provided by/(used in) financing activities		**371,414**	**(55,773)**
Net increase/(decrease) in cash and cash equivalents		**891,079**	**(834,918)**
Cash and cash equivalents at beginning of the year		1,870,702	2,705,620
Cash and cash equivalents at end of the year	3	**2,761,781**	**1,870,702**

Overview of the Bank

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

(a) Brief History

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

(b) Ownership

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

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

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

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

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

(b) Basis of preparation

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

Significant accounting policies (continued)

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

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

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

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

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

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

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

(d) Accounting in hyperinflationary economies
Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year

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

Significant accounting policies (continued)

inflation rate in Turkey has been 69.72% as at 31 December 2004, based on the Turkish nation-wide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Although this rate is below the 100% threshold as of 31 December 2004, other characteristics; like general population prefers to keep its wealth in foreign currencies, prices are quoted in foreign currencies, interest rates, wages and prices are linked to a general price index, sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, still confirms the existence of a hyperinflationary economy. Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 31 December 2004 based on IAS 29. The restatement is calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics. For the last three years, such indices and conversion factors used to restate the accompanying consolidated financial statements are as follows:

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

The main guidelines for the restatement above mentioned are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant conversion factors.
- All items in the income statement are restated by applying the monthly conversion factors except for those deriving from non-monetary items, which are calculated based on the restated values of the related items.
- The effects of inflation on the net monetary positions of the Bank and its affiliates, is included in the income statement as "gain/(loss) on monetary position, net".

(e) Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

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

Significant accounting policies (continued)

(f) Tangible assets and related depreciation

Owned assets

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

Leased assets

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

Subsequent expenditure

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

Depreciation

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

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

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

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

(g) Goodwill/Negative Goodwill

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

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

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

Significant accounting policies (continued)

(h) Financial instruments

Classification

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

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

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

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

Recognition

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

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

Measurement

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

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

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

Fair value measurement principles

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

Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

(i) Securities borrowing and lending business
Investments lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under

Significant accounting policies (continued)

loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense. No such businesses have yet been carried out by the Bank and its affiliates.

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

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

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

(l) Employee benefits
The Bank has a defined benefit and contribution plan for its employees as described below:

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

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

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

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

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

Significant accounting policies (continued)

Reserve for severance payments

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

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

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

(m) Taxes on income

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

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

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

(n) Offsetting

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

(o) Earnings per share

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

Additionally, considering the fact that the number of issued shares through bonus share issuances is increased without an increase in resources contributed by the shareholders; the number of issued shares outstanding before such bonus share

Significant accounting policies (continued)

issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(p) Impairment

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

Originated loans and advances and held-to-maturity instruments

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

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

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

Financial assets remeasured to fair value

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

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

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

(q) Income and expense recognition

Interest income and expense

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

Fee and commission income

Fee and commission income arising on financial services provided including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset

Significant accounting policies (continued)

management services is recognized when the corresponding service is provided. Certain commissions, such as those deriving from letters of guarantee and other similar banking services, are usually recognized as income only when received.

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

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

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

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

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

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

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

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

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

Index for the notes to the consolidated financial statements:

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18	Other liabilities and accrued expenses
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22	Risk management disclosures
23	Affiliates and associates
24	Subsequent events

1 Segment reporting

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

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

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

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

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

1 Segment reporting (continued)

1.2 Business segments

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

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

Türkiye Garanti Bankası AŞ and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2004

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

1 Segment reporting (continued)

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

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

2 Related party disclosures

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

2.1 Outstanding balances

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

2.2 Transactions

	2004	2003
Interest income	8,356	30,485
Interest expense	8,960	10,761

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

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

3 Cash and cash equivalents

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

At 31 December 2004, cash and cash equivalents included balances with the Central Bank of Turkey amounting TL 1,347,868 billions (31 December 2003: TL 1,281,422 billions) as minimum reserve requirement. These funds are not available for the daily

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3 Cash and cash equivalents (continued)

business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits. Interest rates applied for reserve requirements are 12.5% (2003: 16%) for TL deposits and 0.99% (2003: 0.80%) for foreign currency deposits.

4 Financial assets held for trading

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

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

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

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

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

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

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

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4 Financial assets held for trading (continued)

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

5 Loans and advances to banks

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

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5 Loans and advances to banks (continued)

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

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

6 Loans and advances to customers

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

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

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

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

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.

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6 Loans and advances to customers (continued)

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

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

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

7 Financial lease receivables

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

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

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

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8 Other assets

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

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

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

9 Security investments

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

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9 Security investments (continued)

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

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

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

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

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

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

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

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9 Security investments (continued)

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

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

10 Investments in equity participations

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

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

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

IMKB Takasbank AŞ and equity participations available-for-sale disclosed in 'Others' do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and unworkable, accordingly

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10 Investments in equity participations (continued)

they are stated at cost, restated for the effects of inflation in TL units current at the balance sheet date.

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

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

11 Tangible assets

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

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

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

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11 Tangible assets (continued)

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

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

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

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

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

12 Intangible assets

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

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

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

12 Intangible assets (continued)

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

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

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

Türkiye Garanti Bankası AŞ and Its Affiliates
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12 Intangible assets (continued)

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

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

13 Deposits from banks

Deposits from banks comprise the following:

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

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

13 Deposits from banks (continued)

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

14 Deposits from customers

Deposits from customers comprise the following:

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

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

15 Obligations under repurchase agreements

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

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

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

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

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

15 Obligations under repurchase agreements (continued)

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

16 Loans and advances from banks

Loans and advances from banks comprise the following:

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

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

Long-term debts comprise the following:

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

16 Loans and advances from banks (continued)

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

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

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

17 Taxation on income

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

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

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

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

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

17 Taxation on income (continued)

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

	2004	**%**	**2003**	**%**
Taxes on income per statutory tax rate	175,094	33.00	143,052	30.00
Valuation allowance for deferred tax assets	44,390	8.37	-	-
Non-tax deductable impairment losses, net	42,035	7.92	(41,848)	(8.78)
Disallowable expenses	31,635	5.96	27,891	5.85
Investment incentives	14,049	2.65	5,444	1.14
Income items exempt from tax	(13,291)	(2.50)	(8,546)	(1.79)
Effect of permanent differences on consolidation adjustments	7,312	1.38	6,649	1.39
Effect of change in legal tax rate	(6,763)	(1.28)	-	-
Reversal of restatement of non-monetary items per IAS 29	-	-	(127,960)	(26.83)
Valuation differences of financial assets and liabilities	-	-	(63,986)	(13.42)
Others	6,702	1.26	(10,851)	(2.27)
Taxation charge/(credit)	301,163	56.76	(70,155)	(14.71)

The taxation charge comprise the following:

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

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

The current taxes payable on income comprise the following:

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

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

17 Taxation on income (continued)

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

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

18 Other liabilities and accrued expenses

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

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

19 Shareholders' equity

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

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

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

19 Shareholders' equity (continued)

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

20 Fair value information

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

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

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

21 Commitments and contingencies

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

Commitments and contingent liabilities comprise the following:

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

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

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

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

21 Commitments and contingencies (continued)

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

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

22 Risk management disclosures

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

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

22.1 Derivative financial instruments

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

Swaps

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

Futures and forwards

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

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange options. Foreign currency options provide protection against

22 Risk management disclosures (continued)

rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

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

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

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

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

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

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

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

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

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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:

	31 December 2004						31 December 2003					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
MONETARY ASSETS												
Turkish Lira												
Cash and cash equivalents	422,352	-	-	-	-	422,352	395,720	-	-	-	-	395,720
Financial assets held for trading	2,762	5,814	134,465	61,570	114,621	319,232	3,007	17,418	5,986	39,388	37,721	103,520
Loans and advances to banks	93,088	-	-	40,344	-	133,432	186,776	10,776	-	-	-	197,552
Loans and advances to customers	3,410,971	341,126	418,502	843,910	2,033,237	7,047,746	1,925,725	182,082	209,977	774,876	1,099,717	4,192,376
Other assets	40,269	78,403	-	-	-	118,672	164,898	4,318	56,672	-	-	225,888
Security investments	16,213	341	782,514	243,537	992,221	2,034,826	359,977	125,263	16,559	486,580	999,532	1,987,911
Deferred tax assets	-	-	-	-	191,464	191,464	-	-	-	-	528,311	528,311
Total Turkish Lira monetary assets	3,985,655	425,684	1,335,481	1,189,361	3,331,543	10,267,724	3,036,104	339,857	289,193	1,300,843	2,665,281	7,631,278
Foreign currency												
Cash and cash equivalents	2,339,429	-	-	-	-	2,339,429	1,474,982	-	-	-	-	1,474,982
Financial assets held for trading	1,363	609	18,435	146,017	132,965	299,389	3,391	338,396	7,894	559,586	179,073	1,088,340
Loans and advances to banks	1,058,971	173,795	247,811	103,023	20,179	1,603,779	816,423	102,458	170,026	180,118	16,882	1,285,907
Loans and advances to customers	505,324	1,038,916	1,232,573	1,309,359	4,013,018	8,099,190	676,508	720,378	1,061,520	974,141	3,456,924	6,889,469
Other assets	180,953	20,906	-	-	-	201,859	56,846	58,238	52,814	24,994	936	193,829
Security investments	70,455	141,923	71,808	163,960	4,072,274	4,520,420	49,107	176,785	1,580,187	59,988	5,390,852	7,256,920
Deferred tax assets	-	-	-	-	3,014	3,014	-	-	-	-	3,987	3,987
Total foreign currency monetary assets	4,156,495	1,376,149	1,570,627	1,722,359	8,241,450	17,067,080	3,077,256	1,396,256	2,872,441	1,798,827	9,048,654	18,193,434
Total Monetary Assets	8,142,150	1,801,833	2,906,108	2,911,720	11,572,993	27,334,804	6,113,360	1,736,113	3,161,634	3,099,670	11,713,935	25,824,712
MONETARY LIABILITIES												
Turkish Lira												
Deposits	6,766,571	1,240,231	69,033	57,962	67,557	8,201,354	5,550,391	1,028,011	254,885	91,676	508	6,925,471
Obligations under repurchase agreements	258,956	-	-	-	53,681	312,637	86,036	-	-	-	-	86,036
Loans and advances from banks	43,426	35,664	44,405	43,463	-	166,958	51,188	30,431	42,680	29,104	-	153,403
Other liabilities and accrued expenses	297,883	48,173	58,073	65,822	82,941	552,892	264,079	52,364	41,313	81,644	57,168	496,568
Total Turkish Lira monetary liabilities	7,366,836	1,324,068	171,511	167,247	204,179	9,233,841	5,951,694	1,110,806	338,878	202,424	57,676	7,661,478
Foreign currency												
Deposits	9,965,329	1,641,028	445,020	398,580	188,430	12,638,387	9,901,750	1,561,533	426,198	309,495	439,884	12,638,860
Obligations under repurchase agreements	133,606	50,622	111,866	104,346	211,684	612,124	500,562	372,193	173,196	708,079	-	1,754,029
Loans and advances from banks	142,213	177,422	277,589	2,032,886	1,255,830	3,885,940	94,828	40,013	332,189	2,283,633	769,254	3,519,917
Other liabilities and accrued expenses	530,036	185	7,503	74,985	3,631	616,340	174,387	219,570	161,990	23,554	5,140	584,641
Total foreign currency monetary liabilities	10,771,184	1,869,257	841,978	2,610,797	1,659,575	17,752,791	10,671,527	2,193,309	1,093,573	3,324,761	1,214,277	18,497,447
Total Monetary Liabilities	18,138,020	3,193,325	1,013,489	2,778,044	1,863,754	26,986,632	16,623,221	3,304,115	1,432,451	3,527,185	1,271,953	26,158,925

22 Risk management disclosures (continued)

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

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

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

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

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

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

	31 December 2004						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-Interest Bearing	Total
MONETARY ASSETS							
Cash and cash equivalents	2,541,628	-	-	-	-	220,153	2,761,781
Financial assets held for trading	2,989	7,582	159,695	211,935	231,694	4,726	618,621
Loans and advances to banks	1,090,041	173,795	247,811	143,366	20,177	62,021	1,737,211
Loans and advances to customers	3,680,187	1,380,042	1,651,075	2,153,269	6,046,255	236,108	15,146,936
Other assets	-	-	-	-	-	320,531	320,531
Security investments	71,433	1,605,201	1,710,575	393,566	2,582,216	192,255	6,555,246
Deferred tax assets	-	-	-	-	-	194,478	194,478
Total Monetary Assets	7,386,278	3,166,620	3,769,156	2,902,136	8,880,342	1,010,119	27,334,804
MONETARY LIABILITIES							
Deposits	10,095,819	2,863,483	511,662	454,644	255,277	6,658,856	20,839,741
Obligations under repurchase agreements	389,587	50,232	111,567	103,412	253,999	15,964	924,761
Loans and advances from banks	184,729	209,535	317,409	2,048,016	1,248,441	44,768	4,052,898
Other liabilities and accrued expenses	198	-	1,197	-	13,708	1,154,129	1,169,232
Total Monetary Liabilities	10,670,333	3,123,250	941,835	2,606,072	1,771,425	7,873,717	26,986,632

	31 December 2003						
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-Interest Bearing	Total
MONETARY ASSETS							
Cash and cash equivalents	1,457,458	-	-	-	-	413,244	1,870,702
Financial assets held for trading	6,445	834,155	13,872	115,873	213,803	7,711	1,191,859
Loans and advances to banks	835,385	113,234	170,026	180,118	16,882	167,814	1,483,459
Loans and advances to customers	2,343,040	902,458	1,271,497	1,749,019	4,557,216	258,616	11,081,846
Other assets	-	-	-	-	-	419,717	419,717
Security investments	379,503	1,541,034	3,397,081	302,679	3,194,377	430,157	9,244,831
Deferred tax assets	-	-	-	-	-	532,298	532,298
Total Monetary Assets	5,021,831	3,390,881	4,852,476	2,347,689	7,982,278	2,229,557	25,824,712
MONETARY LIABILITIES							
Deposits	9,462,946	2,561,566	674,665	397,414	439,844	6,027,896	19,564,331
Obligations under repurchase agreements	584,803	371,342	172,452	704,454	-	7,014	1,840,065
Loans and advances from banks	132,718	68,644	372,326	2,298,268	764,760	36,604	3,673,320
Other liabilities and accrued expenses	33,937	30,730	7,160	1,360	5,314	1,002,708	1,081,209
Total Monetary Liabilities	10,214,404	3,032,282	1,226,603	3,401,496	1,209,918	7,074,222	26,158,925

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22 Risk management disclosures (continued)

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

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

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

22 Risk management disclosures (continued)

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

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

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

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

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

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22 Risk management disclosures (continued)

These exposures are as follows:

	2004			
	US$	EUR	Other Currencies	Total
Assets				
Cash and cash equivalents	374,291	1,946,362	18,776	2,339,429
Financial assets held for trading	197,359	56,566	45,464	299,389
Loans and advances to banks	1,143,033	398,664	62,082	1,603,779
Loans and advances to customers	6,596,515	1,403,479	98,049	8,098,043
Other assets	65,361	133,662	11,367	210,390
Security investments	4,031,043	488,385	992	4,520,420
Investments in equity participations	-	463	6,898	7,361
Tangible assets	471	67,519	1,910	69,900
Intangible assets	-	-	-	-
Deferred tax asset	323	2,639	52	3,014
Total Assets	12,408,396	4,497,739	245,590	17,151,725
Liabilities				
Deposits	6,781,152	5,429,432	427,803	12,638,387
Obligations under repurchase agreements	527,931	84,193	-	612,124
Loans and advances from banks	2,809,661	1,060,271	16,008	3,885,940
Current tax liability	-	25,860	48	25,908
Other liabilities and accrued expenses	445,234	136,688	8,510	590,432
Total Liabilities	10,563,978	6,736,444	452,369	17,752,791
Net On Balance Sheet Position	1,844,418	(2,238,705)	(206,779)	(601,066)
Net Off Balance Sheet Position	(1,842,129)	2,178,730	288,605	625,206
Net Position	2,289	(59,975)	81,826	24,140

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

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

22 Risk management disclosures (continued)

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

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

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

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

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

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

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

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

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22 Risk management disclosures (continued)

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

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

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

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

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22 Risk management disclosures (continued)

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

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

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22 Risk management disclosures (continued)

22.4 Hedging

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

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

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

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

23 Affiliates and associates

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

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

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

23 Affiliates and associates (continued)

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

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

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

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

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

24 Subsequent events

24.1 Removal of six digits in the national currency

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

24.2 Sale of equity participations

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

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Corporate Information

Garanti Bank common stock is listed on the İstanbul Stock Exchange and the London Stock Exchange. Analysts, portfolio managers and other investors seeking further information on Garanti Bank may contact the Investor Relations Department at (+90 212) 318 23 50.

Number of Shares (million)	120,000
Free float	40.77%
US Exchange (ADRs)	PORTAL
DR: Underlying Share Ratio	1:2
Ticker symbols	Reuters: GARAN.IS
	Bloomberg: GARAN TI

Garanti Bank's annual reports, interim financial statements, corporate announcements, news releases, and ownership structure as well as other relevant information can be found on Garanti Bank's web site at www.garantibank.com

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