Garanti 2005 Annual Report

Contents

SECTION I: INTRODUCTION
4 About Garanti
6 Key Financial Highlights
8 Garanti Financial Services Group Companies
10 Our Vision, Mission, Core Values and Strategy
12 Our Main Competitive Advantages and Market Shares
14 2005 Developments at Garanti
16 2005 Awards
18 Chairman's Message
22 CEO's Message
26 Garanti's New Strategic Partner
27 2005 Business Review
- 27 Corporate Banking
- 29 Commercial Banking
- 31 SME Banking
- 35 Retail Banking
- 38 Garanti Masters Affluent Banking
- 39 Payment Systems - Credit and Bank Cards
- 44 Banking Through Alternative Delivery Channels
- 47 International Banking
- 48 Money and Capital Markets
- 50 Project Finance
- 51 Asset Management Services
- 52 Custody and Clearing Services
- 53 Technology and ABACUS
- 55 Human Resources

57 Corporate Citizenship
60 Garanti Financial Services Group Companies
72 2005 Developments in Turkey

SECTION II: MANAGEMENT AND CORPORATE GOVERNANCE APPLICATIONS
76 Board of Directors and Auditors
78 Senior Management
80 Ensuring the Basis for Effective Corporate Governance
82 Information about Risk Management Policies
87 Assessment regarding Internal Control, Internal Audit, and Risk Management Systems

SECTION III: FINANCIALS
90 IFRS Financial Results - Segment Reporting
93 Independent Auditors' Report
96 Consolidated Financial Statements as of and for the Year Ended 31 December 2005
100 Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
145 Garanti's Credit Ratings and Garanti according to Rating Agencies
146 Analysts Say
147 Garanti Share Performance
148 Corporate Information
Addresses

SECTION I INTRODUCTION

Corporate Profile

Founded in Ankara in 1946, Garanti is the third largest privately-owned bank in Turkey.

With more than 9,000 employees, 427 branches in Turkey, international branches in Cyprus, Luxembourg, and Malta, and representative offices in Dusseldorf, Geneva, London, Moscow, and Shanghai, Garanti provides multidimensional and high-quality financial services to its corporate, commercial, SME, and retail customers.

With a portfolio of ten financial service subsidiaries, Garanti offers fully-integrated services. Among the Bank's subsidiaries are GarantiBank International NV (the Netherlands) and GarantiBank Moscow (Russia).

At end-2005, Garanti had US$ 30.9 billion in assets and US$ 19.0 billion in customer deposits on a consolidated IFRS basis. As of the same date, loans and advances to customers were US$ 14.4 billion on a consolidated IFRS basis.

Garanti offers its customers innovative products and services.

Basing its growth strategy on retail and SME banking, Garanti takes a customer-focused approach to provide a steady stream of new and creative products and services. The Bank has a well-established history of "firsts" not just in Turkey, but also worldwide.

Garanti's credit card success story is a model for the world.

Garanti has had the greatest success in the credit card business. In the five years since its inception, Bonus Card, Turkey's first chip-based, multi-branded credit and loyalty card program, has become a success story that is held in high esteem around the world and is pointed to as a model to be followed.

Garanti continuously enlarges the scope of its alternative delivery channel services.

Alternative delivery channel (ADC) utilization is highest at Garanti with 77% of all its banking transactions being handled via alternative channels. Garanti's call center is among Turkey's biggest and its internet bank has received international recognition as the best internet bank in Turkey for many consecutive years. Effective use of ADCs is just one of the reasons behind Garanti's high productivity and profitability.

Garanti also contributes towards enhancing the quality of social life.

Realizing its social responsibilities, Garanti is committed to "continuously increase the value it creates for society and the environment". To this end, the Bank sponsors activities related to culture, the arts, education, sports, and the environment. Its support of culture and the arts extends to international platforms. Garanti has created its own institutions to ensure that its efforts in this direction are sustained and effective.

Garanti Bank's shares are traded on the İstanbul Stock Exchange (ISE) under the symbol "GARAN.IS" as well as on the London Stock Exchange. See page 147 regarding stock performance.

Milestones in Garanti's Corporate History

Founded in Ankara in 1946, Garanti:

- Joins the Doğuş Group, a privately held diversified conglomerate active in financial services, industry, and services sectors in 1983.
- Makes its initial public offering and its shares begin trading on the İstanbul Stock Exchange in 1990.
- Becomes the first company in Turkey to float its shares internationally in 1993.
- Merges with Ottoman Bank, another Doğuş Group financial services company, in 2001.
- Changes its partnership structure when GE Consumer Finance, a unit of General Electric Company, acquires a stake in the Bank.

As one of Turkey's leading banks, Garanti will continue to create value for its shareholders, customers, and employees in the years to come.

Garanti's Shareholder Structure

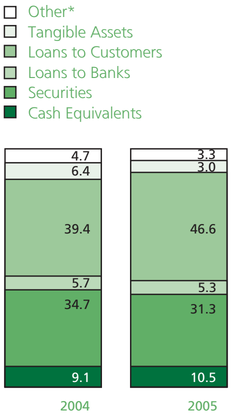
GE Araştırma ve Müşavirlik Ltd, a GE-owned research house and consultancy firm, acquired 25.50% of Garanti shares from the Doğuş Group in 2005. The Bank's shareholder structure as of the beginning and end of the year is shown below.

			31 December 2004
Shareholder	Number of Shares	Nominal (YTL)	Share (%)
Doğuş Holding A.Ş.	1,233,968,305,716	616,984,152.86	51.42
Doğuş İnşaat ve Tic. A.Ş.	93,717,050,934	46,858,525.47	3.91
Somtaş Tarım ve Tic. A.Ş.	91,084,418,072	45,542,209.04	3.80
Doğuş Yapı San. A.Ş.	1,319,998,614	659,999.31	0.05
Doğuş Nakliyat ve Tic. A.Ş.	1,319,998,614	659,999.31	0.05
Doğuş Group Total	1,421,409,771,950	710,704,885.98	59.23
Others	978,590,228,050	489,295,114.02	40.77
Grand Total	2,400,000,000,000	1,200,000,000.00	100.00

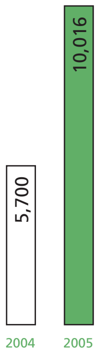
			31 December 2005
Shareholder	Number of Shares	Nominal (YTL)	Share (%)
Doğuş Holding A.Ş.	49,740,054,236	497,400,542.36	23.69
Doğuş İnşaat ve Tic. A.Ş.	7,977,711,856	79,777,118.56	3.80
Doğuş Nakliyat ve Tic. A.Ş.	115,499,879	1,154,998.79	0.05
Doğuş Group Total	57,833,265,971	578,332,659.71	27.54
GE Araştırma ve Müşavirlik Ltd. Şti.	53,550,000,000	535,500,000.00	25.50
Others	98,616,734,029	986,167,340.29	46.96
Grand Total	210,000,000,000	2,100,000,000.00	100.00

Key Financial Highlights

Composition of Assets
%



TL Loans
YTL million



FC Loans**
US$ million

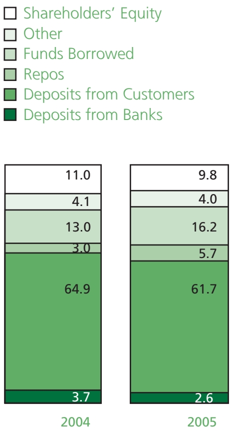
*Other assets include intangible assets, investments in equity participations, deferred tax assets and other assets

**Foreign currency, not inflation adjusted

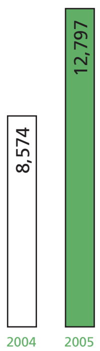
Focusing on real banking, Garanti steadily increased the share of lending on its balance sheet while reducing its overall dependence on its securities portfolio.

A strong 76% year-on-year rise in Turkish lira lending resulted in rapid growth in the share of TL loans on the Bank's balance sheet pointing further evidence of Garanti's continued support for real-sector activities.

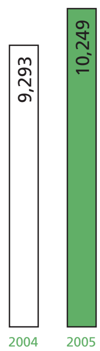
Composition of Liabilities and Shareholders' Equity
%



TL Deposits
YTL million



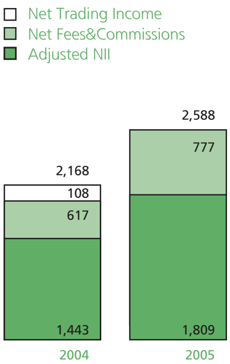
FC Deposits**
US$ million



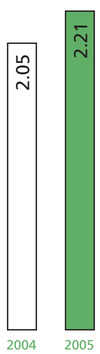
**Foreign currency, not inflation adjusted

With the highest demand deposit level among the banks in the Turkish banking sector, Garanti continued to increase demand deposit to total deposit ratio in 2005.

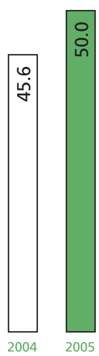
Ordinary Banking Income of the Banking Segment
YTL million



Net Fees and Commissions/ Average Assets
%



Net Fees Commissions/ Operating Expenses
%



In line with its goal of achieving sustainable profitability, Garanti raised the level of ordinary banking revenues generated by its customer focused strategy 19.4% to YTL 2.6 billion in 2005.

Garanti in 2005

- The Bank continued to grow in all lines of business, particularly in retail banking, credit cards, and SME banking.
- Garanti increased its market shares, customer numbers, and penetration in different business lines while remaining an effective and influential player in money and capital markets.
- In loan syndications and structured finance deals conducted during the year, Garanti secured the most favorable terms of any Turkish bank while also reinforcing its benchmark status for negotiating the best terms.
- The Bank's credit card business continued to grow strongly. Innovative products and services were introduced throughout the year to further increase customer satisfaction. The Bonus Card program that was launched in 2000 registered its fifth successful consecutive year.
- The effectiveness of the Bank's alternative delivery channels was increased. Garanti's innovative applications, especially in ATMs, were widely applauded and admired.

Financial Highlights*

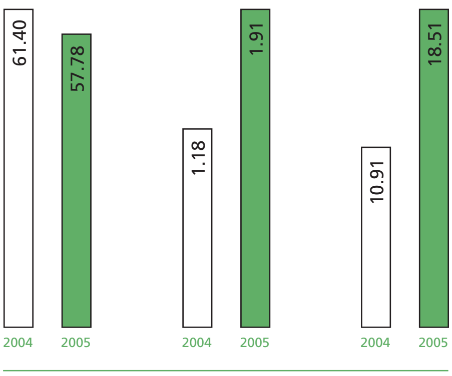
US$ million	2004	2005
Total Assets	22,339	**30,883**
Loans and Advances to Customers	8,803	**14,398**
Contingencies	5,203	**6,306**
Deposits from Customers	14,490	**19,047**
Shareholders' Equity	2,468	**3,022**
Paid-in Share Capital	1,885	**2,284**
Total Operating Income	1,904	**2,450**
Net Income	260	**523**
Return on Average Assets (%)	1.18%	**1.91%**
Return on Average Shareholders' Equity (%)	10.91%	**18.51%**
Cost/Income Ratio (%)	61.40%	**57.78%**

US$ = YTL 1.334 as of December 2005
US$ = YTL 1.360 as of December 2004
* Based on consolidated financial statements pursuant to IFRS

Cost/Income Ratio %

ROAA %

ROAE %



Within the framework of accommodating itself to the disinflationary environment, Garanti outperformed the sector by continuously increasing its sources of sustainable, high-quality revenues and improving its operational productivity.

Garanti's strategy had a positive impact on both its return on assets and return on equity ratios, which reached 1.91% and 18.51%, respectively in 2005.

Garanti and its subsidiaries offer customers fully-integrated financial services.

Garanti

GarantiBank International N.V.

Headquartered in Amsterdam, GarantiBank International NV is active in Romania and Germany as well as in the Netherlands.
(See p. 61)

GarantiBank Moscow

With a well-established reputation of being the best provider of corporate banking products and services in Russia, GarantiBank Moscow also serves retail customers.
(See p. 62)

Garanti Securities

One of Turkey's leading capital market brokerage firms, Garanti Securities serves national and international clients in the areas of corporate finance and trading in capital markets.
(See p. 63)

Garanti Asset Management

Turkey's first asset management company, Garanti Asset Management, increased the total volume of funds under management to US$ 2.5 billion in 2005.
(See p. 64)

Garanti Leasing

Known in national and international markets for its high-quality approach to service and for its market credibility, Garanti Leasing led the Turkish leasing sector in 2005 with a total transaction volume of US$ 700 million.
(See p. 65)

Garanti Factoring

One of Turkey's first factoring companies, Garanti Factoring offers its high-quality products and services to its clients through Garanti's delivery channels.
(See p. 66)

Garanti Insurance

As the leading provider of bancassurance in Turkey, Garanti Insurance ranked 9th among the country's largest insurers in 2005.
(See p. 67)

Garanti Pension Company

Garanti Pension Company offers value-added private pension and life insurance products and services to a broad group of customers in Turkey.
(See p. 68)

Garanti Payment Systems

Garanti Payment Systems is recognised as the fastest and most active product developer in the Turkish credit card market. GPS designs and manages Garanti's credit card programs and virtual card services as well as merchant network marketing and e-commerce services.
(See p. 69)

Garanti REIT

Garanti REIT is one of the largest and well recognised real estate investment companies in Turkey. It is also the only Turkish company of its kind to hold an internationally recognized quality management certificate.
(See p. 70)

Garanti Technology

Garanti Technology, with its innovative and advanced technological solutions, uninterrupted transaction capabilities and secure infrastructure, is Turkey's leading technology provider.
(See p. 71)

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 effective 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 achieve long-term, sustainable growth by continuously creating value.

The 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
- Strong 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

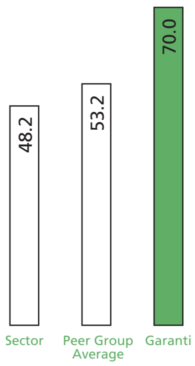
Focus on corporate governance and social responsibility

- 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

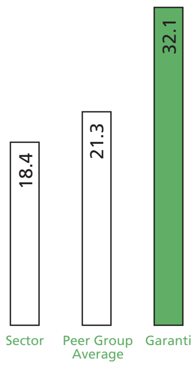
Our Main Competitive Advantages

- 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
- High market shares in every line of business

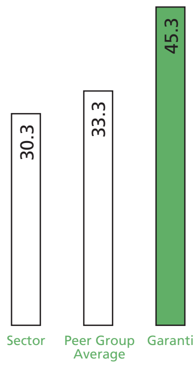
Assets per Branch
2005, US$ million



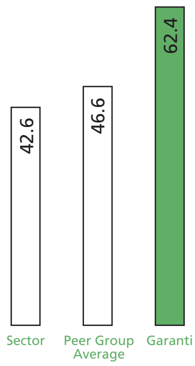
Loans per Branch
2005, US$ million



Deposits per Branch
2005, US$ million



IEAs per Branch
2005, US$ million



All comparisons are based on an average of beginning and end of year branch numbers
Based on Bank-only BRSA financial statements

Garanti, well-positioned for managing the disinflationary environment, 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 2005	Increase
Total Assets	6.3	9.8	3.5
Total Loans	8.4	11.5	3.1
TL Loans	5.4	8.8	3.4
FC Loans	13.1	18.0	4.9
Total Deposits	4.4	9.2	4.8
TL Deposits	2.1	7.4	5.3
FC Deposits	6.9	12.2	5.3
Demand Deposits	6.0	10.9	4.9
Time Deposits	4.1	8.7	4.6
Number of Credit Cards	9.0	16.7	7.7
Number of Debit Cards	3.9	5.5	1.6
Credit Card Transaction Volume	7.8	21.9	14.1
Number of ATMs	4.4	8.2	3.8
Foreign Trade Financing	12.0	13.7	1.7
Exports	13.8	14.8	1.0
Imports	11.0	13.0	2.0
Check Payment	7.1	8.8	1.7
Check Collection	6.3	9.0	2.7

January 2005

Garanti introduces CepBank (MobileBank). An innovative product and the first of its kind in the world, Garanti MobileBank makes it possible to send money via mobile phone messaging system to anyone, even to recipients who are not customers of the Bank.

Garanti introduces its mc^2 Bonus Card, Turkey's first see-through credit card with a rounded corner, at a joint press conference with MasterCard. The card is offered with four different options in the Bank's "University Banking" package, part of its overall life cycle banking approach.

The conversion of the Bank's cards, POS devices, and ATMs to the EMV (European MasterCard Visa) international chip standard is 100% complete.

EUR 20 million in financing is secured for Unifree, winner of the operating contract for the duty-free shop at the Antalya International Airport terminal.

S&P raises Garanti's B+ long-term credit and deposit rating to BB-.

Credit agreements signed with the Burdur and Bursa chambers of industry and commerce expand the scope of the Bank's ongoing support for real-sector business enterprises.

February 2005

Garanti's existing Garanti24 ATM cards are replaced with the newly-designed Paracard.

Under the heading of life cycle banking, the Unibank package of university banking products is launched. Unibank is specially designed for university students to make it easy for them to perform all their banking transactions.

Internet protocol POS devices go into use in order to enhance both customer and merchant satisfaction by reducing processing time and costs in stores where there are large numbers of cash registers.

Moody's raises Garanti's B2 foreign currency deposit rating outlook from "stable" to "positive".

The geographical scope of the Bank's collaboration with chambers of industry and commerce is further enlarged by agreements with the Bodrum Chamber of Commerce, the Fethiye Chamber of Commerce, the Marmaris Chamber of Commerce, the Kuşadası Chamber of Commerce, the Alanya Chamber of Commerce and Industry, the Manavgat Chamber of Commerce and Industry, the Antalya Chamber of Commerce and Industry (coverage expansion agreement), and the Kütahya Chamber of Commerce and Industry.

March 2005

Garanti becomes the first locally-owned Turkish company to be awarded a certificate of success by Investors in People (IIP), a company that certifies the quality of companies' human resources systems and practices. The IIP standard has been adopted by more than 20,000 companies worldwide. Garanti's certificate of compliance with the standard is further evidence that its strong performance is due largely to its investments in people.

The Bank's credit collaboration with chambers of industry and commerce continues to grow with new agreements with the Edremit Chamber of Commerce, the İzmir Association of Chambers of Tradesmen and Artisans, and the Gemlik Chamber of Commerce and Industry.

April 2005

A credit agreement is signed with the İnegöl Chamber of Commerce and Industry.

May 2005

As a result of a restructuring of the Bank's retail banking units, the "Açık" (mass banking) branches are all converted into Garanti branches and the branch service model is also redesigned accordingly.

Bonus Card, Turkey's first chip-based, multi-branded credit and loyalty card program, celebrates its fifth successful year.

The Bank provides US$ 18 million in financing for the US$ 180 million build-operate-transfer privatization of Ankara Esenboğa Airport.

Garanti obtains a US$ 300 million loan based on diversified payment rights securitization in a deal that is covered by a full financial guaranty insurance policy from MBIA Insurance Corporation. The rate of interest charged on this deal is the lowest ever obtained by a Turkish bank in the securitization market as of that date.

The Bank signs a collaboration agreement with the Rize Chamber of Commerce and Industry.

June 2005

Garanti provides US$ 100 million as project finance for the year's first major privatization, the sale of Eti Alüminyum for a total of US$ 280 million.

In line with Garanti's goal of meeting all of its customers' needs, the Bank begins offering high-limit and competitively-priced housing loans with terms of up to 60 months.

Following up on the success of Shop&Miles&club, Garanti launches &club privé, Turkey's first specially-designed card that offers special features for travelers outside the country as well.

Collaboration agreements are signed with the Bolu Chamber of Commerce and Industry, the Antakya Chamber of Commerce and Industry, the Kayseri Chamber of Tradesmen and Artisans, the Yalova Chamber of Commerce and Industry, and the International Transporters Association (freight support credit).

July 2005

Garanti provides US$ 45 million in financing for the US$ 100 million Park Hotel, Residence, and Shopping Center project being undertaken by a group of international investors.

Garanti signs a EUR 600 million loan syndication in which 71 banks from 24 countries take part. In terms of US dollars, this is the biggest single syndicated loan ever received by a Turkish bank as of the transaction date.

The Bank's online loan application system at auto dealerships goes into operation. This system makes it possible for a customer at an auto dealership to apply and receive instant approval for a loan to finance an automobile purchase.

August 2005

Garanti is the only Turkish bank taking part in the renewal of Vestel's US$ 135 million international letter of credit syndication in 2005.

An agreement is reached in the strategic partnership negotiations taking place between the Doğuş Group, Garanti's main shareholder, and General Electric Consumer Finance regarding GECF's acquisition of a stake in the Bank.

Introducing a new dimension in credit cards, Turkey's first see-through card, Bonus Translucent, is launched.

The inclusion of GPRS technology in Garanti mobile POS devices adds another layer of card security by allowing the device to be brought to the customer in places such as restaurants.

September 2005

Garanti is authorized to provide EUR 36 million in financing for Mare Manastır, a wind turbine electrical generation plant with a capacity of 39.2 MW. Having a total investment cost of EUR 45 million, it is the biggest alternative energy project of its kind in Turkey.

Garanti obtains a US$ 600 million loan based on diversified payment rights securitization. The deal consists of five tranches, four of which are insured by Financial Guaranty Insurance Co, Financial Security Assurance, Assured Guaranty, and Radian. By means of this securitization, Garanti becomes the first Turkish bank to single-handedly offer a wide range of risk, term, and price options to capital market investors with different risk profiles.

Garanti's mobile phone messaging Warning System goes into operation. Another first in Turkey, this system helps combat fraudulent/unauthorized banking transactions by providing another layer of security.

October 2005

Credit card customers who use their cards to make payments in euros outside the country start receiving their account statements in that currency and avoid currency conversion costs.

The Bank's newly introduced "cash advance with installments" scheme makes it possible for customers who withdraw cash advances against their credit cards to repay the loans in installments at affordable interest rates.

Agreements are entered into with the Mersin Chamber of Commerce and Industry, the Antalya Chamber of Tradesmen and Artisans, and the Elazığ Chamber of Commerce and Industry regarding credit availability for their SME members.

Shop&Miles, Garanti's credit card program and Turkish Airlines' official credit and frequent flyer card celebrates its fifth year.

November 2005

In the US$ 6.5 billion sale of Türk Telekom, the highest-priced privatization ever undertaken in Turkey, Garanti takes the single biggest percentage (US$ 335 million) as the manager of a letter of credit syndication totaling US$ 1.4 billion in value.

Garanti provides Doğan TV with US$ 200 million to finance its purchase of Star TV from the Savings Deposit Insurance Fund.

Garanti obtains a US$ 525 million loan based on diversified payment rights securitization. The deal consists of three tranches, two of which are insured by XL Capital Assurance and CIFG. This securitization enables Garanti to work with the whole monoline bond insurance industry.

Garanti launches a program to familiarize small to medium-sized enterprises with the bookkeeping and corporate governance standards that Basel II will impose and to come up with solutions to deal with the possible adverse affects of those standards.

The Bank's collaboration with chambers of industry and commerce continues with agreements with the Didim Chamber of Commerce, the Karabük Chamber of Commerce and Industry, the Safranbolu Chamber of Commerce and Industry, the Zonguldak Chamber of Commerce and Industry, the Salihli Chamber of Commerce and Industry, the Şanlıurfa Chamber of Commerce and Industry, the Milas Chamber of Commerce, and the Düzce Chamber of Commerce and Industry.

December 2005

On December 22nd, a strategic partnership agreement is signed between the Doğuş Group and General Electric Consumer Finance (GECF). Under the terms of this agreement, GECF acquires a 25.50% stake in Garanti along with equal rights with the Doğuş Group in the management of the Bank by paying US$ 1,555 million. GECF is one of the six "primary businesses" of General Electric Company (GE), the world's biggest holding company. With total assets of nearly US$ 675 billion and a market capitalization of US$ 350 billion, GE has a AAA credit rating, the highest corporate credit rating possible and one that only seven companies in the world currently possess.

In its capacity as authorized lead manager, Garanti takes a US$ 335.5 million share of a US$ 715 million project finance loan for the İstanbul Atatürk International Airport.

In the US$ 4.1 billion privatization of Turkish Petroleum Refineries Corporation (TÜPRAŞ), Garanti acts as authorized lead manager, taking the biggest (US$ 400 million) share in the total US$ 1.8 billion in financing provided by five banks. This project represents the biggest loan ever extended to a private-sector company in Turkey.

In the US$ 3 billion privatization of the steelmaker Erdemir, Garanti provides US$ 300 million in financing to the OYAK-Arcelor joint venture in its capacity as manager.

Garanti signs an agreement for a US$ 700 million syndicated loan in İstanbul. This is the lowest-cost loan syndication ever contracted by a Turkish bank as of that date.

Bonus Business Card is launched. Specially designed to meet the needs of SMEs, the Bonus Business Card allows companies to put their purchases on installments while also earning loyalty points.

Work begins on new projects to introduce POS devices that operate on ADSL lines and POS devices that operate on WiFi wireless networks with the objectives of reducing transaction costs and increasing customer and merchant satisfaction.

Collaboration agreements are signed with the Aliağa Chamber of Commerce, the Gebze Chamber of Commerce, and the Bergama Chamber of Commerce.

Moody's raises Garanti's long-term foreign currency deposit rating from B2 to B1 while also changing its outlook to stable.

In 2005, Garanti once again received national and international recognition as being one of the best banks in Turkey from such standpoints as:

- Technology
- Innovative product and service offerings
- Importance given to customers
- Business approach, and
- Industry position.

Capital - The most admired company in the banking sector

In the 2005 annual poll conducted by the magazine Capital to determine which companies in Turkey are most admired, Garanti ranked first in the banking sector for the fifth time in a row.

Active Academy - Customer satisfaction in retail banking and contribution to foreign trade

For the second consecutive year, Garanti received Active Academy's "Customer satisfaction in retail banking" and "Contribution to foreign trade" awards.

Investors in People - Certificate of success

Garanti is the first locally-owned Turkish company to be awarded a certificate of success by Investors in People (IIP), a company that certifies the quality of organizations' human resources systems and practices.

Altın Örümcek - Best financial services

In the 2005 Altın Örümcek (Golden Spider) website competition, www.garanti.com.tr took first place in the financial services category for the fourth consecutive year.

Another Garanti website, www.paragaranti.com, took second place in the finance category and third place in the financial services category.

Global Finance - Turkey's best sub-custodian bank

The magazine Global Finance chose Garanti as the "Best sub-custodian bank in Turkey" for the third consecutive year.

Mobimag - World's best mobile service of the year

CepBank (Mobile Bank) received the "World's best mobile service of the year" award from the technology magazine Mobimag in 2005.

Global Custodian - Turkey's best bank in custody services

Global Custodian chose Garanti as the best bank offering custody services in Turkey for the ninth consecutive year.

Global Finance - Best commercial bank in retail services

Global Finance chose Garanti as Turkey's best commercial bank in retail services for 2005.

Turkish Public Relations Association - Year's most successful public relations campaign

Garanti's entry was chosen from among 67 projects in nine categories and was awarded the "Special Jury Prize" for its Mini Bank program in the 4th Golden Compass Public Relations Awards organized by the Turkish Public Relations Association.

EPCA/ECR - Most innovative and advanced payments service

Garanti's POS sharing agreement with İşbank ranked second in the "Most Innovative and Advanced Vendor Developed Payments Service" category in the "Excellence in payments" awards organized by the European Payments Consulting Association (EPCA) and European Card Review (ECR).

Global Finance - Turkey's best internet bank

www.garanti.com.tr was chosen as "Turkey's best internet bank" by Global Finance in 2005. This was the fifth year in a row since 2000 that Garanti has received this award from the magazine in its annual survey of the world's best internet banks.

Deutsche Bank, Citibank, and JP Morgan - Excellence in international payments

Deutsche Bank, Citibank, and JP Morgan all bestowed their excellence in straight through processing awards on Garanti because of its nearly 100% error free performance in handling international payments.

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

2005 will be remembered as a turning point in Garanti's history. Striving to provide its shareholders, customers, and employees with nothing but the best at all times, Garanti took an important strategic step in 2005 that will define the roadmap of its long-term growth.

Before assessing our Bank's results in 2005 and presenting its financial statements, I wish to touch briefly upon the general economic situation and share my views about Garanti's performance with you.

The growth in the Turkish economy once again remained on course. Targets were exceeded on the basis of nearly every economic indicator and accompanied by an unparalleled privatization program. Economic stability invigorated the domestic market and production. New records were broken in the country's foreign trade volumes. The favorable economic climate enhanced Turkey's international image substantially.

The confidence felt both in Turkey and in its economic institutions manifested itself in the form of record-breaking levels of foreign direct investment partnerships and acquisitions.

Turkey's solid stance in its international relations also continued. The country remained in accord with the IMF plan and the screening process that is crucial to eventual EU accession for Turkey.

As financial services sector, we grew in line with the favorable economic climate.

2005 will be remembered as a turning point in Garanti's history.

Striving to provide its shareholders, customers, and employees with nothing but the best at all times, Garanti took an important strategic step in 2005 that will define the roadmap of its long term growth.

On 25 August 2005, the Doğuş Group and General Electric Consumer Finance, the global consumer finance arm of General Electric entered into an equal partnership agreement.

The unification of our strengths and synergies–our competitive advantages, our economies of scale, our attitude towards corporate governance, and our own internal dynamics–will all enable Garanti to move on to even greater heights not just in Turkish financial services industry but in those of regional markets as well.

The Doğuş Group's institutionalization, technology, human resources, innovative and ethical approach to business, respected trademark, and regional connections all make it an exemplary corporate citizen of the Republic of Turkey.
Our partnership with GECF will open new horizons for Garanti thanks not only to the unequalled and unrivalled industrial might of GE but also to the global experience, scale, and potency in consumer finance that it brings to the table.

Calling on the additional strengths imparted to it by this partnership, Garanti will continue to generate more value for investors, customers, and society as a potent force that takes maximum advantage of the capabilities of the Turkish economy and builds upon the confidence that Turkey has earned in its region and around the world.

In the near future you will be witnessing Garanti's new ventures in the region. The opportunities that came along through this new partnership and the impetus that it provides will make it possible for us to realize our long-planned strategy of expanding in our region much faster than we had originally planned. Garanti will be playing an active and effective role particularly in Eastern Europe, the Turkic republics, and the Middle East. One of the duties that are incumbent upon our Bank in this process is to increase Turkey's visibility in international markets by pursuing growth in them.

To sum up, Garanti is focused on growth. Our most fundamental duty is to fulfill our commitments towards our shareholders. I am confident when I say that we have all the means to make this happen. The Garanti family is more capable than ever. Together and individually, all its members will continue to work even harder and to create even more value.

In closing, I first want to thank all my colleagues for our extraordinary financial performance in 2005 as well as for the professionalism, diligence and highest integrity.

As I present Garanti's annual report and financial statements for 2005, I also extend my thanks to everyone who has given our Bank the benefit of their confidence and their support.

Ferit F. Şahenk

Chairman

2005 was a year filled with many successes, not least of which was a new strategic partnership that will carry us forward towards our growth objectives.

The record high success makes 2005 a breakthrough year in our Bank's corporate history.

Our growth in 2005 was strengthened by our balance sheet, our customers, and our employees. The increase in our revenues was both steady and first-rate. Having foreseen the advent of Turkey's disinflation well in advance, we were able to prepare ourselves to cope with it properly. Success in restructuring our balance sheet, a strategy of focusing on real banking and the customer, and perfection in service quality all enabled us to increase our profitability steadily and soundly. The result was that 2005 was a year filled with many successes, a year in which Garanti achieved the best performance in its corporate history: at YTL 41.2 billion, our Bank recorded its biggest balance sheet; at YTL 698 million, it posted its greatest net income; and at YTL 1.5 billion, it reached its highest level of free equity on a consolidated IFRS basis.

Expanding business volumes, growing total assets, and rising profitability all proved once again the validity and sustainability of our strategy.

A strategic partnership with GE Consumer Finance

In 2005, a strategic partnership agreement was signed between our main shareholder, Doğuş Group, and General Electric Consumer Finance (GECF), the third biggest business unit of General Electric Company (GE). Among the most important factors that contributed to this strategic move were our excellent human resources, our focus on customer satisfaction and our superior financial performance.

With continued economic stability at home…

The continuation of structural reforms during 2005 and positive development in Turkey's EU accession process contributed much to the climate of stability while the fourth consecutive year of successful economic performance revealed once again that the country's economy was indeed on the path of long-term, sustainable growth.

Economic stability fostered growth in the real sector, especially in construction and trade. Gross national product was up significantly and the rise in the general level of investment throughout the economy was distinct. Foreign investors' confidence in the Turkish economy also reached the highest levels ever. All these developments herald even greater growth in the years ahead.

…new forces shaped the banking industry

New market conditions shaped by economic and political stability have been leading to far-reaching changes in the banking industry. The days when a bank could profit simply by cultivating its securities portfolio were over and lending gained greater importance. In line with this, the composition of the sector's balance sheet underwent a major transformation. In the context of managing the disinflationary environment, the banking sector has been finding it more and more necessary to shift their focus to real banking.

As a result of increasingly greater number of foreign investors entering the sector through partnerships and acquisitions in 2005, a metamorphosis took place in the Turkish banking industry's shareholder structures.

Our competency in effectively managing the disinflationary process…

Despite dropping real interest rates and narrower profit margins resulting from the transition to a disinflationary environment, Garanti proficiently managed its balance sheet and achieved some of its best performances in history.

The most important factor driving the rapid improvements in our profits, cost base, and productivity was our competency in managing the change process. Our Bank had anticipated the developments witnessed in both the economy and our sector well in advance and made the structural changes needed to deal with them in time.

Garanti reduced the role of its securities portfolio in its total revenues to the absolute minimum while irrefutably demonstrating that high-quality and broad-based sources of real banking income were sustainable.

…enabled us to concentrate on productive and profitable lines of business and sustainable sources of income

In line with our strategy, we continued to concentrate on high-yielding assets, worked with large volumes and accordingly, increased our market shares in all business lines. Our customer numbers continued to grow rapidly and exceeded 5.5 million while our product and service volumes delivered to retail and corporate customers grew to reach record highs. The result of all this was that Garanti registered transaction volume and market share growth rates above sector averages in areas ranging from credit cards (in which the Bank is fast becoming the leader) to consumer loans and from corporate, commercial, and SME lending to project finance and deposits.

In keeping with our ongoing support for the real sector, the total volume of our cash loans and non-cash loans increased 38.7% in 2005 and reached YTL 27.6 billion. Total cash loans increased 53.5% to YTL 19.2 billion and accounted for a 46.6% share of our balance sheet.

Our deposits are a direct expression of the confidence our customers have in Garanti. As a result of our service quality focused on customer satisfaction, our extensive line of innovative products, our effective delivery channels and our expanding branch network, our customer deposits grew 23.3% in 2005 and reached YTL 25.4 billion.

The outcome of all these developments is that our consolidated net income was up 89.0% in 2005, our average return on equity rose to 18.51% (10.91% at end-2004), and our average return on assets reached 1.91% (1.18% at end-2004). These numbers indicate our ability to create value for our shareholders.

Distinguishing ourselves from our competitors with a world class service that puts the customer at the center

However much market and competitive conditions may change, one thing that doesn't change is Garanti's customer-focused service approach that is committed to service quality and seeks to achieve unconditional customer satisfaction. It is within this framework that our Bank makes it a principle to establish and deepen long-term relationships with its customers. Garanti ranks among the most successful adherents of this approach in Turkey.

A continuously-growing service network

In order to reach more customers with more service, we continued to expand our branch network in 2005 and increased the total number of branches to 437 as of year-end. This rapid growth notwithstanding, our Bank remains the most productive member of the Turkish banking sector from the standpoint of such criteria as average assets, loans, and deposits per branch.

An ongoing and differentiating approach to add value to society

Our Bank enjoys a well-deserved and long-standing reputation for sharing the fruits of its efforts with society. On 22 January 2005, Garanti added a new jewel to its crown by being a prime corporate sponsor for "Turks: A Journey of a Thousand Years, 600-1600", an exhibition held at the Royal Academy of Arts in London that attracted massive attention and admiration. I take this opportunity to thank all the members of the team that were the authors of this wonderful success.

Pursuing rapid but solid growth in the period ahead

In 2006, our focus will be growth. With our advanced technology, excellent human resources, service at world standards of quality, and rapidly expanding delivery channels, we control a platform that enables us to manage the growth process in Turkey in absolutely the best way possible.

With its strategy of pursuing long-term sustainable growth and with the support arising from the partnership agreement we entered into with General Electric, I believe that Garanti leads in deriving the most benefit from the growth in our sector. In this, our objectives should be to continuously increase the volume of customer funds, give more support to the growth in the real economy through more lending, and to serve more customers in all business lines.

I thank the whole Garanti team for their successes in 2005. I know we can count on their dedicated support as we continue to strive with all our energy and dynamism to do even better for our shareholders, customers, employees, and the community.

Ergun Özen

President and CEO

General Electric Consumer Finance Takes a Stake in Garanti

Under an agreement announced on 25 August 2005, General Electric Consumer Finance (GECF), the international consumer finance arm of General Electric Company, purchased a 25.5% stake in Garanti for US$ 1,555.5 million, thereby acquiring equal partner status with the Doğuş Group. GECF also purchased 182 shares (49.2%) of Garanti founder's shares that are owned by the Doğuş Group for US$ 250 million.

Under the equal-partnership agreement, the Doğuş Group and GECF each have the right to designate four candidates to seats on Garanti's board of directors while the ninth member, who will be the chief executive officer, will be chosen jointly by the two. The transfer of shareholding interests was approved by the Turkish Competition Board on 11 November 2005 and by the Banking Regulation and Supervision Agency on 22 December 2005.

General Electric Consumer Finance

One of the six "primary businesses" of General Electric Company, GECF is a global finance company that provides financial services to consumers and retailers around the world. The company offers a full range of innovative financial products that include private label credit cards, personal loans, bank cards, auto loans and leases, mortgages, corporate travel and purchasing cards, debt consolidation, home equity loans, and credit insurance.

GECF is active in 50 countries ranging from Argentina to the Czech Republic and from Australia to South Korea. In the countries where it is operating, it has more than 3,100 branches, 185,000 cash dispensers, and 142,000 retail service points through which it reaches more than 110 million customers. The third biggest business unit of General Electric Company, GECF had total assets exceeding US$ 159 billion as of year-end 2005.

This joint venture with General Electric Company is an important milestone for Turkey and its banking industry.

Combined with General Electric Company's global size and reach, the Doğuş Group's deep-rooted values, regional strength, and corporate governance competencies will become even greater driving forces in Garanti's future growth. Bringing together Garanti and GECF's knowledge, experience, and strength, this new partnership structure will lead to new ventures and growth in all business lines but particularly in credit cards-payment systems, retail and SME banking. At the same time, Garanti will serve as a strategic base in GECF's growth strategy focused on Eastern Europe and developing countries in the region.

All these undertakings will further accelerate Garanti's growth as a leader and add to both its dimensions and its brand value. This growth will create increasingly more added value for the Turkish economy as a whole as well as Garanti's shareholders and employees.

The Doğuş Group and Garanti are proud to have attracted a global company like GECF to make such a significant investment in Turkey.

Corporate Banking

A visionary pioneer in Turkey

Garanti was the first among its peers to introduce corporate banking as a separate business line in the early 1990s. The opening of exclusive corporate branches in 1995 in order to provide tailor-made services and products to large corporate clients added another new dimension. Today Garanti is the principal banking partner of major local and multinational corporations in Turkey.

Garanti's strength in corporate banking is derived from its superior service quality, its respected corporate identity, its advanced technological infrastructure, and its product engineering skills.

In late 2004, Garanti redefined the scope of its corporate banking business line to further improve service quality, efficiency and productivity by taking into account the new market conditions and the latest global banking applications.

A year of record-breaking growth

Commanding a significant share of the corporate banking market in Turkey, Garanti successfully deployed its competitive advantages in 2005 to reinforce its traditionally strong position in this business segment.

The Bank responded to its clients' rising financing needs through its customer-oriented and innovative business approach, thus achieving a rise in both its placements and transaction volumes. At the same time, the Bank experienced record-breaking growth in its deposit volume entrusted by corporate customers in 2005.

Corporate banking performance in 2005 was impressive:

- The year-on-year rise in total cash loans was 51%.
- Non-cash loans increased by 46%.
- Turkish lira time deposits were up by 177%.
- Foreign currency time deposits grew by 68%.

These numbers are indicative of Garanti's leading position in the corporate banking arena.

In 2005, corporate banking accounted for a bigger (21%) portion of the Bank's line of business balance sheet. Corporate customers made up 24% of Garanti's total cash loans, 40% of its non-cash loans, and 15% of its deposit base.

Growth bolstered by existing customers

Among all lines of business, certainly corporate banking has the lowest gain in new customers. Therefore, Garanti bases its corporate banking business strategies on the notion of deepening its relationships with its existing customers.

The Bank attaches utmost importance and priority to maintaining its long-standing relationships with clientele, enhanced by commitment through volatile and difficult market conditions. This strategy and attitude towards customer relationship management are the fundamentals which make the Bank's performance in corporate banking sustainable.

The leader in cash management, trade finance, and project finance

Garanti's leading position in cash management, trade finance, and project finance continued to play an important role in its corporate banking market share in 2005.

Under the heading of cash management services, the Bank offers a broad range of technological solutions to its corporate customers and their suppliers and distributors. Garanti's reliable, fast, flexible, and low-cost collection and payment services are the preferred choice of more and more customers.

Garanti's expertise in trade finance gives it a competitive edge in offering products and services specially designed to meet its customers' needs. The Bank acts as an intermediary in Turkey's rapidly growing volume of foreign trade transactions with its multidimensional and structured products and its effective service approach.

2005 was a year characterized by huge privatizations. By taking part in the long-term financing of these high-profile projects, Garanti once again demonstrated its leadership in the business of project finance.

A natural customer group

The employees of corporate clients constitute a natural and important customer group for Garanti's retail banking business line.

The Bank supplies the full line of retail banking products and services to this segment ranging from credit cards to internet banking. This precise targeting of its corporate customers' employees contributed significantly to the rise in Garanti's retail banking transaction volume in 2005.

New opportunities for corporate banking

In 2006 and the years to follow, Garanti will build upon its presence in different aspects of corporate banking by making use of all its competitive advantages: deep-rooted customer relations, innovative approaches, state-of-the-art technology, expert staff, high-quality services, and extensive product line as well as its inherent corporate competencies.

The positive investment environment in Turkey will certainly provide the Bank with significant new opportunities. Multinationals entering the Turkish market form an important target for corporate banking division. Garanti is the first choice of foreign capital entering Turkey in the banking arena due to its years of experience in working with multinational corporate names.

With continued economic growth and stability in Turkey, Garanti believes that corporate banking will grow, foreign investors will continue to enter the country, and the demand for high value-added corporate banking products and services will become increasingly stronger.

Privatizations, mergers & acquisitions, and public offerings all stand out as the elements that will support continued growth of corporate banking in the near future. New funding instruments, such as securitizations and bond issuance, will gain ground. In a changing global economic environment, derivative transactions will be growing in number and importance as corporates become more aware of their exposures and need to manage the associated risks.

Garanti is well positioned to anticipate and address these new market needs and determined to utilize its experience and competitive advantages to maintain its strong presence in the corporate banking business line.

Commercial Banking

The growth continues

Commercial banking is another business line in which Garanti is Turkey's leader.

In 2005, Garanti continued to expand the breadth and depth of its activities in commercial banking, which accounted for a 26% share of the Bank's balance sheet–US$ 10.2 billion at year-end.

Under the heading of commercial banking, Garanti offers the complete range of banking products and services to commercial enterprises and submanufacturers in many different sectors as well as to the suppliers and dealers of its big corporate customers.

In line with the Bank's new customer segmentation program launched at the beginning of 2005, Garanti's primary objectives in commercial banking are to deepen its relationships with its customers and handle a bigger share of all their banking transactions.

In addition to greater transaction volumes with its existing customers, new branches that were opened and new customers that were taken on were among the most important factors contributing to the growth in commercial banking in 2005.

Commercial banking by numbers in 2005

- The number of commercial banking customers increased 12% while the rise in the number of loan customers was 14%.
- According to year-end figures, the total volume of Garanti's lending to commercial banking customers (both cash and non-cash) was up 47% for the year.
- During the same twelve months, total cash loans in Turkish liras were up 84% while the total volume of foreign currency lending grew 57% on a US$ basis.
- Commercial banking accounted for 39% of Garanti's total cash and non-cash lending.
- At end-2005, Garanti's commercial banking business line accounted for a 28% share of the Bank's total deposits.

Principal sectors

Garanti is willing to do business with and lend to any customer in any sector so long as customer and sector are productive and contribute to economic growth by creating value.

The following is a brief summary of Garanti's commercial banking performance in the principal sectors in which it was involved during 2005.

Tourism

Tourism leads the list of the sectors in which Garanti is the most active in commercial banking.

Garanti is the main bank with which tourism enterprises in Turkey's Aegean and Mediterranean regions do business. The Bank provides its tourism industry customers with financial solutions in every field including from airport finance (Antalya International Airport Terminal 2 construction), hotel finance, acquisitions, and renovation and expansion investments.

During 2005, Garanti provided US$ 350 million in financing for hotel and airport investments taking place in Turkey's tourism industry regions.

Garanti is also the Bank through which the biggest volume of the tourism industry's revenues is channeled. More than half (53%) of the foreign currency receipts of travel agents along the Turkish Mediterranean entered Turkey through Garanti.

Shipbuilding

Shipbuilding is an industry to which Garanti has been giving increasingly greater support through lending and in which it intends to pursue further growth.

The Bank provides financing not just for shipbuilding but also for other investments that shipyards need. In 2005, Garanti provided a credit limit of US$ 360 million to the shipbuilding industry for the construction of 30 vessels and another US$ 100 million for five shipyards, bringing the total financing to this market segment to US$ 460 million.

Hazelnuts

With total foreign sales of nearly US$ 2 billion in 2005, hazelnuts are one of Turkey's most important export industries.

Garanti has traditionally played an active role in our country's agricultural commodity exports. In 2005, it continued to finance hazelnut exports and handle the foreign currency payments in receipt for them. Total financing provided to the sector in 2005 was around US$ 400 million. About 30% of the foreign currency inflows from hazelnut exports were channeled into the country through Garanti.

Construction

Construction ranked first among all the sectors in which the greatest momentum was experienced. There was a 65% rise in lending to this sector in 2005, the total amount of which reached US$ 850 million. The biggest contributors to this growth were real estate development projects. Because they are offered in a complete package that includes housing finance, these project loans generate important synergies for the Bank.

Gold

The gold industry is another sector in which Garanti plays an active role in commercial banking.

In 2005, this sector's total exports were nearly US$ 1 billion. Garanti controlled about a 50% share of the sector's borrowing and of its foreign currency receipts, making it once again that industry's premier bank.

The Garanti difference in commercial banking

Garanti's technology-intensive and innovative approaches in commercial banking products and services attract the attention and admiration of customers in this segment everywhere. Modern commercial banking products not only contribute significantly to the Bank's ability to diversify its relationships with its customers but also contribute to encourage its existing and potential customers to make greater use of these products.

Among the products that most clearly reveal the Garanti difference in commercial banking are direct debit systems as well as smartcards and the Bank's "Distribution Card" system. Products like these play a key role in the expansion of Garanti's relationships with firms that operate nationwide dealership networks.

In the integration of the dealership networks that are the capillaries through which the lifeblood of our country's economy flows, Garanti will continue to encourage the greater use of banking services by developing new commercial banking products.

The outlook in commercial banking

Garanti has set a growth target of 25% in commercial banking in 2006.

Positive developments in the Turkish economy are expected to stimulate increasingly greater dynamism in the country's commercial activity. In this process of economic growth and development, Garanti's goal is to take the biggest share possible of its existing and potential customers' business. The Bank will achieve this by systematically deploying its strong and extensive sales team to add new customers to its portfolio while deepening its relationships with its existing ones.

To this end, Garanti will be keeping a close watch on markets and customers. The Bank intends to carry out market research in early 2006 in order to determine the levels of competition and service quality in the sector and to better understand its existing customers' expectations.

The Bank foresees that its commercial banking activities in 2006 will be concentrated in the areas of energy, hazelnuts, tourism, shipbuilding, health, construction (real estate development projects with a particular focus on shopping centers and housing), and logistics. An extensive service network, a rich array of products and services, deep experience in commercial banking, and synergies generated by its financial services subsidiaries will provide Garanti with the strength it needs to be the leader in the highly competitive business of commercial banking.

SME Banking

Two million businesses

It is estimated that there are about two million businesses in Turkey that fall in the small to medium-sized enterprise (SME) category.

Active in many different manufacturing and service sectors, SMEs make up the backbone of the Turkish economy and also contribute significantly to job creation and employment. Geographically dispersed, SMEs engage in production and industrial activities all over the country.

SMEs have become an important avenue of growth for the Turkish banking industry in recent years. Paralleling developments taking place in developed countries, enterprise banking gained importance in Turkey as well and small to medium-sized enterprises found themselves at the focal point of competition among the country's banks.

First to recognise the banking needs of SMEs

Garanti was the first private bank in Turkey to identify and target small to medium-sized enterprises as a distinct market segment.

Today, Garanti employs a specialized team of nearly 1,000 people to supply product and service packages specifically designed to meet the needs of such enterprises.

The Bank's activities in this segment continued to gather momentum and attention in 2005 with the result that Garanti has become the "main bank" that more and more SMEs choose to work with. As the pioneer of the sector, Garanti's innovative approach to SME banking is widely used as a model by others.

Nearly 700,000 customers and increasing contribution in balance sheet

As of end-2005, SME banking's contribution to Garanti's balance sheet had reached 15%. The most striking evidence of the Bank's growth in this segment is shown in the 49% rise in the number of its SME customers in just one year. As of end-2005, Garanti served 633,086 SME customers that are located all over the country and are engaged in a wide range of business activities.

In 2005, SMEs received a 21% share of Garanti's total lending

A rapidly growing network of branches in Anatolia and in organized industrial regions is instrumental in increasing number of SME customers.

Listening, understanding and supporting

These three words sum up Garanti's approach when serving its SME customers.

SMEs differ from corporate and commercial customers in virtually every aspect–be it their dimensions, their ways of management, their modes of behavior, their requirements, or their expectations of banks. What they are looking for is not a bank that will just sell them products but a bank that can come to their support on every level.

Garanti stands by SMEs everywhere, listening, understanding, and supporting. This approach to service is reflected carefully, sensibly, and consistently at every link in the bank-customer-service chain from the friendly approach of a customer representative serving a SME in the branch to the added value contained in sectoral product packages.

Sectoral packages

Garanti designs, develops, and offers SME products and services within the framework of a sectoral banking approach. SMEs' needs differ considerably according to the production and trading cycles of the sectors in which they are active. Taking this plain fact as its point of departure, Garanti has developed twelve different sectoral packages for its SME customers.

These packages incorporate specific lending and debt servicing terms and conditions that are based on the particular way that business is done in each sector. Guarantees are also designed accordingly to suit the same conditions. Based on precise sectoral differentiation, this approach to products and services means that Garanti is able to come up with flexible solutions according to a customer's actual requirements. In addition to financial support, the Bank also gives its SME customers access to management and technical support when necessary.

In 2005, Garanti put together product packages designed for many different sectors such as tourism, agriculture, logistics, health, and automotives submanufacturing that it made available to 4,000 SME customers.

Garanti will be further developing its SME-related services in line with its sectoral banking approach with the aim of becoming the primary bank that more and more SMEs do business with.

Collaboration with industrial, commercial, and professional chambers

Since 2002, Garanti has been working closely with industrial, commercial, and professional chambers in a number of our country's provinces. The underlying principle of this collaboration is to provide loans to the members of these organizations under the most attractive conditions possible while also increasing awareness of the different kinds of banking products and services that are available nowadays.

As of end-2005, Garanti had entered into package loan agreements with 65 industrial, commercial, and tradesmen's organizations.

Since 2004, the Bank has also been exploring and establishing relations with the professional organizations of different professional groups. To date, the Bank has entered into loan agreements with pharmacists' chambers in 26 provinces and has lent to 7,800 of their members.

Credit Guarantee Fund

The Credit Guarantee Fund (KGF) is a non-profit joint-stock company whose shareholders are the Union of Chambers of Commerce and Industry, the Confederation of Tradesmen and Craftsmen, the Foundation for Support of Medium Size Enterprises, Craftsmen and Administrators, the Foundation for Support of Vocational Training and Small Industry, the Public Organization for Promotion of SMEs, and Halkbank. KGF was created to develop solutions for the difficulties that SMEs frequently have putting up sufficient collateral when they borrow from banks. The fund uses its resources to provide banks with the guarantees and collateral they need for such lending.

Garanti was the first private-sector bank to sign an agreement with KGF in order to be able to serve its SME customers with collateral problems. Under this agreement, Garanti grants short, medium, and long-term loans to SMEs to finance the startup of a new business or the expansion of an existing one with KGF acting as a cosignatory.

In a related issue, Garanti is closely monitoring financial relationships with the EU, which it believes will gain increasing importance beginning in 2006, and seek out ways to offer its SME customers suitable financing opportunities.

Examples of successful collaborations with SMEs

Throughout 2005, Garanti continued to meet with its SME customers in the field, listening to their needs and providing them with information.

- The series of "Anatolian Meetings" that Garanti launched in 2002 continued in 2005. Thirty such meetings were held in which the representatives of some 10,000 SMEs in 27 provinces took part to exchange ideas on the problems of small to medium-sized enterprises and how best to deal with them.
- Four meetings were organized in 2005 on the subject of Basel II criteria and the opportunities they would be creating. During these meetings, Garanti personnel met with representatives of more than a thousand SMEs and discussed the possible effects of Basel II risk management criteria on SMEs' business activities and both the difficulties and the opportunities that they might pose.
- In cooperation with the magazine Ekonomist, the Bank began supporting KOBİ Girişim (SME entrepreneurship), another magazine that is published together with the first issue of Ekonomist of each month. KOBİ Girişim provides information that SMEs need and it addresses basic issues that they must contend with while also spotlighting news that will be of interest to these firms.
- In cooperation with the GSM operator Avea and Microsoft, an "Entrepreneurs' Window" has been put into service to provide SMEs with useful information.
- Garanti was the first privately-owned bank to be invited to take part in the Supreme SME Specialization Commission organized by the State Planning Organization in 2005.

Specially-designed, convenient, and practical solutions

In 2006 and the years that follow, Garanti will continue to expand the scope of the convenient and practical products and services that it specially designs to meet the needs of its SME customers.

The Bank's technological strength and competencies will be the most important driving forces behind its development of the products and services that Garanti offers its SME customers in the years ahead. Garanti has always distinguished itself by skillfully employing technology to offer all its customers the very best, in the fastest way, and at the lowest cost. Beginning in 2006, the Bank plans to give even greater importance to technology in its SME-targeted activities.

As a first step, in 2006 the Bank will put into service for the benefit of its SME customers its GANI2 program, an advanced yet easy-to-use cash flow management module; its 444 KOBİ hotline, which gives customers access to all their banking information and to uninterrupted support 24 hours a day, 7 days a week; and its SME Portal, from which customers will be able to access current news and sectoral information as well as online support.

Just as today so too in the future, Garanti's goal will always be not just to offer SMEs banking services but rather to come up with projects to deal with all their financial needs and to enable them to improve the quality of their own business management practices.

The dedication to achieving this goal is what will make Garanti the undisputed front-runner in the business of SME banking in Turkey.

Retail Banking

Offering the broadest range of services possible

Over the last ten years, Garanti has transformed itself into a bank that offers retail banking products and services to every segment of society. Technological infrastructure, human resources, an extensive service network, a rich selection of products and services, and insightful strategies provide the bedrock for Garanti's solid growth and enduring success in the business of retail banking.

Retail banking by numbers

Garanti serves 4.6 million retail customers.

At year-end 2005, retail banking accounted for a 41.1% share of the Bank's balance sheet. Total loans to Garanti retail customers not including credit cards amounted to YTL 2,520 million, making up a 19.5% share of the Bank's overall loan portfolio. At the same time, total retail deposits held by Garanti were YTL 9,165 million, which corresponds to 41.3% of its total deposits.

The number of customers making use of the Bank's Excess Liquidity Management Account (E.L.M.A.) reached 746,000 in 2005, a year-on-year rise of 54%, while the number making use of the Bank's other cash management product, the Overdraft Account (Tek Hesap), rose to 603,000. In 2005, 593,000 retail customers took advantage of Garanti's automatic bill-payment services.

Growth in retail loans

In the positive economic climate that prevailed in 2005, the domestic market in consumer loans grew strongly and Garanti succeeded in increasing its market shares in all categories. Housing, auto, and personal loans granted to Garanti's retail customers, the Bank experienced a 250% increase in 2005.

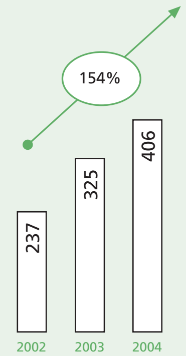
The Garanti difference in housing loans

The loan product that was the banking industry's star performer in 2005 was housing loans. As the demand for housing is strong and growing even stronger, the economic outlook is positive and interest rates continuing to tumble, Turkey is moving boldly towards the introduction of a genuine mortgage system such as exists in developed economies. The combination of events has sparked intense competition among banks to finance people's home purchases.

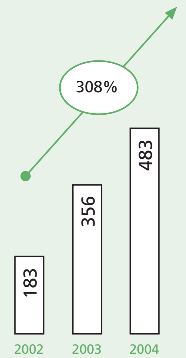
Garanti responds to its customers' housing loan needs by offering the best possible terms. One tangible result of this policy was about a 400% rise in the volume of housing loans that the Bank made to retail customers in 2005.

As in every other aspect of banking, the Garanti difference in approach and service is evident in the Bank's housing loans as well. Garanti easily taps international markets for the long-term funding it needs to finance its housing loans while also designing and carrying out housing loan campaigns for the housing projects that it finances at the construction stage and collaborating with corporate real estate developers whose agent networks have a national reach.

Number of Overdraft Accounts
Thousands



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



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

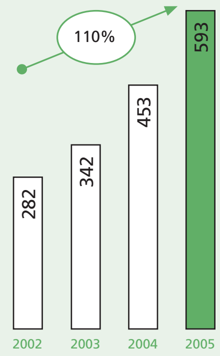
Rapid growth in auto and personal loans

Garanti also registered high rates of growth in its auto and personal loan products in 2005.

Collaborating closely with the distributors and dealers of Turkey's leading automobile distributors and dealers, Garanti doubled its market share in auto loans in 2005. The Bank's online loan application system that makes it possible for a customer at an auto dealership to apply and receive immediate approval for a loan to finance an automobile purchase went into operation in 2005 and is the first of its kind in Turkey.

Garanti offers its customers personal loans to provide financing in times of need such as a wedding, home repairs, the birth of a child, school tuition, a vacation, or in the event of unforeseen expenses or an emergency. Thanks to successful marketing and advertising campaigns in 2005, the volume of the Bank's lending in the personal loan segment increased 132%. A new type of personal loan introduced in 2005 containing high-limit loans with terms of up to 60 months and requiring no consigner as being guaranteed by a lien on the property is offered to finance the purchase of housing.

Number of Utility Payment Accounts
Thousands



Retail deposits

Garanti continued to increase the total volume of its retail deposits in 2005 while also expanding the size of its depositor base. Despite the intense competition in this segment, the Bank succeeded in increasing its market share.

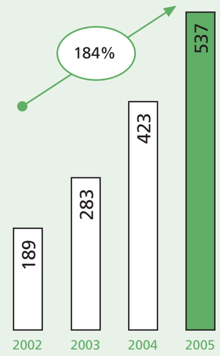
Accessibility, scale, high-quality service, and customer satisfaction all played key roles in this growth while the Garanti trademark, synonymous with trustworthiness, also contributed to it significantly by attracting more people to entrust their savings to the Bank.

Salary payments

The salary payment services that Garanti provides to both public and private-sector employees are important to the Bank because of the high level of customer loyalty that they inspire and the tremendous cross-sale opportunities that they create.

As of end-2005, Garanti has been providing salary-payment services to about 537,000 people. Customers whose salaries are paid through the Bank are natural targets for a broad range of banking products such as personal loans and bill payments. Salary payment services allow the Bank to introduce more and more people to the Garanti difference in service and quality.

Number of Salary Payment Accounts
Thousands



Life-cycle banking

Life-cycle banking is a leading-edge approach to banking that Garanti offers its customers. The mission of life-cycle banking is to provide individuals with the kind of support that they need at different stages of their lives. Life-cycle banking is just one manifestation of the "Garanti difference" in banking.

Under the heading of life-cycle banking, Garanti offers product and service packages designed to address the needs of people at three different stages of life.

Minibank

One of the most talked-about and widely-admired retail banking applications introduced in Turkey in recent years is Minibank, a package of retail banking products aimed at children in the 0-12 age group and their families. Enriched with products that teach and encourage thrift from an early age, Minibank's entertaining features are specially designed to appeal to children. At end-2005, the number of Minibank accounts has reached 53,000.

g'bank

g'bank is a banking and investment product package designed to meet the needs of teenagers in the 12-18 age group.

Unibank

Unibank, Garanti's banking program aimed at university students, incorporates a variety of products ranging from credit cards to investment accounts. Designed to encourage saving among young people at university before they embark on their careers, Unibank has reached 26,500 members as of end-2005.

Under the Unibank program, Garanti works with 33 universities located all over the country. Another project being undertaken as part of the Unibank program is the "campus card" developed for Muğla University. Under this project, which was launched in the last quarter of 2005, specially-designed chip cards containing e-wallets were handed out to 15,000 students and 1,000 personnel at the university. This program was very popular and the Bank plans to extend it to other campuses.

Garanti is currently involved in other projects to further extend the scope of life-cycle banking in the future so as to be able to offer people an even greater variety of products to meet their needs at different stages of their lives.

Private pensions

Garanti provides private pension products and services to its customers in collaboration with its subsidiary Garanti Pension Company. The private pension sector in Turkey is expected to grow as attitudes about the necessity of long-term saving and investment spread through society and gain increasingly more acceptance. Encouraging results in the business of private pensions continued to be achieved in 2005 after the system's initial launch in 2004.

Garanti will be offering private pension products to more and more of its customers in 2006 and the years that follow.

Serving a broad base of customers

Garanti has redefined its concept of retail banking and made the organizational changes necessary to bring it to life. The "Açık" (mass banking) brand that the Bank introduced in 1999 was restructured in 2005 under the name of Retail Mass Banking. Nearly 400 of Garanti's branches were reorganized to better serve this market segment. Under this new approach, the Bank has also been seeking to provide customers with banking products and services in line with their needs and expectations and to increase the effectiveness of its cross-sales performance.

The changes in Garanti's approach to service and branch organization have begun to have an impact on the number of the Bank's retail customers and have rapidly started to reflect upon increase in both its volume and product activation rates.

The Garanti service network

Garanti delivers the products and services that make a difference in people's lives through:

- 427 branches located in 54 of Turkey's provinces
- 1,221 ATMs
- Internet banking, and
- its call center.

Possessing one of the most extensive branch networks in our country, Garanti pioneered the concept of alternative delivery channels (ADCs) and their effective use by customers in the Turkish banking sector. Garanti's banking through ADC program is called "ŞubeSiz Bankacılık" and is designed to be fast and convenient for customers while also cutting the Bank's customer service costs tremendously.

With its extensive branch network, superior technological infrastructure, investments in human resources, and customer-focused and innovative approaches, Garanti has pulled far ahead of its competitors in the race to serve more customers better.

Mindful of the need for customer satisfaction and long-term relationships, Garanti will continue to pursue solid, profitable growth in retail banking.

Garanti Masters Affluent Banking

Garanti Masters Affluent Banking, which was launched at the beginning of 2005, offers wealth management solutions in the form of financial consultation services and personalized investment products as well as all of the Bank's other retail banking products to high-income group customers through nine specially-designed branches. Garanti's Affluent Banking branches are located in Adana, Ankara, Antalya, Bursa, İstanbul (4), and İzmir and are staffed by teams of discrete specialists who provide customers with personal advice and help them channel their investments in line with their taste for risk versus return.

Garanti Masters by numbers

As of end-2005 the number of customers taking advantage of Garanti Masters services was 2,850. Total assets under management as of the same date was more than US$ 1.5 billion.

Financial planning

Financial planning and advice and investment consulting are the most important services that Garanti provides to its Garanti Masters customers.

Financial planning is carried out taking the customer's financial assets, his future financial objectives, and his income and expenditures into account. On the basis of this information, an investment plan is designed that will best enable the customer to achieve his/her financial goals.

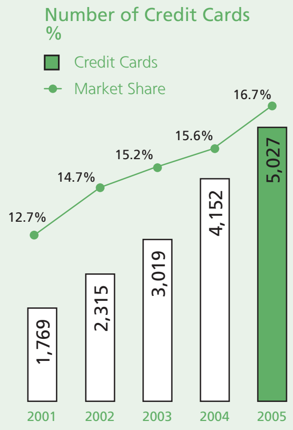
Garanti Masters customers are grouped into four different categories according to their risk profiles. A separate portfolio model has been developed for each group.

Personalized products

To help its Garanti Masters customers to construct their portfolios more easily, Garanti has set up four different mutual funds that are specially designed for each risk group: Garanti Masters Type A Balanced Fund, Garanti Masters Type B Balanced Fund, Garanti Masters Type B Fixed-Income Fund, and Garanti Masters Type B Eurobond Fund.

Also introduced in 2005, under the heading of Garanti Masters Affluent Banking, were structured deposit products specially for Garanti Masters customers. These products allow customers to invest their Turkish lira and foreign currency cash assets in fixed-return accounts that also generate additional yields depending upon the performance of a designated financial index over the lifetime of the account. Mutual funds based on the GARBO (Garanti Bond) indices and personalized asset management are among the other products introduced in 2005. Garanti is currently working on the development of new products that will make it possible for its existing and targeted Garanti Masters customers to take advantage of attractive investment opportunities both in Turkey and abroad.

A highly personalized, innovative, and meticulous approach to service is sure to encourage existing and potential customers to prefer Garanti Masters Affluent Banking services in the years to come.



Payment Systems - Credit and Bank Cards

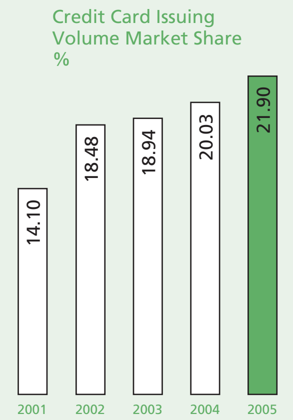
One of Europe's biggest

Over the years, Garanti has been the author of many "firsts" in credit cards and payment systems, not just in Turkey but in the world as well. Garanti's credit card transaction volumes and cardholder numbers in 2005 ranked it among the top seven banks in Europe.

In 2001, there were 1.8 million credit cards issued by Garanti in use. As of end-2005, that number had reached 5 million, corresponding to a rise of 315% in five years. When virtual cards are excluded, Garanti had more issued credit cards in use than any other bank in Turkey in 2005.

Garanti is also the bank that took the biggest (21.9%) share of credit card turnover in Turkey in 2005. When the Bonus Card turnover generated by DenizBank, whose cards are issued under a Garanti license is taken into account, in 2005, Garanti also booked the biggest total merchant turnover in credit cards.

The number of member merchants, who are the Bank's most important business partners in credit cards, is growing rapidly. At the beginning of 2005, there were 65,000 Garanti merchant partners. In the twelve months to the end of the year that number increased 51% to 98,000 while the number of POS devices reached 160,000.



The total volume of the Bank's credit card receivables was US$ 3.1 billion in 2005. Credit cards are of great importance to the Bank because of their ability to generate non-interest income: credit cards were responsible for 55% of the Bank's commission receipts in 2005.

Garanti's extraordinary performance in credit cards is a natural outcome of the insightful strategies being employed by the right team on a technologically perfect platform.

Bonus Card

Bonus Card is Garanti's biggest credit card program.

Among all the credit card programs launched in Turkey–and indeed in Europe–in the last five years, Bonus Card is an unchallenged success from the standpoints of brand value and sustainability. With 4.1 million cardholders, 98,000 merchant partners, a transaction volume of US$ 10.3 billion, and outstanding features and incentives, Bonus Card is a credit and loyalty card program unlike any other.

In 2005, Garanti added the Bonus Business and Bonus Translucent cards to its Bonus family. Bonus Business, which was prompted by strong demand from the Bank's SME customers, grants bonus points that accumulate in the accounts of the cardholder's employees to be collected in a single business account and used together. This is a first in Turkey.

Another innovation in 2005 was the mc² Bonus Card, with its trendy, curved right-hand corner and translucent body design. This card proved to be so popular that the Bank has begun to offer the Bonus Translucent Card, which has a similar design, to all its customers.

A total of 350 different campaigns were successfully conducted on an individual merchant partner basis or in general under the Bonus Card program in 2005 in a market that continues to be characterized by intense competition. In these campaigns Bonus Card users were given a variety of attractive offers such as installments, discounts, and deferred payments.

Bonus Card is the first credit card program in Turkey to make such attractive offers to individuals in a wide range of income and age groups. The success that the program has achieved in five years' time is what has made Garanti a leading bank in the Turkish credit card market.

Shop&Miles

Garanti's other credit card program is Shop&Miles. Shop&Miles is the official credit card of Turkish Airlines.

In five years' time, Shop&Miles cardholders have racked up flight miles totaling YTL 13.2 billion and corresponding to 616,000 domestic flights and 138,600 flights (99,000 to Europe and 39,600 to the USA).

At end-2005, the number of Shop&Miles cards issued stood at 341,000. In yet another Garanti first in Turkey, Shop&Miles also combines flight miles with shopping points so that expenditures made with the card in any of more than 21 million VISA merchant partners anywhere in the world earns the cardholder flight miles, too. Shop&Miles is also continuing to grow with its &club and &club Privé schemes as well.

Shop&Miles&club

&club is a credit card that offers members special concierge services in addition to having Shop&Miles features such as earning flight miles.

&club is targeted at customers who want to know about new things, be informed about activities they're interested in, and in the midst of their busy schedules want to spend as little time as possible organizing their social life or making travel arrangements. Six different &club designs are available for Garanti customers.

In addition to specially prepared weekly and monthly &club e-mail bulletins, &club members have also been receiving the monthly magazine &life since it went into publication in August 2005. &club gives its users privileged access to services at more than 400 merchant partners in Turkey ranging from restaurants and stores to night clubs and hotels.

&club Privé

&club Privé is a premier credit card program developed for customers who demand personalized, private concierge services internationally.

The &club Privé card was designed for Garanti by the celebrated artist and fashion designer, Hussein Chalayan. This is the first and only credit card in Turkey to have been specially designed by an artist of such international stature. &club Privé's international concierge services are provided in collaboration with the London-based arm of Quintessentially, the world's number one global concierge service.

An official sponsor of the 51st Venice Biennial, &club Privé gives its members access to exclusive services from more than 6,000 firms, 30,000 merchant partners, and 250,000 locations all over the world.

Phi Card

Taking its name from the symbol for the "Golden Ratio" famous in European art and mathematics for thousands of years, Phi Card is a credit card specially designed for Garanti Masters Affluent Banking customers.

The number of Phi Card holders in the world is restricted at any given time to 1,618, the first four digits of the Golden Ratio. Members are provided with exclusive concierge services in collaboration with the London arm of Quintessentially.

Paracard and Bonus Kontör Card

Paracard is Garanti's ATM and shopping card.

During 2005, Garanti replaced all its Garanti24 ATM cards with newly-issued Paracards. The objective of this replacement program was to encourage the use of debit cards for shopping and not just for making withdrawals from cash dispensers. The number of Paracard users as of end-2005 was 2.7 million. Paracard is popular with Garanti customers because it earns bonus points when used to make purchases from vendors.

Another Garanti bank card is the Bonus Kontör Card, whose turnover grew the fastest in 2005 and doubled year-on-year. Made attractive and distinctive by its new design, the Bonus Kontör Card and Paracard are both issued to university students as well. Together they command a 19.39% market share that puts Garanti in second place from the standpoint of bank cards.

Commercial cards

According to figures published by VISA, Garanti has the highest commercial card transaction volume in Turkey and a market share of 30.2% thanks to its commercial cards that are carefully designed to meet a firm's needs and provide a convenient way for its employees to make expenditures on its behalf.

Following up on the successes of its Shop&Miles Business Card, Distribution Card, and Corporate Card, in 2005 the Bank introduced its Bonus Business card, which is designed to meet the commercial card needs of its SME customers.

Virtual cards

Paralleling the explosive rise in internet access and use in Turkey, the virtual card market has also been growing rapidly. The pioneer and leader of internet banking and e-commerce in Turkey, Garanti offers its customers virtual cards as well.

The Bank has four different virtual card programs. In addition to virtual versions of its Bonus and Shop&Miles cards, Garanti also offers classic VISA and MasterCard virtual cards that are linked to customers' deposit accounts.

Garanti e-commerce

Garanti offers virtual stores that want to do business over the internet in Turkey with the newest and most effective payment solutions available today. Garanti successfully combines its virtual POS, virtual debit card, and virtual credit card applications together in "Garanti Alışveriş" to provide a secure yet convenient e-commerce platform for internet shopping as well as for those who want to open an online store. The number of member merchants using the Garanti e-commerce payment infrastructure is currently more than 1,500.

Garanti e-commerce is especially preferred by merchants because of its 7/24 help line, dedicated e-commerce unit, high transaction capacity, user-friendly web interface, and easy setup.

Thanks to easy store installation and strong store management services, "Garanti Alışveriş" is currently making it possible for more than 125 merchants to make sales to their customers with a bare minimum in infrastructure investment on their part.

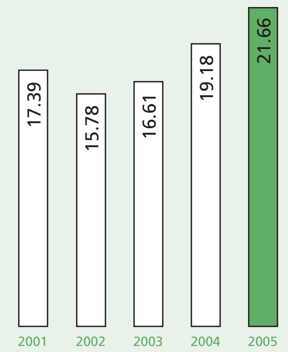
Close relations with merchant partners

In 2005, Garanti commanded the biggest market share in terms of merchant partner turnover. As a result of technological innovations in its POS terminals and thanks to effective marketing, the Bank's share in total merchant partner turnover in 2005 rose 2.5 pp year-on-year and reached 21.66%.

Garanti substantially increased the number of customers to which it provides POS services with the addition of many major companies, shopping centers, and banks in 2005.

Another project that the Bank carried out in 2005 was the replacement of its POS infrastructure software with a system that enables the devices to operate over the internet using the IP protocol. This changeover played an important role in rapidly

Acquiring Volume Market Share
%



increasing POS transaction volumes while also substantially cutting its merchant partners' POS costs.

The shared POS use project launched in 2004 with İşbank continues to expand in scope. The number of shared POS devices in use at the beginning of the year was 15,000.

Innovation

Garanti's innovativeness and diversity in credit card and payment systems and products continued in 2005 and played an important role in increasing customer appeal and satisfaction.

The projects that Garanti carries out in payment systems and credit cards lead the way for the sector while also continuously enriching the features of the products and services that the Bank offers its customers. The following is a brief summary of the most important projects that Garanti undertook in 2005.

- Garanti became the first Turkish bank to achieve 100% completion in changing its credit cards, POS devices, and ATMs over to the EMV chip.
- Garanti was the first Turkish bank to receive EMV-Europay chip certification for Master and Visa. The Bank's ATMs received EMV certification in 2005 as well.
- In line with requests from its customers, the Bank began issuing account statements etc in euros for those preferring that convenience. This is another Garanti first in Turkey.
- The Aristion system, which helps detect and prevent credit card fraud, was another important project undertaken in 2005. Aristion comes into play any time a card is used to make a large purchase that doesn't fit a card user's customary spending profile: a warning is immediately sent to the cardholder via SMS, giving him a chance to stop the transaction. This feature has proven very popular with Garanti customers. It is currently dispatching an average of 2,000 SMS (mobile phone messaging system) warnings a day to customers' mobile phones. In its first year of use, Aristion detected YTL 259,000 worth of attempted fraud and prevented YTL 401,000 worth of fraud.
- Garanti launched its "cash advance with installments" scheme, which offers advantageous repayment terms in the form of fixed installments and affordable interest rates.
- A portfolio management team was formed to carry out campaigns aimed at increasing card activation and strengthening customer loyalty.
- 12.3 million transactions totaling YTL 3.2 billion in payments were conducted via the store-POS payment system, putting Garanti in first place among bank payment channels with a 27.7% share of the total number of transactions.

Garanti Payment Systems (GPS), a Garanti subsidiary, provides the Bank with service and strategic support in the areas of debit and credit cards and payment systems. GPS also serves DenizBank in credit cards (DenizBank Bonus Card) and payments systems as well.

Going international

Garanti is one of Turkey's strongest banks in credit cards and payment systems.

This strength arises from its knowledge and experience gained in the course of many years of hands-on operation in Turkey, from its economies of scale, from its strategies, and from its intellectual capital. Garanti is ready to augment that strength and take its brand into the international arena. 2006 will be seen as a milestone year in this effort.

Banking Through Alternative Delivery Channels

For greater effectiveness and customer satisfaction

Garanti is an outstanding example in the banking industry of the perfect integration of alternative delivery channels (ADCs) and technology with all its product and service distribution processes. The Bank has initiated and completed a wide range of projects at every level from infrastructure to senior management to ensure that it keeps pace with the radical and rapid changes that have been taking place in the Turkish economy over the last five years. In all these projects, ADCs have played important roles in realizing the Bank's four top priorities: increasing customer satisfaction, reducing the cost base, improving service efficiency, and increasing cross-sell.

Currently, Garanti customers conduct 77% of their banking transactions, including those involving cash transactions, via the Bank's alternative delivery channels.

The significantly high ADC usage rate–compared to the sector average–is a prime indicator of the success of Garanti's strategy and its competency in ADCs.

Banking through ADCs

Banking through ADCs is what Garanti calls its state-of-the-art banking applications that put the customer at the center of everything. The Bank's underlying philosophy is that its customers should be able to have the benefit of its services wherever and whenever they may need them. This approach is what has made Garanti a leading bank in Turkey today.

Garanti seeks to deliver its banking products and services to its customers in the most suitable and effective ways possible. Through ADCs, the Bank allows its customers to make use of its banking products and services exactly as they wish and without any constraints as to time or place.

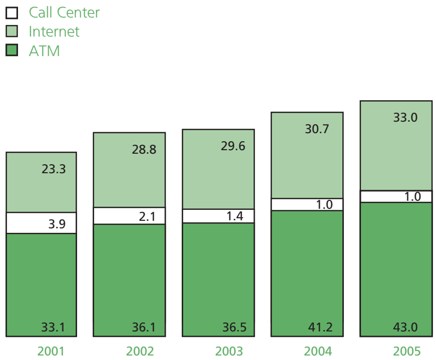
The number of customers regularly benefiting from ADCs in 2005 approached 600,000. The number of ADC customers who never or rarely come into a branch is now close to 400,000.

Garanti's medium-term objective is to increase the number of its active ADC customers to 1 million.

In addition to banking services, there has also been rapid growth in product sales via ADCs: 45% of the Bank's credit card sales, 27% of its bill-payment subscriptions, 14% of its insurance product sales, and 12% of its personal loan applications took place via ADCs in 2005.

Alternative Delivery Channels Usage Rate in Key Products December, 2005	%
Mutual Fund Transactions	88
Equity Trading	98
Foreign Currency Transactions	64
EFT Transactions	87
Money Transfers	78
Tax Payments	71

Alternative Delivery Channels Usage Rate
(Including Cash Transactions)
%



Strategic objective

By making effective and intensive use of ADCs in recent years, Garanti has achieved great successes in keeping its cost base under control.

The Bank's new and updated ADC strategy now goes beyond simply cost control and focuses as well on delivery quality, product sales, deeper relationships with customers, and interactive marketing.

Online banking

Garanti's internet branch has repeatedly been cited as one of the best examples of internet banking in existence over the last five years. In 2005, the Bank's online branch broke new records in terms of customer and transaction numbers, frequency of use, and transaction volumes and successfully maintained Garanti's unchallenged leadership in this delivery channel.

The number of customers actively served by Garanti via its internet branch reached 540,000 in 2005. There was also rapid growth in product sales through the online branch: the average number of sales a month nearly doubled to 96,000 in 2005 from its 2004 level of 50,000.

Giving special importance to the concept of convenience with security for customers doing their banking over the internet, Garanti will continue to develop new virtual banking applications while also increasing its ability to make sales.

Şifrematik (Smart Key): The Garanti difference in internet security

Şifrematik is a device for generating single-use personal identification numbers (PIN). Introduced by Garanti in 2005, it provides customers with unrivaled security when using the online branch.

Şifrematik is yet another tangible expression of the importance that Garanti gives to its customers' assets and to transaction security.

444 0 333 Alo Garanti

444 0 333 is the access number to Alo Garanti, Garanti's call center.

Providing customers with a secure and convenient way to perform all their non-cash banking transactions, Alo Garanti also plays an important strategic role in the Bank's sales, after-sales customer services, and customer relations management.

Garanti's call center provides the highest level of service quality, the greatest diversity of products and services, and the most successful sales effectiveness available in Turkish financial markets today. Employing 480 people, Alo Garanti responded to more than 30.3 million calls in 2005, more than half (55%) of which were handled automatically by the center's interactive voice response (IVR) system.

Garanti also makes intensive use of its call center in the sale of its products and services. Nearly 350,000 of the Bank's sales were made via Alo Garanti in 2005.

Garanti Paramatik

Paramatik is the Garanti brand name of its ATMs. There were 1,221 of them located all over the country at end-2005.

Richly endowed with features and functional menus, Garanti Paramatik ATMs were used by still more of its customers in 2005. Garanti ATMs, branded as Garanti Süper Paramatik, are able to count the cash deposited by the customer and transfer the amount immediately to the designated account continue to be added to the network. There were 551 of them at end-2005.

New features are also to be added to the machines' cardless transaction menu. First introduced in 2004, this menu allowed customers to make payments to credit card accounts. An important addition in 2005 was a new option that allows utility bills to be paid without a card and even without an account at Garanti. By shifting still more transactions to the ATM network, this feature has significantly reduced the line lengths and operational workloads in branches.

With the introduction of the new Turkish Lira and the reappearance of coins in circulation, Garanti has begun installing coin dispenser units on its ATMs. This feature is particularly useful in cardless transactions where it is necessary to give a customer change. So far, coin dispensers have been installed on 30 units and the Bank plans to have them operating on all branch ATMs before the second half of 2006.

In 2005, 36% of Garanti's credit card payments were made via the ATM network, up from 30% in 2004.

paragaranti.com

paragaranti.com is Garanti's investment portal. Offering rich content to bank customers trading in stocks, foreign currency, T-bills and mutual funds, it also provides real-time access to the ISE indexes and movements in foreign currency and in fixed income markets. With more than 15,000 users and 400,000 visits a month, paragaranti.com leads the field of internet portals offering similar investment services.

paragaranti.com placed second in the "Golden Spider Web Competition" in the "Finance" category and third in the "Financial Services" category in 2005.

Garanti will be increasing both the scope and the depth of the services provided through paragaranti.com, broadening the range of its content, and giving it a personalizable interface that will maximize the benefit that customers get when they visit the portal.

CepBank in its second year

CepBank (MobileBank) is Garanti's first mobile banking application. Unique in the world, 90,000 people used CepBank to perform 160,000 transactions in 2005. CepBank allows users to transfer money by mobile phone even to people who are not customers of the Bank. CepBank can also be used to load Avea top-up prepaid minutes and make other kinds of payments.

CepBank was selected by Mobimag, a monthly magazine devoted to mobile phone technology, as the "Mobile Service of the Year" in 2005.

Garanti's objective is to position CepBank as its principal mobile banking channel and turn it into an ADC equipped with a rich menu of features. Work is currently in progress on a number of projects to achieve this.

In 2006, Garanti will be introducing still more "firsts" in mobile banking in Turkey.

International Banking

Continuing to create value for its customers, for the sector, and for the Turkish economy as a whole

Garanti is a bank that has developed strong, multidimensional business relationships in international markets and can call on the resources of an extensive network of international correspondents. Nourished over many years by close, mutual cooperation, the Bank's well-established international relations number among its most important assets.

During 2005, Garanti again continued to transform these relationships into added value for its customers, for the Turkish banking industry, and for the national economy. The record-breaking level of funding that Garanti was able to secure from abroad in 2005 contributed to the business activities of thousands of bank customers. The low funding level (interest and commission fees) that Garanti is able to achieve when tapping international markets served as the benchmarks for the sector's other major players.

Expanding foreign trade volumes

Garanti provides its customers with foreign trade finance services that are effective and generate high added value for them.

The volume of foreign trade financed by Garanti continued to increase. In 2005, Garanti was involved in 13.7% of Turkey's total foreign trade by value, handling 13% of the country's imports and 15% of its exports.

Syndicated loans

Garanti tapped international money markets for two term loans in 2005.

The first, which was signed in July, was the biggest single syndicated loan ever received by a Turkish bank at the time. 71 banks from 24 countries took part in the EUR 600 million one-year syndication at an all-in cost of Euribor+85 bps.

The second club term loan, which was signed in December, was the lowest-cost term loan ever contracted by a Turkish bank and served as a benchmark for the borrowing of other major Turkish banks. 32 banks from 13 countries participated in this US$ 700 million one-year term loan, at an all-in cost of Libor+57.5 bps.

International options for international institutional investors

In 2005, Garanti continued to undertake structured finance transactions (securitizations) in which international institutional investors were targeted. The Bank secured a total of US$ 1,425 million in medium and long-term resources as a result of three securitizations that it carried out during the year.

The Libor+24 bps interest rate on the first of these deals, which was signed in May, was the lowest market price ever achieved by a Turkish bank. Garanti secured a total of US$ 300 million on eight-year terms under this agreement, which was covered by a full financial guaranty from MBIA Insurance Corporation.

The second securitization deal was completed by the end of September under which the Bank secured US$ 600 million from international markets through a deal consisting of five tranches. Garanti was able to borrow at rates ranging between Libor+22 bps and Libor+100 bps at seven and eight-year maturity options.

Another important feature of this securitization was that it was insured by Financial Guaranty Insurance Co (FGIC), Financial Security Assurance (FSA), Assured Guaranty Corporation (AGC), and Radian Asset Insurance (Radian) which have different ratings from Moody's and S&P. In the case of FGIC and FSA, this was the first time they were involved in a deal in Turkey while for AGC and Radian, it was their first market transaction in the country. This aspect of the securitization is evidence of Garanti's role as a pioneer for the Turkish financial sector in international markets.

By means of this securitization, Garanti became the first Turkish bank to single-handedly offer a range of risk, term, and price options to appeal to institutional investors with different risk profiles.

By the end of November, Garanti obtained US$ 525 million from another securitization transaction on seven and eight-year terms. The loan consisted of three tranches, two of which were insured by XL Capital Assurance and CIFG.

There are only eight "monoline" insurance companies in the world that provide coverage for securitizations. Through the deals that it executed in 2005, Garanti became the first Turkish bank to have worked with all of these companies.

Garanti in the international arena

Garanti has two banking subsidiaries outside Turkey: GarantiBank International NV (GBI) and GarantiBank Moscow (GBM). Both banks continued to perform successfully in 2005 and increased their influence and effectiveness, particularly in international trade finance. Detailed information about GBI and GBM is provided on pages 61 and 62 of this report.

In 2005, Garanti opened its third branch (Magosa) in the Turkish Republic of Northern Cyprus. Garanti also has branches in Luxembourg and Malta and representative offices in Dusseldorf, Geneva, London, Moscow, and Shanghai.

Money and Capital Markets

Active participation in money and capital markets

Garanti was again an active player in money and capital markets in 2005.

The climate of stability prevailing in the Turkish economy in 2005 encouraged benchmark interest rates to remain at their low levels while banks' profit margins continued to grow slimmer as competition in the industry moved to new and higher levels. In such a business environment, Garanti successfully maintained its high profile in money and capital markets thanks to its insightful business strategies, customer-tailored solutions, and proficiency in treasury operations. The Bank was the premier choice of customers in this business line, which enabled it to increase its transaction volumes in real terms.

One of the most distinctive features of Garanti's performance in money and capital markets in 2005 was the significant rise in the volume of transactions performed by the Bank on behalf of its customers. This growth was nourished by the increase in the number of the Bank's branches and by the expansion in its customer portfolio.

Garanti reaches individual and corporate customers via its extensive branch network, internet and telephone banking, ATMs, and investment centers to provide them with money and capital market services. In 2005:

- In the ISE market, Garanti's domestic fixed income transaction volume amounted to YTL 61.8 billion.
- Garanti's over-the-counter domestic fixed income trading volume reached YTL 23.2 billion.
- Garanti went up to second place, from the third in 2004, in the domestic fixed income market with a total transaction volume reaching YTL 85 billion with a remarkable increase of 51%.
- Customer domestic fixed income volume of Garanti went up by 2% to YTL 10.2 billion
- Customer flows of Garanti in the eurobond market increased by 36% to USD 909 million.
- Garanti's total eurobond volume amounted to USD 7,014 million corresponding to a 3% increase.

Results like these are positive proof of the steady rise in Garanti's effectiveness in money and capital markets.

One of the first members of TurkDEX

TurkDEX (Vadeli İşlem ve Opsiyon Borsası AŞ, Turkish Derivatives Exchange Inc) is the first and only derivatives exchange in Turkey.

TurkDEX's goal is to create and nurture markets in which forwards and options contracts and capital market vehicles consisting of derivatives of any kind may be traded.

When TurkDEX opened its doors for trading on 4 February 2005, Garanti was present as a shareholder and one of the exchange's first members. Between then and the end of the year, the Bank was responsible for 31.59% of the fledgling exchange's total transaction volume amounting to YTL 3,030 million.

In addition to its TurkDEX operations, Garanti also executes the interest rate and exchange rate swap, forward, and option contracts for speculation and protection against market volatilities. The Bank intends to expand the scope of its activities in derivatives markets and to rapidly increase the volume of its business on TurkDEX.

The best service provider

In the process of developing money and capital market products designed to meet its customers' individual needs and expectations, Garanti will continue to be the best service provider in the business. Corporate competencies, an advanced risk management and monitoring system, an integrated service platform, and an expert team and deep market experience will remain the most important driving forces of the Bank's ongoing success in money and capital markets.

Project Finance

The best Turkish bank in project finance

In 2005, Garanti increased its share in project finance and further strengthened its leader position.

The Bank provided project finance loans to firms active in many different sectors and covering the whole spectrum from the private sector to the public and from corporate customers to commercial. Garanti's robust financial structure fully supports its weight in project finance enabling it to easily come up with solutions for even big-ticket financing requirements.

Numbers speak for themselves

Garanti is acknowledged in both national and international markets to be the best Turkish bank in project finance. Drawing on its leading role and credibility, in 2005 the Bank continued to be the author of the market's "mosts":

- Garanti participated in the US$ 715 million project finance loan for the İstanbul Atatürk International Airport with a share of US$ 335.5 million. This is the biggest single loan ever extended to a private-sector venture in Turkey to date.
- In the US$ 6.5 billion sale of Türk Telekom, the highest-priced privatization ever undertaken in Turkey, Garanti took the single biggest percentage (US$ 335 million) of a letter of credit syndication totaling US$ 1.4 billion.
- Garanti provided EUR 36 million in financing for Mare Manastır, a wind farm with an installed capacity of 39.2 MW. With a total investment cost of EUR 45 million, this is the biggest installed capacity in wind farm projects in Turkey.

Garanti provided financing for public and private-sector infrastructure and energy investments while also taking a big part in a number of privatization projects. In 2005:

- Garanti supplied Doğan TV US$ 200 million financing towards its purchase of Star TV.
- In 2005's first major privatization, Garanti supplied US$ 100 million in project finance for the sale of Eti Alüminyum at a total cost of US$ 280 million.
- Garanti extended EUR 40 million to ATU Duty Free Services for the rent contract of the duty-free services at Atatürk International Airport.
- Garanti provided EUR 15 million financing towards the build-operate-transfer privatization of Ankara Esenboğa Airport.
- Garanti served as the arranger in a US$ 200 million syndicated loan for the Treasury to finance the completion of the Black Sea Coastal Highway and it supplied the biggest share (US$ 100 million).
- Garanti was the only Turkish bank taking part in the renewal of Vestel's US$ 135 million international letter of credit syndication in 2005.
- Garanti acted as the guarantor for the SACE covered loan Kromar Çelik utilized for EUR 23 million financing of the rolling mill investment.
- Garanti provided US$ 20 million towards the US$ 60 million needed by Mey İçki Sanayi to finance its payments in the privatization of TEKEL's alcoholic beverage operations.

Garanti is also an active player in the international syndicated loan market.

The deeply-rooted relations that Garanti has cultivated with financial institutions and its status as the business partner in Turkey that foreign companies most prefer to work with results in the Bank's frequently being invited to take part in international syndications and to become involved in those that are deemed to be suitable. In 2005:

- Garanti took a US$ 75 million share of a US$ 150 million syndicated loan extended to the GSM operator Turkcell to finance its investment in Ukraine.
- Garanti provided a US$ 50 million syndicated loan for Migros, one of Turkey's leading food retailers and supermarket chains.

And in 2006…

Garanti will continue support its customers to finance their investment projects. In 2006, the Bank will start lending to a number of such projects for which it received mandates in 2005:

- Garanti will contribute a US$ 300 million share in a US$ 1,620 million syndicated loan for the privatization of Turkey's largest flat steel producer, Erdemir.
- Garanti will provide US$ 400 million of a loan syndication totaling US$ 1.8 billion for the privatization of the oil refining company TÜPRAŞ.
- Garanti will be providing EUR 82.5 million of the EUR 102 million payment in the privatization of the Hotel Grand Ephesus in İzmir.
- Garanti will contribute US$ 80 million towards Traçim's US$ 100 million cement factory investment.
- Garanti will take part in the US$ 125 million syndicated loan being extended to the Treasury to finance the completion of the Gaziantep-Şanlıurfa highway with a US$ 63 million share.

Asset Management Services

A business partner with deep roots and broad experience

In the business of asset management and brokerage services, Garanti has the deepest roots and broadest experience of any company in Turkey. The Bank's investment services are offered to customers on many different platforms ranging from branches to ADCs.

Garanti works in a complementary and synergetic collaboration with its two subsidiaries, Garanti Asset Management and Garanti Securities, to provide portfolio management and brokerage services.

The Bank continued to register significant growth and development in its investment banking and asset management services. In 2005:

- Garanti controlled an 11.3% share of the mutual funds market as of year-end.
- The volume of the Bank's resources for whose management Garanti Asset Management was responsible reached US$ 2.5 billion in value.
- The year-on-year rise in the number of customers choosing to invest in Garanti's mutual funds was 26%.

Greater collaboration with subsidiaries

Garanti works in close cooperation with Garanti Asset Management at different stages of the investment process.

Garanti Asset Management was the first asset management company to be set up in Turkey. Since that company's inception in 1997, the synergies between the Bank and its subsidiary have increased steadily. As a result of joint marketing activities during the year, the number of customers availing themselves of asset management services reached 47 and the total value of customer assets under management reached US$ 223 million. Garanti Asset Management ranks third in the sector with a market share of 20%.

In the business of brokerage services, Garanti works with its other subsidiary, Garanti Securities. Widely acknowledged to be one of Turkey's most outstanding brokerage houses, Garanti Securities controlled a 4% share (by volume) of the domestic market for brokerage services in 2005.

Custody and Clearing Services

Service quality you can depend on

Garanti provides custody and clearing services to international institutional investors for their capital markets activities in Turkey and is the only Turkish bank with an enduring presence in that line of business. Garanti is the prime sub-custodian for non-resident institutional investors in Turkey, who regard it as the best in the country in terms of fast, high-quality service, and relationship management.

Garanti's custody and clearing services have been the preferred choice of customers for years. The reasons for this sustained success abound. In 2005 Garanti was selected for the ninth consecutive year as the only "Top-Rated Sub-Custodian" in Turkey by the prestigious international magazine Global Custodian. In a survey of the world's leading global custodian and clearing banks, Garanti ranked higher than any of its competitors in each of 48 service lines in a total of nine different categories. Another magazine, Global Finance, has designated Garanti as "The Best Sub-Custodian in Turkey" for three years in a row.

Responding to favorable conditions and money and capital markets in 2005, the demand for the Bank's custody and clearing services grew strongly in 2005 leading to substantial rises in custody balances and transaction volumes. In 2005, Garanti controlled a 22% share of the custody balances of equities traded by non-resident institutional investors on the ISE, which corresponded to 14.5% of all ISE custody balance. The Bank also held a 35% of custody balances of the Turkish government bonds for non-resident institutional investors in 2005.

Garanti provides custody and clearing services for the big-ticket corporate finance deals that Turkish companies enter into with international institutional investors and it also takes part in initial public offerings, block sales, and secondary public offerings undertaken by foreign institutional investors.

The Bank's approach to fast, high-quality service has also been resulting in significant growth in Turkish Lira clearing services. Transactions in this business line account for some two thirds of the Bank's day-to-day Turkish Lira transaction volumes. Garanti handles Turkish Lira transfers and payments for 64 foreign banks.

Custody and clearing services are important for their contributions to the Bank's income. It is expected that the rapid growth experienced in these services in recent years will continue for the foreseeable future. The Bank's continuously expanding array of products and services will be as important to this growth as are its approach to high-quality service, its superior technological infrastructure, its knowledge and experience, and its influential position in markets.

Technology and ABACUS

Garanti: The perfect marriage of technology and banking

Garanti is the trail-blazing leader of the use of integrated technology in the Turkish banking industry. Managed with unrivalled expertise, the Bank's technological infrastructure ensures that all transactions are affected on time and with near-zero error.

Through highly efficient process focus, productivity, and performance management, Garanti transforms its business strategies into information technology strategies and in this way creates high value-added services.

Using technology effectively to create still more value

Productivity

- Centralization: Back-office operations, product development, centralized specializations, service-provider/service-receiver linkages
- Digitalization: Document management, image and task flow technologies, branch digitalization, value-added information service infrastructure (MIS, CRM, Decision Support)

Channel-independent banking

- A single banking infrastructure for all delivery channels
- Complete integration at the data level
- Uniform service richness on all channels

Customer relations management

- Consistency with customer segmentation
- Advanced CRM technologies
- Targeted sales competencies

Real-time management information systems

- Well-defined performance criteria
- Best-practice benchmarking
- Support for decision-making processes

Garanti uses technology to:

- Respond to customers' changing needs rapidly and effectively
- Deepen relationships with its customers
- Provide uninterrupted, reliable service
- Keep its cost base continuously under control.

Garanti has an outstanding reputation for its rich array of products and services, its superior service quality, and its ability to come up with creative technological solutions and also as the originator of "firsts" in Turkey. Just a few of the Bank's innovations that may be cited are the first mobile banking, the first cardless ATM bill payments, the first ATM coinboxes, the first EMV-compliant chip cards, the first financial data warehouse (and the first behavior segmentation model based on it), the multifunctional internet branch (garanti.com.tr), and the first internet financial portal (paragaranti.com).

In the future, Garanti will continue to be a bank that is:

- Mobile: Everywhere and everytime
- Interactive: Fast and convenient. Seeing, listening to, and understanding the customer
- Personalized: Flexible and customer-tailored.

To achieve these goals, Garanti will continuously invest in advanced technology, uninterrupted transaction competency, and infrastructure security so as to maintain its technological leadership of the sector.

ABACUS: The Garanti central operations unit

As of end-2005, Garanti was the undisputed "centralized operations" leader of the Turkish banking industry with a 95% rate of centralization in all its operations. Investments and projects carried out over the last five years have remade Garanti into a bank whose geographical reach enables it to take service throughout the country. ABACUS, Garanti's central operations hub, is what enables the Bank to deal with its millions of customers at 1,548 points and provide them with uninterrupted service 24 hours a day, 365 days a year.

Staffed by a team of 752 people, 33 of whom have CDC accreditation (which means they are authorized to perform international transactions that are valid everywhere in the world), ABACUS handles all of Garanti's:

- Foreign trade transactions
- Credit disbursements
- Payments (including EFT)
- Check and note processing
- Document management procedures
- SWIFT transfers.

ABACUS also conducts cash support services involving the collection and movement of cash throughout the Bank.

ABACUS has attracted widespread admiration both in Turkey and in the international arena. It was because of ABACUS' track record of being close to 100% error-free in international payments that Garanti again received the "Straight Through Processing Excellence Award" from Deutsche Bank, Citibank, and JP Morgan in 2005.

Key Highlights	2004	2005
Number of Annual Transactions	35.5 million	38.7 million
Transaction Volume (US$)	249 billion	348 billion
Centralization Ratio	95%	95%
Number of Average Monthly Transactions	2,958,333	3,225,000
Number of Average Daily Transactions per Person	193	209
Total Employees	745	753
Increase in Productivity per Person	17%	9%
Increase in Number of Employees	2%	1%

Human Resources

Turkey's most admired company

According to independently-conducted surveys, Garanti is the most admired company in Turkey and the most popular employer in the country's banking industry. Adhering to human resources policies that are rooted in the principle of taking a long-term view, Garanti creates and maintains an attractive and satisfying work environment for its employees whose key features are management by objectives, performance evaluation, and career planning.

Garanti's investments in its human resources are certified for Investors In People (IIP) Standard compliance. Providing an average of nine days of training a year to its personnel, Garanti supports the capable human resources that it recruits with strong and effective human resources policies and practices.

Garanti human resources by numbers

At end-2005, Garanti had 9,803* people on its payroll. The year-on-year rise in the number of the Bank's employees was 16.21%.

The two most important reasons for this increase in the number of the Bank's personnel were new branch openings during the year and higher transaction volumes. The majority of new hires went into assistant teller and assistant call center operator positions or else joined branches' sales teams. In 2005, Garanti also recruited 160 new people for its sales trainee, management trainee, and assistant auditor programs in order to satisfy the Bank's anticipated future needs in those areas.

Number of Branches and Personnel	2001	2002	2003	2004	2005
Number of Personnel[1]	6,173	6,592	7,107	7,809	9,121
Number of Branches	319	323	343	384	437
Number of Personnel per Branch[1]	19.35	20.41	20.72	20.34	20.87

[1]excluding security staff

*GarantiBank employees

EVA & Sales Incentives System

It is Garanti's policy to encourage its employees' performance by means of material rewards, which are becoming an increasingly more important component of its employees' total benefits. The ratio of bonuses paid on the basis of the Bank's sales performance to total personnel outlays has gone from zero to 7.5% in just three years' time.

Introduced in 2002, the Economic Value Added (EVA) Bonus Program proved to be an important inducement for the Bank's sales teams. In the last quarter of 2005, Garanti introduced a new bonus system that better suits the needs of mass banking. Called "Sat Kazan" (Sell&Win) in Turkish, under this system everyone involved in mass banking sales, including front-office personnel and tellers, receive a percentage of the product revenues that they sell.

Evenhanded and quantifiable bonus system models make a positive contribution towards achieving the Bank's sales targets while also inculcating the Garanti sales culture among all employees.

Management training programs

The Assessment & Development Center continued its activities to identify and train branch managers in 2005.

During the year, both candidate and existing branch managers took part in training programs conducted by Garanti Management Academy in areas that were seen to be in need of support. Garanti Management Academy creates shared-learning platforms through activities such as workshops, training films, and discussion groups. Garanti believes that these programs, which average about a year in duration, will significantly increase candidate branch managers' management skills before they start doing their jobs while also encouraging the growth of a shared management culture. Paralleling the Bank's ongoing physical growth, both the Assessment & Development Center and the Garanti Management Academy will continue to conduct their programs in 2006 and the years that follow.

Believing that its corporate mission involves more than banking, Garanti acts on the principle that it should also continuously and clearly add value to society as a whole in addition to its traditional role as an economic actor. The values and ideals that the Bank upholds in its business activities are also reflected in the support that it gives to culture, the arts, education, sports, and the environment. Besides acting as a sponsor for many activities, Garanti has also created its own institutions to ensure that its support is sustained and effective.

Not content simply to support projects that improve the quality of human life, Garanti becomes directly and actively involved in them. The Bank cooperates with local governments on a wide range of education, sports, and environment projects while the cultural projects in which it takes part enhance Turkey's international prestige.

Creating its own cultural institutions…

Platform: Garanti Contemporary Arts Center

Platform, an exhibition and research center that provides a premier venue for the contemporary arts in İstanbul, first opened its doors in 2001 for the city's 7th International Biennial. Since then Platform has hosted numerous exhibitions, workshops, and conferences. The center's library and archives are sources of information about artists from Turkey that are frequently used by international organizations. Eight exhibitions and 18 conferences held at Platform in 2005 were attended by about 136,000 people.

The Ottoman Bank Museum

A museum occupying the former headquarters of Ottoman Bank in the Karaköy district of İstanbul not only houses a library and archives but also conducts a prestigious program of activities ranging from exhibitions to meetings and from films to scholarly gatherings. In 2005, a total of 60,000 people attended two exhibitions and 94 meetings at the museum as well as the museum's exhibitions held outside İstanbul.

Garanti Gallery

Located in the venerable Beyoğlu district of İstanbul, Garanti Gallery (GG) focuses particularly on concepts and issues in the world of design: current debates in the areas of urban, architectural, industrial, and graphic design delve new meanings and find new expressions at GG. Exhibitions at GG explore human-building-environment-object relationships, cities, and urban design and architecture and probe design processes in light of their aesthetic and technical content. Seven exhibitions and seven activities held at GG in 2005 were attended by 47,000 people.

Supporting culture and the arts on international platforms…

In Italy…

Garanti sponsored the celebrated artist and fashion designer Hussein Chalayan at the Turkish pavilion at the International Venice Biennial, one of the most important artistic events in the world. The Turkish pavilion was attended by numerous visitors during the biennial, which began on June 12th and ended on November 6th, 2005.

In England…

Garanti was one of the main sponsors for "Turks: A Journey of a Thousand Years, 600-1600", an exhibition held at the celebrated Royal Academy of Arts in London from January 22nd to April 12th, 2005. Focusing on the artistic and cultural achievements of the Turkish people, the show attracted enormous worldwide attention and admiration and was attended by 363,000 people. Garanti has also produced a documentary film about the exhibition.

Jazz becomes Garanti…

Believing that corporate culture demands the same collaboration and accord among players as jazz music does, the Bank supports the art of jazz music under the slogan "Garanti Jazz Green". Garanti has been the main sponsor of the International İstanbul Jazz Festival since 1998.

Ongoing support for basketball…

Garanti's support for Turkish basketball began in 2001 when the Bank became the main sponsor of the "12 Giants" Turkish A National Men's Basketball Team in 2001.

In 2002, Garanti supported the "12 Giants Basketball Schools" project in cooperation with the Turkish Basketball Federation as a way of promoting the sport among larger segments of society and encouraging investment in it. In four years, more than 19,000 students have attended these schools, which currently provide basketball training in 47 provinces in Turkey and two provinces in the Turkish Republic of Northern Cyprus.

In 2005, Garanti also became a sponsor of the Turkish A National Women's Basketball Team.

Protecting nature…

Since 1992, Garanti has been supporting projects of WWF-Turkey, a non-profit, non-governmental foundation that aims to enhance the conservation of Turkey's biodiversity and promote the sustainable use of its natural resources.

A "Community Volunteer"…

"Community Volunteers" is a program supported by Garanti that channels young people into social responsibility projects and puts their energies to work for the benefit of society. The program also provides scholarship opportunities for university students who are in need of financial support for their studies. Through Community Volunteers, Garanti helps prepare today's youth to meet the future as mature and aware adults.

Garanti believes in the power of information…

Garanti Anatolian Meetings

The "Anatolian Meetings" program that Garanti inaugurated in 2002 to give local industrialists, economic actors and government officials in different parts of the country a chance to get together with leading names in economics and banking continued in 2005. This program is conducted in collaboration with the newspaper Dünya. Since the start of the program, about 10,000 people in 27 provinces have taken part in these meetings to exchange ideas on their local problems and how best to deal with them.

"Basel II criteria and the opportunities they will create"

Garanti launched a new series of meetings in 2005 to inform SMEs about the Basel II criteria and provide them with the information they will need to adapt themselves to the changes that the criteria will cause in banking and lending practices. At these meetings, Garanti explains what must be done in the accommodation process, what opportunities there will be, and what effects new risk management criteria could have on their business activities while also fielding questions from the audience.

Bonus Academy

Founded in 2002 in recognition of the intense competition that was building up in retail marketing, Bonus Academy is a program of conferences and training courses designed for Bonus Card's merchant partners. World famous experts and managers are invited to take part in the conferences and describe their retailing successes and failures and the reasons for both. To date, 12 speakers have appeared before the managers and employees of more than 2,000 merchant partners in the Bonus Academy program.

Garanti Foreign Trade Meetings

Garanti conducts the series of "Garanti Foreign Trade Meetings" to help create new opportunities for Turkish companies in international markets. In 2004, the Bank also began organizing its "Legal Framework Seminars" as an adjunct of the same program. In 2005, nine of these meetings were held in which Garanti informed listeners about the latest changes in foreign trade laws and regulations, forms of payment, and letters of credit.

Garanti Masters Tax Seminars

Garanti Masters Tax Seminars are organized by the Bank to inform participants about macroeconomic developments and new changes in the legal framework governing taxation. In 2005, these seminars were held in İstanbul, İzmir, Adana, Bursa, Ankara, and Antalya.

Garanti Bank is the leader of a financial services group of companies that are active in the areas of banking, leasing, factoring, investment banking, portfolio management services, general insurance, private pensions and life insurance, and real estate investment.

Garanti

GARANTIBANK INTERNATIONAL N.V.

Headquartered in Amsterdam, GarantiBank International NV (GBI) was established in December 1990 and first opened its doors for business in April of the following year. At year-end 2005, the Bank had total assets of US$ 2.8 million and had operations which extend beyond the Netherlands to Romania and Germany.

As a result of the strategies to which it has been adhering in its last six years of life, GBI has successfully diversified the scope of its activities and in 2005 the Bank handled a total of US$ 5.1 billion in foreign trade finance. Non-Turkish risk transactions have been rising steadily over the last five years with the result that they constituted 55% of the Bank's portfolio in 2005. Commodity loans and letters of credit account for the largest share of the Bank's foreign trade business. GBI has strong regional expertise in foreign trade finance with a particular focus on trade routes passing through the Black, Caspian and Mediterranean seas. Metals, raw materials for steelmaking, agricultural products, coal, and chemicals are the commodity groups in which GBI is most specialized.

GBI's private banking activities consist primarily of investment banking services targeted at high-income group individuals as well as corporate customers. The Bank's retail banking customer base and product line is undergoing rapid development. In addition to Turkish financial instruments, GBI also offers its customers all the major investment securities and derivative products that are most in demand in international markets. In line with the Bank's general diversification policy, the Bank seeks to broaden the geographical scope of its customer base and has added new companies and high-income group individuals from Romania, Russia, and CIS countries to its portfolio.

Since 2001, GBI has been an active player in international syndications and securitizations and the Bank has participated in numerous such deals arranged for Romanian, Russian, Kazakh, Ukrainian and Turkish financial institutions and companies.

In the first quarter of 2006, the Bank plans to repay its US$ 100 million syndicated loan and replace it with a new loan with a larger amount. This new loan will likely be an important milestone for GBI in its strategy of diversifying itself on the financial institution front on account of the number of participants that the syndication is expected to attract.

In October 2005, Moody's assigned GBI a long-term foreign currency bank deposit rating of Baa2, one point above its investment-grade rating. Moody's also rated the Bank's short-term foreign currency bank deposits P-2 and its financial strength C-. These ratings are all evidence of GBI's role as a pioneer and leader in international trade finance, its financial strength, asset quality, its reliable funding profile and its sound profitability.

GARANTIBANK MOSCOW

GarantiBank Moscow (GBM) commenced operations in 1996 and is one of 41 foreign-owned banks currently doing business in Russia. A member of the Russian Savings Deposit Insurance System,* GBM has one branch and employs 76 people.

A transparent ownership structure, expert management, and synergies created by Garanti's own international network and decade-long market experience all play an important role in GBM's sustainable growth. At end-2005, GBM's total assets amounted to US$ 226 million, a rise of 44% compared with end-2004. The Bank's pretax profit was also up 23% year-on-year and reached US$ 5.5 million in its IFRS financial statements.

GBM's primary objective is to be the best provider of corporate banking products and services in Russia. The Bank's corporate portfolio grew steadily all year long with new additions and greater diversification. In 2005, GBM's total cash loans portfolio was up more than 89% and reached US$ 92 million in its IFRS financial statements. The Bank's portfolio of corporate and commercial customers includes major Turkish enterprises active in the Russian market as well as companies engaged in key sectors of the Russian economy. GBM also provides banking services for Turkish tourism companies that have operations in Russia and the Bank is continuing to open additional service points in order to expand the scope of its business in this line.

GBM provides service to the SMEs that generate a considerable volume of the money moving between Turkey and Russia. The Bank serves a broad base of fixed-term and demand deposit retail customers whose number approached 10,600 as of end-2005. The creation of a savings deposit insurance system in Russia and the greater confidence in the banking system that it has inspired are two other factors that have contributed significantly to GBM's recent growth. The Bank's retail deposit base increased 16% year-on-year in 2005 in its IFRS financial statements.

GBM's strong national and international relationships play an important role in the rise of the Bank's transaction volumes in the areas of interbank and correspondent banking activities. The Bank handles a total securities portfolio of US$ 61.1 million which consists primarily of Russian public sector and corporate bonds in its IFRS financial statements.

In all its activities, GBM adheres to the principles of mutual benefit, painstaking risk analysis, strict abidance by anti-money laundering regulations, and hands-on knowledge of its customers.

* As of December 2005, 931 of the 1,205 active lending institutions in the Russian banking industry had been admitted to the savings deposit insurance system.

GARANTİ SECURITIES

Having commenced operations in 1991, today Garanti Securities is one of Turkey's leading securities house and investment bank. Garanti Securities serves Turkish and international customers in the areas of corporate finance and capital market brokerage.

The sector's leader in the business of corporate finance, over the years Garanti Securities has provided countless customers with high added value services in company mergers, acquisitions, public offerings, and privatizations. Since its inception in 1991, the company has successfully completed corporate finance transactions of US$ 7 billion. The value of public offerings and acquisitions undertaken by Garanti Securities in 2005 alone topped US$ 2.1 billion.

Garanti Securities' other principal business activity is brokerage services. Corporate share trading, which is backed up by solid and trustworthy research, is delivered to customers via Garanti Bank's own extensive service network. Garanti Securities provides fast, high-quality brokerage services to nearly 170,000 customers.

In 2005, Garanti Securities controlled a 4% share (YTL 21.6 billion) of the İstanbul Stock Exchange's trading in corporate shares. In addition to its own customers, Garanti Securities also supplies the capital market brokerage services required by its sister companies Garanti Asset Management and Garanti Pension Company.

Euromoney magazine has recognized Garanti Securities as the "Best Equity House in Turkey" for three years in a row (2003, 2004 and 2005), the company was also voted "The Most Admired Brokerage Firm In Turkey" for the second consecutive year by the readers of Capital, one of Turkey's leading financial magazines.

The key to Garanti Securities' success is its consistently high performance. In 2005, the company earned a total of YTL 14.6 million in brokerage commissions of which YTL 8.0 million came from secondary market trading, YTL 3.2 million from corporate finance, YTL 3.0 million from treasury operations, and YTL 0.4 million from other activities in its IFRS financial statements.

GARANTİ ASSET MANAGEMENT

Founded in June 1997 as the first asset management company in Turkey, Garanti Asset Management (GAM) is owned by Garanti (99.99%) and the Şahenk family. Garanti Asset Management currently has a "Certificate of Authorisation for Investment Consultancy" and "Certificate of Authorisation for Portfolio Management". As of 2005 GAM manages 18 mutual funds of both Garanti, Garanti Securities, 10 pension funds of Garanti Pension Company, and the portfolio of Garanti Investment Trust a closed-end fund listed on the İstanbul Stock Exchange. The company also provides portfolio management services for 47 institutional and individual clients.

GAM's market share in domestic fund management increased from 3.8% in 1997 to 11.3% in 2005. Managed by Garanti Asset Management Co. and distributed through Garanti Bank branches and including alternative channels (ATM, Internet and Call Center), these mutual funds command 11.3% of the market with a market value of US$ 2.5 billion at the end of 2005.

With the enactment of the law for pension funds and after the regulations set by the Undersecretariat of Treasury and the Capital Markets Board, the pension fund industry commenced to grow. GAM started its operations with 6 funds in August 2003 and by the end of 2005 the volume of these funds reached US$ 87 million with 10 different funds.

GAM's investment philosophy is based on having and using solid, reliable and up-to-date information flow. The investment decisions are made on the basis of this information flow and through various committees as well as the return and risk assumptions.

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 and individual investors. Portfolio management started as a business line in July 2002 and has accelerated in 2003. By the end of 2005, total assets reached US$ 223 million with 47 clients.

The Bank is convinced that this will become a more important business line in future as the size of market grows. As the interest margins narrow and the economy looks stronger than before, especially with regard to accession talks with EU, Turkey is the most likely candidate for potential growth among other emerging economies. Considering this, GAM will maintain its pioneering role not only in its business but also in changing the markets scope towards more global way.

GARANTİ LEASING

Known for its superior quality service and high credibility in domestic and international markets, Garanti Leasing has been the author of numerous firsts in the fifteen years since its inception. In 2005, Garanti Leasing executed 6,759 new financial leasing deals and recorded a total of US$ 700 million in business. The company is the Turkish leasing sector's leader with a 16.4% share of transaction volume and an 18.1% share of its contracts. The year-on-year rises in contract numbers and transaction volumes in 2005 were 64% and 105% respectively. At year-end, Garanti Leasing's total assets were YTL 963 million in its IFRS financial statements.

Garanti Leasing lease-finances investments in machinery and equipment by companies that are involved in a broad range of sectors that include transportation, construction, manufacturing, agriculture, textiles, and publishing. Having successfully made active and effective use of Garanti Bank branches as its delivery channel for years, the company recently began entering into agreements with carefully selected vendors of heavy-duty equipment, CNC machinery, agricultural machinery, and manufacturing machinery. In 2005, Garanti Leasing considerably increased the dimensions of its vendor leasing activities.

Garanti Leasing successfully defended its position as the Turkish leasing company with the highest international credibility. In 2005:

- The US$ 20 million syndicated loan (the first loan syndication ever undertaken for a leasing company in Turkey) that the company had received twelve months earlier was renewed at US$ 30 million in May.
- With a long and successful track record of "firsts" in tapping international markets for funds, Garanti Leasing became the first Turkish company (including banks) to receive a loan from Proparco, the private sector financing arm of the French Development Agency. This five-year loan is an indication of the company's international reputation.
- Garanti Leasing undertook two "murabaha" syndications, one with ABN AMRO and the other with Citibank.
- Known internationally for its reciprocal deals, Garanti Leasing entered into loan agreements with DEG, the German Investment and Development Bank and Rabobank (The Netherlands), the only privately-owned bank in the world with a AAA credit rating.
- With its strong reputation for expertise in providing financing to small and medium-sized enterprises, Garanti Leasing signed a 6.5-year EUR 20 million agreement with the European Investment Bank (EIB) to be used by SMEs in leasing.

Giving the utmost importance to the issues of corporate governance, transparency, accountability, and ethics, Garanti Leasing is the first Turkish leasing company to be rated by the international credit rating agencies FitchRatings and Standard & Poor's. In early 2005, FitchRatings raised Garanti Leasing's long-term foreign currency credit rating from B+ to BB- and increased its A- national credit rating twice: to A in November and then to A+ in December. S&P gave Garanti Leasing a BB- / positive / B rating in 2005.

GARANTİ FACTORING

Founded in 1990, Garanti Factoring is one of Turkey's oldest and well-established factoring companies. 55.41% of the company's shares are owned by Garanti and 9.78% of its shares are owned by Export Credit Bank of Turkey. The remaining 34.81% of the company's shares are traded on the ISE National Market.

With a broad customer base in all market segments, Garanti Factoring makes effective use of Garanti's delivery channels to provide high-quality factoring products and services to its customers.

Garanti Factoring employs a customer-focused sales strategy with emphasis on providing fast and flexible solutions to meet the financing needs of customers, especially those of SMEs. In addition to its existing factoring products, the company reaches a much wider audience by successfully marketing its supplier financing product that can be used to satisfy the need for working capital by SMEs and customers in commercial segments that sell goods and services to large firms.

In line with its goal of spearheading the rapid growth experienced in Turkey's factoring industry, Garanti Factoring underwent a restructuring in 2005 that increased its product diversity and productivity, broadened its customer base, and put its risk management on a sounder footing. The company serves customers in all sectors, the most significant of which are manufacturing, iron & steel, automotives, textiles, foods, construction and building materials.

Garanti Factoring recorded US$ 680 million in factoring business in 2005, a year in which the company saw its market share increase from 4% to 6%. The company booked a pretax profit of YTL 4,350 thousand on its operations and had total assets amounting to YTL 357 million in its 2005 IFRS financial statements. Garanti Factoring has set a total transaction volume target of US$ 1 billion in 2006.

Garanti Factoring is the only factoring company in Turkey to have an internationally recognized credit rating (Fitch: BB- / A+ / Positive). It is also the member of two factoring associations: International Factors Group (IFG) and Factors Chain International (FCI).

GARANTİ INSURANCE

Operating in the non-life segment, Garanti Insurance is the most successful applier and leader of bancassurance in Turkey.

In 2005, Garanti Insurance was recognized by Dünya, a respectable Turkish business and financial newspaper, as the most successful company in its sector. In addition to Garanti's distribution channels, the company utilizes its nationwide agency and broker network to provide insurance products and services to its customers. Garanti Insurance has close relations with the Doğuş Group companies and carries out significant projects with them in insurance. In 2005, significant premium generation was realized through alternative distribution channels. The call center, which operates 365 days 24 hours, has taken on an important role in improving customer satisfaction.

Garanti Insurance demonstrated a strong performance in growth, profitability and market share figures in 2005. While the insurance sector grew by 22% in 2005, Garanti Insurance posted 75% growth with a premium generation of YTL 299.7 million, becoming the fastest growing player in the sector. Focusing on sustainable and lucrative growth, Garanti Insurance ended 2005 with YTL 40.8 million technical profit, signaling a 43% year-on-year growth. Profit before tax also surged by 140%, compared to the previous year, reaching YTL 24.7 million based on its IFRS financial statements.

In 2005, Garanti Insurance increased its market share in premium generation to 4.7% from 3.4%, preserving its ranking as the ninth in the sector. The company is the sector leader in engineering and credit segments while being a leading player in fire, transportation, accident and individual accident segments.

In 2005, Garanti Insurance won the tender for the management of Turkish Catastrophic Insurance Pool (TCIP) for the next five years. TCIP was established after the 1999 earthquake and currently continues its work on Mandatory Earthquake Insurance as a result of its prudent focus on being well prepared for a possible earthquake in the future.

Garanti Insurance works closely with international reinsurers including Munich Re, Swiss Re, Maphre Re and Endurance, with which it has a long term and deep-rooted relations. The company is also in close cooperation with Turkey's largest reinsurance company, Milli Re.

Garanti Insurance differentiates itself from its competitors with its innovative business strategies, ability to correctly perceive and price risk, balanced portfolio structure, advanced technology and cost awareness.

GARANTİ PENSION COMPANY

Originally founded in 1992 as a life insurance company, Garanti Pension Company is active today in both private pensions and life insurance, providing high added-value products and services to an extensive group of customers throughout Turkey.

Garanti Pension Company performed successfully in both the private pension and life branches. In 2005, the company sold 56,551 new contracts, putting it in second place in terms of new sales among 11 companies active in the Turkish private pension system. As of 31 December 2005, Garanti Pension Company was one of the sector's major players, managing a portfolio of 93,604 pension contracts (68,859 individual and 24,745 group) totaling YTL 99.5 million.

In the life branch, the company sold 541,599 policies, of which 357 are for investment (endowment life insurance policies and single-premium life insurance policies) and 541,242 involve risk (loan-based and optional life insurance policies) on which it generated YTL 55.2 million in premiums according to its 2005 IFRS financial statements. On the basis of insurance industry figures published for 2005, Garanti Pension Company increased its market share in life insurance more than any other company.

The year-on-year rises in the company's contributions and premiums in the private pension and life insurance segments in 2005 were 162% and 58% respectively and together totaled YTL 139.7 million.

The Garanti Pension Company sales team, which numbered just 8 in 1999, reached 299 in 2005, 234 of which are portfolio managers. The company also makes effective use of bank branches as delivery channels. In addition to those of Garanti Bank, the company has entered into agreements with three other banks to sell private pensions and life insurance policies through their branch networks. This intensive use of bancassurance gives the company access to customers everywhere in Turkey.

Conforming to international standards of product and service effectiveness and quality and with an approach rooted in full customer satisfaction, Garanti Pension Company conducts its business as one of the leading companies in its sector.

GARANTİ PAYMENT SYSTEMS

Founded in 1999, Garanti Payment Systems (GPS) is the leading service provider in our country credit and bank card market.

Garanti Bank controls a 99.99% stake in GPS, which is acknowledged to be the fastest and most effective product developer in the credit card market. GPS supplies the Bank with credit card programs (chip-based multi-brand and co-brand), commercial cards, virtual cards, vendor marketing and e-commerce services.

Foremost among the credit card programs that GPS and currently manages developed for Garanti Bank are Shop&Miles, the official credit card of Turkish Airlines and the basis of its frequent flyer program, and Bonus Card, whose phenomenal yet steady growth has made it a strong contender in the European league as well.

GPS's effective use of technology in credit and bank cards and the innovative products and services that it has developed are widely admired and imitated in both national and international markets.

GPS booked total card transactions amounting to US$ 17.9 billion on 5 million credit cards, 2.7 million bank cards, and 162 thousand POS devices. Total merchant partner turnover generated in this way was US$ 17.8 billion. As of year-end 2005, Garanti Payment Systems had assets totaling US$ 3.1 billion in value.

GARANTİ REIT

Founded in 1997, Garanti REIT is one of the strongest and most highly respected real estate investment companies in Turkey. 49% of the company's shares are traded on the ISE National Market. As of end-2005, the value of the company's property portfolio was YTL 137.2 million. Garanti REIT is the first and only real estate company in Turkey to have been awarded ISO-9001-2000 quality system certification.

Garanti REIT invests in housing development projects which are located in metropolitan areas, particularly in and around İstanbul, and which appeal to medium and upper-medium income groups, incorporate specific design concepts, are architecturally original, and are affordable. The company also invests in commercial properties that are capable of generating regular, low-risk, high rental income and undertakes the development of such properties.

The company undertook its first shopping mall project in 2005: Doğuş Power Center located in the Maslak district of İstanbul. The "power center" concept embodied in this project distinguishes it from all other shopping malls in Turkey and this project is the first instance of the concept being implemented in our country. The project calls for stores that will be selling automotives, furniture, groceries, textiles, sports equipment, and home accessories together with a thematic food court that are all organized so as to support their own internal activities while also creating an interactive sales experience. Total area under construction is 58,000 m^2 with 33,000 m^2 of leasable space. The project has an extensive portfolio of tenants that will be occupying the "big box" store spaces. Budgeted at about US$ 30 million, this project was developed entirely by Garanti REIT. It is slated for completion in September 2006.

Garanti REIT plans to begin construction of a new shopping mall, hotel, and automobile showroom complex in Bursa in mid-2006. This project will have 91,000 m^2 of enclosed space and is expected to cost US$ 60 million. A large sports center and congress center are also planned for inclusion in the complex.

The company's Evidea project located in Ümraniye-Çekmeköy in İstanbul has already become a brand in the housing sector. This project consists of 473 units of fifteen different types and sizes, all of which have been sold. Construction work began in September 2004 and is slated for completion around mid-2007. Total project cost is expected to be US$ 40 million.

Other properties in Garanti REIT's portfolio include a 9,000 m^2 office complex and shopping mall in Antalya, a property in Etiler that is currently leased to the Audi dealership as a showroom, and properties in Taksim and Levent that are leased to Garanti Bank.

Garanti REIT is also involved in investments outside Turkey. It controls a 50% stake in GKY Real Estate Investments SA, a Romanian company (with a capital of EUR 3 million). The firm has invested in 35,000 m^2 of land in the Bucharest Voluntari district and will be acquiring a 550 m^2 business property and building.

GARANTİ TECHNOLOGY

Garanti Technology develops and implements technology strategies for its customers. It is the IT service provider for the Doğuş Group, including Garanti Bank and its subsidiaries. Keeping a close watch on the rapid-paced developments in the world of technology, Garanti Technology transforms solutions into value-added services. It creates and manages change and quality and ensures their sustainability.

Garanti Technology provides technological infrastructure, application software on a variety of platforms, integration, systems management, security management, project management, asset management, process management, service level agreement management, internet applications, e-mail services and consultancy to customers in the banking and financial services, automotives, construction, media and tourism sectors.

As part of its services, Garanti Technology gives on-location support to satisfy customers' infrastructure requirements, carries out all technical procurements, and provides user support. All of the company's services are designed to be available 7 days a week 24 hours a day and they can be fully integrated with multi-channel customer relations management and process-document management systems as well.

Garanti Technology is Turkey's premier technology service provider with:

- 13,500 Windows 2003 and XP personal computers
- 715 Windows 2003 servers
- 56 Unix systems
- CPU performing 6,592 instructions in a second
- 32 terabyte disk capacity
- 99.999% system reliability.

The communications backbone managed by Garanti Technology is national in scope and supported by uninterrupted dial-up and satellite connections. This backbone carries data, video, and voice communication as well as the infrastructures for 165,000 POS devices, 1,250 ATMs and cash movements.

Garanti Technology is organized into four main units: Application Development, Systems and Operations, Network and Customer Services, and Strategy and Management Support.
It employs 520 specialists including a 250-person software development and analysis team.

A well-established and strong player in the IT industry, Garanti Technology enters into strategic business partnerships with the world's leading IT institutions in order to support its future growth and development with new ventures. Taking a customer-focused approach, it provides technological cooperation and support at every level in order to create new platforms and develop new solutions as needs continue to change.

Serving around 30 customers, Garanti Technology had total assets of YTL 12.6 million at end-2005, a year in which the company generated a net profit of YTL 624.4 thousand on total sales amounting to YTL 21.3 million.

2005 Developments in Turkey

January

1 January
The new Turkish lira (YTL) is launched, replacing the old Turkish lira (TRL) at the rate of 1,000,000:1.

The corporation tax rate is reduced from 33% to 30% and there is also a five point reduction in the highest income tax bracket rate. The rate of VAT on some goods and services is lowered from 18% to 8%.

Fuel prices are deregulated.

Textile import quotas are abolished in WTO member countries.

13 January
Fitch raises Turkey's credit rating from B+ to BB-.

CPI (%)	9.23
YTL/US$	1.3295
Benchmark Interest Rate-compound (%)	19.18
ISE-100 Index	27,330

February

3 February

The State Institute of Statistics announces its first inflation figures based on its new basket of goods. The wholesale price index (WPI) is also replaced with the producer price index (PPI).

4 February
The Turkish Derivatives Exchange (TurkDEX) opens its doors for trading in İzmir.

10 February
BNP Paribas acquires a 50% stake in TEB Mali Yatırımlar AŞ, a holding company for financial services that has an 84.25% controlling stake in Türk Ekonomi Bankası (TEB).

11 February
Moody's changes Turkey's credit rating from "stable" to "positive".

14 February
The Turkish Treasury floats its first five-year bond issue on the domestic market.

CPI (%)	8.69
YTL/US$	1.2785
Benchmark Interest Rate-compound (%)	17.32
ISE-100 Index	28,396

March

4 March
A 14.76% block of TÜPRAŞ (Turkish Petroleum Refineries Corporation) shares begin trading on the İstanbul Stock Exchange's wholesale market.

10 March
JCR raises Turkey's credit rating from B+ to BB-.

CPI (%)	7.94
YTL/US$	1.3462
Benchmark Interest Rate-compound (%)	17.46
ISE-100 Index	25,558

April

12 April
The boards of directors of the state-owned Ziraat and Halk banks are separated.

Fortis Bank signs an agreement with the Doğan family, Dışbank Mensupları Emekli Sandığı and Dışbank Mensupları Güvenlik Vakfı for its purchase of an 89.3% stake in Dışbank.

18 April
A 34.5% block of shares in state-owned Petkim (a petrochemicals company) is publicly sold.

CPI (%)	8.18
YTL/US$	1.3844
Benchmark Interest Rate-compound (%)	18.35
ISE-100 Index	23,592

May

9 May
An agreement is signed for the sale of 57.4% of Yapı Kredi Bank's shares to Koç Financial Services and Koçbank Nederland.

11 May
The IMF Board of Executive Directors approves Turkey's letter of intent, which calls for a finance package of approximately US$ 10 billion in twelve equal installments.

25 May
The first oil starts moving through the Baku-Tbilisi-Ceyhan pipeline.

CPI (%)	8.70
YTL/US$	1.3550
Benchmark Interest Rate-compound (%)	16.74
ISE-100 Index	25,236

June

15 June
The World Bank releases its US$ 465.4 million loan that is to be used to support Turkey's privatization program.

16 June
An agreement is signed between the Directorate General of State Airports Administration (DHMİ) and Tepe-Akfen-Ventures (TAV), the latter of which submitted the winning (US$ 3 billion) bid for the operation of İstanbul Atatürk International Airport.

CPI (%)	8.96
YTL/US$	1.3337
Benchmark Interest Rate-compound (%)	16.00
ISE-100 Index	26,957

July

1 July
The winning bid (US$ 6.55 billion) in the Türk Telekom auction is submitted by Oger Telecoms Joint Venture Group.

4 July
Fortis Bank acquires a majority stake in Dışbank.

7 July
Simultaneously-timed blasts in London underground stations and buses cause severe volatilities in international markets.

CPI (%)	7.82
YTL/US$	1.3212
Benchmark Interest Rate-compound (%)	16.16
ISE-100 Index	29,615

	January	February	March	April	May	June
Overnight Interest Rate (%)	17.00	16.50	15.50	15.00	14.50	14.25

Macroeconomic highlights

EU: Turkey's EU accession negotiations started on 3 October 2005. It is expected that the screening process, currently going on under 34 headings, will be completed in 2006 after which the main negotiations will begin.

Growth: Investment and consumption remained strong in 2005, pushing the growth rate up to 7.6% (GDP) above the government-set target of 5%. The progress that Turkey has made over the last four years is critically important to the ability of the economy to achieve sustainable growth.

Inflation: By adhering to tight fiscal and monetary policies, the Turkish Central Bank succeeded in keeping inflation below target once again for the fifth year in a row. The Bank announced that since the proper conditions now existed, it would change over to the forward-looking inflation targeting system as of the beginning of 2006.

Fiscal balance: The changeover to a three-year centralized budget system beginning in 2006 has increased national budget transparency considerably. In 2005, Turkey met the Maastricht criteria for the ratio of the consolidated budget deficit to national income for the very first time.

Balance of payments: Exports in 2005 amounted to US$ 73.3 billion in value while imports were US$ 116.4 billion. With the country's total foreign trade deficit approaching US$ 45 billion, this deficit means that the hole in the current account is also

August

12 August

Oil prices hit their highest levels in years. Brent crude tops US$ 68 a barrel.

25 August

Doğuş Holding announces at the İstanbul Stock Exchange that it has signed an agreement to sell shares corresponding to 25.5% of Garanti Bank's issued capital to General Electric Consumer Finance (GECF), a subsidiary of General Electric Company (GE).

CPI (%)	7.91
YTL/US$	1.3473
Benchmark Interest Rate-compound (%)	16.22
ISE-100 Index	30,908

September

11 September

In the final round of bargaining on the privatization of 51% of TÜPRAŞ, the highest bid (US$ 4.14 billion) is submitted by the Koç-Shell Group.

16 September

The winning bid (EUR 3,538 million) in the Galataport auction is submitted by a consortium led by Royal Caribbean Cruises Ltd.

28 September

Koç Financial Services acquires a 57.4% stake in Yapı Kredi Bank in a joint venture in which the Koç Group and Italian UniCredit control equal shares.

CPI (%)	8.00
YTL/US$	1.3422
Benchmark Interest Rate-compound (%)	15.05
ISE-100 Index	33,333

October

3 October

The Council of Europe announces the start of Turkey's EU accession negotiations.

4 October

In the privatization of 46.12% of the steelmaker Erdemir, the highest bid (US$ 2.77 billion) is submitted by OYAK, the Turkish Armed Forces Pension Fund.

18 October

Minister of Finance Kemal Unakıtan announces Turkey's first three-year budget. The consolidated budget for fiscal year 2006 is set at YTL 174,340 million.

CPI (%)	7.52
YTL/US$	1.3417
Benchmark Interest Rate-compound (%)	14.25
ISE-100 Index	31,964

November

14 November

The biggest privatization in Turkey to date is completed when the shares in Türk Telekom are turned over to their new owners.

Vakıfbank takes in US$ 1,274 million in a public offering of 21.89% of its shares.

29 November

Prime Minister Recep Tayyip Erdoğan announces that as of the beginning of 2006, the corporation tax rate will be 20% rather than 30% and that the rate in the highest income tax bracket will be lowered from 40% to 35%.

CPI (%)	7.61
YTL/US$	1.3500
Benchmark Interest Rate-compound (%)	13.87
ISE-100 Index	38,089

December

1 December

The European Central Bank raises its prime interest rate a quarter of a point to 2.25%.

2 December

Within the framework of its Country Assistance Strategy (CAS), the World Bank extends the term of its assistance to Turkey to one year and increases the amount to US$ 6.6 billion.

6 December

Fitch changes the outlook on its BB- credit rating for Turkey from "stable" to "positive".

9 December

The first and second reviews of the Stand-By Arrangement between the IMF and Turkey are approved by the IMF Board of Executive Directors. With the completion of these reviews, about US$ 1.6 billion of loans are released.

12 December

Minister of Finance Unakıtan announces that the Treasury has secured approximately US$ 26,674 million in income from privatizations since his government came into power.

13 December

Put up for sale by the Savings Deposit Insurance Fund, Telsim is acquired by British Vodafone Group Plc, one of the world's largest mobile operators, at a cost of US$ 4.55 billion.

The fund also announces that it has taken in a total of US$ 6.15 million from the sale of Uzan Group and Star Media Group assets to cover the losses it had sustained in the failure of İmar Bank.

At its last meeting of the year, the US Federal Reserve announces its eighth interest hike in 2005, raising its rate on short-term borrowing another quarter of a point, bringing it to 4.25% from its 2.25% level at the beginning of the year.

15 December

Moody's upgrades Turkey's credit rating to Ba3 from B1.

22 December

As announced on August 25th, a 25.5% stake in Garanti Bank is transferred to GECF.

30 December

Heavy year-end trading on the İstanbul Stock Exchange sets a new historical record.

CPI (%)	7.72
YTL/US$	1.3418
Benchmark Interest Rate-compound (%)	13.83
ISE-100 Index	39,778

July	August	September	October	November	December
14.25	14.25	14.25	14.00	13.75	13.50

growing and it reached US$ 23 billion in 2005, more than 6% of national income. Foreign direct investment played a role in the financing of this deficit as did substantial foreign interest in Turkey's financial markets.

Privatization: Having finally gotten under way, Turkey's privatization program attracted strong national and international interest. Privatizations have generated more than US$ 25 billion in revenue for the Treasury, of which US$ 8.2 billion was received in 2005.

Foreign direct investment: Foreign investors are coming into Turkey in increasing numbers, primarily by taking stakes or through outright acquisitions especially in the financial services industry. Total foreign direct investment reached the US$ 8 billion level in 2005, thanks in part to success on the privatization front.

IMF: A new three-year stand-by agreement was signed in 2005 and a finance package of approximately US$ 10 billion in twelve equal installments was released. With the successful completion of the first and second reviews, about US$ 1.6 billion entered the Treasury's account.

Ratings: Both Fitch and Moody's raised Turkey's credit rating. The reasons were said to be the start of EU accession negotiations and the signing of a new three-year stand-by agreement with the IMF as well as the observed improvements in national debt dynamics resulting from tight fiscal and monetary policies.

SECTION II MANAGEMENT AND CORPORATE GOVERNANCE APPLICATIONS

Ferit Faik Şahenk
Chairman

1964. 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 served as the Chairman of Doğuş Automotive and CEO of Doğuş Group.

Mr. Şahenk is the Chairman of Doğuş Group.

Süleyman Sözen
Vice Chairman

1946. 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. He holds a Turkish CPA licence.

Ahmet Kamil Esirtgen, PhD
Member of the Board

1945. 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.

Dmitri Lysander Stockton
Member of the Board

1964. Graduate of North Carolina A&T State University, Accounting (Bachelor). He began his career at GE and served in management positions in various group companies. In 2005 he began serving as president and CEO of GE Consumer Finance responsible for its Central and Eastern Europe operations.

Richard Alan Laxer
Member of the Board

1961. Graduate of Skidmore College (Department of Business Administration). After twenty-one years of experience with GE Real Estate and GE Commercial Finance, Laxer was posted with GE in 2000 as the Asia-Pacific President of GE Commercial Finance. Since 2004 he has been serving as the president and CEO of GE Commercial Finance responsible for corporate financial services in Europe.

Daniel Noel O'Connor
Member of the Board

1959. Graduate of University College Dublin, Commerce (Bachelor) and Professional Accounting (MBA). He joined GE when it acquired the Woodchester Group in 1997. He is President and CEO of Europe's biggest independent consumer financing organization resulting from the merger of AFS Europe (of which he was CEO at the time) and GCF in 1999.

Charles Edward Alexander
Member of the Board

1953. Graduate of Oxford University. He joined GE in 1999 after a twenty-five year career in international investment banking. In addition to his position as president of GE Capital Europe, he was chosen to be GE's National Executive in the UK in 2001. He holds seats on the boards of directors of General Electric Capital Corporation and GE Capital Services Inc.

M. Cüneyt Sezgin, PhD
Member of the Board

1961. 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. He serves on the board of Garanti Insurance, Garanti Pension Company, Garanti Factoring and Garanti Leasing.

Ergun Özen
Member of the Board
President and CEO

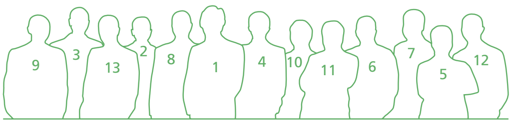
1960. Graduate of New York State University School of Economics, Mr. Özen completed the Advanced Management Program (AMP) at Harvard Business School. He is Vice Chairman of the Banks Association of Turkey, Chairman of Garanti Technology and Garanti Payment Systems and a board member of Garanti Securities, Garanti Asset Management, GarantiBank International, GarantiBank Moscow, The Society for the Protection of Nature, İstanbul Foundation for Culture and Arts, Turkish Education Association, Turkish Industrialists' and Businessmen's Association.

Altan Reha Göksu
Auditor

1936. Graduate of İstanbul University School of Law, Mr. Göksu worked as an attorney. He joined the Doğuş Group in 1974. He is legal counsel in Garanti REIT.

Selahi İçtem
Auditor

1941. Graduate of Ankara Academy of Economics and Commercial Sciences. Mr. İçtem has worked in various positions in the private sector. He joined the Doğuş Group in 1969.



1
Ergun Özen
President and CEO

Please see his short biography on page 77.

2
Kubilay Cinemre
Executive Vice President
Treasury, Investment Banking and Affluent Banking

1966. B.A. and M.A. from Boğaziçi University in Economics. He worked in various managerial positions in domestic and international banks. He served on the boards of Garanti Securities, Garanti Asset Management and Garanti REIT.

Mr. Cinemre left his position on 7 April 2006.

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
Ali Fuat Erbil
Executive Vice President
Retail Banking and Channel Management

1968. 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 and Garanti Asset Management.

5
Hüsnü Erel
Executive Vice President
Technology and Operational Services

1952. Graduate of İstanbul Technical University in Electronics and Communications Engineering. He worked in managerial positions in various private sector banks. Currently, he serves on the board of Garanti Payment Systems. He is the CEO and Board Member of Garanti Technology.

6
Gökhan Erün
Executive Vice President
Human Resources

1968. Graduate of İstanbul Technical University in Electronics and Communications, Mr. Erün earned an MBA at Yeditepe University Business Administration Department. He was the general manager of Garanti Pension Company. Currently, he serves on the board of Garanti Insurance and Garanti Pension Company.

7
Turgay Gönensin
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 Payment Systems and GarantiBank International.

8
Nafiz 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 Company and Garanti Payment Systems.

9
Adnan Memiş
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.

10
Murat Mergin
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.

11
M. Cüneyt Sezgin, PhD
Member of the Board
Head of Risk Management and Internal Audit

Please see his short biography on page 77.

12
Mehmet Sezgin
General Manager
Garanti Payment Systems

1962. 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 MasterCard Europe. He serves on the board of directors of MasterCard Europe and Interbank Card Center (BKM).

13
Ali 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.

Garanti's corporate identity is defined by effective corporate governance

Good corporate governance contributes to financial market stability, investment and economic growth. 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 Garanti has built over the years.

Garanti is committed to business integrity and professionalism

Integrity is key in keeping public trust and confidence. Garanti complies with the highest standards of corporate governance, ethical conduct and cultural integrity within its organization. In light of this, Garanti constantly strives to build and protect its strong corporate culture by promoting its core values to employees at all times. All Garanti employees are guided by a Code of Ethics created with the objective to achieve standards of professional and ethical conduct.

Garanti has ensured the basis for an effective corporate governance framework

Corporate governance is one key element in improving efficiency and growth as well as enhancing investor confidence. Garanti's corporate governance framework is based on four key pillars: good relations backed by smooth communication with shareholders; transparent and accurate reporting; maintaining full compliance with the laws, rules and regulations and continuous commitment to corporate social responsibility.

Garanti believes in open and accurate communication at every level

Garanti's corporate governance framework protects and facilitates the exercise of shareholders' rights and ensures the equitable treatment of all shareholders, including minority and foreign shareholders. 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 notified of the date of the Assembly upon the decision of the Board of the Directors regarding the 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's corporate governance framework ensures the timely and accurate disclosure of all material matters regarding the Bank, including the financial situation, performance, ownership, and governance of the Bank. The Bank provides reliable, consistent and orderly information in compliance with the regulatory and legal framework on a timely and regular basis. All parties in the investment community have equal and cost-efficient 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 its Investor Relations (IR) department. In addition to these channels, the Bank has internet sites, in both 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 access to online banking.

Garanti's corporate governance framework is complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to investor decisions, free from material conflicts of interest that might compromise the integrity of their analysis or advice. There is a dedicated IR department at Garanti, responsible for conducting relations with current and potential institutional investors, portfolio managers, shareholders, credit 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 19 different international conferences organized by various investment banks or securities firms in 2005 as well as holding one-on-one meetings with close to 400 investors. The IR department also provides information through Garanti's IR website. This is accessible through www.garantibank.com/investor_relations. General corporate and stock information, Garanti's news bulletin "Stockwatch" specifically published for foreign investors, macroeconomic and quarterly financial data in BRSA and IFRS formats, roadshow presentations, annual reports, latest capital structure, special announcements, news releases, analyst reports, frequently asked questions & answers and other matters of interest relating to the Bank can be reached through this website, which is updated on a regular basis.

Garanti complies with all applicable laws, rules and regulations without exception

Garanti's management processes, structures and policies ensure compliance with laws, rules and regulations. Garanti discloses IFRS financials in addition to Turkish GAAP (BRSA) financials, on quarterly basis. All information is prepared and disclosed in accordance with internationally accepted standards of accounting.

Garanti's common stock is listed on the İstanbul Stock Exchange (ISE) under the symbol 'GARAN.IS'. Outstanding American Depository Shares (ADS) are traded on the Stock Exchange Automated Quotations (SEAQ) of the London Stock Exchange. Therefore, in addition to the disclosures and notifications to the Turkish authorities including the İstanbul Stock Exchange and the Capital Markets Board; Garanti 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 believes in making the maximum effort to benefit the community and natural environment

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 57-59.

The organization of risk management and internal audit

Activities related to risk management and internal audit at Garanti are carried out in compliance with the requirements of laws and regulations by an organizational structure that is directly responsible to the Board of Directors and in a manner that is completely independent of the Bank's executive functions. The board has ultimate responsibility for all aspects of risk management and internal audit including, but not limited to, installing a risk management and internal audit system, ensuring that it operates effectively, formulating risk management and internal audit strategies and policies in line with the Bank's willingness to assume levels of risk duly commensurate with its capital, and ensuring that they are continuously adhered to. This organizational structure consists of Internal Audit Department, Internal Control Department, and Risk Management Department that report directly to the member of the Board of Directors who is designated by the board and who has no executive responsibilities whatsoever.

The effectiveness of the Bank's risk management and internal audit system is also supported by a number of risk committees. The Executive Risk Committee (ERC) keeps the Board of Directors informed about the Bank's standing with respect to risk-return-capital. The Bank Risk Committee, which reports to ERC, and its market, credit, and operational risk subcommittees support the effective operation of the risk management and internal audit systems throughout the Bank by exchanging information and opinions with the Bank's units in coordination with one another.

In addition to these committees, in line with the importance given to corporate governance principles and long before it was a requirement of law, Garanti also created an Audit Committee whose job is to ensure that the Board of Directors' supervision and review functions are duly carried out. The Audit Committee receives regular reports from the individual units of the risk management, internal control and internal audit systems concerning the performance of their duties. Audit Committee reports to the Board of Directors its views on the results of these units' activities and on any action that it deems to be necessary as well as its views on any other issues that it deems to be important from the standpoint of the continued well-being of the Bank and the conduct of its activities.

Another Garanti innovation in the sector is the creation of a Liquidity Risk Management Committee in line with international standards and practices. This committee is responsible for ensuring that the Bank's exposure to liquidity risk is properly managed by taking necessary, correct, and timely measures to head off any liquidity crises.

Risk management activities

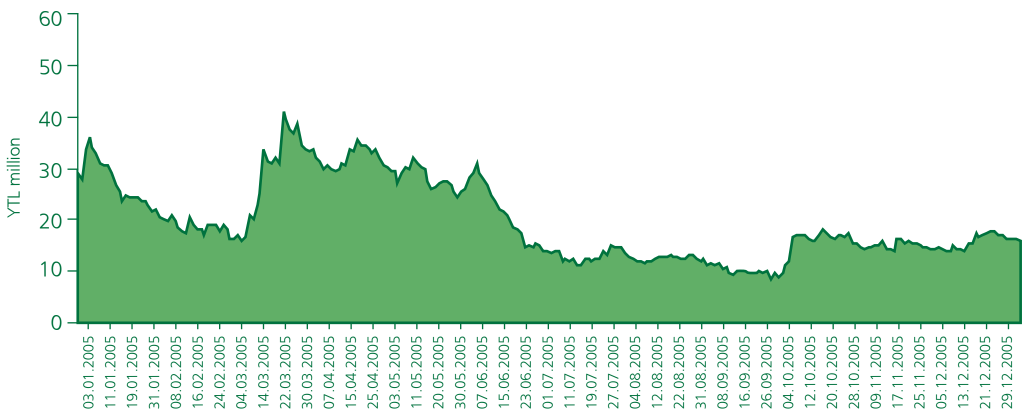
Fostering a risk management culture throughout the group and guided by a vision of having an integrated risk management system in which risk based return and risk based capital are clearly seen and understood, Garanti employs analytical methods conforming to international standards to quantify and monitor market and credit risks.

Market risk

Trading risk and the associated economic capital is calculated on a daily basis using the value-at-risk (VAR) model to determine the risks to which the Bank is exposed on account of market price movements in the trading positions that it maintains both on and off its balance sheet. The value-at-risk model measures the maximum loss that is likely within a specified confidence interval (CI) to be sustained due to fluctuations in market prices in the market value of a portfolio over a specified holding period. The VAR calculated with a 99% confidence level using 260-day historical data by means of parametric methods is then subjected to kurtosis and liquidity adjustments to reflect market conditions. The VAR calculated in this way is reported each day to the Board member responsible for risk management, to the CEO, and to the Treasurer. VAR limits determined according to the distribution of economic capital approved by the Board of Directors and changed dynamically accordingly with ERC approval are also monitored and reported on a daily basis by the Risk Management Department.

At the year end-2005, the VAR calculated for the Bank's entire trading portfolio, including securities available for sale, was YTL 15.78 million while the average calculated for the whole year on the same basis was YTL 19.9 million. In view of existing market conditions and Garanti's own equity resources, neither figure entails a significant risk for the Bank. VAR limits were not exceeded during this time period.

Liquidity and kurtosis-adjusted parametric VAR, 99% CI



Note: The VAR value calculated using the internal model is presently intended for use only in the Bank's internal management. Such measurement and reporting are not required by law. The values exposed to market risks that are reported to the Banking Regulation and Supervision Agency (BRSA) are calculated by means of standardized methods. According to BRSA's Basel II roadmap, the use of VAR in calculating capital adequacy ratios will begin on 1 January 2008.

For the purpose of determining the risks that could arise in major market fluctuations, the VAR model is also regularly employed to perform stress tests and scenario analyses.

The reliability of the model is regularly checked by means of backtests. No deviations from the model were identified in the last twelve-month period.

Structural interest rate risk is analyzed and reported at two-week intervals by duration/gap and sensitivity analysis in order to determine the interest rate risk to which the Bank is exposed on account of maturity mismatch in its balance sheet structure. This analysis and report cover all interest rate-sensitive items whether on or off the balance sheet and the Turkish lira and foreign currency duration/gap calculated on the basis of the present value of all cash flows on an individual transaction basis. It is regularly assessed by the Assets and Liabilities Committee (ALCO), which uses it to make its decisions on balance sheet management. To manage maturity mismatch risk, instruments such as interest rate swaps, futures, and long-term repo are used and long-term resources are created through operations such as syndications and securitizations.

Liquidity risk

In line with international standards and practices, a Liquidity Risk Management Committee was set up within the Bank and given responsibility for ensuring that the Bank's exposure to liquidity risk is properly managed by taking necessary, correct, and timely measures to head off any liquidity crises. Garanti is one of the leading banks in the Turkish banking sector in terms of setting up systems designed to monitor liquidity risk. Early warning signals and stress levels according to the severity of liquidity risk have been defined and a corporate procedure governing the actions that may be taken at each stress level has been formulated. Early warning signals are monitored on a monthly basis and reported to the Liquidity Risk Management Committee. Previous database findings resulting from analyses done for the Bank's core deposit rates are also taken into account in these analyses. Daily liquidity management is the responsibility of the Treasury Unit.

Credit risk

An internal risk rating model developed for the corporate and commercial loan portfolio was first adapted to the Bank's main frame in January 2003 and its use at the credit granting process was incorporated into policies and procedures governing the lending process. In the model that was developed, statistical methods are applied to information concerning customers' previous performance in order to rate them on the basis of objective criteria. The internal risk rating model makes it possible to assess the likelihood of a particular customer's defaulting in the future. Using these ratings, the expected and unexpected losses and the associated amounts of economic capital needed for the portfolio can be determined on a monthly basis.

For the retail loan and credit card portfolio, a scoring model developed by Experian is used in the application and granting process. The credit risk and economic capital calculations determined for individual products based on the scores generated by the model are used for monitoring purposes in the Bank's internal management. Once a sufficiently large database has been built up, it is planned to repeat these analyses and subsequently incorporate the results into the decision-making process.

In the case of treasury operations, statistical methods are employed to calculate the credit risk arising from the likelihood of a counterparty defaulting on money market, repo, and derivative transactions as well as the economic capital associated with that risk.

Operational risk

For the measurement and management of the Bank's operational risks, a prototype risk matrix has been developed in which the existing and potential operational risks at the Bank are grouped according to the business lines, causes, consequences, and BIS categories to which these risks apply. A loss database is being created for the important business lines in this matrix. In the near future, infrastructure is to be installed that will make it possible for this data to be used in the measurement of operational risk.

In the control of operational risk, the status, impact, and probabilities for each risk are evaluated within the matrix. Internal Control Department and Internal Audit Department have primary responsibility for monitoring the operational risk matrix.

Base II compliance

Another project launched in 2003 was concerned with the Bank's compliance with Basel II criteria, which BRSA plans to put into effect in 2008. Garanti has set up its own Basel II Committee under the coordination of the Risk Management Department in which all relevant parties take part. This committee has planned all the activities that will be necessary for compliance and is conducting them according to the roadmap that BRSA has laid out. Garanti Bank's risk management staff also play active roles in the committees set up by the Banks Association of Turkey in the areas of Basel II compliance as well as risk management.

Disaster Recovery Plan

Garanti's Disaster Recovery Plan was formulated in a project that was undertaken and completed with the support of international consultancy. The plan is designed to ensure business continuity by enabling the Bank to continue performing its most critical functions in the event of an emergency. It spells out the modes of action that units, branches, and regions are to take; defines the disaster recovery unit teams and the support teams as well as the duties of both; and specifies the responsibilities of each team before, during, and after an emergency. The disaster recovery plan also details the strategies for moving from a state of emergency to one of normalcy and the principles concerned with updating and testing the plan.

The Bank's data processing center and network infrastructure have been designed so as to incorporate a backup system in order to prevent technical and mechanical equipment problems. For emergencies other than technical and mechanical problems that would affect the services provided at the Bank's operations and data processing center, the systems and hardware of IBM in İzmir are available for use. By means of this arrangement, it is possible in effect for the Bank's entire system to be relocated from one place to another in very little time, thus allowing service to be continued without serious interruption. Backup machines for the Bank's EFT and SWIFT systems are in place and are held in readiness so as to come on line in the event of any unforeseen situation.

Internal Control Department and its functions

Internal Control Department is responsible for creating and coordinating a sound internal control environment within the Bank; for ensuring that the Bank's activities are conducted systematically, productively, and effectively in line with its management strategies and policies as well as within the framework of current laws and regulations; and for ensuring the integrity and reliability of the Bank's books and records of account. To this end, infrastructures have been set in place that separate functional duties, ensure there is a chain of successive authorities and responsibilities permit accounts and transactions to be reconciled provide auto controls and systemic controls for processes, and allow incurred risks to be defined and monitored.

Internal Control Department carries out its duties and further develops the internal control environment on the basis of an "operational risk matrix" that has been formulated. In this way, it is possible to view information about the effects and probabilities of operational risks throughout the Bank as well as the processes that give rise to them both on an individual risk basis and as a whole.

The personnel of the Internal Control Department employ both central and on-site controls conducting their duties.
- In central computerized controls, accounting and management information system records throughout the Bank are cross-checked against each other on a daily basis.
- In branch on-site controls, compliance of transactions and their documentation are checked with the requirements of law and with the Bank's own rules at headquarters units and branches that are selected on the basis of their risk exposure either proactively or shortly after transactions have taken place.

In addition, tools such as risk reporting and self-assessments are also used for better management of operational risks at all branches and units.

Internal Audit Department and its functions

Internal Audit Department is responsible for conducting audits at all of the Bank's headquarters units and branches and also at subsidiaries that are under the Bank's control.

In the conduct of its duties, the department examines and assesses:
- Compliance of all activities with the requirements of law and of the Bank's internal rules and regulations
- The validity and reliability of all information whether financially related or not
- The effectiveness of measures and practices related to the protection of the Bank's assets
- The productivity and effectiveness of operations
- The effectiveness of internal control systems.

Internal Audit Department also has responsibility for examining and investigating instances of fraud, embezzlement, forgery etc committed against the Bank by its personnel or by any third party.

In order to fulfill all these duties effectively, both centralized and on-site audits, examinations and investigations are carried out by the Internal Audit Department that is organized in line with these activities.

On-site audits are conducted using a variety of auditing techniques at the Bank's headquarters units, regions, branches, and subsidiaries that are selected on the basis of a hierarchy of primarily risk-exposure issues. Internal Audit Department has adopted a risk-focused working approach so as to make the most effective use of its resources and ensure that the Bank derives the maximum benefit from its activities. Each year's on-site audit plans are prepared and implemented in line with this approach.

The board also performs centralized audits in which remote examination techniques are employed to identify systemic shortcomings and flaws in any of the Bank's processes, practices, or products.
In addition to examining and investigating any instances of embezzlement and forgery, the Internal Audit Department also uses early warning systems to identify such acts before they can cause the Bank any harm.

Another duty of the Internal Audit Department is to examine all of the activities, without exception, of any subsidiary that is subject to the Bank's control in such a way as to achieve the board's defined objectives. The scope and frequency of these audits are determined on the basis of the Internal Audit Department's assessment of the risks to which the Bank is exposed, its own resources and priorities, and the Bank's goals and strategies. Members of the Internal Audit Department have unlimited right of access to all of the Bank's records, documents, accounts, information systems, properties, and personnel.

In March 2003, a compliance officer was designated as required by the Anti-Money Laundering Act (Statute 4208). A Compliance Committee was also set up in which representatives of relevant units take part in order to achieve effective in-house coordination on matters of practice. This committee is charged with a number of specific duties that are incumbent upon the Bank under the same law such as making proper identification, reporting suspicious-looking transactions, increasing employees' anti-money laundering awareness through training, and checking bank transactions from the standpoint of anti-money laundering law compliance. Other duties of the compliance officer and committee are developing policies and procedures that must be followed to ensure that the requirements of law are duly fulfilled and reviewing and revising them when necessary, ensuring that standards and practices on issues falling within the scope of the committee's authority are adhered to throughout the Bank and providing bank employees with guidance when required, making recommendations to bank management, and liaisoning between the Bank and official and private organizations on these matters.

Following up on the above-average growth in the global economy in 2003 and 2004, economic activity remained lively in 2005 as well. With the excess liquidity in international markets continuing to flow into the developing economies, the prospects for developing markets such as Turkey's were extremely favorable. Buoyed up by these global developments, the Turkish economy outperformed other developing markets in 2005 with the support of the stability that had taken hold due to the start of EU negotiations, increasingly greater momentum in privatizations, expanding volumes of foreign direct investment inflows, tight fiscal and monetary policies, and the institution of structural reforms. This in turn dampened volatilities in the value of financial instruments and limited the impact of other risk factors.

Looking over the risks to which our Bank was exposed in 2005, it can be observed that, in the case of market risk, it was a year in which the value-at-risk (VAR) profile of the trading portfolio remained fairly low because of diminishing volatilities in such market factors as interest rates and exchange rates. In the case of interest rate risk resulting from asset/liability maturity mismatch in the balance sheet, there appeared to be no significant change in the interest rate risk of the foreign currency balance sheet while there was greater exposure to both maturity mismatch and interest rate risk in the Turkish lira balance sheet that was brought on by a surge in the volume of home-finance lending and by longer repayment terms. Nevertheless, this increase was modest and could be kept under control by means of hedging instruments such as long-term repo, interest rate swaps, and futures. All developments related to market risk are carefully monitored by the Bank's internal mechanisms: Executive Risk Committee, Assets and Liabilities Committee, and Risk Management Department.

In addition to the Treasury Unit's daily cash flow management, the Bank's liquidity risk is managed by the Liquidity Risk Management Committee, which has been set up in line with international standards and practices and is the first of its kind in the Turkish banking industry. This committee regularly monitors early warning signals that may presage greater exposure to liquidity risk.

Looking at the Bank's performance on the credit risk front, there was a relative increase in credit risks in 2005 on account of the growth in the Bank's lending, particularly in the retail portfolio. The shift in the balance sheet from the investment securities portfolio in favor of the loan portfolio and the spread of this growth throughout an extensive customer base is in fact a development that is quite in line with the expectations. In view of favorable macroeconomic conditions and the supportive nature of markets, it is expected that these developments will continue in the same direction in the near term. Nevertheless, the heightened credit risk associated with loan portfolio growth is carefully monitored by the Risk Management Department by means of a risk rating system that is an important tool for the Bank's lending processes and is reviewed and revised every year as well as through credit allocation policies and practices that have been restructured so as to better identify and manage risks.

As is the case every year, the monitoring and control of operational risks remained a highly important issue on the Bank's agenda in 2005. In addition to internal audit and internal control, the auto controls embedded in the Bank's business processes were strengthened and made more effective. Operational risks are monitored by a variety of means and via different channels in all of the Bank's activities. Internal Control Department personnel conducted on site operational risk controls in the Bank's units and branches. Similarly, audits were conducted using a variety of auditing techniques at the Bank's headquarters units, regions, branches, and subsidiaries that are selected on the basis of a hierarchy of primarily risk-exposure issues. Despite ongoing growth in the branch network and expansion in transaction volumes, the level of operational risk remains low and this is to be regarded as a positive and pleasing situation.

The Bank's Basel II compliance project, which was launched in 2003, is on course with the BRSA's Basel II roadmap, which calls for compliance as of 2008, and is proceeding as planned. Garanti plays an active role in the committees set up by the Banks Association of Turkey to prepare our country for Basel II compliance and it views the ongoing development of risk management standards in the Turkish banking industry as being essential to the overall performance of the banking system.

Garanti's highest priority in risk management is to inculcate a risk-based approach to management throughout the Bank and its subsidiaries and to achieve an optimized balance among risk, return, and capital that will maximize our Bank's value by means of an integrated risk management system that is in compliance with the requirements of law and in which risks arising from many different activities are all methodically measured and managed together. Garanti has always led the way forward in this endeavor and it will continue to do so in the future as well.

M. Cüneyt Sezgin, PhD
Board Member responsible for Internal Audit and Risk Management

SECTION III FINANCIALS

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 2005, with net income of the banking segment totaling YTL 657 million. On a consolidated basis, the Group's income before tax amounted to YTL 948 million (US$ 710 million), an increase of 41.3% over the previous year.

Thanks to increased customer loyalty stemming from superior customer service, the ordinary banking income of the banking group, (which includes adjusted net interest margin, net trading income and net fee and commission income), rose by 19.4% to YTL 2,588 million in 2005. Adjusted Net Interest Income of the banking segment increased by 25.3% over the preceding year to YTL 1,809 million while thanks to a diversifying mix, net fee and commission income reached YTL 777 million, an increase of 25.9% over the previous year.

Summary of Financial Operations and Performance On a Consolidated Basis

Loans:

Total assets increased by 29.7% in real terms, standing at YTL 41,198 million (US$ 30,883 million) on a consolidated basis as of end-2005. In line with real banking focus, the ratio of customer loans to total assets increased to 46.6% in 2005 from 39.4% in 2004, on a consolidated basis, an increase of 53.5%. The lending book continued to grow strongly, especially Turkish lira loans (TL loans) which soared by 75.7%, reaching YTL 10,016 million while foreign currency loans (FC loans) rose by 43.7%, totaling US$ 6,890 million. In terms of currency breakdown, the share of TL loans in total loans increased to 52.1% in 2005, up from 45.5% in 2004, while FC loans constituted 47.9% of total loans at 2005 year-end, compared to 54.5% in 2004. Consumer loans made up 36.4% of total loans, reflecting economic growth and consumer confidence. As of end-2005, 64.4% of cash loans were secured while unsecured loans only made up 35.6% decreasing from 36.3% at year end 2004. This decline was mainly due to the fall in the share of credit cards in consumer loans.

NPLs:

Garanti continued to increase asset quality in 2005. The share of non-performing loans (NPLs) in gross cash loans stayed almost flat at 3.7% in 2005. Provision of 67.4% was set aside for loans in 2005, compared to 57.7% in 2004, showing continued coverage building. The ratios of non-performing loans to total cash and non-cash loans were 2.6% and 2.3% at year-end 2005 and 2004, respectively.

Securities:

Securities classified as "financial assets at fair value through profit or loss" and "security investments" amounted to YTL 12,891 million (US$ 9,664 million) at year end 2005. This represents only 31.3% of total assets compared to 34.7% of the previous year due to the significant increase in loans and advances to customers in 2005.

Deposits:
Sound execution of the branch network expansion strategy and relentless pursuit of customer loyalty contributed to the rapid increase in the number of customers in 2005, resulting in a stronger, broader and more diversified core deposit base. Customer deposits increased by 23.3% to YTL 25,409 million (US$ 19,047 million) at year-end 2005. TL Demand deposits increased by 43.1% over 2004, reaching YTL 2,934 million.

TL and FC deposits increased by 49.2% and 10.3%, respectively as of year-end 2005 over the previous year. TL deposits reached YTL 12,797 million and FC deposits totaled US$ 10,249 million. The share of FC deposits in total customer deposits fell from 62.2% at year end 2004 to 52.0% in 2005.

IEAs vs IBLs:
Interest earning assets (IEAs) witnessed record growth in 2005 of 35%. The share of interest earning assets in total assets increased to 85.7% (from 82.5% in 2004) and the share of interest bearing liabilities (IBLs) increased to 67.3% (from 62.9% in 2004). Consequently, the positive gap between IEAs and IBLs further widened to YTL 7,609 million, an increase of 22.0%. The ratio of customer loans to customer deposits improved to 75.6% in 2005 compared to 60.8% a year earlier. At year-end 2005, customer loans constitute 53.7% of IEAs compared to 47.0% the previous year.

Non-interest income:
Total non-interest income reached YTL1,352 million as of year-end 2005, reflecting a continuous increase and further diversification in sustainable sources of revenue resulting from new and innovative product offerings through an effective distribution network. When trading income is excluded, non-interest income increased by 23.1% over 2004, reaching YTL 1,347 million. Net fee and commission income increased by 25.7% in 2005, reaching YTL 804 million. As a result, net fee and commission income constituted 59.5% of total non-interest income at end-2005 compared to 53.1% at end-2004. Net fees and commissions to average assets reached 2.21%, compared to 2.05% the preceding year. Garanti covered 50.0% of its operating expenses through net fee and commission income in 2005, compared to 45.6% in 2004. The share of premium income from the sale of insurance policies in total non-interest income increased to 12.0% in 2005, up from 9.5% the preceding year.

Non-interest expense:
Total non-interest expense (including personnel, depreciation and other administrative expenses) increased by only 10.3% to YTL 1,800 million taking into account the significant branch expansion. In line with this strategy, the major part of this increase in non-interest expense can be attributed to the increase in personnel expenses (15.0%). Non-interest expense excluding personnel expenses recorded a rise of only 7.8%. The "cost to income" ratio decreased to 57.8% in 2005, from 61.4% the preceding year as a result of positive revenue trends coupled with effective cost management.

Net income:
Garanti reported net consolidated income of YTL 698 million (US$ 523 million) for 2005, showing strong performance with an 89.0% increase over 2004.
Garanti Bank and its affiliates benefited significantly from their deferred tax assets carried forward from prior years in 2004 and 2005 due to the increase in taxable earnings and the effect of the change in leasing activities-related tax legislation in 2004. Net deferred tax assets stock decreased further by 59.2% in 2005.

Return on average assets and average equity ratios were 1.91% and 18.51%, respectively in 2005, comparing to the ratios of 1.18% and 10.91% for the year 2004.

In line with outstanding growth in the share of IEAs, free equity increased fourfold to reach US$ 1,543 million as of year-end 2005 from US$ 369 million the preceding year. Free funds (defined as the sum of free equity and total demand deposits) increased by 39.0% over year-end 2004, reaching US$ 7,205 million.

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements

31 December 2005

With Independent Auditors' Report Thereon

21 February 2006

This report contains the "Independent Auditors' Report" comprising 1 page; and the "Consolidated financial statements and their explanatory notes" comprising 49 pages.

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Table of contents

Independent Auditors' Report

Consolidated Balance Sheets

Consolidated Income Statements

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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Independent Auditors' Report

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

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

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

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

As discussed in Note 23, "Change in accounting policies" to the financial statements, the Bank and its affiliates changed the accounting policies, in accordance with the amendments on International Financial Reporting Standards (IFRS) at the beginning of the year 2005. Consequently, the consolidated financial statements of the Bank and its affiliates for the year 2004 have been restated in accordance with IFRS.

İstanbul,
21 February 2006

KPMG Akis Serbest Muhasebeci
Mali Müşavirlik A.Ş.

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Consolidated Balance Sheet At 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	31 December 2005	31 December 2004
Assets			
Cash and balances with Central Banks	4	4,342,644	2,887,300
Financial assets at fair value through profit or loss	5	982,316	646,736
Loans and advances to banks	6	2,177,017	1,816,164
Loans and advances to customers	7	19,207,232	12,515,704
Other assets	9	1,188,204	1,048,790
Security investments	10,21	11,909,044	10,373,330
Investments in equity participations	11	55,362	131,822
Tangible assets, net	12	1,219,413	2,020,851
Intangible assets, net	13	34,566	120,365
Deferred tax asset	18	81,746	200,204
Total assets		**41,197,544**	**31,761,266**
Liabilities			
Deposits from banks	14	1,059,709	1,185,560
Deposits from customers	15	25,408,528	20,601,316
Obligations under repurchase agreements	16	2,340,129	966,790
Loans and advances from banks	17	6,689,080	4,237,097
Current tax liability	18	67,938	30,827
Deferred tax liability	18	596	1,454
Other liabilities and accrued expenses	19	1,599,589	1,228,614
Total liabilities		**37,165,569**	**28,251,658**
Shareholders' equity and minority interest			
Share capital	20	3,046,371	2,679,668
Minority interest	20	43,134	249,534
Revaluation of available-for-sale assets	10,20	162,522	127,762
Hedging reserve	24	3,553	5,467
Legal reserves	20	78,600	54,943
Retained earnings	20	697,795	392,234
Total shareholders' equity and minority interest		**4,031,975**	**3,509,608**
Total liabilities, shareholders' equity and minority interest		**41,197,544**	**31,761,266**
Commitments and contingencies	22		

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Consolidated Income Statement for the Year Ended 31 December 2005

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

	Notes	2005	2004
Interest income:-			
Interest on loans		2,076,363	1,568,971
Interest on securities		1,432,760	1,582,343
Interest on deposits at banks		202,253	192,608
Interest on lease business		73,069	51,992
Others		51,354	73,852
		3,835,799	3,469,766
Interest expense:-			
Interest on saving, commercial and public deposits		(1,445,688)	(1,530,670)
Interest on borrowings		(389,510)	(344,571)
Interest on bank deposits		(103,114)	(99,322)
Others		(53,477)	(41,925)
		(1,991,789)	(2,016,488)
Net interest income		**1,844,010**	**1,453,278**
Fee and commission income		1,123,113	904,633
Fee and commission expense		(318,688)	(264,824)
Net fee and commission income		**804,425**	**639,809**
Gross profit from retail business		258,902	258,323
Premium income from insurance business		162,736	114,754
Foreign exchange gain, net		71,714	49,472
Income on sale of equity participations and consolidated affiliates		60,708	-
Trading income, net		4,506	109,529
Others		60,589	81,498
Other operating income		**619,155**	**613,576**
Total operating Income		**3,267,590**	**2,706,663**
Salaries and wages		(504,544)	(450,638)
Impairment losses	7,8,9,11,12,13,19	(455,985)	(359,765)
Depreciation and amortization	12,13	(192,140)	(227,999)
Employee benefits		(155,332)	(123,206)
Advertising expenses		(92,953)	(92,194)
Claim loss from insurance business		(91,340)	(39,499)
Communication expenses		(88,782)	(85,894)
Rent expenses		(73,523)	(75,758)
EDP expenses		(62,124)	(50,514)
Taxes and duties other than on income		(50,861)	(32,103)
Utility expenses		(34,204)	(35,248)
Saving deposits insurance fund		(30,468)	(47,089)
Repair and maintenance expenses		(21,222)	(24,089)
Stationary expenses		(16,805)	(14,128)
Other operating expenses		(396,861)	(335,266)
Total operating expenses		**(2,267,144)**	**(1,993,390)**
Income from operations		**1,000,446**	**713,273**
Loss on monetary position, net		(52,871)	(42,873)
Income before tax		**947,575**	**670,400**
Taxation charge	18	(249,662)	(301,146)
Net income for the year		**697,913**	**369,254**
Net income for the year attributable to:			
Equity holders of the Bank		695,921	411,790
Minority interest		1,992	(42,536)
		697,913	**369,254**
Weighted average number of shares with a face value of YTL 1,000 each	20	2,100 billion	1,709.5 billion
Earnings per share (full YTL amount per YTL'000 face value each)		331,39	240,88

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	Share Capital	Minority Interest	Revaluation of Available -for-Sale Assets	Hedging Reserves	Legal Reserves	Retained Earnings	Total Shareholders' Equity
Balances at 31 December 2003		**2,267,101**	**-**	**-**	**-**	**65,568**	**608,108**	**2,940,777**
Effect of change in accounting policies	23	-	301,544	241,282	-	-	(225,722)	317,104
Restated balances at 31 December 2003		**2,267,101**	**301,544**	**241,282**	**-**	**65,568**	**382,386**	**3,257,881**
Transfer from unappropriated earnings	20	412,567	-	-	-	21,576	(434,143)	-
Reversal of restatement effects of inflation		-	(9,474)	-	-	-	-	(9,474)
Release from general banking risks, net		-	-	-	-	(32,201)	32,201	-
Net market value losses from available-for-sale portfolio		-	-	43,614	-	-	-	43,614
Net gains as available-for-sale assets transferred to the income statement on disposal		-	-	(157,134)	-	-	-	(157,134)
Net fair value gains from cash flow hedges		-	-	-	5,467	-	-	5,467
Net income for the year		-	(42,536)	-	-	-	411,790	369,254
Balances at 31 December 2004	**23**	**2,679,668**	**249,534**	**127,762**	**5,467**	**54,943**	**392,234**	**3,509,608**
Transfer from unappropriated earnings	20	366,703	-	-	-	25,531	(392,234)	-
Reversal of restatement effects of inflation		-	(569)	-	-	(1,874)	1,874	(569)
Net market value gains from available-for-sale portfolio		-	-	85,758	-	-	-	85,758
Net gains as available-for-sale assets transferred to the income statement on disposal		-	-	(50,998)	-	-	-	(50,998)
Release of minority interest due to sale of consolidated affiliates		-	(207,823)	-	-	-	-	(207,823)
Net fair value gains from cash flow hedges	24	-	-	-	(1,914)	-	-	(1,914)
Net income for the year		-	1,992	-	-	-	695,921	697,913
Balances at 31 December 2005		**3,046,371**	**43,134**	**162,522**	**3,553**	**78,600**	**697,795**	**4,031,975**

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Consolidated Statement of Cash Flows for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Notes	2005	2004
Cash flows from operating activities:-			
Interest and commission received		3,463,530	2,872,853
Interest expense paid		(1,814,279)	(2,069,505)
Other operating activities, net		(239,501)	(31,765)
Cash payments to employees and suppliers		(794,231)	(697,824)
Loss on monetary position, net		(52,878)	(42,871)
		562,641	30,888
(Increase)/decrease in operating assets:-			
Loans and advances to banks		408,193	(199,578)
Balances with Central Banks		(614,049)	(165,503)
Financial assets at fair value through profit or loss		(335,193)	600,627
Loans and advances to customers		(4,004,069)	(1,733,450)
Consumer loans		(2,979,214)	(1,190,823)
Other assets		(378,885)	72,823
Increase/(decrease) in operating liabilities:-			
Deposits from banks		(131,963)	103,967
Deposits from customers		4,777,350	1,300,768
Obligations under repurchase agreements		1,374,032	(966,260)
Other liabilities		206,122	44,737
Net cash used in operating activities before income taxes paid		**(1,115,035)**	**(2,101,804)**
Income taxes paid		**(176,967)**	**(31,873)**
Net cash used in operating activities		**(1,292,002)**	**(2,133,677)**
Cash flows from investing activities:-			
Proceeds from sale of security investments		1,609,350	2,656,660
Purchase of security investments		(2,771,498)	(1,871,123)
Interest received		969,315	1,642,324
Decrease in investments in equity participations, net		68,677	149,955
Dividends received		1,179	-
Decrease/(increase) in tangible assets, net		716,889	(51,440)
Net cash from investing activities		**593,912**	**2,526,376**
Cash flows from financing activities:-			
Increase in loans and advances from banks, net		2,438,917	388,301
Disposal of minorities due to sale of consolidated affiliates		(207,823)	-
Net cash from financing activities		**2,231,094**	**388,301**
Effect of exchange rate changes		**71,714**	**49,472**
Net increase in cash and cash equivalents		**1,604,718**	**830,472**
Cash and cash equivalents at beginning of the year	2	2,421,307	1,590,835
Cash and cash equivalents at end of the year	2	**4,026,025**	**2,421,307**

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank for the period ended 31 December 2005 comprise the Bank and its affiliates (the Affiliates) and their interest in associates.

(a) Brief History

Foundation of the Bank was approved by the decree of Council of Ministers numbered 3/4010 dated 11 April 1946 and "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides corporate, commercial and retail banking services through a network of 366 domestic branches, five foreign branches, five representative offices abroad and 61 offices. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Moscow. The Bank and its affiliates in total have 11,935 employees. The Bank's head office is located in the following address: Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 İstanbul.

(b) Ownership

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

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

Significant accounting policies

(a) Statement of compliance

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

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are authorized for issue by the directors on 21 February 2006.

(b) Basis of preparation

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

The accompanying consolidated financial statements are presented in thousands of YTL as adjusted for the effects of inflation in YTL units current at 31 December 2005.

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.

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

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

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

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

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Significant accounting policies (continued)

(d) Accounting in hyperinflationary economies

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the New Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%.
The cumulative three-year inflation rate in Turkey has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Institute of Statistics (TIS). Although this rate is below the 100% threshold as of 31 December 2005, other characteristics; such as general population prefers to keep its wealth in foreign currencies, prices are quoted in foreign currencies, interest rates, wages and prices are linked to a general price index, sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, still confirms the existence of a hyperinflationary economy. Consequently, the financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the YTL as at 31 December 2005 based on IAS 29. The restatement is calculated by means of conversion factors derived from the Turkish countrywide wholesale price index published by the State Institute of Statistics.

For the last three years, such indices and conversion factors used to restate the accompanying consolidated financial statements are as follows:

Date	Index	Conversion factor
31 December 2005	8,785.74	1.000
31 December 2004	8,403.80	1.045
31 December 2003	7,382.10	1.190

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

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

(e) Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

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

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

Significant accounting policies (continued)

(f) Tangible assets and related depreciation

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

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

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

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

The estimated useful lives are as follows:

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

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

(g) Goodwill
Goodwill represents of the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of net assets of the acquired companies at the dates of acquisitions. Goodwill is reflected in 'intangible assets' in the accompanying consolidated balance sheets, and assessed annually by using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments, carrying value of net assets, whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the income statement.

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Significant accounting policies (continued)

(h) Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant accounting policies (continued)

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

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

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

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

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

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

(i) Securities borrowing and lending business
Investments lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

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

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

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

(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.

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

Significant accounting policies (continued)

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

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

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts are YTL 1,727.15 and YTL 1,646.31 at 31 December 2005 and 2004, respectively.

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

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

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

(m) Taxes on income

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

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

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

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

(n) Offsetting

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

Significant accounting policies (continued)

(o) Earnings per share

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

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

(p) Impairment

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

Loans and receivables and held-to-maturity instruments

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

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

Financial assets remeasured to fair value

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

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

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

(q) Income and expense recognition

Interest income and expense

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

Fee and commission income

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

Significant accounting policies (continued)

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

Dividend income
Dividend income is recognized in the income statement when received.

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

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

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

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

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

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

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

Index for the notes to the consolidated financial statements:

Note description
1 Segment reporting
2 Cash and cash equivalents
3 Related party disclosures
4 Cash and balances with Central Banks
5 Financial assets at fair value through profit or loss
6 Loans and advances to banks
7 Loans and advances to customers
8 Finance lease receivables
9 Other assets
10 Security investments
11 Investments in equity participations
12 Tangible assets
13 Intangible assets
14 Deposits from banks
15 Deposits from customers
16 Obligations under repurchase agreements
17 Loans and advances from banks
18 Taxation
19 Other liabilities and accrued expenses
20 Shareholders' equity
21 Fair value information
22 Commitments and contingencies
23 Change in accounting policies
24 Risk management disclosures
25 Affiliates and associates
26 Discontinued operations
27 Significant event
28 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 the Netherlands, Russia, Ireland, Turkish Republic of Northern Cyprus, Malta, Luxembourg, Germany and Romania. As the operation results outside of Turkey are quite negligible in the consolidated results, geographical segment information is not presented.

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

1 Segment reporting (continued)

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

1 Segment reporting (continued)

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

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as at 31 December 2005 and 2004, included in the accompanying consolidated statements of cash flows are as follows:

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

3 Related party disclosures

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

3 Related party disclosures (continued)

3.1 Outstanding balances

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

3.2 Transactions

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

In 2005, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 2.8%-9.7% and 1.50%-5.50% (2004: 1.75%-7% and 1.50%-2.50%), respectively. The interest rates applied to YTL payables to related parties vary within the ranges of 9.75%-19% (2004: 14.50%-21.50%). Various commission rates are applied to transactions involving guarantees and commitments.

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

The equity participation in Doğuş Otomotiv Servis ve Ticaret AŞ was sold to Doğuş İnşaat ve Ticaret AŞ at a total amount of YTL 125,991 thousands representing their equivalent market value on 23 August 2004. There was no gain or loss on the sale as this equity participation's carrying value was equal to its market value in the books of account of the Bank.

During the year, the equity participation in İksir Uluslararası Elektronik Ticaret Bilgilendirme ve Haberleşme Hizmetleri AŞ, a non-financial associate was sold to E Haber Ajansı Reklam ve Ticaret AŞ, a related party in two transactions at a total price of YTL 3,470 thousands. Accordingly, a gain of YTL 428 thousands on this sale is recorded in the accompanying consolidated income statement.

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

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

4 Cash and balances with Central Banks

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

At 31 December 2005, cash and balances with Central Banks included balances with the Central Bank of Turkey amounting YTL 2,119,213 thousands (2004: YTL 1,409,127 thousands) as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of customer deposits taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for YTL and foreign currency deposits are 6% and 11%, respectively. These reserve deposit rates are applicable to both time and demand deposits. Interest rates applied for reserve requirements are 10.25% (2004: 12.50%) for YTL deposits and 1.14%-2.03% (2004: 0.99%) for foreign currency deposits.

5 Financial assets at fair value through profit or loss

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

Income from debt and other instruments held at fair value is reflected in the consolidated income statement as interest on securities. Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges are reflected as a separate component of equity.

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

The following table summarizes the contractual amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the income statement, except for contracts of cash flow hedges as stated above. At 31 December 2005, approximately 97% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (2004: 108%).

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

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

	Notional amount with remaining life of					
At 31 December 2004	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	over 1 year	Total
Interest Rate Derivatives						
Future rate agreements	-	14,202	56,809	85,215	85,215	241,441
Purchases	-	14,202	56,809	85,215	85,215	241,441
Sales	-	-	-	-	-	-
Interest rate swaps	2,475	74,317	28,405	-	-	105,197
Purchases	2,475	74,317	28,405	-	-	105,197
Sales	-	-	-	-	-	-
Interest rate options	1,685	-	-	-	-	1,685
Purchases	-	-	-	-	-	-
Sales	1,685	-	-	-	-	1,685
Currency Derivatives						
Spot exchange contracts	234,705	-	-	-	-	234,705
Purchases	66,263	-	-	-	-	66,263
Sales	168,442	-	-	-	-	168,442
Forward exchange contracts	389,509	57,440	62,540	64,733	-	574,222
Purchases	270,487	49,442	39,816	63,855	-	423,600
Sales	119,022	7,998	22,724	878	-	150,622
Currency/cross currency swaps	1,096,861	467,220	368,123	1,347,877	-	3,280,081
Purchases	1,029,803	419,578	368,123	1,331,021	-	3,148,525
Sales	67,058	47,642	-	16,856	-	131,556
Options	242,258	166,578	95,575	117,561	-	621,972
Purchases	136,114	57,450	27,002	62,126	-	282,692
Sales	106,144	109,128	68,573	55,435	-	339,280
Foreign currency futures	-	156,400	-	-	-	156,400
Purchases	-	-	-	-	-	-
Sale	-	156,400	-	-	-	156,400
Other foreign exchange contracts	10,626	67,598	-	-	-	78,224
Purchases	10,626	-	-	-	-	10,626
Sale	-	67,598	-	-	-	67,598
Subtotal Purchases	1,515,768	614,989	520,155	1,542,217	85,215	4,278,344
Subtotal Sales	462,351	388,766	91,297	73,169	-	1,015,583
Total of Transactions	1,978,119	1,003,755	611,452	1,615,386	85,215	5,293,927

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

6 Loans and advances to banks

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

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

As 31 December 2005, demand deposits at foreign banks include blocked accounts of YTL 106,353 thousands (2004: YTL 47,197 thousands) against the securitization transactions on cheques and credit card receivables, and the insurance business.

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

7 Loans and advances to customers

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

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

As at 31 December 2005, interest rates on loans granted to customers range between 2%-16% (2004: 1%-14%) per annum for foreign currency loans and 7%-26% (2004: 15%-32%) per annum for YTL loans.

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

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

8 Financial lease receivables

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

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

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

9 Other assets

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

The portion amounting to YTL 178,475 thousands (2004: YTL 220,265 thousands) of tangible assets held for resale is comprised of real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This legal period can be extended by a legal permission from the regulators. In case of real estates held for resale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

Impairment losses provided on real estates held for resale were determined based on the appraisals of independent appraisal firms. As of 31 December 2005, real estates held for resale costing YTL 457,421 thousands (2004: YTL 258,532 thousands) have been impaired by YTL 159,071 thousands (2004: YTL 108,208 thousands).

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

10 Security investments

	2005				2004
	Face value	Carrying value	Interest rate range %	Latest maturity	Carrying value
Debt and other instruments available-for-sale:					
Government bonds at floating rates	4,080,122	4,464,658	19-22	2010	2,159,928
Government bonds in foreign currency	1,570,078	1,595,198	5-7	2010	1,784,202
Discounted government bonds in YTL	1,745,901	1,466,601	14-15	2007	697,969
Eurobonds	599,001	686,100	5-12	2034	831,091
Bonds issued by corporations *	405,870	420,665	8-10	2012	160,218
Bonds issued by foreign governments	142,838	144,364	2-11	2010	155,580
Government bonds in YTL	35,106	38,431	15-25	2010	36,767
Others		28,390			16,289
Total securities available-for-sale		8,844,407			5,842,044
Debt and other instruments held-to-maturity:					
Government bonds indexed to foreign currency	1,491,630**	1,417,716	(a)	2006	1,524,651
Eurobonds	1,047,944	1,145,900	7-12	2030	1,474,715
Bonds issued by foreign governments	134,838	136,916	3-6	2008	147,219
Government bonds in YTL	109,154	114,609	9-20	2007	276,555
Bonds issued by financial institutions	78,362	85,478	7-12	2014	89,099
Government bonds at floating rates	32,401	32,926	(b)	2006	766,523
Discounted government bonds in YTL	33,289	28,397	19	2006	11,287
Other		25,733			100,487
		2,987,675			4,390,536
Accrued interest on held-to-maturity portfolio		76,962			140,750
Total securities held-to-maturity		3,064,637			4,531,286
Total security investments		11,909,044			10,373,330

*Bonds issued by corporations include credit linked notes with face value amounting to YTL 266,800 thousands (2004: YTL 71,090 thousands) and carrying value amounting to YTL 273,406 thousands (2004: YTL 72,385 thousands) that are linked to the default risk of the Turkish Government. All bonds issued by corporations are valued at amortized cost since these financial assets are not quoted in an active market.
**The face value represents YTL equivalent of the foreign currency in which the government bonds were indexed to.
(a) The interest rates applied on these securities are Libor+2.85% as fixed semiannually by the Turkish Treasury.
(b) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

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

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 2,587,269 thousands (2004: YTL 1,127,602 thousands).

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

10 Security investments (continued)

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

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

11 Investments in equity participations

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

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

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

The Bank sold its shares in Türkiye Sınai Kalkınma Bankası AŞ amounting YTL 6,081 thousands, classified in equity participations available-for-sale as of 31 December 2004, at a price of YTL 7,989 thousands on 31 January 2005.

11 Investments in equity participations (continued)

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

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

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

Impairment losses are provided for decreases in the value of certain investments in equity participations amounting to YTL 5,013 thousands in the current year. Accordingly, the cumulative provisions for such impairment losses amounted to YTL 41,112 thousands as of 31 December 2005 (2004: YTL 227,019 thousands).

12 Tangible assets

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

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

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

12 Tangible assets (continued)

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

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

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

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

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

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

13 Intangible assets

As of 31 December 2005, intangible assets represent goodwill arising from the direct acquisitions of 29% ownership in Doc Finance SA, 100% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 100% ownership in Garanti Sigorta AŞ, 100% ownership in Garanti Emeklilik AŞ, 98.94% ownership in Garanti Finansal Kiralama AŞ, 81.84% ownership in Garanti Faktoring Hizmetleri AŞ, and 56.74% ownership in Garanti Gayrimenkul Yatırım Ortaklığı AŞ consisting of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of acquisition.

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

13 Intangible assets (continued)

Intangible assets comprise of the following goodwill:

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

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

14 Deposits from banks

Deposits from banks comprise the following:

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

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

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

15 Deposits from customers

Deposits from customers comprise the following:

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

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

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

16 Obligations under repurchase agreements

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

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

Accrued interest on obligations under repurchase agreements amounting to YTL 15,997 thousands (2004: YTL 16,690 thousands) is included in the carrying amount of corresponding liabilities.

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

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2005, the maturities of the obligations varied from one day to three years and interest rates varied between 2%-15% (2004: 3%-25%).

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

17 Loans and advances from banks

Loans and advances from banks comprise the following:

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

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

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

Long-term debts comprise the following:

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

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

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

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

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

17 Loans and advances from banks (continued)

In December 2002, the Bank obtained a short-term fund in the amount of US$ 200 millions through its "DPR Securitization" (the "DPR Securitization-I"). The DPR Securitization-I securitizes the Bank's all right, title and interest to US dollar, Euro or Sterling-denominated MT100-series messages under the Society for Worldwide Interbank Financial Telecommunication (SWIFT) message system received by the Bank. Subsequently in October 2003, its maturity period extended to five years as US$ 200 millions Floating Rate Series 2003-A issue and a further US$ 150 millions Floating Rate Series 2003-B issue was obtained in December 2003. The Bank has closed the whole risk making an early payment in the last quarter of 2005.

18 Taxation on income

In Turkey, corporate income tax is levied at the rate of 30% (2004: 33%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2005. There is also a withholding tax levied at the rate of 10% on the dividends paid and is accrued only at the time of such payments. According to the amendments in the tax legislations, which became effective from 24 April 2003, dividends that are paid to the shareholders from the profits of the years between 1999 and 2002 are immune from the withholding tax, if such profits are exempted from corporation tax bases of the companies. Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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

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

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

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

18 Taxation on income (continued)

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

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

The taxation charge comprised the following:

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

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

The current taxes payable on income comprise the following:

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

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

19 Other liabilities and accrued expenses

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

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

Insurance business related provisions are detailed in the table below:

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

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

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

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

19 Other liabilities and accrued expenses (continued)

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

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

20 Shareholders' equity

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

Increases in share capital arising from the amounts paid in by the shareholders are restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements. However, the transfers from revaluation surplus on fixed assets and transfers from statutory retained earnings that are reflected in the statutory financial statements are disregarded and eliminated for inflation accounting purposes in the accompanying financial statements. In 2004, the Bank's nominal share capital increased from YTL 822,038 thousands to YTL 1,200,000 thousands by way of appropriation of gain on sales of real estate amounting YTL 20,515 thousands, gain on sales of equity participation amounting YTL 6,947 thousands and retained earnings of YTL 350,500 thousands in the third quarter of 2004 as reflected in the equity of the statutory financial statements.

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

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

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

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

The reserves include legal reserves amounting to YTL 78,600 thousands in total which are generated by annual appropriations amounting to 5% of the statutory income of the Bank and its affiliates until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

In compliance with the revised standards of IFRS effective from 1 January 2005, minority interest is classified as a component of shareholders' equity (refer to Note 23). As at 31 December 2005 net minority interest amounts to YTL 43,134 thousands (2004: YTL 249,534 thousands).

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

20 Shareholders' equity (continued)

Minority interest is detailed as follows:

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

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

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

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

21 Fair value information

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

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

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values except for those security investments. These balance sheet instruments include loans and advances to banks and customers, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of security investments is YTL 11,920,634 thousands (2004: YTL 10,474,469 thousands), whereas the carrying amount is YTL 11,909,044 thousands (2004: YTL 10,373,330 thousands) in the accompanying consolidated balance sheet as at 31 December 2005.

22 Commitments and contingencies

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

Commitments and contingent liabilities comprise the following:

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

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

22 Commitments and contingencies (continued)

As at 31 December 2005, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to YTL 5,887,157 thousands (2004: YTL 5,293,927 thousands), approximately 94% of which are due within a year.

The breakdown of outstanding commitments is presented as follows:

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

23 Change in accounting policies

As of 1 January 2005, the Bank and its affiliates adopted revised standards of IFRS. These changes have been accounted by adjusting the prior year financial statements.

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

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

23 Change in accounting policies (continued)

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

24 Risk management disclosures

This section provides details of the Bank and its affiliates' 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 affiliates are exposed, are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 24.2 contains risk management information related to the trading portfolio and section 24.3 deals with the non-trading portfolio.

24.1 Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the balance sheet dates are set out in Note 22. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

Swaps

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

Futures and forwards

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

Options

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

24 Risk management disclosures (continued)

24.2 Trading activities

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

Counterparty credit risk

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

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

Market risk

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

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

24.3 Non-trading activities

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

Liquidity risk

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

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

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

24 Risk management disclosures (continued)

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

.	2005						2004					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
MONETARY ASSETS												
New Turkish Lira												
Cash and balances with Central Banks	1,108,367	-	-	-	-	1,108,367	441,547	-	-	-	-	441,547
Financial assets at fair value through profit or loss	2,398	7,854	19,709	32,805	78,964	141,730	2,889	06,078	140,576	64,368	119,831	333,742
Loans and advances to banks	313,850	171,085	31,609	-	-	516,544	97,318	-	-	42,178	-	139,496
Loans and advances to customers	5,539,307	540,042	637,450	932,908	2,204,404	9,854,111	3,551,128	356,599	437,522	573,867	637,729	5,556,845
Other assets	92,720	168,566	-	113,756	119,472	494,514	42,098	81,962	-	-	-	124,060
Security investments	210,086	368,588	430,386	1,047,113	4,110,197	6,166,370	31,817	391	818,079	564,388	2,561,329	3,976,004
Deferred tax asset	-	-	-	-	81,744	81,744	-	-	-	-	197,053	197,053
Total New Turkish Lira monetary assets	7,266,728	1,256,135	1,119,154	2,126,582	6,594,781	18,363,380	4,166,797	445,030	1,396,177	1,244,801	3,515,942	10,768,747
Foreign currency												
Cash and balances with Central Banks	3,234,277	-	-	-	-	3,234,277	2,445,753	-	-	-	-	2,445,753
Financial assets at fair value through profit or loss	15,519	9,209	42,547	302,422	470,889	840,586	1,424	636	19,273	152,653	139,008	312,994
Loans and advances to banks	1,223,387	161,153	111,277	104,683	59,973	1,660,473	1,107,100	181,694	259,074	107,704	21,096	1,676,668
Loans and advances to customers	601,421	1,114,782	1,523,383	1,318,415	4,634,801	9,192,802	528,291	1,086,134	1,135,419	1,074,807	2,992,216	6,816,867
Other assets	38,665	35,450	3,525	4,690	35,407	117,737	189,177	21,856	-	-	-	211,033
Security investments	16,011	25,859	1,690,115	403,469	3,607,220	5,742,674	73,658	148,373	229,790	466,823	5,478,682	6,397,326
Deferred tax asset	-	-	-	-	2	2	-	-	-	-	3,151	3,151
Total foreign currency monetary assets	5,129,280	1,346,453	3,370,847	2,133,6790	8,808,2920	20,788,551	4,345,403	1,438,693	1,643,556	1,801,987	8,634,153	17,863,792
Total Monetary Assets	12,396,008	2,602,588	4,490,001	4,260,261	15,403,073	39,151,931	8,512,200	1,883,723	3,039,733	3,046,788	12,150,095	28,632,539
MONETARY LIABILITIES												
New Turkish Lira												
Deposits	10,732,031	1,840,694	138,557	84,357	1,047	12,796,686	7,074,103	1,296,597	72,171	60,596	70,626	8,574,093
Obligations under repurchase agreements	1,257,782	-	3,378	50,000	54,348	1,365,508	270,727	-	-	-	56,121	326,848
Loans and advances from banks	263,130	28,030	41,026	49,011	-	381,197	45,399	37,285	46,423	45,439	-	174,546
Other liabilities and accrued expenses	267,829	47,284	149,772	156,695	143,808	765,388	327,508	50,3620	60,712	68,814	99,079	606,475
Total New Turkish Lira monetary liabilities	12,520,772	1,916,008	332,733	340,063	199,203	15,308,779	7,717,737	1,384,244	179,306	174,849	225,826	9,681,962
Foreign currency												
Deposits	11,200,594	1,387,464	398,935	393,680	290,878	13,671,551	10,418,2380	1,715,610	465,246	416,694	196,995	13,212,783
Obligations under repurchase agreements	286,127	15,999	200,440	201,928	270,127	974,621	139,679	52,922	116,949	109,088	221,304	639,942
Loans and advances from banks	246,584	323,617	522,869	2,539,657	2,675,156	6,307,883	148,676	185,486	290,205	2,125,278	1,312,906	4,062,551
Other liabilities and accrued expenses	281,266	106,120	283,282	143,319	6,233	820,221	554,127	193	7,844	78,392	3,796	644,352
Total foreign currency monetary liabilities	12,014,571	1,833,200	1,405,526	3,278,584	3,242,394	21,774,276	11,260,720	1,954,211	880,244	2,729,452	1,735,001	18,559,628
Total Monetary Liabilities	24,535,343	3,749,208	1,738,260	3,618,647	3,441,597	37,083,055	18,978,457	3,338,455	1,059,550	2,904,301	1,960,827	28,241,590

24 Risk management disclosures (continued)

Market risk

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

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

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

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

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

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

24 Risk management disclosures (continued)

The following table provides an analysis of interest rate sensitivity of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings:

2005	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-Interest Bearing	Total
MONETARY ASSETS							
Cash and balances with Central Banks	2,336,481	-	-	-	-	2,006,163	4,342,644
Financial assets at fair value through profit or loss	1,038	42,170	101,962	332,708	476,690	27,748	982,316
Loans and advances to banks	1,370,986	328,601	143,252	104,682	59,973	169,523	2,177,017
Loans and advances to customers	6,036,762	1,734,027	2,171,377	2,192,300	6,651,992	260,455	19,046,913
Other assets	-	-	3,525	118,446	142,507	347,773	612,251
Security investments	339,472	5,014,778	2,142,939	518,391	3,382,603	510,861	11,909,044
Deferred tax asset	-	-	-	-	-	81,746	81,746
Total Monetary Assets	10,084,739	7,119,576	4,563,055	3,266,527	10,713,765	3,404,269	39,151,931
MONETARY LIABILITIES							
Deposits	14,257,879	3,205,758	533,679	475,096	290,956	7,704,869	26,468,237
Obligations under repurchase agreements	1,542,446	15,976	196,254	250,107	319,348	15,998	2,340,129
Loans and advances from banks	504,162	343,157	549,752	2,498,201	2,733,948	59,860	6,689,080
Other liabilities and accrued expenses	140,986	93,218	212,467	139,410	1,625	998,082	1,585,789
Total Monetary Liabilities	16,445,473	3,658,109	1,492,152	3,362,814	3,345,877	8,778,809	37,083,235

2004	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-Interest Bearing	Total
MONETARY ASSETS							
Cash and balances with Central Banks	2,657,142	-	-	-	-	230,158	2,887,300
Financial assets at fair value through profit or loss	3,124	7,927	166,952	221,567	242,225	4,941	646,736
Loans and advances to banks	1,139,580	181,694	259,074	149,883	21,094	64,839	1,816,164
Loans and advances to customers	3,836,157	1,442,733	1,577,837	1,654,703	3,675,296	186,986	12,373,712
Other assets	-	-	-	-	-	335,093	335,093
Security investments	85,967	1,678,185	1,936,595	1,007,881	5,345,326	319,376	10,373,330
Deferred tax asset	-	-	-	-	-	200,204	200,204
Total Monetary Assets	7,721,970	3,310,539	3,940,458	3,034,034	9,283,941	1,341,597	28,632,539
MONETARY LIABILITIES							
Deposits	10,554,658	2,993,625	534,916	475,307	266,879	6,961,491	21,786,876
Obligations under repurchase agreements	407,293	52,516	116,637	108,112	265,542	16,690	966,790
Loans and advances from banks	193,127	219,057	331,834	2,141,095	1,305,181	46,803	4,237,097
Other liabilities and accrued expenses	204	-	1,252	-	14,332	1,235,039	1,250,827
Total Monetary Liabilities	11,155,282	3,265,198	984,639	2,724,514	1,851,934	8,260,023	28,241,590

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

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

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

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

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 the Netherlands and Moscow. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is YTL, the consolidated financial statements are affected by currency exchange rate fluctuations against YTL.

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

24 Risk management disclosures (continued)

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

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

These exposures are as follows:

	2005			
	US$	EUR	Other Currencies	Total
Assets				
Cash and balances with Central Banks	90,654	3,122,657	20,966	3,234,277
Financial assets at fair value through profit or loss	658,663	123,204	58,719	840,586
Loans and advances to banks	1,259,584	345,989	54,900	1,660,473
Loans and advances to customers	6,202,853	2,820,222	168,614	9,191,689
Other assets	104,579	30,037	1,223	135,839
Security investments	5,382,099	334,716	25,859	5,742,674
Investments in equity participations	-	500	10,286	10,786
Tangible assets	337	52,772	2,204	55,313
Deferred tax asset	2	-	-	2
Total Assets	13,698,771	6,830,097	342,771	20,871,639
Liabilities				
Deposits	8,287,799	4,910,568	473,184	13,671,551
Obligations under repurchase agreements	884,674	89,947	-	974,621
Loans and advances from banks	4,901,030	1,392,529	14,324	6,307,883
Current and deferred tax liability	-	2,625	51	2,676
Other liabilities and accrued expenses	626,884	191,374	8,133	826,391
Total Liabilities	14,700,387	6,587,043	495,692	21,783,122
Net On Balance Sheet Position	(1,001,616)	243,054	(152,921)	(911,483)
Net Off Balance Sheet Position	784,720	(127,497)	223,129	880,352
Net Position	(216,896)	115,557	70,208	(31,131)

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

Of the amounts shown in the table above, at 31 December 2005, approximately 97% (2004: 108%) are economically hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The net of Russian Rubles denominated assets and liabilities as included in the above table at their YTL equivalents, comprise net asset of YTL 65,307 thousands at 31 December 2005 (2004: YTL 55,732 thousands). For the purposes of the evaluation of the table above, these amounts should not be considered as hard currency.

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

Credit risk

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

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

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

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 22).

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

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

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

24 Risk management disclosures (continued)

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

The amounts reflected in the tables represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility. The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Approximately 64% of the balance of outstanding loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for guarantees and letters of credit is approximately 77%.

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

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

24.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected

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

24 Risk management disclosures (continued)

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 + 1.75	Quarterly	2009

25 Affiliates and associates

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

Affiliates	Shareholding Interest (%)
GarantiBank International NV	100.00
GarantiBank Moscow	100.00
Garanti Sigorta AŞ	100.00
Garanti Emeklilik AŞ	100.00
Garanti Portföy Yönetimi AŞ	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00
Garanti Financial Services Plc.	100.00
Garanti Fund Management Co. Ltd.	100.00
Garanti Bilişim Teknolojisi	100.00
Galata Araştırma Yayıncılık Tanıtım ve Bilişim Teknoloji Hizmetleri AŞ	100.00
Garanti Finansal Kiralama AŞ	98.94
Garanti Faktoring Hizmetleri AŞ	81.84
Garanti Gayrimenkul Yatırım Ortaklığı AŞ	56.74
Garanti Diversified Payment Rights Finance Company	- (a)

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

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

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

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

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

25 Affiliates and associates (continued)

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

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

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

26 Discontinued operations

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

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

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

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

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

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

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

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

Türkiye Garanti Bankası A.Ş. and Its Affiliates
Notes to Consolidated Financial Statements as of and for the Year Ended 31 December 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

26 Discontinued operations (continued)

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

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

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

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

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

27 Significant event

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

28 Subsequent events

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

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

Garanti heads the list of the publicly traded Turkish companies that international credit rating agencies and specialized analysts keep a close eye on.

Credit rating agencies periodically announce Garanti's credit rating while analysts working for many different banks and investment houses publish reports for their international investors about the Bank's current performance and future potential.

Here is a summary of Garanti's credit ratings as of April 2006 as well as opinions and comments about the Bank expressed by credit rating agencies.

MOODY'S

Long-Term Foreign Currency Deposits	Long Term Turkish Lira Deposits	Short-Term Turkish Lira Deposits	Financial Strength	Outlook	TL Deposit Outlook
B1/Stable	**A3**	**Primary- 2**	**D+**	**Positive**	**Stable**

STANDARD & POOR'S

Long-Term Foreign Currency Counterparty	Long-Term Foreign Currency Deposits	Outlook
BB-	**BB-**	**Positive**

FITCHRATINGS

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

CAPITAL INTELLIGENCE

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

Moody's - October 2005

- Strong presence in a number of attractive / promising businesses underscores long term earning capacity.
- Garanti is supported by a well established commercial banking franchise with strong positions in retail and corporate banking businesses that generate good levels of fee income.
- Garanti is underpinned by competent management and a strategic focus that has steered the bank towards businesses with good risk return characteristics and growth potential.
- We note the bank's leading positions in trade finance and credit card businesses and the systematic improvement in credit skills, in anticipation of sustained macroeconomic stability.

Standard & Poor's - January 2005

- Garanti has adopted a basic strategy focused on developing a wide range of products that specifically meet its customers' needs and on providing consistent and high-quality service.
- 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 are in a stronger position to prosper. Standard & Poor's considers Garanti to be in this group of banks.

FitchRatings - December 2005

- The ratings of Türkiye Garanti Bankası A.Ş. ("Garanti") reflect its improved asset quality and pre-tax profits, capitalization, sound liquidity and funding and strong position in the Turkish banking sector.

Capital Intelligence - August 2005

- Garanti holds a strong market franchise in the Turkish banking sector, and is well-positioned to capitalize on future growth in the retail and commercial sectors.
- Garanti proved its ability to extend the maturity of its international borrowing by signing the longest securitization deal in Turkey after the Turkish Treasury.
- The policy and strategies of the Bank revolve around market needs, human resources, economic and technological improvements.

Deutsche Bank - January 2006

- We believe that with GE Consumer Finance (GECF) as a shareholder, Garanti is poised for strong growth. GECF's strong presence in retail and mortgage products would likely contribute to a jump in Garanti's asset and loan growth.

- With this marriage, Garanti could seize the opportunity to enhance its already strong presence in retail banking, especially following the introduction of a structured mortgage market in 2006.

ING - January 2006

- The JV with GE should be very positive for Garanti Bank. GE is expected to bring its expertise in consumer finance especially mortgages and project finance and there are already teams established to work on new projects. Garanti, on the other hand, may share its superb skills in credit card operations.

- The setting out of new joint strategies going forward by Garanti's new JV partner, GE, should lead to raised expectations. Expansion within Turkey via acquisitions and expansion into neighboring regions (Romania and Ukraine and perhaps bigger plans in Russia) are all on the cards.

Credit Suisse - December 2005

- With the largest retail lending exposure as a percentage of the loan book as well as its strong credit card business, Garanti is our preferred Turkish retail banking play.

- We expect GE to contribute significant know-how to utilize better Garanti's already strong retail banking franchise.

Merrill Lynch - October 2005

- Among the bidders for Garanti Bank, we think that GECF is probably the best partner to form a joint venture.

- Doğuş and GECF are complementary to each other, in our view, while GECF would add value on retail lending and especially mortgages, Doğuş Group, (or Garanti management) can continue to add value on the rest of the banking products, such as SME and corporate lending.

JP Morgan - August 2005

- An expanding retail banking business should allow Garanti to sustain revenue growth through greater diversification of its retail activities. The bank's strong CRM capabilities and alternative delivery channels should contribute to its ability to improve cross-selling ratios with products like mutual funds, pension products and insurance products.

- Garanti has a very strong client base and level of retail loans and demand deposits per client. This strength has been boosted by the bank's share of the credit card market.

- Garanti offers healthy earnings momentum, backed by a strong retail franchise.

- Garanti has proactively strengthened its balance sheet to sustain profitability in a lower interest rate environment.

Goldman Sachs - July / August 2005

- Garanti should be a key beneficiary of continued redeployment of funds into lending and away from securities.

- GE Consumer Finance will likely bring valuable expertise to Garanti which will position the bank well for growth in key market segments.

- GECF is a consumer finance powerhouse, and as such it would bring expertise to Garanti's fastest growing and most profitable business lines. We believe that it could allow Garanti to develop new products and expand its presence in product areas including asset management, insurance and particularly within mortgage lending.

Morgan Stanley - August 2005

- On funding, Garanti continues to benefit from the highest proportion of TL demand deposits, which reduces its blended cost of deposits.

- It appears from sector data that state-owned banks and smaller banks are losing market share in demand deposits. Garanti has gained a lot of market share in this segment thanks to good corporate relationships and branch expansion.

- The Bank is well on track to achieve an ROE of 24% next year.

CA-IB - July 2005

- Garanti Bank presents the strongest earnings momentum in the group of banks we cover.

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

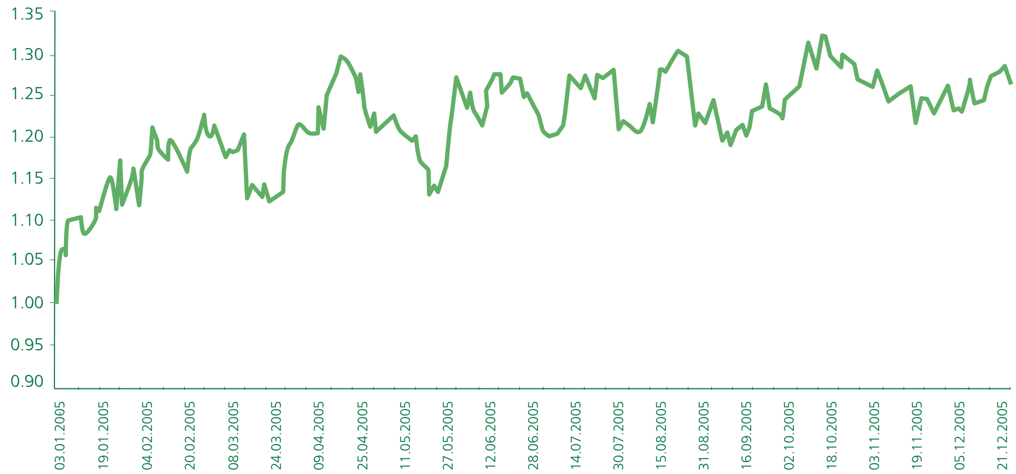
Garanti Bank went public in 1990. It was the first Turkish company to issue American Depository Shares (ADS) in 1993.

Outstanding international ADS are traded on The Stock Exchange Automated Quotations (SEAQ) of the London Stock Exchange.

"GARAN.IS" / LOWEST-HIGHEST PRICES

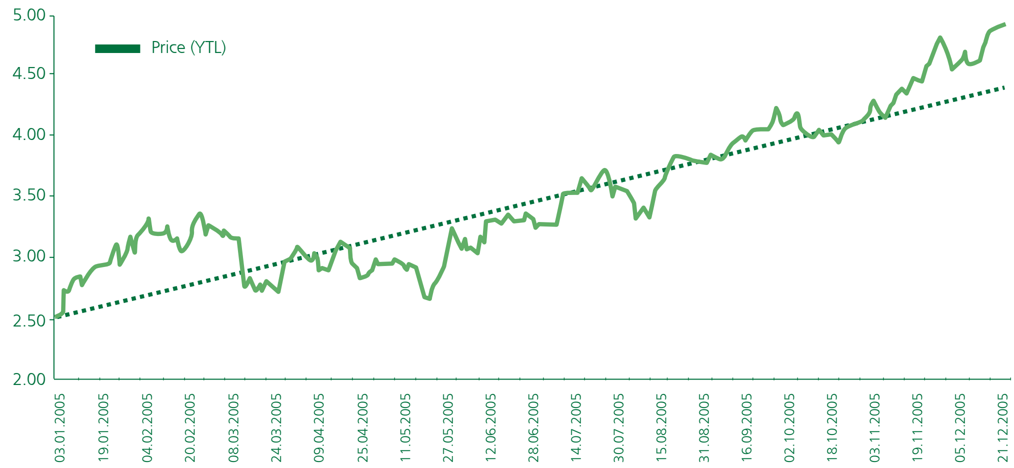
	YTL		US$	
Date	Highest	Lowest	Highest	Lowest
1Q05	3.40	2.48	2.66	1.81
2Q05	3.35	2.65	2.49	1.93
3Q05	4.04	3.23	3.01	2.41
4Q05	4.90	3.92	3.65	2.90

STOCK PRICE PERFORMANCE VERSUS ISE INDEX



Garanti shares outperformed the ISE index throughout the year.

STOCK PRICE PERFORMANCE



Garanti share price was up by 102% on a dollar basis in 2005.

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)	2,100
Free float	46.96%
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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Produced by Tayburn Kurumsal
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