GarantiBank International N.V.

Annual Report 2005

Mission Statement

The mission of GarantiBank International N.V. is to be recognized by our stakeholders and competitors as the most reliable and respectable bank within our niche markets by offering speedy and accurate services, providing tailor-made, innovative and country specific solutions and investing in cutting-edge technology and in our human resources.

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Chairman's statement

GarantiBank International N.V.'s (GBI) profit pointed-out to another satisfactory year. Again, operating results demonstrated improvements both on the interest income and the trading side. Lower margins, due to improved credit fundamentals of emerging markets, were more than compensated by further balance sheet growth, continued cost efficiency measures and lower credit risk provisioning as a result of strong credit risk management. The balance sheet grew by almost 20 percent compared to the same period of previous year, with the most remarkable growth seen in the loan-book and interbank borrowings.

Our Retail funding base decreased compared to last year but total Funds Entrusted increased due to a substantial increase in private banking funds. In March 2005 we ended our 4 month subordinated deposit campaign in the Netherlands for which the results were extraordinary. Total attracted subordinated deposits amounted to EUR 38.3 million. These deposits which partly can be counted for as capital for solvency calculations are one of the cornerstones for further expansion of our core businesses.

One of GBI's core businesses is to provide trade finance solutions in a boutique style. Throughout its existence the Bank has gradually built on existing trade flows within the Black Sea, Caspian and Mediterranean countries to become a leading regional expert. By means of a holistic approach to our core business, we simultaneously cover transactional commodity finance, structured trade finance and the forfaiting markets.

In October 2005, Moody's assigned GBI a Baa2 rating (one notch above investment grade) for long term foreign currency bank deposits; P-2 for short term foreign currency bank deposits and a C- financial strength rating. The rating reflects GBI's role as a niche player in the competitive segment of international trade finance, its strong financial fundamentals and asset quality, historically low credit losses, reliable funding profile and its solid profitability.

Global economic growth slowed markedly in 2005 for which expansion is estimated at a 3.2 percent pace, in comparison to 3.8 percent in 2004. The slowdown was widespread, reaching virtually every economic region. It was precipitated by higher oil prices, resource-sector capacity constraints, tightening monetary policy in the United States and, in some countries, to the maturation of the investment cycle following a year of very fast growth.
Growth among industrialized economies in 2005 is at 2.5 percent, substantially lower than the 3.1 percent recorded the year before. Industrial production and trade flows among high-income countries were particularly weak.

For 2006 we predict that the world economy will perform reasonably well. Growth in the US, China, Russia and India is strong. Inflation in major developed countries remains low by historical standards along with long-term interest rates at unusually and surprisingly low levels. Although some of the largest countries of Europe are stagnating, others are performing quite well. This is also applicable to Turkey, which is growing solidly, whereby the fiscal policy remains prudent, inflation is declining and foreign direct investments are increasing exponentially. Summing-up all these positive global economic forecasts in addendum to our own analysis and interpretation of the growing economy, GBI is confident that it will continue to deliver added value to its customers and stakeholders.

On 23 December 2005, Doğuş Holding A.Ş. (one of the ultimate shareholders of GBI) and the Turkish subsidiary of GE Capital Corporation ("GE") announced that following regulatory approval the parties have completed the acquisition by GE of a 25.5% share in GarantiBank Turkey (TGB). Under the agreement, both parties have agreed to form an equal partnership.

The above changes will further strengthen the shareholder structure of GBI. The Bank is 100 percent owned by TGB and following the above mentioned share purchase of TGB, GE indirectly becomes an equal partner of GBI as well. The management of GBI will continue with its current team and is fully supported by the Bank's shareholders.

Amsterdam, 10 March 2006

F. Şahenk
Chairman of the Board

Annual accounts

In compliance with the provisions of the Articles of Association of GarantiBank International N.V., the Supervisory Board has examined the auditor's report and the financial statements of the year 2005. Our examinations also included discussions with the internal and external auditors (KPMG Accountants N.V. the Netherlands). We propose that the annual general meeting of shareholders of GarantiBank International N.V. (GBI) to be held on 31 March 2006 adopts the financial statements for 2005.

We propose that the members of the Managing Board be discharged from liability in respect of their management of the Bank's activities in 2005 and that the members of the Supervisory Board also be discharged in respect of their supervision thereof.

Financial statement and proposed dividend

This annual report includes the financial statements as drawn up by the Managing Board. In accordance with Article 27, paragraph 4 of the Articles of Association, these accounts were audited by KPMG the Netherlands and in accordance with Article 29 will be adopted at the annual general meeting of shareholders on 31 March 2006. Upon adoption of the financial statements and the profit appropriation, the shareholder will receive a dividend of EUR 20.688.000.

Composition of the Supervisory Board

Members of the Supervisory Board are elected for a term three years. Messrs. F. Şahenk, H. Akhan and T. Gönensin are due to resign by rotation on 1 April 2006. They are nominated by our Board for reappointment by the shareholder for a new term of three years effective 31 March 2006. Mr. F. Şahenk will stand down as Chairman of the Board in favor of Mr. S. Sözen as per 1 April 2006.
Nevertheless Mr. F. Şahenk will continue to be a member of the Board. We would like to take this opportunity to express our gratitude and appreciation to Mr. S. Toker, who resigned from the Board on his own initiative on 20 January 2006. Mr. Toker was a member of the Supervisory Board for almost 13 years and was devoted to GBI and to his duties as Supervisory Board Director. Both the Supervisory Board and the Managing Board benefited greatly from his banking knowledge, vision and support.

Supervisory Board activities and Audit Committee

The Supervisory Board met five times during the period under review. Four meetings were held at the bank's premises in the Netherlands and one at the branch in Bucharest, Romania. The latter meeting was combined with a comprehensive information program to enable members of the Supervisory Board to gain a better understanding of the bank's activities in Romania.

Two of the Supervisory Board meetings were preceded by meetings of the Supervisory Board Audit Committee. Mr. A. Acar is the Chairman of the Audit Committee and Mr. T. Gönensin is its member. Both members have the experience, financial expertise and independence to supervise the Bank's business, financial statements and risk profile. In these audit committee meetings in-depth discussions were held on audit planning, audit status reports as well as internal and external auditing reports. Also important subjects like Corporate Governance, the implementation of Basel II, IFRS and the new Dutch law "Wet Financiële Dienstverlening" (Wfd) were extensively discussed.

Corporate Governance

Corporate governance is most often viewed as both the structure and the relationships, which determine corporate direction and performance. The Supervisory Board is the central pillar to corporate governance. Its relationship to the other primary participants, shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community. Corporate governance is the method by which a corporation is directed, administered or controlled. GBI as a non-listed bank, has implemented all corporate governance rules for all relevant bodies of its organization by laying them down in codes. The "Integrity and Compliance" handbook has been updated in 2005 to incorporate the most recent regulations.

Basel II

The new Basel Capital Accord gives banks the opportunity to reduce their economic capital and regulatory capital through efficient data management and reporting. Basel II also provides a unique opportunity for banks to modernize and upgrade their risk practices, policies and technology so that they can manage their credit risk, market risk and operational risk in a holistic fashion. In 2005 GBI's Basel II Steering Committee did in-depth evaluation of different capital requirement approaches and 2006 will be the year in which the bank will be Basel II IRB Foundation compliant.

Amsterdam, 10 March 2006
Board of Supervisory Directors

Mr. F. Şahenk (Chairman)
Mr. A. Acar
Mr. H. Akhan
Mr. T. Gönensin
Mr. E. Özen
Mr. S. Sözen

Key Figures

	2005	2004*	2003	2002	2001
	EUR 1,000	*EUR 1,000*	*EUR 1,000*	*EUR 1,000*	*EUR 1,000*
Total assets	**2,279,566**	1,913,910	1,755,039	1,520,259	1,524,670
Banks (assets)	**859,934**	833,042	677,708	617,767	852,350
Loans and advances	**694,982**	534,399	554,037	507,680	538,329
Banks (liabilities)	**581,000**	257,099	181,071	226,203	143,875
Funds entrusted	**1,424,554**	1,401,511	1,339,252	1,023,167	1,075,943
Subordinated liabilities	**38,288**	59,132	40,840	40,840	40,840
Shareholders' equity	**174,285**	154,032	155,020	136,972	151,497
Operating result before tax and value adjustments	**33,414**	33,806	27,329	22,931	44,445
Result after tax	**20,688**	23,140	17,440	13,038	27,563
Foreign branches and representative offices	**4**	4	4	4	5
Cost to income ratio % **	**46**	44	51	56	41
Return on average equity %	**12.60**	14.97	11.95	9.49	19.77
Return on average assets %	**0.99**	1.26	1.06	0.86	1.77
Average number of employees	**230**	224	224	229	228

* Restated for reasons of comparison
Key figures of 2003 - 2001 have not been restated for changes in accounting policies

** Cost is total expenses excluding value adjustments to receivables and tangible fixed assets

Financial analyses 2005

Operating result before tax and value adjustments amounted to EUR 33.4 million in 2005, which is almost equal to the previous year (EUR 33.8 million). Net result after tax stands at EUR 20.7 million, which is 11 percent lower compared to 2004 (EUR 23.1 million) and mainly due to a revaluation loss of EUR 4.0 million regarding the office premises in Germany.

Net interest income of EUR 35.4 million increased by EUR 2.3 million, which is 7 percent higher compared to 2004 (EUR 33.1 million). The net interest income increase is mainly due to asset growth. Improved credit fundamentals of Turkey and other emerging markets caused the gross margins to decrease, however the Bank succeeded in lowering its funding cost and shifted to higher margin generating Turkish Lira denominated assets. Net commission income amounted to EUR 17.1 million, which is 6 percent or EUR 1.1 million less compared to 2004. This is mainly due to the lower commission margins on trade finance activities. Result on financial transactions increased by EUR 1.0 million to EUR 9.1 million, which is 12 percent more than in 2004.

Total administrative expenses amounted to EUR 26.2 million, which is 7 percent higher compared to 2004 mainly due to increased pension and salary costs.

Value adjustments to tangible fixed assets amount to EUR 4.0 million in 2005, which relates to the revaluation loss of the office premises in Germany in turn explaining the increase in comparison to 2004.

Value adjustments to receivables show a positive adjustment of EUR 168 thousand due to the collection of loans, which are fully provisioned as per the Banks policy, whereas 2004 showed a negative adjustment of EUR 1.8 million in 2004.

The balance sheet grew 19 percent or EUR 366 million, which is mainly reflected on the asset side in cash (EUR 101 million), loans and advances (EUR 161 million), and interest-bearing securities (EUR 136 million) and on the liability side in banks (EUR 324 million). In 2005, the Bank continued successfully in its prudent growth strategy and further diversifying its country risk exposures.

Macroeconomic developments

In 2005, the world economy enjoyed another year of growth. While the developed markets grew at an average rate of 2.6 percent, the emerging world steamed ahead at an impressive average of 5.9 percent. Global growth, which was estimated at 3.2 percent, was somewhat lower in comparison to 2004. All G7 countries grew slightly slower than 2004. The United States led the pack by a yearly growth of 3.5 percent; Japan and the Euro zone areas grew at 2.7 percent and 1.4 percent respectively. Among emerging market countries, China maintained its growth rate at 9.9 percent while Russia and Turkey grew at 6.4 and 5.2 percent respectively.

The United States Federal Reserve continued its measured monetary tightening with 7 consecutive rate hikes throughout the year. The official lending rate went up to 4.2 percent at the year-end from 2.5 percent at the outset of the year. The ECB on 1 December 2005 took its first rake hike decision in 5 years, bringing its REPO rate to 2.25 from 2 percent. A reduced monetary stimulus particularly in the United States did not cause any immediate decline in global liquidity conditions. Although all central banks are in agreement that growth prospects are good and policy rates are likely to move higher, they maintain the view that core inflation rates are in their comfort zones and policy adjustments ahead will be modest. This message of gradualism has provided key support for financial markets.

In 2005 US Treasury bond yields remained at surprisingly low levels, in nominal and real terms, with the yield curve taking a slightly inverse shape. 10 year US Treasury papers yielded 4.39 percent at the end of 2005, a modest increase of 17 basis points from 4.22 percent at the year-end of 2004. The EMBI+ index displayed a very good performance and tightened 111 basis points from 356 to 245, surpassing all forecasts. In financial markets, volatilities came down and risk premiums contracted to record low levels. The widespread attitude of risk seeking caused the excess liquidity to flow into emerging markets, bonds, equities and real estate. The year 2005 was a very positive one for emerging markets. In addition to the liquidity conditions, strong up trends in commodities and sound economic policies led to several rating upgrades in Russia, Kazakhstan and Brazil. Russia concluded a debt buy-back of USD 15 billion under its Paris club debts and indicated its interest to continue its buy-backs in 2006. Asset price inflation became a familiar theme and a cause for concern for policy makers.

US stocks had an unremarkable year with the S&P posting a gain of 3.83 percent. All the action however was away from the US. In Japan the Nikkei went up by 40 percent as Japanese consumers and companies alike have at last regained their poise helping the economic growth and pushing the inflation to positive territory. The European economy benefited from a weak currency and accommodative ECB. European large cap stocks (DJ Stoxx 50) were up 20 percent. The real fireworks were in emerging markets: In Russia, a major beneficiary of high-energy prices, equities went up by more then 100 percent. In Brazil, another beneficiary of the commodities markets strength, the equity market was up 30 percent. The Turkish stock market, which not only benefited from global liquidity and FDI inflows but also from being the latest European convergence story went up by 60.80 percent in USD terms. Hedge funds had a decent year delivering a 9.5 percent increase on average.

Although growth is observed, benign inflationary outlooks are foreseen and healthy financial markets portrayed a positive economic outlook, significant imbalances existed. In particular growing current account and budget deficits of the United States caused concerns. Towards the end of 2005, the US current account deficit reached USD 700 billion, corresponding to approximately 6.3-percent of the country's GDP.

High commodity prices were largely a function of high demand for raw materials coming from ever growing Asia and are becoming a more permanent feature. Increasing geopolitical risks are also fuelling the energy and precious metal prices. Crude oil prices averaged around USD 58.5 in 2005, showing a significant increase on 2004 when the average was USD 42. Gold went up by 18 percent from USD 438 to USD 517 during 2005.

In spite of structural imbalances in the US economy, 2005 has been marked by the USD's strength as the currency regained most of its lost ground against the Euro in nominal terms. However, in trade adjusted figures it went up approximately by a meager 3 percent. It remained weak against emerging market currencies across the world from Asia to Latin America to Eastern Europe. The investment community's appetite for high yield and preference of high yielding currencies supported the USD, especially with commodity currencies such as the AUD, NZD and CAD and high yielding currencies in the Emerging Market universe such as the BRL and TRY. Low yielding currencies were used as funding currencies and were constantly sold by a yield hungry market. Nordic currencies, the Euro and above all the JPY were weakened. Chinese authorities started the process of allowing flexibility to the Yuan by revaluing their currency as of mid-year.

Turkey has been one of the best performing countries in the Emerging Market asset class in 2005. The start of the EU negotiation process on 3 October, the implementation of structural reforms and sound economic policies since 2001 along with an unprecedented FDI and portfolio investment flows into the country were the main reasons for the performance. The deflation process continued and year-end targets once again were surpassed. Year on year CPI went down to 7.72 percent while PPI fell to 2.66 percent at the end of 2005. Strict monetary and fiscal policies with comprehensive structural adjustments have offset the pressures of increased global energy prices and increasing consumption. The fiscal performance was the most impressive aspect of the macro economic performance in 2005. The budget deficit fell to 2 percent, a level that has not been seen in Turkey for a very long time and which is comfortably within the Maastricht criteria. The public sector debt ratios and composition improved impressively, from 68 percent of GNP in 2004 to 57.5 percent at the end of 2005. On a less positive note, external balances continued to deteriorate, where the foreign trade deficit reached USD 42.9 billion at the end of 2005, while current account deficit is estimated to be USD 23 billion, in excess of 6 percent of the GNP. Financing did not seem to be difficult with increasing FDI and portfolio inflows into the country for the time being.

In 2006, the biggest risks that the world economy is facing are of geopolitical nature and the worsening of the relations between the Middle East and the West. Possible increases in energy and other commodity prices might threaten global economic growth, cause inflationary pressures to increase and lead to a run from riskier asset classes to perceived safe havens. Such a change in risk appetite will be unsettling for emerging markets in general, with more severe repercussions for energy importing and high current account deficit countries. In the absence of these risks being materialized, growth expectations for 2006 are high, liquidity is abundant and the investment environment seems as positive as it could be.

BUSINESS DEVELOPMENTS

Trade Finance

GBI is a leading regional expert in providing trade finance solutions to Black Sea, Caspian and Mediterranean countries' trade flows. Our competitive advantage has its roots in our regional expertise, markets expertise, commodity expertise, risk management expertise and our well-established relationships with the trade finance market participators. With a holistic approach, we simultaneously cover the transactional commodity finance market, the structured trade finance market and the forfaiting market whilst our commodity expertise adds value to trade flows in metals, energy, agri-commodities and chemicals as well as other internationally traded merchandise. In respect of and as recognition to our valued clients' and counterparts' needs, GBI provides fast, accurate, innovative, tailor-made and country specific solutions delivered in boutique style.

The year 2005 may generally be considered an excellent year for the countries in our coverage. In contrast to the isolated caution towards Iran's nuclear energy policies and the natural gas dispute between Russia and Ukraine, the growing and fundamentally stronger Turkish, Russian and Kazakh economies have attracted a wider investor base throughout 2005, forcing the risk premiums to go down considerably. On the commodities front, 2005 will be remembered as a year of volatility.

Excess stock positions, the euro-dollar parity, China's increasing exports and energy needs, natural disasters in the USA, strong domestic demand in Russia and Turkey curtailing export motivation, sluggish EU demand and supply issues related to fossil fuels resulted in three months of price volatilities ranging from - 40 to + 45 percent. Flat and long steel products as well as steel scrap were particularly affected and the suppliers, merchants, end-users and financiers alike had to readjust their positions frequently in order to mitigate volatility risk.

According to the World Trade Organization's estimates for 2006, USD 8.9 trillion global merchandise trade of 2005 will grow by 7 percent in real terms, compared to 9 percent for the previous year. Further analysis of global merchandise trade indicates that the growth rate of global trade related to our coverage region is higher than the growth rate of the global trade and the gap has been widening since the fall of the Iron Curtain. From a broader perspective, emerging economies have been gaining weight in global trade. Perhaps more interestingly, trade amongst the emerging economies has become increasingly appealing to trade financiers in addition to the classical financing of trade between developed and emerging economies.

Chart-1 Trade Finance Transaction Volume

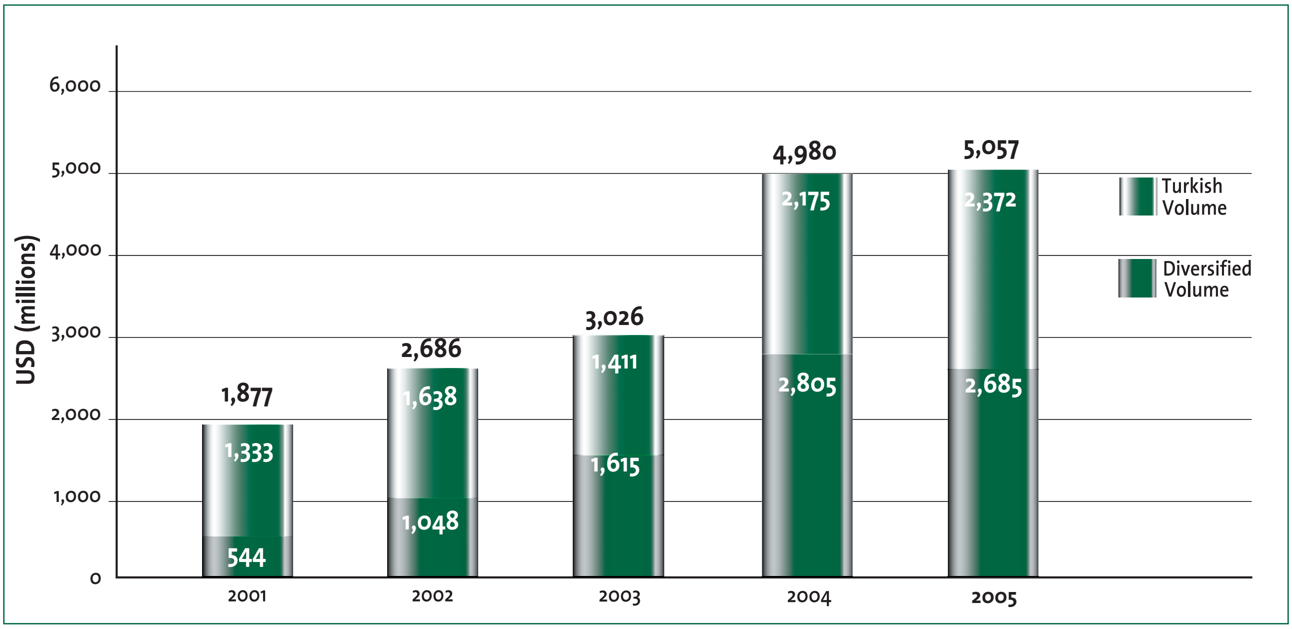


CHART-2 TRANSACTION VOLUME BY SOURCE OF REPAYMENT

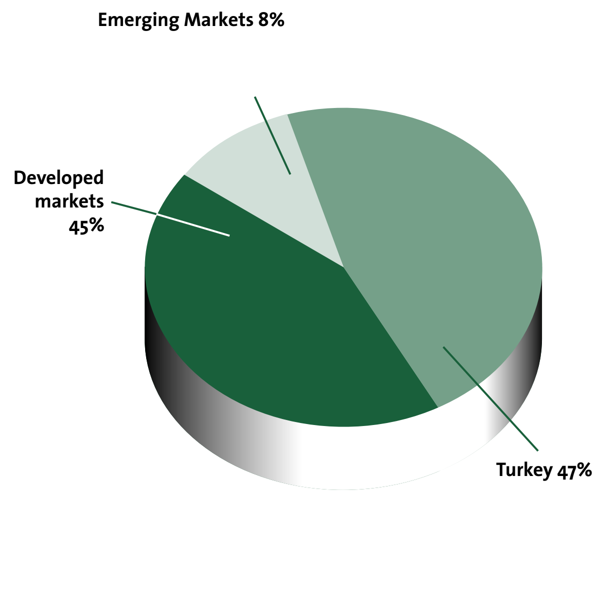
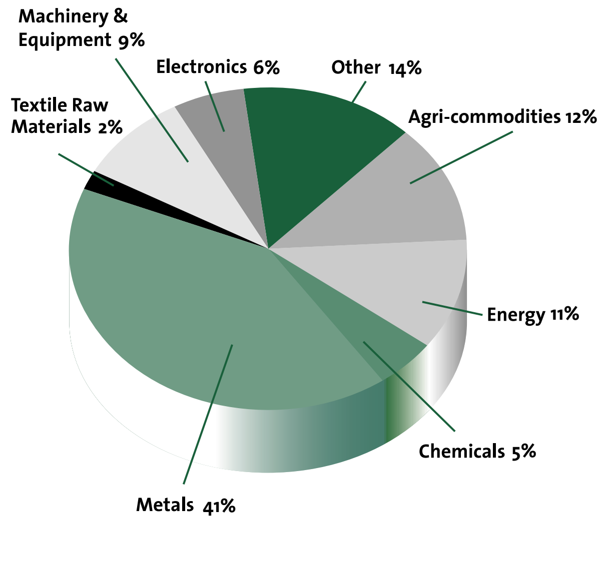


CHART-3 TRANSACTION VOLUME BY COMMODITIES



GBI closed 2005 with a USD 5.1 billion annual trade finance transaction volume (Chart-1). As usual, the volume includes documentary credits and collections, commodity-based transactional lending and trade-related structured products (i.e. the aggregate of structured trade finance lending and forfaiting origination). Compared to the previous year, the individual shares of product clusters such as commodity-based transactional lending (i.e. B/L lending, FCR lending, warehouse lending, etc.), structured trade finance lending (i.e. pre-export syndicated corporate loans) and forfaiting origination (i.e. purchasing of trade-related debt from primary or secondary markets) turned out to be higher whereas documentary credits and collections' share went down. Particularly, forfaiting origination's weight became relatively more significant in 2005.
In line with the diversification strategy set forth in March 2001 and the subsequent country risk policies, GBI's annual trade finance volume in 2005 is diversified to non-Turkish countries (Chart 1 and 2). Slightly higher Turkish and Emerging Markets volumes in 2005 represent GBI's enthusiasm as well as its in-depth expertise in adding value to the trade flows of the Black Sea, Caspian and Mediterranean countries. It is worthwhile to underline the trade finance markets' increasing appetite towards taking emerging markets' risk as intra-emerging markets' trade have been constantly expanding. In this regard GBI has not only originated transactions bearing emerging markets' risk but also successfully distributed such risk to the secondary markets through its forfaiting operations.

GBI's 2005 transaction volume composition by underlying merchandise (Chart-3) slightly varied when compared to the previous year. While the shares of metals (dominantly ferrous metals) and electronics went down, energy (dominantly coal in addition to oil and derivatives), chemicals (dominantly petrochemicals) and textile raw materials took higher shares, and agricultural commodities (dominantly fertilizers and grains) maintained the same levels. The current year's transaction volume measured in USD remained practically the same as the previous year but the aggregate quantity of the merchandise GBI financed in regard to our focus commodities such as metals, energy, agri-commodities and chemicals expanded by 26 percent and reached 9.5 million metric tonnes. Despite the price volatility of 2005 and the higher tonnages of merchandise financed, we closed the year without any mishaps on our credit portfolio, thanks to our proprietary risk management capabilities.

More than 70 percent of GBI's annual volume in 2005 was related to the Transactional Commodity Finance market segment, including product clusters of documentary credits, collections and commodity-based transactional lending. On the other hand, the weight of our aggregate volume in the Structured Trade Finance segment and especially in the Forfaiting segment became more significant in this fiscal year. Our well-established market-maker position in trade-related Turkish debt trading and our well-established expertise in trade-related debt of Russia, Kazakhstan, Ukraine and Romania brought us considerable origination and distribution volume growth in 2005. GBI has taken part in several industry-specific events and conferences as a participant or as an invited speaker. Pleasantly enough, as a result of the electoral process in September at the annual general meeting of International Forfaiting Association (IFA), the ultimate organ overseeing global forfaiting activity, GBI won a seat on IFA's Main Board and is regarded among the top five global forfaiters.

Assuming the geopolitical balances of 2005 will prevail, the outlook for 2006 looks promising for GBI. The growth of the world trade is expected to be rather similar to that of 2005 whereas the significance of intra-emerging markets trade is expected to be more pronounced. Increasing weights of China, India, the CIS, Latin America and Turkey in international trade are expected to continue. While China's exports and its effects on global trade and production allocations will carefully be monitored, the price volatilities in our focus commodities are expected to be relatively more accommodative in comparison to 2005. In realization of this set of projections, GBI's trade finance business line will follow a prudent growth strategy. In the event of adverse developments however, GBI's regional, markets, commodity and risk management expertise coupled with the well-established relationships with market participators would provide adequate precaution as the case has been in the past.

Enabling technologies and capable people have inspiring effects on international trade and its finance. We owe our genuine thanks to our clients and counterparts, who have praised the functionality of our Internet Banking Portal, our web site http://corp.garantibank.nl and who have also expressed their gratitude for our fast, accurate, tailor-made, innovative and country specific solutions. Observing ample growth and collaboration opportunities, GBI is committed to continue to provide the best value-added solutions to our present and future relationships.

Private Banking

GBI's Private Banking Division provides investment banking services and products to its high net worth individual and institutional clients. It is positioned as a regional expert with a high level of service sophistication and holistic product coverage. In a highly competitive business, it differentiates itself by its strong technical capacity, client relationship focus and service quality. GBI provides fast, accurate, innovative and tailor-made services that are in line with the changing market conditions and clients' needs. The Bank uses the competitive advantages that it has built over the years to deliver the best services to its clients and to realize growth considerably above the industrial average. Its country coverage extends to include European countries, the USA, Russia, Romania, Israel and Lebanon while its core geographical region remains Turkey.

In 2005, the global wealth management market enjoyed a healthy growth of client assets. The investment environment remained supportive, in spite of the continuing tightening of the liquidity conditions by consecutive rate hikes in the USA. Global market liquidity remained abundant and the risk appetite of investors went up to all time highs in parallel to asset valuations. In this environment, client assets grew both through fresh cash inflows and the appreciation of assets. The concept of absolute returns and the thematic ideas such as emerging economies, single country funds or industrial sectors such as energy or commodities captured the interest of industry professionals and clients whilst attracting large inflows.

GBI's Private Banking Division, having established an infrastructure that enables it to adapt to changing market trends and client needs, successfully exploited emerging opportunities. Total client assets grew by 20 percent, which is estimated to be approximately 3 times the industry average for the year. Notably, client driven income was up by 28 percent in 2005 in comparison to 2004, pushing client profitability up, thanks to the Bank's focus on increasing efficiency and stronger growth in Discretionary Asset Management. In 2005, by putting a strategic emphasis on the Discretionary Asset Management, the Bank realized an asset growth of 75 percent. Portfolio management results, once again, out-performed comparable benchmarks. GBI's strength in asset allocation, expertise in financial markets and sound risk management once again resulted in double-digit returns with low volatility on client assets under management.

In 2005, GBI continued to enjoy strong customer loyalty, in spite of increasing competition. Clients mostly named; technical expertise, product variety, service quality and last but not least the consistent and positive relationship with GBI's Private Banking team as the reasons for their satisfaction and loyalty to GBI. The existing customer base is at the center of GBI's marketing strategy as their referrals continue to be the largest source of new customer acquisition.

GBI's product range includes a complete range of financial products; such as deposits, spot foreign exchange and forwards, non-deliverable forwards, securities, equities, OTC and exchange traded derivatives, structured products, commodities, ETF's and investment funds. In 2005, the significance of derivatives and structured products became more pronounced both as the share of total transaction volumes and total revenues. The volumes in derivatives tripled, largely due to sharp increases in futures and exotic derivatives. The international investors increasing interest in Turkish and the emerging markets put GBI in an advantageous position with its expertise and long standing presence in these markets. GBI's service quality in the product offering process both boosted the transaction volumes and maximized client satisfaction.

Risk management is one of the areas of strength of GBI Private Banking. The Bank gives high priority to minimizing operational, credit, market and integrity risks. In this respect, Operations, Internal Audit and Financial Control and Reporting Departments play a crucial role together with the Private Banking team. Customer due diligence policies and procedures are strictly implemented and continuously upgraded in line with the changing regulations.

In 2006, we expect the business environment to present tough challenges as well as new opportunities. GBI Private Banking is well positioned to handle challenges and to exploit these opportunities. By implementing its prudent growth strategy, it will make a significant contribution to GBI's revenue growth.

Treasury

GBI's Treasury Division carries out a dual function: generating revenues from proprietary and commercial transactions in addition to managing balance sheet risks and cash flows of the Bank. As a revenue generating profit center, it pursues a highly risk aversive strategy that targets growth in commercial transaction volumes rather than building high proprietary risks on the Bank's own account. As a risk manager, it plays a pivotal role within the Bank to assist the ALCO to mitigate various balance sheet risks.

In 2005, financial markets were characterized by high liquidity, record inflows to riskier asset classes including emerging markets and diminishing spreads. High-risk appetites led to the stretching of valuations and periods of corrections were short-lived with generally low volatilities throughout the year. The investment community faced an environment of diminishing risk premiums and low volatility.

GBI's Treasury Division was able to increase its foreign exchange volumes by 30 percent to reach USD 25.3 billion. Transaction volumes in derivatives and capital markets went up by an impressive 139 percent and 189 percent respectively. The technical capacity of the Treasury Division in product development and strategy setting as well as its broad based expertise in Turkish and global financial markets enabled it to grow in an environment of increasing product sophistication. Furthermore, a cost efficient and compact departmental structure remained to be one of its main strengths. Higher commercial volumes helped the Treasury to increase its short term trading income in comparison to previous years. In spite of narrowing spreads and tightening margins in Eurobonds, the Treasury was able to generate satisfactory total revenue.

In risk management, the mitigation of interest mismatch risks was crucial in 2005. In a macro environment that led to consecutive rate hikes by the United States Federal Reserve Board throughout the year, the ALCO remained prudent and minimized all interest mismatches within GBI's balance sheet. Similarly, in its liquidity risk management, the Bank made sure that a sufficient liquidity buffer was constantly maintained. Such a prudent approach proved to be beneficial for the Bank's overall performance in 2005.

In 2006, we expect the macro environment and financial markets to be generally positive but prone to sharp corrections due to current low risk premiums. GBI's Treasury Division will continue its prudent growth strategy and will be able to exploit the opportunities while keeping risks under control.

Financial Institutions

The Financial Institutions Division (FI) takes on two principal roles: originating primary assets and creating wholesale funding. At the same time, FI closely cooperates with the Bank's other departments to deliver added synergy.

In line with our principal objective of serving our clients' needs by providing them unique solutions, the division has a thorough understanding of emerging markets and a focused expertise of trade finance and financial institution products. In 2005, the division has strengthened its ties with existing relationship banks and extended the coverage network of its correspondent banks through the addition of new partners in different regions of the world. Clear results are reflections of our achievements in 2005: we generated record revenues (representing an overall increase of 56 percent) whilst building stronger name recognition in our core markets in parallel to increasing our coverage of -developed market banks - and business volumes with emerging markets.

As a result of our long-lasting commitment and dedication, particularly to Russia and Kazakhstan, FI's non-Turkish asset origination activities have climaxed in 2005. The total trade-related loans issued to Kazakhstan, Romania, Russia and Ukraine has shown a 54 percent growth on a yearly basis in comparison to 2004.

The Bank has been present in the international loan markets for the purpose of diversifying its funding base. Renewing its existing Syndicated Loan Facility, the Bank closed a successful USD 100 million Senior Syndication on 25 February 2005. Originally launched to close at USD 75 million, the Facility was oversubscribed and concluded at USD 100 million at signing with a participation of 18 banks from 11 countries. In 2006, the Bank will re-enter the markets to further diversify its creditors; looking into new structures with longer tenors will be essential to send a strong message to the markets on the Bank's position. Simultaneously, on a year-on-year basis wholesale funding has doubled its weight in the Bank's books by increased allocated lines and tenors from our major correspondent banks.

2005 also marked a shift in how the markets perceived GBI's risk. Regulated and operating in the Netherlands, with its well-diversified asset class, capable of generating both its assets and liabilities in total independence from its parent along with the added benefit of having very reputable ultimate Turkish and American shareholders, the Bank is recognized as a prime investment. On 24 October 2005 Moody's assigned a Baa2 rating for long-term foreign currency bank deposits to GBI.

Looking ahead in 2006, pursuing our ambition of creating added value through the means of expert knowledge in trade finance and financial institutions' products and also seizing additional synergies inherent in various countries, we will promote prudent growth in promising markets.

Retail Banking

During 2005, GBI's Retail Banking activities focused on deposit taking. In spite of fierce competition in the direct banking markets in the Netherlands and Germany, the bank's overall deposit volume remained in the region of EUR 1 billion. The Bank maintained its policy of keeping a satisfactory level of volumes without being the highest payer in the market. This proves that customers appreciate the high levels of services provided and that the Bank has succeeded in establishing a strong and stable customer base

After the successful launch of GBI's internet banking services in 2004, the number of customers using the services increased in 2005 and the volumes of transactions nearly doubled. Undoubtedly, the synergy between the Bank's call centers and its internet banking services increased the service and quality levels.

In the last quarter of 2004 GBI launched a subordinated deposit product (Tier 2 Capital) targeting retail clients. The product remained in the market during the first quarter of 2005 and was retrieved once the desired volume of EUR 38.3 million was collected.

The Bank offered yet another interesting product to the Retail Savings market in December 2005 consisting of a high yielding Turkish Lira time deposit. The results show a promising interest from the GBI's customer base, as it allows Dutch individuals to benefit from the positive socio-economic developments in Turkey.

International Branches

Romania

In 2005, the Romanian economy followed a positive trend. Estimates forecast real GDP growth at 4 percent per annum, reaching USD 92.5 billion. Adding the positive influence the country's future EU membership has brought to macro-economic indicators it is expected that the economy will further grow an additional 4.2 percent in 2006. In parallel, inflation rates have also decreased to 9 percent of annual CPI, and unemployment rates stand at 5.5-percent, which is far below the average of most existing European member states.

Total foreign trade is projected to increase 20 percent and reach USD 65 billion, of which USD 38 billion will represent imports, and create a net trade deficit of USD 8.6 billion.

On 25 April 2005, Romania signed the Treaty of Accession for joining the E.U. in 2007. The European Commission's evaluation is scheduled to be held in April or May of 2006, and will confirm whether Romania can join the Union in January 2007 or whether the accession should be delayed to 2008.

2005 was an important year for privatization in Romania. Austria's Erste Bank purchased a majority share of the state owned Commercial Bank of Romania (BCR) for EUR 3.75 billion acquiring a 62 percent stake in the bank. The entrance of European players into the Romanian banking sector will enhance competition and pave the way for added Foreign Direct Investment in the converging Romanian Economy. We anticipate that the Romanian banking system will be practically out of state influence in 2006, especially if the privatization of the National Savings House (CEC) is completed.

International rating agencies continued to improve Romania's ratings in 2005. Standard & Poor's increased its rating to BBB- and Moody's increased its rating to Ba1 with a positive outlook.

GBI's Romania branch increased its balance sheet by 28 percent in 2005. Contribution of the branch to the Bank's overall profitability was in line with the budgeted figure for 2005. Additionally, the branch has continued to increase its activities in domestic commercial financing besides carrying out international trade financing.

In line with the strategy of further participating into Romania's domestic commercial financing activities in 2006, the branch will start building a national branch network.

2006 will prove to be a challenging year with the increased competition. However GBI's Romania branch intends to increase significantly both its net profitability and asset size through acquiring added market share.

Germany

Despite lower interest rates and -tougher competition in the direct banking markets, the Germany branch has successfully managed to keep the level of savings deposits around EUR 600 million. Throughout the years, the branch has been delivering flawless services to its customers thus establishing strong ties. The number of customers entrusting their funds to the branch reached 54,000 and Internet banking customers amounted to an additional 12,000 users.

Germany remains to be a very large and expanding market for retail deposit banking. Alternative delivery channels such as call centers and internet banking are increasing in popularity, and will remain to be a focus point in GBI's Germany branch activities.

Risk Management

General

GBI's corporate culture is dedicated to promote continuous risk awareness. A major factor in risk management is the strong emphasis throughout GBI on being alert to the various types of risks. The main risks ensuing from the banking activities are credit risk, market risk, liquidity risk, operational risk (including ICT risk), legal risk and integrity risk. The purpose of the internal risk management and control system is to identify and measure the various types of risk associated with banking operations and, where necessary, to take appropriate measures.

The Risk Management Committee (RMC) is the central platform that coordinates the risk management functions of GBI. The RMC is independent from the commercial lines of business. The Managing Board, Executive Director of Financial Control & Reporting and the Manager of Compliance & Internal Audit Services are the members of the RMC.

The application and maintenance of the Dutch Central Bank's "Regulation on Organization and Control" (ROC) is one of the main tasks of the RMC. This regulation has come into force as of April 2002. It comprises a reconsideration and incorporation of an array of previously existing supervisory regulations on organization and internal control and reflects the increased awareness regarding integrity,

compliance and corporate governance issues. The regulation provides a sound basis for a comprehensive risk management framework. GBI has incorporated risk policies and risk controls for the main risks ensuing from its activities, in compliance with the ROC. The maintenance of the risk analyses, risk policies and risk control procedures is done on regular basis under the co-ordination of the RMC with direct involvement of the senior management of GBI. The compliance with the ROC and the internal risk guidelines and limits are also subject to the regular internal audit procedures conducted by the Internal Audit Department, which reports to the Managing Board and the Supervisory Board Audit Committee.
Other risk committees are established to manage more specifically the key banking risks: the Credit Committee for credit risk, the Asset & Liability Committee for market and liquidity risk and the Legal Committee for legal risk.

Credit risk

The credit risk policy of GBI comprises a structural approach for proper assessment of the counterpart's creditworthiness, default probability and the collateral strength. GBI has specialized experience in providing tailor-made credit facilities. This experience is considered as a critical element for the adequate mitigation and control of the credit risks that enables both parties a long lasting relationship.
The Financial Institutions Division and Trade Finance Division perform ongoing credit assessments of the financial institutions and corporate clients. A credit-scoring model is applied by which the credit rating is based on both quantitative and qualitative criteria. The Credit Division performs independent credit evaluation and monitors the overall performance of GBI's credit exposures. Based on the corporate client and bank analyses, the Credit Committee defines credit limits for each (group of) counterpart(s). The Internal Control Unit controls day-to-day the utilization of the credit limits as defined by the Credit Committee.
In 2004, GBI developed and implemented a Country Risk Model. As it is the case for corporate and banking credit risks, this model is partially based upon quantitative factors, based on a selective number of macro-economic indicators.

Market risk

Experienced management combined with mathematical models is the key to assessing acceptable levels of market risk. The foreign exchange, interest rate mismatch and security positions are reported by Financial Control & Reporting Department and managed by the Asset & Liability Committee (ALCO). Financial Control & Reporting Department monitors trading positions on a daily basis against limits set by the ALCO. The exposures against these limits are reported to and reviewed by the ALCO on a weekly basis

Interest rate risk

Interest-rate risk is monitored by means of gap reports and earnings at risk analyses on a weekly basis. GBI enters into interest rate derivative contracts to adjust the interest mismatch inherent in the on-balance financial instruments to the desired bandwidths.

Liquidity risk

Liquidity management is designed to ensure that GBI is able at all times to meet deposit withdrawals either on demand or at contractual maturity. It also ensures that GBI is able to repay borrowings as they mature and to fund new loans and investments. Client saving accounts and time deposits are the primary source of liquidity for GBI's operations. GBI keeps a liquidity buffer at all times in order to meet a possible withdrawal of client saving accounts which are payable on demand, but in practice have a longer term characteristic. Liquidity gap analyses for different cash flow scenarios are reported by Financial Control & Reporting to the ALCO on a monthly basis. The ALCO is reviewing and managing the liquidity gaps. The Supervisory Board is monitoring the liquidity gap against predefined limits.

Operational risk

Like all financial institutions GBI is exposed to certain types of operational risk. These include potential losses caused by a breakdown in information or transaction processing and settlement systems and procedures, human errors, non-compliance with internal policies or procedures, including the possibility of unauthorized transactions by employees. GBI's policy to control operational risk is communicated to all staff levels.
Key elements in this policy are Know Your Customer principles, delegating tasks and responsibilities, issuing clear policies, procedures and directives, segregation of duties, four-eyes principles, carrying out supervision, taking corrective action, maintaining highly responsive accounting systems, systematic internal controls and performing periodic internal audits.

Legal risk

Legal risk arises from uncertainties about the legal enforceability of the obligations of GBI's customers and counterparts (including those with respect to derivatives), as well as the possibility that legal or regulatory changes may adversely affect GBI's position. All legal issues are under the co-ordination of the Legal Committee.

For each line of business, GBI has established standardized legal documentation and procedures to ensure that GBI's rights and obligations are clearly documented and legally enforceable, including the legal documentation for issuing and confirming trade finance transactions, treasury and private banking activities as well as retail banking activities. A legal database supports the effective use of this standardized legal documentation. Changes in jurisdictions in which GBI operates are monitored through an external legal counsel and the legal department of GBI's parent bank, Türkiye Garanti Bankası A.Ş..

Integrity risk

Integrity risk arises from inadequate compliance with obligations under civil, administrative, tax or criminal law, from inadequate compliance with rules and regulations, reporting requirements of competent authorities and from inadequate compliance with internal standards, rules and codes of conduct. Inadequate compliance may result in a deterioration of the reputation of GBI, which may limit opportunities and business development possibilities, or which may result in the loss of existing or potential clients. GBI is committed to the preservation of its reputation in the markets it operates. As integrity is one of the core values of GBI, it is embedded in GBI's policies and specifically designed integrity and compliance procedures. Internal communication sessions support the proper understanding and effective compliance of these external and internal requirements.

Within GBI, an independent Compliance Officer function is established. The Compliance Officer monitors pro-actively new and relevant developments in rules and regulations in the jurisdictions of countries where GBI provides banking services. As such, the rules and regulations with respect to Know Your Customer and Customer Due Diligence, client identification, clients' privacy protection and Insider Regulation are all embedded in GBI's policies and procedures. The Compliance Officer reports to the Managing Board and the Audit Committee on new developments. The review of actual compliance with external rules and regulations as well as the internal integrity policy is performed by the Internal Audit Department as part of the audit procedures.

The corporate governance structure within GBI and the role of the Supervisory Board Audit Committee with respect to compliance with internal and external regulations and risk management is explained in the Report of the Supervisory Board.

The managing board is proud to work in the same team as the motivated, qualified and experienced GBI staff who has produced the hereby-mentioned excellent 2005 results.

We thank them for their contribution.

Amsterdam, 10 March 2006

Managing Board:

Bahadır Ateş
Marc P. Padberg

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Balance sheet as at 31 December 2005 (before profit appropriation)

		2005		2004*
		EUR 1,000		EUR 1,000
Assets				
Cash		**151,865**		50,995
Banks		**859,934**		833,042
Loans and advances		**694,982**		534,399
Interest-bearing securities		**472,224**		336,667
Shares		**7,309**		6,583
Participating interests		**2,645**		925
Property and equipment		**30,838**		35,602
Other assets		**2,876**		3,904
Prepayments and accrued income		**56,893**		111,793
Total assets		**2,279,566**		1,913,910
Liabilities				
Banks		**581,000**		257,099
Funds entrusted		**1,424,554**		1,401,511
Other liabilities		**7,810**		18,266
Accruals and deferred income		**51,828**		22,482
Provisions		**1,801**		1,388
		2,066,993		1,700,746
Subordinated liabilities		**38,288**		59,132
Paid-in and called-up capital	**134,750**		134,750	
Share premium account	**2,086**		2,086	
Revaluation reserves	**(254)**		(973)	
Other reserves	**17,015**		17,529	
Net profit	**20,688**		23,140	
Interim dividend	**–**		(22,500)	
Shareholders' equity		**174,285**		154,032
Total liabilities and shareholders' equity		**2,279,566**		1,913,910
Off-balance sheet				
Contingent liabilities		**178,644**		188,277
		178,644		188,277

*Restated for reasons of comparison only.

Profit and loss account for the financial year 2005

		2005 *EUR 1,000*		2004* *EUR 1,000*
Interest income	**127,414**		107,258	
Interest expense	**92,042**		74,160	
Net interest		**35,372**		33,098
Income from participating interest		**(240)**		(370)
Commission income	**21,589**		21,736	
Commission expense	**4,525**		3,552	
Net commission		**17,064**		18,184
Result on financial transactions		**9,139**		8,129
Other income		**–**		1,000
Total income		**61,335**		60,041
Administrative expenses:				
• Staff costs	**18,449**		16,698	
• Other administrative expenses	**7,763**		7,718	
		26,212		24,416
Depreciation		**1,709**		1,819
Value adjustments to tangible fixed assets		**4,000**		–
Value adjustments to receivables		**(168)**		1,784
Total expenses		**31,753**		28,019
Operating result before tax		**29,582**		32,022
Tax on result on ordinary activities		**8,894**		8,882
Net result after tax		**20,688**		23,140

*Restated for reasons of comparison only.

Consolidated Cash Flow Statement

	2005	2004*
	EUR 1,000	EUR 1,000
Net cash flow out of profit		
Net profit	**20,688**	23,140
Depreciation	**1,709**	1,819
Value adjustments to tangible fixed assets	**4,000**	–
Value adjustments to receivables	**(168)**	1,784
	26,229	26,743
Net cash flow out of banking activities		
Due from banks, excluding due from banks demand	**(24,175)**	(153,605)
Loans and advances (excluding provisions)	**(160,415)**	17,854
Trading portfolio	**(3,143)**	43,226
Other assets	**1,028**	1,052
Prepayments and accrued income	**54,900**	1,431
Due to banks, excluding due to banks demand	**329,534**	70,212
Funds entrusted	**23,043**	62,259
Other liabilities	**(10,456)**	439
Accruals and deferred income	**29,346**	1,453
	239,662	44,321
Net cash flow out of investment activities		
Investments in:		
• Fixed assets	**(945)**	(1,522)
• Participating interests	**(1,720)**	(324)
• Investment portfolio	**(133,140)**	(54,845)
Divestments in:		
• Fixed assets	**–**	3,026
	(135,805)	(53,665)
Net cash flow out of financing activities		
Provisions	**413**	1,388
Subordinated liabilities	**(20,844)**	18,292
Revaluation reserves	**719**	(1,628)
Appropriation of profit previous year	**(640)**	–
Other reserves	**(514)**	–
Dividends paid from net profit	**–**	(22,500)
	(20,866)	(4,448)
Net cash flow	**109,220**	12,951
Cash balance as at 1 January	**51,500**	38,549
Cash balance as at 31 December	**160,720**	51,500
Net cash flow	**109,220**	12,951
Specification of cash and cash equivalents as at 31 December		
Cash	**151,865**	50,995
Due from banks demand	**8,855**	505
	160,720	51,500

* Restated for reasons of comparison only

1 **Overview of GarantiBank International N.V.**

General

The financial information of GarantiBank International N.V. (hereafter: GBI) will be included in the financial statements of Türkiye Garanti Bankası A.Ş. incorporated in Turkey. GBI works in close cooperation with its 100 percent shareholder Türkiye Garanti Bankası A.Ş..

GBI is mainly active in financing of international trade and corporate lending, as well as in retail banking, treasury and private banking.

Economic environment

The financial position of GBI is to a great part related to the economic developments in Turkey and emerging markets. The accompanying financial statements reflect GBI's best assessment of the impact of these economic developments on the financial position of GBI.

Basis of presentation

The financial statements are compiled in conformity with the provisions governing the financial statements of banks as contained in Part 9, Book 2 of the Netherlands Civil Code, the recommendations of De Nederlandsche Bank (the Dutch central bank) concerning the financial statements of banks, Guidelines of the Council for Annual Reporting (Raad voor de Jaarverslaggeving) and the formats prescribed for the balance sheet and profit and loss account of banks under the Financial Statements Formats Decree.

All amounts are stated in thousands of euros, unless otherwise indicated.

Principles for consolidation

Group companies are consolidated insofar as this is necessary to provide the legally required fair presentation.

2 **Changes in accounting policies**

Pensions

As of 2005, the personnel expenses are determined according to the changed Guideline 271 of the Council for Annual Reporting (Raad voor de Jaarverslaggeving) for employee benefits (RJ 271). The pension obligations and pension expenses are mainly influenced by this change of accounting policy. Until and including 2004 the pension obligations and pension expenses are based on the pension premiums paid.

As of 2005, the pension obligations and pension expenses of the final-pay pension plan of GBI are based on defined benefit obligation which equals the service pro-rated (actuarial) present value of the projected benefits of the participants (taking into account future salary increases and other assumptions). As at 1 January 2005, the fair value of the assets of the final-pay pension plan is EUR 1,639 thousand lower than the present value of the defined benefit obligation. For this deficit a pension provision has been created. The deficit has been charged directly to the shareholders' equity (EUR 1,154 thousand after tax). The change in accounting policy results in a EUR 1,148 thousand increase of the 2005 pension expenses in comparison with the pension expenses of 2004 based on the accounting principle used in previous years. The comparative figures of previous periods have not been adjusted for the change in accounting policy for employee benefits, which is allowed under the changed accounting policy.

Derivatives

As a result of the changes in 2005 in Part 9, Book 2 of the Dutch Civil Code the fair value adjustments of derivatives used for cash flow hedging amounting to EUR 254 thousand negative (2004: EUR 973 thousand negative) are, net of taxes, recognized as shareholder's equity under the balance sheet item 'Revaluation reserves'. The results of the hedged item are reported in the profit and loss account under interest (where interest related) and results in financial transactions (for the non-interest related part).

3 **Significant accounting policies**

General

Assets and liabilities are stated at nominal value, unless otherwise stated below.

Foreign currencies

Assets and liabilities denominated in foreign currencies are converted at the spot rate as at balance sheet date.

Foreign exchange rate differences are taken to the profit and loss account as 'Result on financial transactions', with the exception of exchange differences resulting from the conversion of capital investments in participating interests and related hedging transactions. These are accounted for in shareholders' equity together with the results from related hedging instruments, after allowing for taxation.

Other outstanding forward transactions in foreign currencies are valued at the applicable forward rate for the residual term to maturity as at balance sheet date.

Transactions and the resulting income and charges in foreign currencies are converted at the rate applicable on transaction date. The resulting exchange rate effects are accounted for as 'Result on financial transactions' in the profit and loss account except for exchange losses arising on Turkish lira denominated loans, which are accounted for as interest.

Results of participating interests are translated at the rates prevailing at the end of the month in which the results are realized. The difference resulting from the translation at the rates prevailing at the end of months instead of the rate at balance sheet date is accounted for in shareholders' equity.
Results of our branch in Romania are translated at the rates prevailing at balance sheet date and are adjusted for the revaluation of the book value of the fixed assets in local currency.

Derivatives

Derivatives are financial instruments embodied in contracts of which the value depends on one or more underlying assets or indices.

The derivatives are valued at fair value, i.e. market value as at balance sheet date. The resulting price and valuation differences are stated in the profit and loss account as result on financial transactions.

Changes in the fair value of derivatives used for cash flow hedging are, net of taxes, recognized as equity. They are included in the profit and loss under interest (where interest related) and result on financial transactions (for the non-interest related part) when the result of the hedged item is reported in the profit and loss account.

Loans and advances to banks/customers

Loans and advances to banks/customers are valued at nominal value, after deduction of general and specific provisions for doubtful debts. The additions to or transfers from the general and specific provisions for doubtful debts are recognized in 'Value adjustments to receivables'.
Profits or losses on the sale of loans and advances to banks/customers (forfaiting) are taken to the profit and loss account as 'Result on financial transactions'.

Investment and trading portfolio

The investment portfolio shown in the item 'Interest-bearing securities' comprises all investments, which are intended to be held on a permanent basis or to maturity.
The trading portfolio shown in the items 'Interest-bearing securities' and 'Shares' consists of investments which are intended to be used to gain transaction results on a short-term basis.

Interest-bearing securities

Interest-bearing securities including fixed-income securities belonging to the investment portfolio are stated at redemption value. The difference between redemption value and acquisition price is deferred and included in the balance sheet as either a prepayment or an accrual and amortized over the remaining life of the relevant securities.

Interest-bearing securities included in the trading portfolio are stated at market value. Internal transfers of investments between the trading portfolio and the investment portfolio are made at market value. Profits or losses on these internal transfers are taken to the profit and loss account as 'Results on financial transactions'.

Shares
Shares belonging to the trading portfolio are stated at market value. The resulting differences in value are accounted for in the profit and loss account as 'Result on financial transactions'.

Participating interests
Participating interests in which GBI has a significant influence on commercial and financial policy are stated at net asset value determined in conformity with the accounting policies applied in these financial statements. GBI's share in the net result is stated as 'Income from participating interests'.

Property and equipment
The valuation principles for tangible fixed assets are as follows:

Land and buildings in use by GBI

Premises held as a long-term investment or held for sale are valued at the 'best efforts' market value. Changes in this value are accounted for in the revaluation reserve, taking deferred tax liabilities into account. A debit balance of the revaluation reserve is taken to the profit and loss account. Incidental revaluations of GBI's premises held for sale are released to the profit and loss account upon realization. Land is not being depreciated.
Depreciation periods applied are as follows:
- Properties, excluding land : 50 years.
- Improvement properties : 50 years.

Other fixed assets

These are stated at acquisition price less straight-line depreciation on the basis of estimated useful economic lives.
Depreciation periods applied are as follows:
- Renovation properties : 10 to 15 years.
- Furniture and equipment : 3 to 10 years.

Provisions
General

Provisions are carried on the balance sheet to cover obligations and losses at the balance sheet date, for which the amounts are uncertain as at the balance sheet date but which can be reasonably estimated.

Deferred tax liabilities

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are accounted for only if there is sufficient assurance about their collectibility.

Pensions

Pension plans have been established for the employees in the Netherlands and the majority of staff employed outside the Netherlands in accordance with the regulations and practices of the relevant countries. Third parties, mostly insurance companies, administer these plans. The nature and substance of the plans are decisive for their treatment in the financial statements. In this respect, a distinction is made between defined contribution plans and defined benefit plans.
Defined benefit plan pension obligations are calculated in accordance with the projected unit credit method of actuarial cost allocation. Under this method, the present value of pension and other employee benefit obligations is determined on the basis of the number of active years of service up to balance sheet date, the estimated salary scale at the time of the expected retirement date and the market rate of interest on high quality corporate bonds. To determine the pension cost, the expected return on the plan assets is included in the calculation. Differences between the expected and actual returns on the plan assets, as well as actuarial changes, are only (partly) recorded in the profit and loss account of the next financial year if the

total of these accumulated differences and changes exceeds a corridor of 10% of the largest of obligations under the plan or the profit and loss account in the next financial year over the members' average remaining years of service. Additions in defined benefit obligations resulting from revised plans regarding past-service periods (past-service cost) are recognised over the period these benefits become vested.

In the case of defined contribution plan, contributions owing are charged directly to the profit and loss account in the year to which they relate.

Income

All income items are attributed to the period in which it arises or in which the service was provided, with the exception of value differences in respect of trading positions stated at market value. The latter is added or charged directly to the result for the year.

Interest income and interest expenses are recognized in the year to which they relate. Interest results on off-balance sheet instruments used to hedge GBI's own positions are recognized in the items appropriate to the various hedged positions. Commission income and commission expense are recognized in the year to which they relate.

Interest income and commissions from the extension of credits are not stated as income if the collection of the interest and commission is doubtful.

Results on the sale of interest-bearing securities belonging to the investment portfolio are attributed to interest income over the weighted average term of the investment portfolio, unless sales are made in connection with a structural reduction of the investment portfolio.

If, on balance, losses on the sale of interest-bearing securities belonging to the investment portfolio would arise, the surplus losses are charged directly to 'Interest expense'.

Operating expenses

Expenses are allocated to the period in which they arise.

Taxes

In determining the effective tax rate, all timing differences between pre-tax profit and the taxable amount in accordance with tax legislation, are taken into account.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Cash flow statement

The cash flow statement gives details of the source of liquid funds, which became available during the year and the application of the liquid funds over the course of the year. The cash flows are analysed into cash flows from operations/banking activities, investment activities and financing activities. Liquid funds include cash in hand, net credit balances on current accounts with other banks and net demand deposits with central banks.
Movements in loans, total customer accounts and interbank deposits are included in the cash flow from banking activities. Investment activities comprise purchases, sales and redemptions in respect of investment portfolios, as well as investments in and sales of participating interests, property and equipment. The issue of shares and the borrowing and repayment of long-term funds are treated as financing activities.

The cash flow statement has been drawn up using the same accounting principles as applied to the balance sheet and profit and loss account.

		2005	2004
4	**Cash** This item includes all legal tender, as well as demand deposits held at the central bank and giro and retail clearing services in countries in which GBI is established.	**151,865**	50,995
5	**Banks** This item comprises all loans and advances to banks falling under government supervision as well as to central banks, which are not included in the 'Cash' item and insofar as not embodied in the form of debt securities including fixed-income securities.	**859,934**	833,042
6	**Loans and advances** These include all loans and advances, excluding those to banks and those embodied in debt securities including fixed-income securities. (This amount is shown net of provisions amounting to EUR 12.1 million (2004: EUR 13.2 million)).	**694,982**	534,399
7	**Interest-bearing securities** Included under this item are debt securities with a fixed interest rate or an interest rate dependent on the prevailing interest rate. The breakdown by issuer is as follows:	**472,224**	336,667
	• issued by public bodies	**383,989**	260,994
	• issued by others	**88,235**	75,673
		472,224	336,667
	This item covers interest-bearing securities which are:		
	• publicly listed	**472,224**	330,140
	• unlisted	**–**	6,527
		472,224	336,667
	This item can be broken down into:		
	• investment portfolio	**449,560**	316,420
	• trading portfolio	**22,664**	20,247
		472,224	336,667

Of the interest-bearing securities EUR 69,515,124 will become payable on demand in 2006. None of these securities have been issued by shareholders or group companies.
The difference between the acquisition price and the market value of the trading portfolio is EUR 204,593 (2004: EUR 245,645).

		2005	2004
	Changes in the investment portfolio are as follows:		
	Balance sheet value as at 1 January	**316,420**	261,575
	Purchases	**228,158**	164,746
	Sales	**(1,767)**	(11,451)
	Redemptions	**(87,629)**	(87,518)
	Foreign exchange rate differences	**(5,622)**	(10,932)
	Balance sheet value as at 31 December	**449,560**	316,420

The purchase price of the investment portfolio was
EUR 38.5 million above the redemption value (2004: EUR 28.3 million).

8	**Shares**	**7,309**	6,583

This item includes unlisted shares which are not issued by group companies and does not include any options. The shares are publicly listed and are part of the trading portfolio.
The difference between the acquisition price and the market value of the trading portfolio is EUR 31,645 positive (2004: EUR 215,634 negative).

9	**Participating interests**	**2,645**	925

This item comprises the following equity participations:

- 100 percent Trifoi SRL, Bucharest, the owner of the land where GarantiBank International Bucharest Branch, Paris Street, Romania is located.
- 100 percent Trifoi Investment SRL, Bucharest, a financial services company (new in 2005).
- 49 percent Cappadocia Investments Ltd, London, an asset management company. The principle objectives of this company are to act as investment bankers, investment advisers, fund managers and traders, dealers and brokers in securities.
- 100 percent Golden Clover Stichting Custody, Amsterdam, a custodian company.
- 100 percent United Custodian, Amsterdam, a custodian company.
- 100 percent Stichting Safekeeping, Amsterdam, the owner of the shares of Safekeeping Custody Company B.V., a custodian company.

The sole objective of the custodian companies is to hold, for the benefit of customers of GBI, rights with respect to securities, and to conclude agreements and perform or bring about the performance of all other acts conducive to the foregoing. Securities kept in custody amount to EUR 137 million in 2005 (2004: EUR 108 million).

The changes in this item were as follows:

	2005	2004
Participating interests as at 1 January	**925**	601
Purchases/increases	**1,909**	720
Share in result	**(240)**	(370)
Foreign exchange rate differences	**51**	(26)
Participating interests as at 31 December	**2,645**	925

		2005	2004
10	**Property and equipment**	**30,838**	35,602

The changes in this balance sheet item are as follows:

	Land and buildings in use by GBI	Other fixed assets	Total
Balance sheet value as at 1 January 2005	32,484	3,118	35,602
Purchases	143	802	945
Revaluation*	(4,000)	–	(4,000)
Depreciation	(657)	(1,052)	(1,709)
Balance sheet value as at 31 December 2005	27,970	2,868	30,838
Accumulated depreciation	2,930	4,729	7,659

*EUR 4.0 million revaluation loss relates to the revaluation of GBI's office premises in Germany, based on the current market value.

		2005	2004
11	**Other assets**	**2,876**	3,904

This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified with any otherbalance sheet asset item. This concerns, for example, balances of payment transactions still to be settled and deferred tax assets. Deferred tax assets amounted to EUR 2.9 million (2004: EUR 1.8 million).

		2005	2004
12	**Prepayments and accrued income**	**56,893**	111,793

This item includes the prepayments for costs to be charged to following periods, as well as uninvoiced amounts still to be received, such as accrued interest. It also includes the net positive value of forward foreign exchange contracts and other off-balance sheet instruments stated at market value amounting to EUR 0 million (2004: EUR 62.8 million).

		2005	2004
13	**Banks**	**581,000**	257,099

This includes the non-subordinated amounts owed to banks insofar as not embodied in debts evidenced by certificates.

		2005	2004
14	**Funds entrusted**	**1,424,554**	1,401,511

Included under this item are all non-subordinated debts, insofar as they are not amounts owed to banks or embodied in debts evidenced by certificates.
This item can be specified as follows:

	2005	2004
• savings accounts	**984,648**	1,099,080
• other funds entrusted	**439,906**	302,431
	1,424,554	1,401,511

		2005	2004
15	**Other liabilities**	**7,810**	18,266

This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified with any other balance sheet liability item.
This concerns, for example, current taxes payable amounting to EUR 0.7 million (2004: EUR 12.1 million).
GBI had appealed against the tax assessments for the years 1996 up to and including the year 2000 based on a tax sparing credit agreement between the Netherlands and Turkey.
The tax liability had been calculated taking into account a negative tax ruling on the appeal. In 2003, a negative tax ruling on the appeal has been received and during 2005 the taxes due, amounting to EUR 6.2 million, have been completely settled.

		2005	2004
16	**Accruals and deferred income**	**51,828**	22,482

This item includes prepayments received in respect of profits attributable to following periods and amounts still to be paid such as accrued interest, as well as the net loss on forward foreign exchange contracts and other off-balance sheet instruments stated at market value amounting to EUR 20.8 million (2004: EUR 0 million).

		2005	2004
17	**Provisions**	**1,801**	1,388
	The following table summarizes the composition of the provisions:		
	Provision for deferred tax liabilities (see note 34)	**824**	1,388
	Provision for pension obligations	**977**	–
	Total	**1,801**	1,388

	2005	2004
Provision for pension obligations	**977**	–
The changes in this item were as follows:		
Position as at 31 December (previous year)	**–**	–
Change in accounting policy	**1,639**	–
Position as at 1 January	**1,639**	–
Recognized reduction in pension obligations less investments	**(662)**	–
Position as at 31 December	**977**	–

The following tables summarize the change in projected benefit obligations and plan assets of the defined benefit pension plan as well as the funded status of the plan:

	2005	2004
Projected benefit obligations		
Position as at 1 January	**3,437**	–
Service cost	**681**	–
Interest cost	**196**	–
Actuarial loss	**650**	–
Position as at 31 December	**4,964**	–

		2005	2004
	Plan assets		
	Position as at 1 January	**1,798**	–
	Actual return on plan assets	**(674)**	–
	Employer's contribution	**2,213**	–
	Actuarial loss	**(278)**	–
	Position as at 31 December	**3,059**	–
	Pension		
	Funded status/deficit	**(1,905)**	–
	Unrecognized net actuarial loss	**928**	–
	Accrued benefit costs	**(977)**	–
18	**Subordinated liabilities**	**38,288**	59,132

This item comprises subordinated retail loans. These subordinated loans are subordinate in respect of the other current and future liabilities of GBI. The subordinated retail loans have a fixed yearly interest payment at a rate of 6 percent, or a variable yearly interest payment at a rate of EURIBOR plus 3 percent at a minimum rate of 5.5 percent.
The original maturity of the retail deposits is 5 years.

As at 31 December 2004, this item included a subordinated loan of EUR 40,840,000 extended by Türkiye Garanti Bankası A.Ş., which was repaid during 2005.

In the financial year the charges paid in respect of the subordinated loans amounted to EUR 2,697,614 (2004: EUR 2,548,892).

		2005	2004
19	**Shareholders' equity**	**174,285**	154,032
	Paid-in and called-up capital	**134,750**	134,750

The authorized capital amounts to EUR 150 million and is subdivided into 150,000 shares with a nominal value of EUR 1,000 each, of which 134,750 shares have been issued and fully paid up.

	2005	2004
Share premium account	**2,086**	2,086

The share premium account is fully recognized by the Dutch tax authorities. The capital tax relating to the issue of new shares is charged against the other reserves net of corporation taxes.

	2005	2004
Revaluation reserves	**(254)**	(973)

This item comprises revaluation reserves for buildings and derivatives. The changes were as follows:

	As at 31 December 2005			As at 31 December 2004		
	Banks	**Loans and advances**	**Contingent liabilities**	Banks	Loans and advances	Contingent liabilities
Position as at 31 December (previous year)	**–**	**(973)**	**(973)**	655	–	655
Change in accounting policy derivatives	**–**	**–**	**–**	–	576	576
Position as at 1 January	**–**	**(973)**	**(973)**	655	576	1,231
Adjustments	**–**	**719**	**719**	(655)	(1,549)	(2,204)
Position as at 31 December	**–**	**(254)**	**(254)**	–	(973)	(973)

	2005	2004
Other reserves	**17,015**	17,529
The changes in this item were as follows:		
Position as at 31 December (previous year)	**17,529**	89
Change in accounting policy pensions	**(1,154)**	–
Position as at 1 January	**16,375**	89
Profit appropriation	**640**	17,440
Position as at 31 December	**17,015**	17,529

	2005	2004
Net profit	**20,688**	23,140
The changes in this item were as follows:		
Position as at 1 January	**23,140**	17,440
Dividend paid out	**(22,500)**	–
Addition to reserves	**(640)**	(17,440)
Result after tax	**20,688**	23,140
Position as at 31 December	**20,688**	23,140

	2005	2004
Interim dividend	**–**	(22,500)
The changes in this item were as follows:		
Position as at 1 January	**(22,500)**	–
Interim dividend	**–**	(22,500)
Addition to net profit	**22,500**	–
Position as at 31 December	**–**	(22,500)

Capital adequacy

The standards applied by the Dutch Central Bank for the principal capital ratios are based on the capital adequacy guidelines of the European Union and the Basel Committee for Banking Supervision.
These ratios compare GBI's total capital and Tier 1 capital with the total of risk-weighted assets and off-balance sheet items and the market risk associated with the trading portfolios. The minimum requirement for the total capital ratio and Tier 1 ratio is 8 percent and 4 percent respectively of risk-weighted assets.
The following table analyses actual capital and the minimum standard in accordance with international BIS requirements before profit appropriation:

	As at 31 December 2005		As at 31 December 2004	
	Required	**Actual**	Required	Actual
Total capital	**86,590**	**177,365**	71,032	199,538
Total capital ratio	**8.00%**	**16.39%**	8.00%	22.47%
Tier 1 capital	**43,295**	**151,524**	35,516	154,365
Tier 1 capital ratio	**4.00%**	**14.00%**	4.00%	17.39%

	2005	2004
20 **Contingent liabilities**	**178,644**	**188,277**
This includes all liabilities arising from transactions in which GBI has guaranteed the commitments of third parties.		
The contingent liabilities can be broken down into liabilities in respect of:		
• guarantees	**24,599**	25,217
• irrevocable letters of credit	**154,045**	163,060
	178,644	188,277

		2005	2004
21	**Interest income**	**127,414**	107,258
	This includes income arising from the lending of funds and related transactions as well as commissions and other income, which have an interest characteristic.		
	This item comprises interest and similar income from:		
	• debt securities including fixed-income securities	**37,272**	23,576
	• others	**90,142**	83,682
		127,414	107,258
22	**Interest expense**	**92,042**	74,160
	Included here are the costs arising from the borrowing of funds and the interest related result of derivatives used for cash flow hedging as well as other charges, which have an interest characteristic. The foreign exchange loss related to high-yield investments is also included in interest expense. In 2005 this amounted to EUR 697,354 (2004: EUR 774,908).		
23	**Income from participating interest**	**(240)**	(370)
	This item includes the share in the net result of participating interests on which GBI exercises a significant influence.		
24	**Commission income**	**21,589**	21,736
	This amount comprises the income from fees received in respect of banking services supplied to third parties insofar as these do not have an interest characteristic. This relates primarily to trade finance activities.		
25	**Commission expense**	**4,525**	3,552
	This concerns the expenses paid in respect of fees for banking services supplied by third parties insofar as these do not have the character of interest.		
26	**Net commission**	**17,064**	18,184
	The net commission comprises:		
	• trade finance	**13,673**	15,717
	• payment services	**1,129**	1,306
	• security brokerage	**2,239**	948
	• guarantees	**653**	645
	• other	**(630)**	(432)
		17,064	18,184

		2005	2004
27	**Result on financial transactions**	**9,139**	8,129
	This heading covers value differences and profits and losses on the sale of securities belonging to the trading portfolio and currency differences and price/rate differences arising from dealing in other financial instruments.		
	This item comprises:		
	• securities trading	**2,643**	2,677
	• foreign exchange dealing	**3,909**	3,234
	• forfaiting	**2,353**	1,942
	• other	**234**	276
		9,139	8,129
28	**Other income**	**–**	1,000
	Other income of 2004 related to the realized revaluation upon the sale of GBI's previous headquarters in the Netherlands.		
29	**Segmentation of income**	**157,902**	137,753
	The total of interest income, income from participating interests, commission income, net result on financial transactions and other income can be broken down into the following geographical areas based on customer domicile:		
	• The Netherlands	**8,968**	12,606
	• Turkey	**82,282**	70,856
	• Other Europe	**42,424**	37,114
	• Rest of the world	**24,228**	17,177
		157,902	137,753
30	**Staff costs and other administrative expenses**		
	This includes:		
	• staff costs	**18,449**	16,698
	• other administrative expenses	**7,763**	7,718
		26,212	24,416
	The staff costs comprise:		
	• wages and salaries	**14,247**	13,866
	• pension costs	**2,374**	1,204
	• other social costs	**1,018**	1,102
	• other staff costs	**810**	526
		18,449	16,698
	The pension costs for own staff breaks down as follows:		
	• service cost	**681**	–
	• interest cost	**196**	–
	• actual return on plan assets	**674**	–
	• defined benefit plan	**1,551**	–
	• defined contribution plan	**823**	1,204
		2,374	1,204

		2005	2004

The main actuarial assumptions to determine the value of the provision for pension obligations are as follows:

Discount rate	4.50%
Expected increment in salaries	3.50%
Expected return on investments	4.50%
Indexation pensions	3.00%
Inflation	1.50%

The number of full-time equivalent employees was 230 (2004: 224), subdivided as follows:

	2005	2004
• in the Netherlands	**138**	137
• outside the Netherlands	**92**	87
	230	224

		2005	2004
31	**Depreciation**	**1,709**	1,819

For a breakdown of this item, please see the overview of changes in property and equipment in note 10.

		2005	2004
32	**Value adjustments to tangible fixed assets**	**4,000**	–

This item relates to the revaluation of GBI's office premises in Germany. Please also see note 10, property and equipment.

		2005	2004
33	**Value adjustments to receivables**	**(168)**	1,784

This item consists of additions to provisions for loans and advances to credit institutions and customers.

		2005	2004
34	**Tax on result on ordinary activities**	**8,894**	8,882

The corporate income tax has been calculated using the nominal tax rate of 31.5 percent over the Dutch taxable income and the local applicable tax rates for taxable income in Germany (2005: 40 percent, 2004: 40 percent) and Romania (2005: 16 percent, 2004: 25 percent). The overall effective tax rate increased from 27.7 percent in 2004 to 30.1 percent in 2005.

	2005	2004
Dutch tax rate	**31.5%**	34.5%
Effect of deviating tax rate in foreign countries	**(1.5%)**	(1.0%)
Effect of tax credit	**–**	(6.3%)
Other	**0.1%**	0.5%
Effective tax rate on operating income	**30.1%**	27.7%

The 2005 taxes amounted to EUR 8,894 thousand (2004: EUR 8,882 thousand), including a deferred tax income of EUR 1.4 million (2004: EUR 266 thousand deferred tax expense). The total taxation amount credited directly to shareholders' equity during the year amounted to EUR 107 thousand.

	2005	2004

The 2004 taxes comprised a tax credit of EUR 2 million as a result of an internal and external tax position review performed over the period 1998-2003. The tax credit mainly resulted from:

- a reclassification of taxable income from the Netherlands to Romania;
- the inclusion of local Romanian fiscal facilities exempting income from local taxation;
- the recalculation of the profits of the Romanian branch 1999-2003 against the average ROL/EUR currency rate rather than the year-end currency rate for exempting Romanian income from Dutch taxation.

The provision for deferred tax liabilities relates to tax liabilities that will arise in the future owing to the difference between the book value of specific assets and liabilities and their valuation for tax purposes.

The sources of deferred tax liabilities can be specified as follows:

	2005	2004
Foreign branches	**305**	647
Buildings	**519**	741
Total	**824**	1,388

The sources of deferred tax assets can be specified as follows:

	2005	2004
Derivatives	**107**	448
Pensions	**289**	–
Foreign branches	**2,480**	1,358
Total	**2,876**	1,806

		2005	2004
35	**Reorganization expenses**	**–**	275

Restructuring of banking activities in Germany and the Netherlands has led to staff reductions and the closing of retail offices both in 2003 and 2004.

Reorganization expenses are included under the following profit and loss items:

	2005	2004
Other administrative expenses	–	275

36 **Pledged assets**

EUR 200.9 million of 'Interest-bearing securities', EUR 19.5 million of 'Prepayments and accrued income' and EUR 12.9 million of 'Property and equipment' have been pledged as collateral for EUR 210.7 million liability item 'Banks' and EUR 8.1 million liability item 'Funds entrusted'. These assets are consequently no longer freely available.

37 **Rental commitments**

Rental commitments for the period 2006-2010 amount to EUR 0.2 million, of which EUR 0.1 million has been committed for 2006.

38 **Risk management**

38.1 ***Credit risk***

Credit risk encompasses all forms of counterparty exposure where counterparties may default on their obligations to GBI in relation to lending, hedging, settlement and other financial activities.

Concentrations of credit risks, including country risks, indicate the relative sensitivity of GBI's performance to developments affecting a particular industry or geographical region.

38.1.a *Breakdown by geographical regions*

The geographic analysis of assets and contingent liabilities is based on customer domicile as follows:

	As at 31 December 2005			As at 31 December 2004		
	Banks	**Loans and advances**	**Contingent liabilities**	Banks	Loans and advances	Contingent liabilities
• The Netherlands	**45,571**	**76,431**	**3,267**	146,189	21,623	7,670
• Turkey	**269,645**	**217,390**	**52,472**	301,771	202,722	78,110
• Other Europe	**305,532**	**268,642**	**90,784**	264,637	207,842	62,750
• Rest of the world	**239,186**	**132,519**	**32,121**	120,445	102,212	39,747
	859,934	**694,982**	**178,644**	833,042	534,399	188,277

38.1.b *Breakdown by collateral*

	2005	2004
The loans and advances can be broken down by collateral as follows:		
• Guaranteed by banks	**72,515**	42,240
• Advances against securities and cash	**25,739**	10,121
• Advances against other collateral and unsecured	**596,728**	482,038
	694,982	534,399

		2005	2004
38.1.c	***Breakdown by sector and industry***		
	The loans and advances can be broken down by sector and industry as follows:		
	Retail customers	**65,111**	34,575
	Corporate customers:		
	• Manufacturing	**191,623**	196,832
	• Construction	**17,259**	19,295
	• Wholesale and retail trade	**165,835**	112,376
	• Financial services	**213,578**	137,344
	• Other services	**39,365**	29,625
	• Public sector	**2,211**	4,352
		694,982	534,399

38.1.d ***Derivatives and capital adequacy requirement***

Derivatives are financial instruments taking the form of contracts whose value depends on one or more underlying assets, reference prices or indices. Examples of derivatives are forward exchange contracts, swaps, options and forward rate agreements. Transactions in derivatives are contracted by GBI to hedge interest rate risks and exchange risks on GBI's own positions and on behalf of clients.

The degree to which GBI is active in the respective markets or market segments is shown in the following analysis by means of notional amounts. The notional amounts, however give no indication of the size of the cash flows and the market risk or credit risk attached to derivatives transactions.

The market risk arises from movements in variables determining the value of derivatives, such as interest rates and quoted prices. The credit risk (positive replacement value) is the loss that would arise if a counterparty were to default. In calculating the credit risk shown in the following table, netting agreements and other collateral have not been taken into consideration.

		Nominal amounts < 1 year	Nominal amounts 1<x<5 years	Total	Positive replacement value
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Interest rate contracts					
OTC	Swaps	–	133,120	133,120	944
	Forwards	59,337	42,384	101,721	358
Currency contracts					
OTC	Swaps	761,910	–	761,910	55
	Forwards	27,766	–	27,766	971
	Options	121,577	–	121,577	1,776
Other contracts					
	Options	11,867	–	11,867	–
		982,457	175,504	1,157,961	4,104

In determining the capital adequacy requirement according to BIS standards, existing and future credit risks are taken into account. To this end the current potential loss, i.e. the positive replacement value based on market conditions at balance sheet date, is increased by a percentage of the relevant notional amounts, depending on the nature and remaining term of the contract. This method takes into account the possible adverse development of the positive replacement value during the remaining term of the contract.

The analysis below shows the resulting credit equivalent, both unweighted and weighted for the counterparty risk (mainly banks). The figures allow for the downward impact of netting agreements and other collateral on risk exposure and capital adequacy.

	As at 31 December 2005		As at 31 December 2004	
	EUR 1,000 Unweighted	**EUR 1,000 Weighted**	EUR 1,000 Unweighted	EUR 1,000 Weighted
Interest rate contracts	**4,961**	**992**	734	147
OTC currency contracts	**13,590**	**3,311**	77,670	16,676
	18,551	**4,303**	78,404	16,823

38.2 *Market risk*

Market risk arises from fluctuations in interest rates, foreign currency exchange rates and security prices. It is GBI's policy to avoid exposure to significant open positions in interest and foreign currency risk.

38.2.a *Currency risk*

The total equivalent of assets in foreign currencies is EUR 1,621 million, while the total equivalent of liabilities in foreign currencies is EUR 937 million. The currency position is reduced to manageable levels through off-balance sheet instruments.

	As at 31 December 2005				As at 31 December 2004			
Currency	**Gross long position EUR 1,000**	**Gross short position EUR 1,000**	**Net long position EUR 1,000**	**Net short position EUR 1,000**	Gross long position EUR 1,000	Gross short position EUR 1,000	Net long position EUR 1,000	Net short position EUR 1,000
USD	**1,636,385**	**1,648,310**	**–**	**11,925**	1,412,365	1,407,187	5,178	–
TRL	**484,606**	**483,087**	**1,519**	**–**	234,121	236,429	–	2,308
CHF	**1,246**	**1,291**	**–**	**45**	1,110	1,185	–	75
ROL	**53,350**	**50,597**	**2,753**	**–**	29,135	28,429	706	–
GBP	**12,230**	**12,284**	**–**	**54**	10,372	10,383	–	11
BRL	**2,605**	**2,598**	**7**	**–**	3	–	3	–
JPY	**13,390**	**11,716**	**1,674**	**–**	7,578	6,561	1,017	–
SEK	**30**	**–**	**30**	**–**	–	–	–	–
AUD	**27,514**	**27,585**	**–**	**71**	–	–	–	–

38.2.b *Interest rate risk*

The notes to the financial statements include (remaining) contractual maturity calendars for most financial statements.

A large number of financial instruments carry a variable rate of interest and therefore the interest reset date, which is the first date after 31 December 2005 that interest conditions will be reset to market conditions, is more important than the contractual maturity date to assess the interest rate risk inherent in these financial instruments.

The following table provides a maturity calendar of interest-bearing financial instruments, including interest rate derivatives, by interest date as at 31 December 2005:

	Variable EUR 1 mln	< = 3 months EUR 1 mln	< = 1 year EUR 1 mln	< = 5 years EUR 1 mln	> = 5 years EUR 1 mln	Total EUR 1 mln
Assets	**10**	**1,221**	**589**	**336**	**23**	**2,179**
Liabilities	**(850)**	**(674)**	**(351)**	**(169)**	**–**	**(2,044)**
Derivatives	**–**	**3**	**(14)**	**(25)**	**–**	**(36)**
Interest position 31 Dec. 2005	**(840)**	**550**	**224**	**142**	**23**	**99**
Interest position 31 Dec. 2004	(788)	404	357	87	31	91

The calculation of the sensitivity analysis as at 31 December 2005 shows that, assuming an unchanged structure of assets, liabilities and off-balance sheet items and an interest increase with one percent, taking into account a parallel movement of the yield curves for all currencies as per 1 January 2006, would result in a decrease of the interest margin amounting to approximately EUR 1,184,858 in 2006.

38.3 *Liquidity risk*

The following table provides a maturity analysis of assets and liabilities according to their remaining maturity:

	On demand EUR 1,000	< 3 months EUR 1,000	> 3 months - < 1 year EUR 1,000	> 1 year - < 5 years EUR 1,000	> 5 years EUR 1,000	Total EUR 1,000
Assets						
Cash	**151,865**	**–**	**–**	**–**	**–**	**151,865**
Banks	**10,281**	**395,986**	**353,594**	**100,073**	**–**	**859,934**
Loans and advances	**7,063**	**266,341**	**242,102**	**172,649**	**6,827**	**694,982**
Interest-bearing securities	**–**	**30,517**	**133,161**	**287,729**	**20,817**	**472,224**
Shares	**–**	**–**	**–**	**–**	**7,309**	**7,309**
Participating interests	**2,645**	**–**	**–**	**–**	**–**	**2,645**
Property and equipment	**–**	**–**	**–**	**–**	**30,838**	**30,838**
Other assets	**2,876**	**–**	**–**	**–**	**–**	**2,876**
Prepayments and accrued income	**56,893**	**–**	**–**	**–**	**–**	**56,893**
31 Dec. 2005	**231,623**	**692,844**	**728,857**	**560,451**	**65,791**	**2,279,566**
31 Dec. 2004**	179,364	800,793	506,440	350,920	76,393	1,913,910

	On demand	< 3 months	> 3 months - < 1 year	> 1 year - < 5 years	> 5 years	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Liabilities						
Banks	**34,003**	**328,904**	**184,790**	**33,303**	**–**	**581,000**
Funds entrusted	**727,106***	**425,958**	**167,256**	**96,021**	**8,213**	**1,424,554**
Other liabilities	**7,810**	**–**	**–**	**–**	**–**	**7,810**
Accruals and deferred income	**51,828**	**–**	**–**	**–**	**–**	**51,828**
Provisions	**–**	**–**	**–**	**–**	**1,801**	**1,801**
Subordinated liabilities	**–**	**–**	**–**	**32,288**	**–**	**38,288**
Shareholders' equity	**–**	**–**	**–**	**–**	**174,285**	**174,285**
31 Dec. 2005	**820,747**	**754,862**	**352,046**	**167,612**	**184,299**	**2,279,566**
31 Dec. 2004**	815,961	596,515	203,315	93,358	204,761	1,913,910

(*) This includes retail funding which has a longer term characteristic.
(**) Restated for reasons of comparison only.

39 **Fair value of financial instruments**

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

The fair value of certain financial instruments is not materially different from their carrying values except for the interest-bearing securities in the investment portfolio.

These financial instruments include loans and advances to banks and customers, deposits from banks and customers, obligations under repurchase agreements, loans and advances from banks and other short-term assets and liabilities which are of a contractual nature. The carrying amount of these particular assets and liabilities approximates their fair value, partially due to the fact that it is market practice to renegotiate interest rates to reflect current market conditions. The fair value of the interest-bearing securities in the investment portfolio amounts to EUR 488,025,411 (2004: EUR 344,366,793). In the balance sheet, the interest-bearing securities in the investment portfolio are stated at the redemption value of EUR 449,560,370 (2004: EUR 316,419,575).

40 **Related parties**

Related parties include the 100% shareholder Türkiye Garanti Bankası A.Ş. its major shareholders Doğuş Holding A.Ş. and GE Capital Corporation, which have a joint control of Türkiye Garanti Bankası A.Ş., and all its subsidiaries and the Supervisory and Executive Board of Directors of GBI. During the course of the business, GBI has made placements with and granted loans to related parties and also received deposits from them at commercial terms.

40.1 *Outstanding balances*

GBI has the following balances outstanding from and transactions with related parties:

	As at 31 December 2005		As at 31 December 2004	
	Related parties with a participating interest in the Bank	**Other related parties**	Related parties with a participating interest in the Bank	Other related parties
	EUR 1,000	**EUR 1,000**	**EUR 1,000**	**EUR 1,000**
Bank (assets)	**28,461**	**21,192**	34,232	–
Loans and advances	**421**	**68,792**	–	71,520
Banks (liabilities)	**2,399**	**22,379**	3,494	1,270
Funds entrusted	**–**	**103,412**	–	3,501
Subordinated liabilities	**–**	**320**	40,840	–
Interest income	**1,347**	**11,958**	11,016	12,597
Interest expense	**872**	**(35)**	2,526	(997)
Commission income	**413**	**3,072**	843	1,747

40.2 *Remunerations of Managing Board and Supervisory Board*

In accordance with the articles of association, the remuneration of the members of the Managing Board is subject for approval of the annual general shareholders' meeting.

The remuneration policy for the members of the Managing Board will be submitted to the annual shareholders' meeting for adoption on 31 March 2006. The objective of the remuneration policy is to attract, motivate and retain a qualified Managing Board with an international mindset and background.

Therefore, the remuneration policy for the Managing Board is composed to combine short-term operational performance with long-term objectives of the company.

The remunerations (including pension costs) of current and former members of the Managing Board amounted to EUR 1,643,147 in 2005 (2004: EUR 1,474,078).

The remunerations of current and former members of the Supervisory Board amounted to EUR 861,843 in 2005 (2004: EUR 441,757).

Amsterdam, 10 March 2006

Board of Managing Directors:
Mr. B. Ateş
Mr. M.P. Padberg

Board of Supervisory Directors:
Mr. F. Şahenk (Chairman)
Mr. A. Acar
Mr. H. Akhan
Mr. T. Gönensin
Mr. E. Özen
Mr. S. Sözen

Auditor's report

Introduction

We have audited the financial statements of GarantiBank International N.V., Amsterdam, for the year ended 31 December 2005 as set out on pages 22 to 45. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31 December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore, we have established to the extent of our competence that the annual report is consistent with the financial statements.

Amstelveen, 10 March 2006

KPMG ACCOUNTANTS N.V.
H. Sliedrecht RA

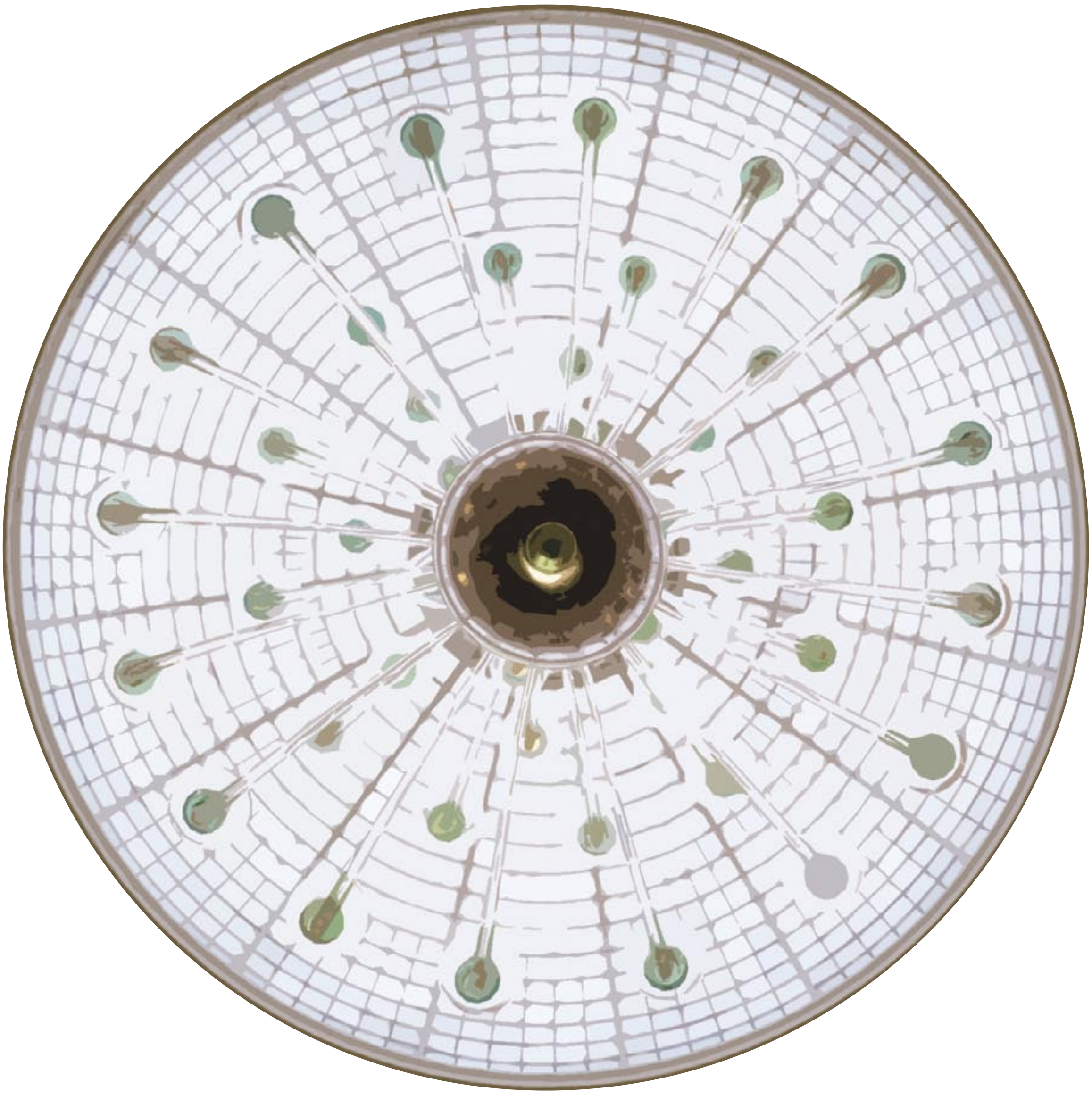
Profit appropriation

In the Annual General Shareholders' meeting, it will be proposed to pay out the net profit for 2005 amounting to EUR 20,688,000 to the sole shareholder, Türkiye Garanti Bankası A.Ş..

The profit appropriation has been proposed in conformity with article 31 of the Articles of Association, which states:

Article 31

1. The profits shall be at the disposal of the general meeting.
2. Dividends may be paid only up to an amount which does not exceed the amount of the distributable part of the net assets.
3. Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.
4. The general meeting may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law.
5. The general meeting may be subject to due observance of the provision of paragraph 2 resolve to make distributions to the charge of any reserve which need not be maintained by virtue of the law.



Supervisory Board

Mr. F. Şahenk
Director and Chairman since 2002. Presently Chairman of Türkiye Garanti Bankası A.Ş..

Mr. A. Acar
Director since 2002. Chairman of Doğuş Otomotiv. Holds several Board Member positions in various Doğuş Group companies. Previously served as CEO of Ottoman Bank in Turkey and as CEO of Bank Ekspres.

Mr. H. Akhan
Director since 2003. CEO of Doğuş Holding A.Ş.. Previously served as CEO of Körfezbank in Turkey.

Mr. T. Gönensin
Director since 2000. Holds Senior Management position in Türkiye Garanti Bankası A.Ş.. Previously served as CEO of Ottoman Bank in Turkey and before that as Senior Managing Director of GBI.

Mr. E. Özen
Director since 2001. CEO of Türkiye Garanti Bankası A.Ş. since April 2000. Previously held several Senior Management positions at Türkiye Garanti Bankası A.Ş..

Mr. S. Sözen
Director since 1998. Board Member of Türkiye Garanti Bankası A.Ş..

Managing Board

Mr. B. Ateş
Chief Executive Officer, since 24 March 2000.

Mr. M. P. Padberg
Managing Director, since 1 January 1993.

GarantiBank International N.V. The Netherlands (Head Office)

Trade Finance
Mr. C.O. Draman
Executive Director

Financial Institutions
Mr. K.T. Akdağ
Executive Director

Financial Control & Reporting
Mr. A.P.A. Gorissen
Executive Director

Treasury
Mrs. Ö. Etker-Simons
Executive Director

Credits
Mr. E. Zeyneloglu
Executive Director

Operations
Mr. G. Salman
Executive Director

Private Banking
Mrs. Ö. Etker-Simons
Executive Director

Human Resources
Ms. S. Tanriöver
Manager

Information & Communication Technology
Mr. G. Salman
Executive Director

Retail Banking
Mr. E.G.C. Schröder
Executive Director

Compliance & Internal Audit Services
Mr. E. Kangal
Manager

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Germany

Mr. F. Birincioğlu
Executive Director

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Mr.Pusat Zorlu
Representative

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