



ANNUAL REPORT 2007



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

I am pleased to be able to report solid progress across all our core business segments during 2007 and signs of continued growth for the years to come. Our financial results for the past twelve months show operating results before tax and value adjustments of EUR 46.1 million, which is 25 percent higher than in 2006 (EUR 37.0 million). Net results after tax stand at EUR 35 million, which is almost 49 percent higher than 2006 (EUR 23.5 million). During the past year our balance sheet grew by 19 percent, or EUR 539 million.

In the last quarter of 2007 we established a new stand-alone business line, Structured Finance, focusing on Shipping, Project Finance and Islamic Banking transactions. For this new business line senior people have been recruited, forms and procedures have been developed and the first deals were successfully concluded.

Our Trade Finance Division has continued to contribute to the positive results of the Bank. Total trade finance transaction volume in 2007 surpassed the record high volume of 2006 by 14.5 percent to USD 7.75 billion. 61 percent of our trade finance deal-flow is pure non-Turkish, which shows the healthy diversification of our client base. GBI's Private Banking Division continues to show a very positive growth in client assets by 52 percent. Brokerage, Advisory and Asset Management services increased steadily in 2007 and more sophisticated products are being offered to our increasingly sophisticated clientele.

Our total Retail Banking funding increased by 12 percent compared to 2006, of which the main part came from the Netherlands. Deposit inflow was particularly pronounced in the last quarter of 2007 and with a marked shift from demand to time deposits.

On 25 January 2008, following a detailed all-day presentation at the Bank in November 2007, Moody's Investors Services maintained GBI's long-term Bank Deposits rating at A3 with a stable outlook. The strong Moody's rating reflects GBI's established role as a niche player in the competitive segment of international trade finance, its strong financial fundamentals and asset quality, historically low credit losses, a reliable funding profile and solid profitability, while also taking into consideration GBI's exposure to the emerging markets.

Our international growth and diversification continued in 2007 with representative office openings in Kiev and Almaty. We believe with these two new posts, the Bank's business development and our country-wide risk management capabilities in Ukraine and Kazakhstan will improve considerably.

In 2007 our Romanian branch was transformed into a Retail Banking operation with more than 35 agencies opened country-wide. Retail Banking products have been successfully introduced to the local market in the form of credit cards, bonus cards, personal and car loans, mortgages and internet banking services. Our workforce has been increased to 440 people and a new banking application system has been introduced. We anticipate that our shareholder together with its co-shareholders will be able to take over and continue to grow this important Romanian market-development activity after receiving local supervisory approvals.

I am particularly pleased to announce that the Dutch Central Bank has approved GBI's application to the Internal Rating Based Foundation approach (F-IRB) of the new Basel II Accord starting from 1 January 2008. A great deal of effort has been devoted to this project and only a handful of Dutch banks have been accepted as Basel II F-IRB compliant. This is a reflection of the risk management culture of our bank and our awareness of the need to use our capital as efficiently as possible.

We are well aware that the global economical forecasts for the year ahead of us are indeed cautionary, and by all indications 2008 will offer both challenges and opportunities which are different than 2007. Our Bank's management team is nonetheless confident that in 2008 GBI will show a modest overall growth by continuously managing its risks, taking advantage of increased margins and a diversified product line, and continuing to deliver valued services to our customers and stakeholders.

I would like to thank my fellow Supervisory Board members for their support and their contribution to this successful year. Our results are a tribute to the commitment and excellence of our management and staff in 2007.

Amsterdam, 28 March 2008

S. Sözen
Chairman of the Supervisory Board



REPORT OF THE SUPERVISORY BOARD

Annual accounts

The annual accounts were drawn up by the Managing Board and audited by KPMG Accountants N.V. who issued an unqualified opinion dated 28 March 2008. 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 2007. The Supervisory Board advises and proposes that the Shareholder adopts the 2007 annual accounts at the annual General Meeting of Shareholders on 14 April 2008.

The Supervisory Board also recommends that the annual General Meeting of Shareholders discharge the Managing Board and Supervisory Board for their respective management and supervision during the financial year 2007.

Financial statements 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 Accountants N.V. and in accordance with Article 29 will be proposed to be adopted at the annual General Meeting of Shareholders on 14 April 2008. The Supervisory Board has voted to adopt the Managing Board's proposal to convert the net profit of 2007 (EUR 35,011,000) into the nominal share capital by issuing 35,011 shares.

Composition of the Supervisory Board

The Supervisory Board is composed of the following members:

Name	Age	Position	Appointment	End of Term
S. Sözen	58	Chairman	1998	2010
A. Acar	53	Member	2002	2008
H. Akhan	55	Member	2003	2009
T. Gönensin	45	Member	2000	2009
E. Özen	47	Member	2001	2010
F. Şahenk	44	Member	2002	2009

Members of the Supervisory Board are elected for a term of three years. Mr. Acar is due to resign by rotation on 14 April 2008. Mr. Acar is nominated by the Supervisory Board for reappointment by the Shareholder for a new term of three years, effective 14 April 2008. GBI has benefited enormously from the international banking experience and knowledge of Mr. Acar and would like to continue to benefit from his professional support and guidance in the next three years.

Composition of the Managing Board

The Managing Board is composed of the following members:

Name	Age	Position	Since
B. Ates	44	Chief Executive Officer	2000
M.P. Padberg	53	Managing Director	1993

Supervisory Board activities and Audit Committee

The Supervisory Board met six times in 2007 to discuss important issues as monthly results, geographical expansions as well as the expansion of the Romanian Operations, risk and control related topics and the adherence to corporate governance issues. The global financial crisis which started in 2007 was discussed in many occasions. Although the crisis has affected and will strike other reputable financial institutions worldwide, we are glad to report that GBI has not suffered at all. For the year to come we expect at least the same result as in 2007 despite the expected economic downward movement.

Credit issues are discussed in the respective Amsterdam Credit Committee meetings (Bank, Corporate and Private Banking Credit Committee) and when needed in the Credit Committee of the Supervisory Board.



REPORT OF THE SUPERVISORY BOARD

The annual accounts and the findings of the external auditor were discussed in the presence of the external auditor.

The Audit Committee of the Supervisory Board held constructive discussions with the Managing Board about the development of the financial results, the audit and tax planning, audit status reports and internal and external audit reports. Also important subjects like the progress on the implementation of the Foundation IRB approach of the Basel II Accord and the implementation of the MiFID were extensively discussed. Two Audit Committee meetings were held in the year under review.

The Supervisory Board would like to thank the Managing Board and the entire staff for their excellent contribution to the outstanding results in the past year.

Amsterdam, 28 March 2008
Board of Supervisory Directors

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



REPORT OF THE MANAGING BOARD

KEY FIGURES

	2007	2006*	2005	2004	2003
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Total assets	3,394,847	2,856,183	2,279,566	1,913,910	1,755,039
Banks (assets)	1,195,132	1,253,020	859,934	833,042	677,708
Loans and advances	1,107,733	1,014,838	694,982	534,399	554,037
Banks (liabilities)	892,658	862,803	581,000	257,099	181,071
Funds entrusted	2,025,362	1,689,090	1,424,554	1,401,511	1,339,252
Subordinated liabilities	78,007	78,004	38,288	59,132	40,840
Shareholders' equity	217,140	182,129	174,285	154,032	155,020
Operating result before tax and value adjustments	46,075	36,979	33,414	33,806	27,329
Result after tax	<u>35,011</u>	<u>23,501</u>	<u>20,688</u>	<u>23,140</u>	<u>17,440</u>
Foreign branches and representative offices	7	4	4	4	4
Cost to income ratio % **	40	44	46	44	51
Return on average equity % ***	20.55	15.05	13.48	15.91	13.34
Return on average assets %	1.12	0.92	0.99	1.26	1.06
Average number of employees	<u>426</u>	<u>243</u>	<u>230</u>	<u>224</u>	<u>224</u>

* Restated for reasons of comparison.
** Cost is total expenses excluding value adjustments to receivables and tangible fixed assets.
*** Return on average equity is calculated using average shareholders' equity excluding result after tax.



REPORT OF THE MANAGING BOARD

Financial analyses

Operating result before tax and value adjustments amounted to EUR 46.1 million in 2007, which is 25 percent higher than in 2006 (EUR 37.0 million). Net result after tax stands at EUR 35 million, which is almost 49 percent higher compared to 2006 (EUR 23.5 million).

Net interest income of EUR 40.9 million increased by EUR 3.7 million, which is 10 percent higher compared to 2006 (EUR 37.2 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 further, a trend that was already visible in 2006 and 2005. Net commission income amounted to EUR 22.0 million, which is 11 percent or EUR 2.2 million more compared to 2006. This is mainly due to the higher volumes in Trade Finance and Private Banking activities. Result on financial transactions increased by EUR 3.6 million to EUR 13.7 million, which is 35 percent more than in 2006. The main contributor to the growth in result on financial transactions is securities trading.

Total administrative expenses amounted to EUR 28.9 million, which is 4 percent or EUR 1.1 million higher compared to 2006.

Value adjustments to receivables showed a negative adjustment of EUR 41 thousand. The decrease compared to the adjustment of 2006 (EUR 2.6 million negative) can be explained by a change in the dynamic provisioning policy.

The balance sheet grew 19 percent or EUR 539 million, which on the asset side is mainly reflected in an increase in cash (EUR 305 million), loans and advances (EUR 93 million) and interest-bearing securities (EUR 145 million) whereas banks (EUR 58 million) decreased. On the liability side the growth is mainly reflected in banks (EUR 30 million), funds entrusted (EUR 336 million) and debt securities (EUR 94 million). In 2007, GBI successfully continued its prudent growth strategy and further diversified its country risk exposures.

Following the planned takeover of the Romanian Operations by our shareholder and its co-shareholders, GBI has been guaranteed a reimbursement for the expansion costs made by GBI Romania in anticipation of the takeover. As a result EUR 10.7 million of administrative expenses and EUR 0.6 million of depreciation expenses have been excluded from this year's income statement and have been booked in the balance sheet under Other Assets as a reimbursement receivable from the parent company.

Macroeconomic developments

2007 began on a positive note as global growth maintained an impressive pace, while stock markets continued their rally across the world. The positive sentiment was dented in February with the first batch of bad news coming from the US sub-prime market. However the confidence of the investors in a healthy global economy remained largely intact as the risk appetite also remained relatively high until the end of the summer. Volatility, however, picked up significantly and remained high for the rest of the year.

Subsequent news regarding large write-offs, distortions in interbank markets and narrowing liquidity in capital markets eventually made it clear that the problems were not confined to subprime sector. Credit markets showed increasing tensions as liquidity dried up and spreads widened. Central Banks around the world were forced to provide liquidity to financial institutions at unprecedented amounts to solve short-term liquidity problems.

The emerging markets remained generally resilient, and although corrections in some overvalued stock markets and currencies took place, the volatility was not too high by their standards. Global expansion was believed to be continuing thanks to the strong growth dynamics of the emerging world.

For the full year 2007, the developed markets growth is estimated at an average rate of 2.5 percent, while emerging world growth is likely to be an impressive 7 percent. In the United States and Japan growth is likely to be less than the last year, at 2.20 percent and 2.1 percent respectively. The Euro area maintained its momentum and is expected to record a growth of 2.7 percent. Among emerging market countries, China and Russia grew even faster than 2006, at 11.40 percent and 8.10 percent respectively. Turkey's growth on the other hand was moderated to 5.0 percent.

Particularly in the US and Japan economic data started to weaken considerably and recession became a highly probable scenario. Particularly the US housing market and employment levels have deteriorated while consumer spending remained relatively upbeat until the end of the year.



REPORT OF THE MANAGING BOARD

Although full year figures look rather healthy, the effects of the credit crunch resulting from the turbulence in financial markets on the real economy is yet to be seen. Both through financial and trade channels emerging markets are linked to the developed world and slowing growth will be inevitable in most parts of the world.

In some countries, such as China, slowing down of the economic activity will be a blessing as the overheating and increasing inflation are causing concern. Indeed increasing natural resource prices, following high demand and constrained supply conditions for several years, led to a substantial rise in the inflation. Food prices went up by 64 percent in the last 12 months. In China, inflation reached to an 11 year high of 7.1 percent, while it remained at an elevated level of 3.2 percent in EU and 4.10 percent in the US.

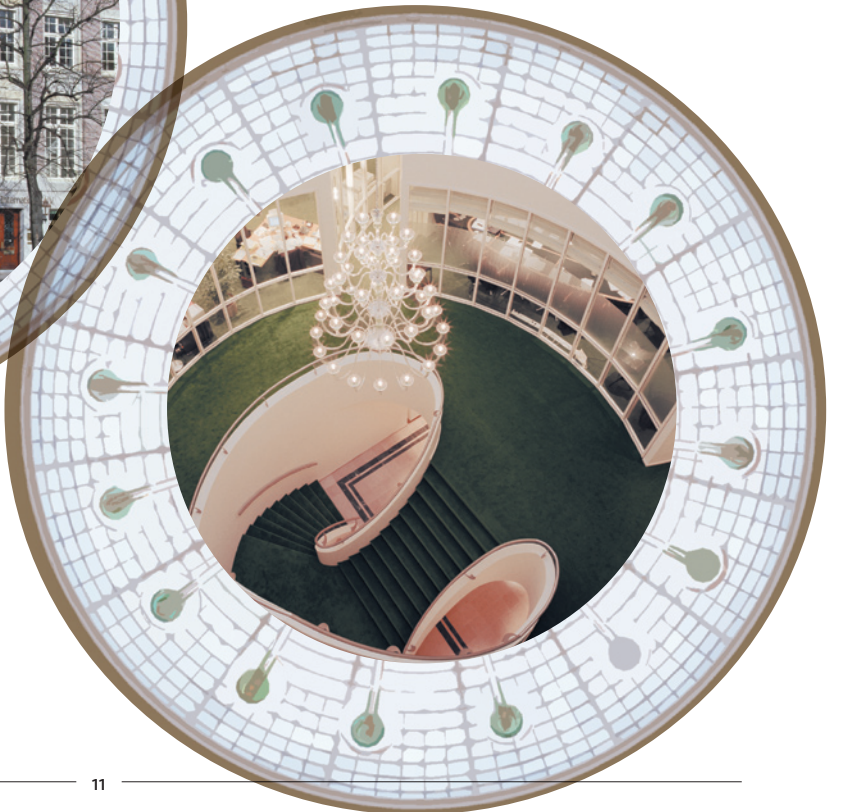
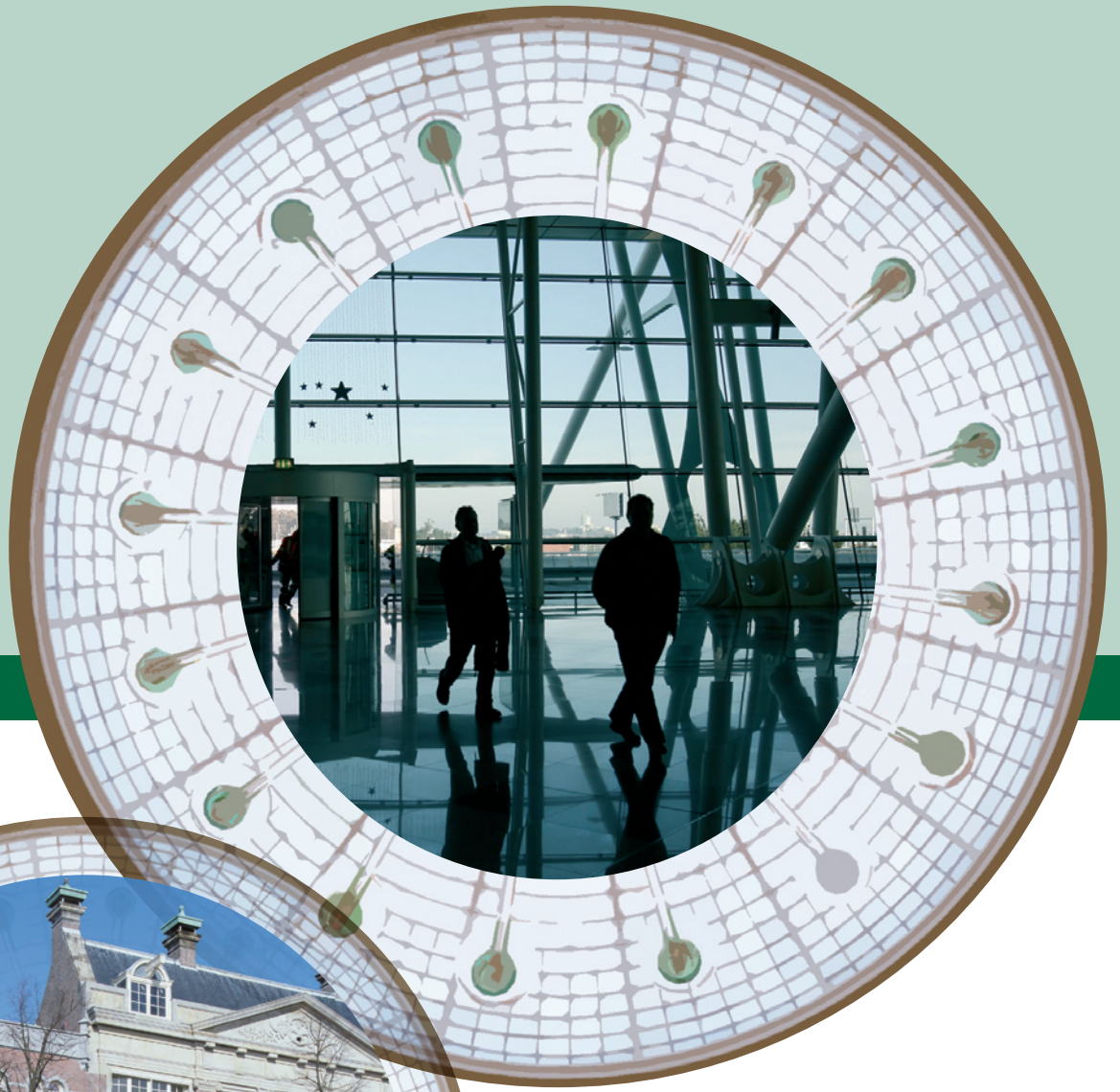
Central Banks faced a delicate balancing act; to soften the economic contraction stemming from the credit crunch on one side and to fight the threat of inflation on the other. In the US the Federal Reserve took aggressive rate cut decisions to avoid a recession, and brought the official Fed funds rates down to 3.5 percent at the year-end from 5.25 percent in June. ECB on the other hand, continued raising rates, bringing its REPO rate to 4.00 percent in June from 2.25 percent at the start of the year. In response to the credit crunch, ECB maintained its hawkish stance and focussed on fighting inflation.

In 2007 USD continued its weakening trend against most major as well as emerging market currencies. Carry trades remained to be a popular investment theme in currency markets, in spite of increasing volatility. Chinese authorities speeded up the process of Yuan appreciation albeit the move failed to meet the western expectations.

Turkey has been through a double election process, both parliamentary and presidential. In spite of political noise and deteriorating fiscal performance, Turkey was the beneficiary of nearly USD 20 billions of FDI flows in 2007. Financial markets, including bonds, equities and TRY all benefited from large portfolio inflows as well. Year-on-year CPI came down to 8.39 percent while PPI fell to 5.94 percent at the end of 2007.

External balances continued to deteriorate, current account deficit is estimated to be around USD 38 billion, in excess of 7.7 percent of GDP.

In 2008, the global economic growth is expected to slow down, led by below trend growth in US and Japan. High energy and other commodity prices are likely to persist and inflation will remain to be a major threat.





REPORT OF THE MANAGING BOARD

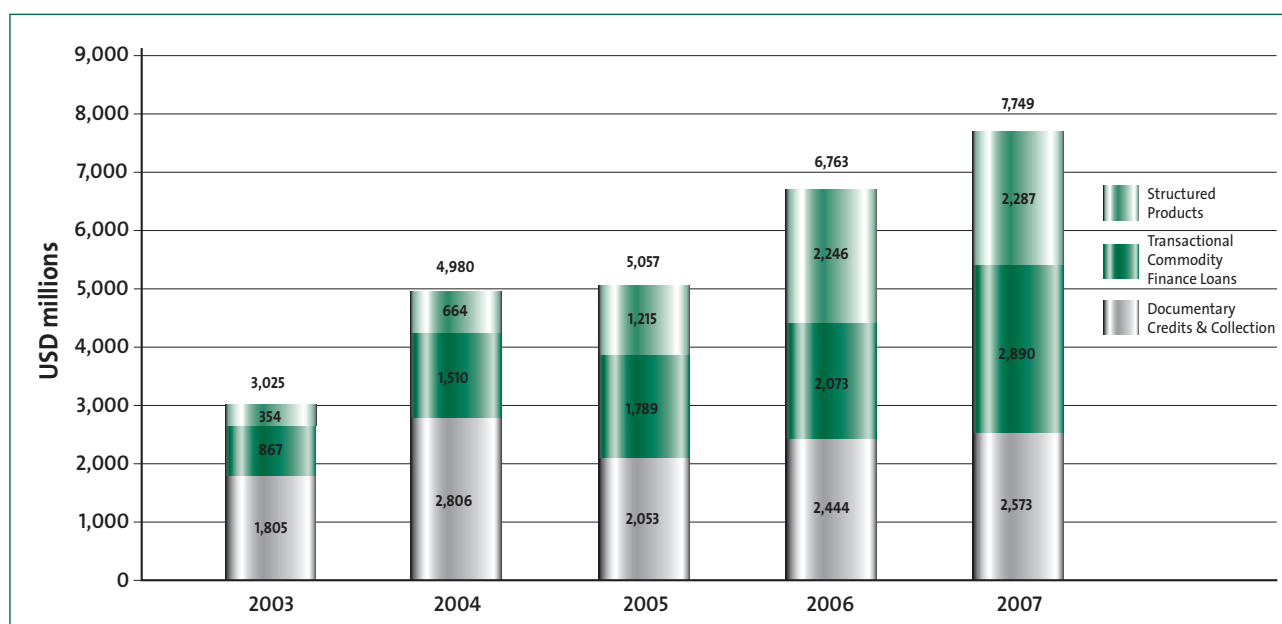
BUSINESS DEVELOPMENTS

Trade Finance

As a “global trade finance boutique”, GBI’s Trade Finance Division endeavors to provide fast, accurate, innovative, tailor-made and country specific financing solutions to commodity traders, producers and distributors world-wide. Our trade finance client base includes other banks and financial institutions in emerging and developed markets, physical commodity traders, manufacturers and producers engaged in international trade, and the product-mix includes factoring, leasing and forfaiting transactions.

Despite the credit crunch and liquidity squeeze in financial markets, the GBI Trade Finance Division closed 2007 with a total transaction volume of USD 7.75 billion, accounting for a 15 percent surge over the previous year

CHART-1 TRANSACTION VOLUME BY PRODUCT CLUSTERS



Product mix

Three clusters of products are included into the transaction volume (Chart-1):

- **Structured Products:** This cluster includes initial participations in syndicated bank loans, secondary market asset purchases such as documentary credits, collections and loan syndication products, and originations of short-term transactions such as funded stand-by letters of credit and bank-avalued trade debt. The counterparts are mostly other banks in emerging or developed markets. The Global Origination & Distribution department within our Trade Finance Division offers these products to GBI’s financial institution, corporate and private banking clientele. In addition to asset origination, GBI is one of the major global players in distributing such structured assets to the secondary market. The distribution volume in 2007 was USD 1.68 billion, which is in addition to the annual transaction volume.
- **Transactional Commodity Finance Loans:** This category includes self-liquidating financing against the security of bills of lading and railway bills covering deliveries under export contracts to accepted buyers, pre-export financing against the security of forwarders certificate of receipt or warehouse receipts, and other commodity based lending products tailor-made to finance a particular trade flow. GBI Trade Finance Team recognizes that a high level of cooperation with the counterparties, the soundness of transactional documentation and collateralization and commodity expertise are each key requirements and competencies in this product cluster.
- **Documentary Credits & Collections:** Import and export letters of credit, documentary collections, various kinds of payment guarantees and assignment of proceeds are included under this heading. Two decades ago about 80 percent of the world trade was financed through documentary credits whereas nowadays this figure is trending below 20 percent due to various factors such as credit insurance, the costs and delays involved with documentary collections, the role of intermediaries such as inspection



REPORT OF THE MANAGING BOARD

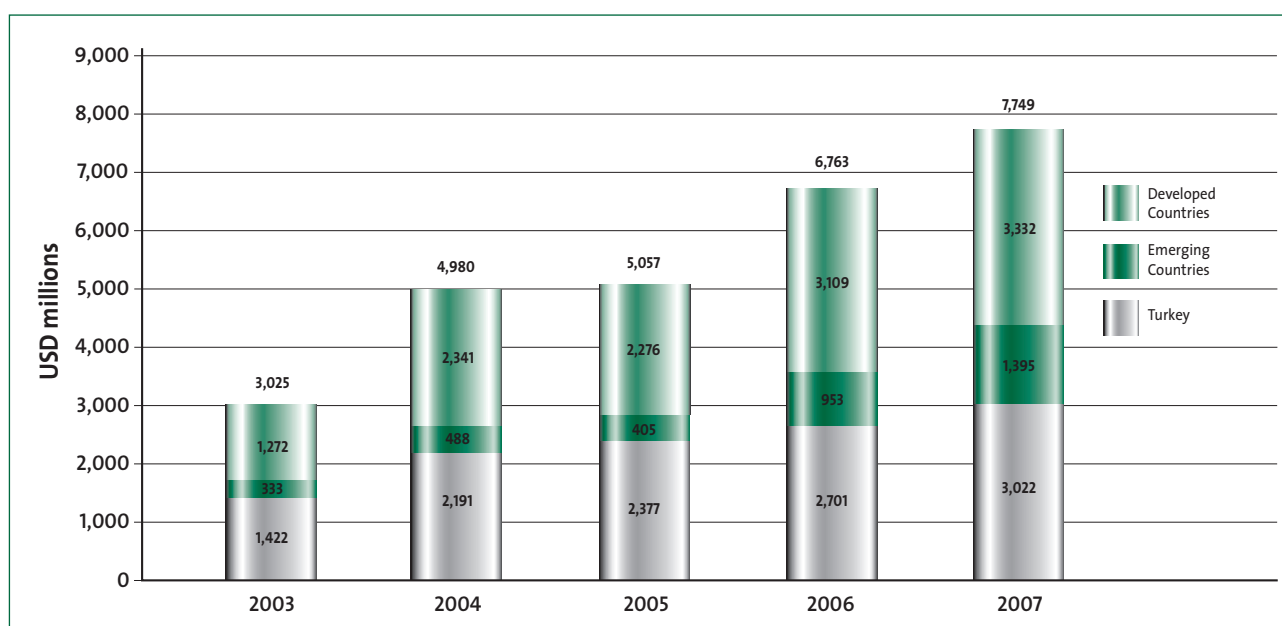
companies and insurance driven trade finance products and services. Nevertheless, the demand remains strong for such products, especially on the part of trading companies dealing with emerging markets, and we continue to find substantial, profitable, and relatively risk-free opportunities in this cluster.

In addition to the above product clusters, GBI Trade Finance in 2007 also provided other “global boutique” solutions to its valued clients such as ship and project finance, local currency loans and SME financing on a selective basis.

Country Risk Diversification

While being on an upward trend, GBI's annual trade finance volume in 2007 has maintained its level of diversification (Chart-2) in terms of country of repayment.

CHART-2 TRANSACTION VOLUME BY COUNTRY OF REPAYMENT



Such diversification is possible because of GBI's well-established relationships with firms and other banks around the world, and in particular GBI's established role as an intermediary in international trade for Black Sea, Caspian and Mediterranean basin countries, both among each other and with the rest of the world.

With a growth rate of 8 percent, global merchandise trade exceeded USD 11.7 trillion in 2006 and the World Trade Organization projects further growth of about 6 percent for 2007. Metals, grains and energy exporting countries, mostly emerging economies, benefited from surging prices and M&A activity remained strong. The global liquidity turmoil ignited by sub-prime mortgage financing in the second half of 2007 and the slow down of US economy have raised concerns in regard to the growth of global trade for 2008. We are seeing continued demand on the part of exporters and importers in emerging economies and are well-positioned to provide trade finance products which accommodate the continued need for financing of self-liquidating transactions.

Focus commodities

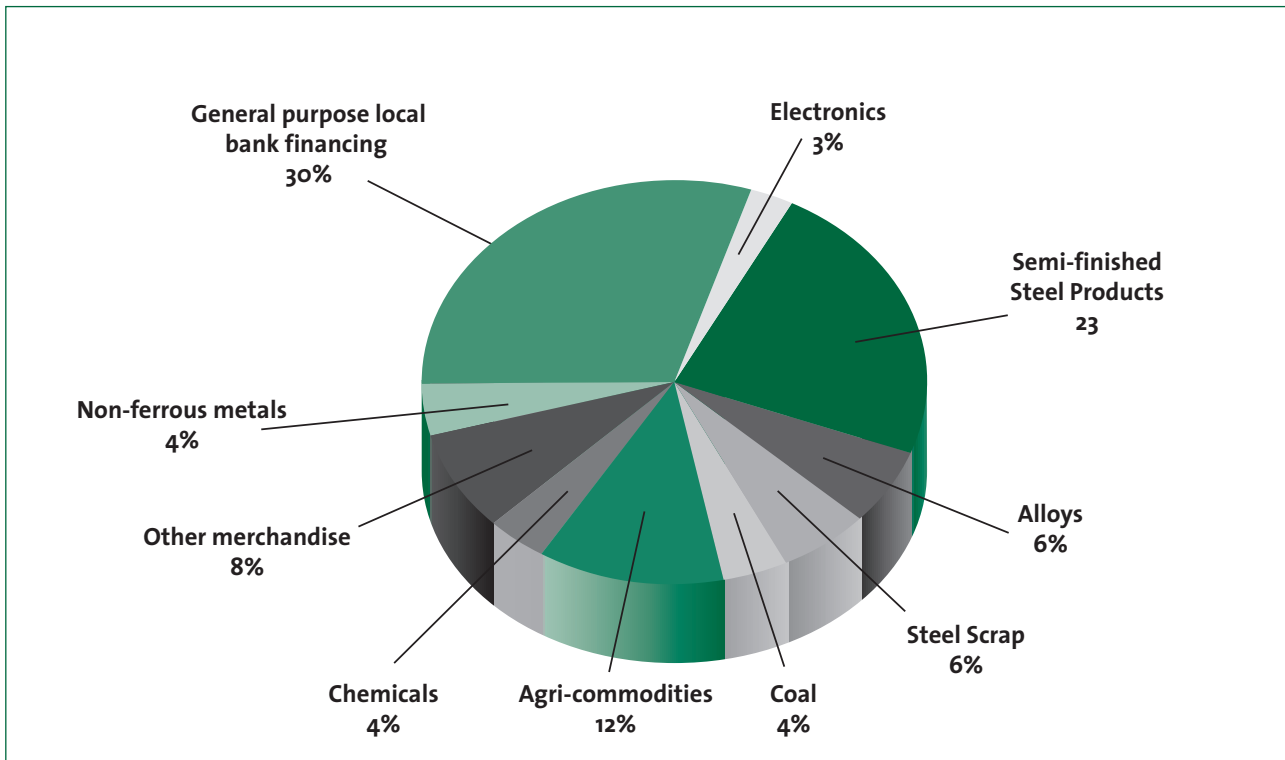
GBI has historically been a boutique bank with selected focus and expertise areas. Taking this as a reference, GBI facilitated international trade of 13 million metric tonnes of merchandise trade mostly including our focus commodities.

Transactional or structured commodity finance deals with underlying international trade of semi-finished steel products, agri-commodities, steel scrap, alloys, non-ferrous metals, coal, chemicals and electronics parts constituted the 62 percent of GBI's USD 7.75 billion transaction volume. The continuing surge in commodity prices in 2007 provided challenges and opportunities for the financiers and traders alike in order to provide adequate and appropriate credit lines.



REPORT OF THE MANAGING BOARD

CHART-3 TRANSACTION VOLUME BY MERCHANDISE



The largest chunk of the transaction volume as represented in Chart-3 is related to providing financing to emerging market local banks in the form of stand-by letters of credit, post or pre-shipment financing, and the like. In this capacity, GBI's risk counterparties are selected emerging country banks mostly located in Black Sea, Caspian and Mediterranean basin countries known to and served by our Global Origination & Distribution units of GBI's Trade Finance.

As a result of the ongoing global liquidity turmoil, commodity price hikes and currency fluctuations, GBI Trade Finance has adopted a cautious view towards the trade finance markets for 2008. We foresee contracting distribution possibilities and at the same time increasing margins. Traditional transactional commodity finance techniques are retaining their popularity with banks in origin countries and the relationships of trust developed over the years are once again proving to be rewarding.

Capable people and advanced technologies have had a profound effect on global trade and its finance. In particular, our internet banking portal SATIS has provided our clients and their counterparties fast, accurate, tailor-made, innovative and country-specific solutions in expediting complex trade finance transactions. GBI is committed to continue to provide best-practice value-added solutions to our present and future customers.

Private Banking

GBI has strategically positioned itself as a regional specialist with a well-defined niche market providing financial services and products to its high net worth individual and institutional clients in a number of selected countries.

Private Banking activities are carried out by two separate units:

- Private Banking Sales, and
- Discretionary Asset Management.



REPORT OF THE MANAGING BOARD

Private Banking Sales are responsible for client acquisition, transaction handling, and relationship management. Discretionary Asset Management oversees the management of client portfolios and GBI's own investment fund, Value Growth Fund Ltd., while also contributing to product development and providing technical support to the sales unit.

GBI offers its private bank clients a broad range of products with a holistic approach and a high degree of service sophistication. Services offered include brokerage, advisory, and asset management. Emphasis is given to creating added value for GBI's clients by providing reliable guidance and successful asset allocation. The Bank maintains a leading edge among its peers in implementing new products and offering access to new markets. GBI's product range includes a complete range of financial products such as deposits, foreign exchange spot and forwards, non-deliverable forwards, securities, equities, over-the-counter and exchange traded derivatives, structured products, commodities, exchange traded funds, and mutual and hedge funds. More sophisticated products such as structured products and derivatives instead of simple cash transactions have been gaining greater significance among the product offerings. GBI also cooperates with other financial institutions in the distribution of third party products where its own expertise is limited.

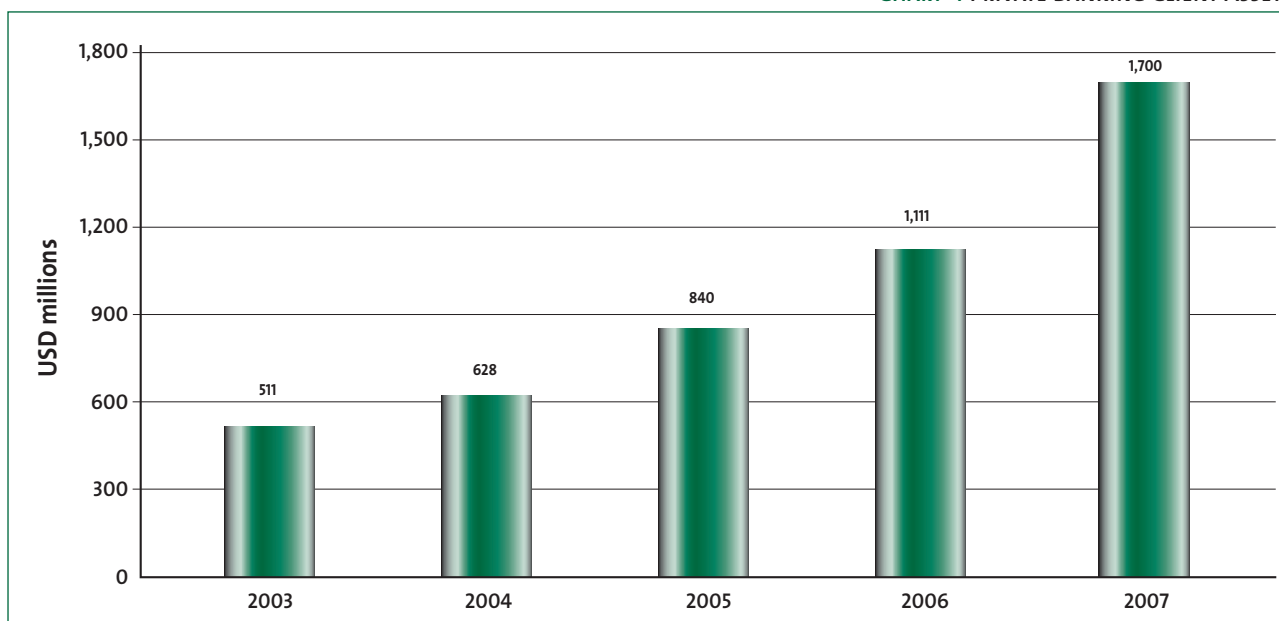
As a result of GBI's focus on building long-term coherent relationships with its clientele and adherence to its customer retention policy, the Bank enjoys strong client loyalty, in spite of increasing competition. Its targeted clientele are namely those individuals and entities that have financial assets between USD 500,000 and USD 5,000,000. Geographical coverage of clients extends from European countries to Turkey, United States, Russia, Romania, Kazakhstan and the Middle East.

GBI Private Banking pursues a sustainable growth strategy and maintains its emphasis on risk management. In line with the Bank's prudent approach, risk management policies are well defined and strictly adhered to, in order to minimize the risks associated with the business.

In 2007, the Division delivered excellent results. The total client assets grew by 52 percent to reach USD 1.7 billion. The growth in Discretionary Asset Management was also very strong at 35 percent. The total client commissions were up by 66 percent in 2007 in comparison to 2006. GBI continued to enjoy a strong customer loyalty, in spite of increasing competition. The growth was achieved by new client acquisitions and successful retention of existing clients.

In 2008 GBI will focus on growth in new selected regions and aim to benefit from high growth rates in those markets. GBI Private Banking will continue to build on its strengths, maintain its differentiated position and implement its growth strategy with a view to further increase its contribution to the Bank's revenues.

CHART-4 PRIVATE BANKING CLIENT ASSETS





REPORT OF THE MANAGING BOARD

Treasury

Treasury carries out dual functions: generating revenues from proprietary and commercial transactions and managing balance sheet risks and cash flows of the Bank. As a revenue generating profit centre, it maintains a very risk averse strategy, with minimized and well controlled market exposures. It focuses on building commercial transaction volumes with the aim of ensuring steady growth in volumes and revenues.

In 2007, Treasury's role as risk manager was crucial to manage balance sheet risks in an efficient and effective manner. In a macro environment where anxiety was rising regarding the sub-prime mortgage crisis, Treasury pursued a prudent approach. In line with the Assets & Liabilities Committee's (ALCO) directives, Treasury maintained high levels of liquidity throughout the year to make sure that there was a sufficient buffer to encounter any adverse market conditions. Balance sheet mismatches were avoided and average duration of assets and liabilities remained matched. Diversification in funding sources between different segments of wholesale and retail market continued, with a particular weight in funds entrusted. This proved to be beneficial for the Bank's overall performance in 2007.

Having zero direct exposure to sub-prime and asset-backed securities markets, GBI did not face any market and credit losses. Market risks, in a volatile environment were managed with even more scrutiny.

The Division focused on building commercial transaction volumes further, ensuring steady growth in volumes and revenues. Foreign exchange volumes increased by 19 percent to reach to USD 51.1 billion in comparison to 2006. Transaction volumes in derivatives also went up more than 7 times and reached to EUR 17.4 billion. Higher commercial volumes helped Treasury to increase its trading income and to contribute significantly to the Bank's performance in 2007.

The Division played a key role in product development in order to support the marketing efforts of Private Banking. Its broad based expertise in Turkish and global financial markets enabled it to reinforce the competitive edge of the private banking. Its geographical coverage extends from developed markets to Turkey and other selected emerging markets such as Russia, Romania, CIS, Ukraine, Brazil. Broad product coverage includes; deposits, foreign exchange spot and forwards, non-deliverable forwards, securities, equities, OTC and exchange traded derivatives, structured products, commodities, ETFs and investment funds.

GBI continued to be a market maker in its core products and increased its Financial Institution clients. Treasury's reputation as an active and professional counterpart helped the Bank to increase its direct limits and transaction volumes with all major international banks.

Financial Institutions

In 2007, Financial Institutions (FI) focused on further increasing its cooperation with core relationship banks in developed countries. FI also continued to broaden GBI's correspondent bank network worldwide, mainly in line with the requirements of the Bank's Trade Finance clientele.

Parallel to the Bank's steady growth in its core business lines, its transaction volumes increased significantly, further enhancing the relationships with its valued correspondent banks. In an environment where the investors become more selective, GBI benefited from its excellent level of risk perception by the international banking community. The Bank's credit limits from the wholesale market were increased and diversified. During the turmoil and interbank market distortions of 2007, GBI further strengthened its reputable status, by its high liquidity and solid financial performance.

FI played a key role in keeping its counterparts informed about the developments at GBI and maintaining close communication with them. It also supported the business lines in exploring and facilitating new areas of mutual business interest.

As of 2007, FI took an additional role to promote the Bank's Treasury and Private Banking activities among financial institutions in selected regions reaching new customers from Eastern Europe, CIS and Middle East.

The Bank's A3 rating for long-term foreign currency bank deposits has been confirmed by Moody's following their review in November 2007. The rating reflects the Bank'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.



REPORT OF THE MANAGING BOARD

Retail Banking

Retail Banking saving activities in 2007 proved to be a dependable funding base for GBI both in Dutch and German markets. With product designs tailored to customer needs and successful marketing campaigns, our total retail deposit volume in the Netherlands and Germany has been increased by 12 percent.

As much as high level of service quality spontaneously develops business by word of mouth, new customers were attracted by well-conceived and managed campaigns. Meanwhile, we have been pleased to see that the deposit structure in Retail Banking is shifting increasingly from daily deposits to time deposits.

In 2007 the design of our internet-banking website has improved and more processes shifted to internet banking which enabled customers to handle more transactions through the internet. Our internet-banking website, being the Bank's face to the world, now has a more modern look and functionality is greatly improved and is easier to use.

Without the need for major investments, our talented in-house IT team has enabled the Bank to use IT platforms to increase efficiency and customer satisfaction.

Increased deposit volume and transactions were managed without additional human resources with the use of internet banking and simplified processes. Simplified processes are leading us also to gain efficiency and better control of costs.

In 2008 our goal is to continue to acquire new depositors and retail product customers with ever better services and higher volumes of product utilization.

International Branches

Romania

2007 was the first year Romania joined the European Union as a full member. After the impressive 7.7 percent GDP growth figure of 2006 the estimated real growth for 2007 is forecasted to be 5.5 percent for this large Black Sea state. Nominal GDP of the country is estimated to be EUR 103 billion for the year 2007. With the CPI figure of 0.6 percent for December the YoY CPI has increased by 6.4 percent in 2007. Romanian exports have dropped to EUR 20 billion (a decline of 10 percent), while the imports remained stable at EUR 32 billion resulting in a negative trade balance of EUR 12 billion. Current Account has decreased to EUR 11 billion reaching to 14.6 percent of GDP. The key interest rate of Romania stands at 8 percent while unemployment rate has gone as low as 4 percent. The S&P, Fitch and Moody's ratings for Romania are BBB-/A-3, BBB/F3 and Baa3/P-3 respectively.

The GBI Romania Branch concluded a successful year in 2007. The branch extended its network to 35 agencies at the end of December, from 6 agencies at the beginning of the year while including Retail Banking, SME Banking and Plastic Cards businesses to its current activities. ATM machines, point-of-sale service systems (electronic money transfer system) and up-to-date internet banking facilities have been introduced to the market. A new banking application system has been successfully implemented to process these new activities on a more high-tech and sophisticated way and to give adequate management information. The workforce increased to 450 by the end of 2007. In 2007 the branch was able to achieve its targets in terms of volumes and revenues. It is intended that our shareholder together with its shareholders will take over our Romanian Operations after receiving local supervisory approvals. Following this planned takeover GBI has been guaranteed a reimbursement for the expansion costs made by GBI Romania in anticipation of the takeover.

As a result, EUR 10.7 million of administrative expenses and EUR 0.6 million of depreciation expenses have been excluded from this year's income statement and have been booked in the balance sheet under Other Assets as a reimbursement receivable from the parent company.

Germany

The German economy grew by a solid 2.5 percent in 2007 as exports and domestic investments expanded healthily, although growth slowed down slightly compared with 2006 where it was 2.9 percent. Germany successfully balanced its budget last year, eliminating



REPORT OF THE MANAGING BOARD

a budget deficit that ran at 1.6 percent in 2006 and in previous years breached a European Union-mandated limit of 3 percent of GDP. German exports, a traditional strong point, grew by 8.3 percent last year and accounted for more than half of the growth in GDP. The export growth translated into GDP growth of 1.4 percent. Domestic stimuli - above all companies' investment in equipment - grew by 8.4 percent, contributing another percentage point to GDP. Growth expectations last year initially were clouded by the government's move to raise value-added tax from 16 to 19 percent on 1 January 2007 - a decision that was aimed at keeping the budget deficit in check. Whereas the economy emerged unscathed, private consumption declined by 0.3 percent last year. The German export sector benefited from strong global demand and defended its title as "world champion" in merchandise exports for the fifth consecutive year. Economists predict for 2008 a slowdown in economic growth, due mainly to the global economic conditions.

Since the opening in Germany in 1999 the bank has secured its position in the German market by developing a strong relationship with its customers. The German Branch managed to raise its savings deposits to more than EUR 560 million at the end of 2007. The number of customers who are using the internet banking services of the Bank is steadily increasing, approaching 16,000. The high quality services of the Bank were also confirmed by the magazine 'Euro Finanzen' which rated GarantiBank Germany as the 5th Best Bank in Customer Service (among 37 banks country-wide) following a survey of 42,500 customers in regard to telephone and internet banking services.

Risk Management

Risk management organization

Risk management culture in GBI supports value creation by providing insight into the levels of risk that can be absorbed compared with the earnings power and the capital base. Integrated risk management – combining credit, market, liquidity, operational, legal and integrity risk into one common view – has become a key ingredient in the Bank's strategy.

Risk Management in GBI is structured as an integrated effort under various levels within the organization. The Risk Management Committee (RMC) has the ultimate responsibility of the coordination of the risk management activities within the Bank and reports directly to the Supervisory Board. Other risk committees are established to manage more specifically the key banking risks; the Credit Committee for credit risk, Asset & Liability Committee (ALCO) for market and liquidity risks and Legal Committee for legal risk.

Risk Management Department (RMD) is an independent risk control unit, which operates independent of commercial activities and reports directly to RMC. RMD is responsible for the quantification and monitoring of the market, credit and operational risks in terms of economic capital and regulatory capital in order to limit the impact of potential events on the financial performance of the Bank. RMD develops and implements risk policies, procedures, methodologies and risk management infrastructures that are consistent with the regulatory requirements, best market practices and the needs of business lines. RMD also coordinates all the efforts for compliance of the Bank's risk management policies and practices with Basel principles and the Financial Supervision Act (FSA, Wet op het financieel toezicht / Wft).

Market risk

GBI assumes market risk in both trading and non-trading activities by taking positions in debt, foreign exchange, other securities and commodities as well as in equivalent derivatives.

GBI is using Value-at-Risk (VaR) methodology as a risk measure for the market risk on the trading book. VaR quantifies the maximum loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, etc) for a time interval of one day, with a confidence level of 99 percent. VaR is supplemented by stress tests to determine the effects of potentially extreme market developments on the value of market risk sensitive exposures.

The non-trading books primarily consist of commercial banking activities. Commercial business units are not allowed to run structural interest mismatch positions. As a result of this policy, all structural interest rate risks are managed by the Treasury Department in line with the policies and limits set by ALCO. GBI uses duration, gap and sensitivity analysis for the quantification of interest rate risk. Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying both standard parallel yield curve shifts and user defined yield curve twist scenarios. The outcomes of these analyses are discussed in ALCO and are used effectively in decision making processes for hedging and pricing. RMD is represented in ALCO and contributes to market risk management process in a proactive manner.



REPORT OF THE MANAGING BOARD

Liquidity risk

The main objective of GBI's liquidity risk policy is to maintain sufficient liquidity in order to ensure safe and sound operations. ALCO bears overall responsibility for the liquidity risk strategy. ALCO has delegated day-to-day liquidity management to the Treasury Department, which is responsible for managing the overall liquidity risk position of the Bank. The Treasury Department monitors all maturing cash flows along with expected changes in core-business funding requirements to maintain the day-to-day funding. The Bank aims for a well-diversified funding mix in terms of instrument types, fund providers, geographic markets and currencies.

The Bank monitors liquidity risk through gap analysis, which are supplemented by scenario analysis. These analyses allow applying shocks with different magnitudes on the liquidity position of the Bank. Scenarios are driven based on bank-specific and market-specific liquidity squeezes. In addition to this cash capital concept, which shows the excess of long term funds over illiquid assets, is used as a measure for long-term funding mismatch. The Bank has a detailed contingency funding plan in place for the management of a liquidity crisis situation.

All liquidity analyses are reported to ALCO on a regular basis. ALCO reviews and plans the necessary actions to manage the liquidity gaps. The Supervisory Board monitors the liquidity gap against predefined limits.

Credit risk

GBI is mainly involved in low default portfolios such as sovereigns, banks, large corporate companies and trade finance activities. The credit risk assessment and monitoring processes are designed in a way to reflect the credit risk profile of the Bank. A primary element of the credit approval process is a detailed risk assessment of every credit exposure associated with an obligor. The risk assessment process considers both the creditworthiness of the counterparty and the risks related to the specific type of credit facility or exposure. This risk assessment not only affects the structuring of the transaction but also the outcome of the credit decision.

In parallel to the initiatives to improve risk transparency and compliance with various new regulations such as the Basel II Capital Accord, GBI has been developing a new series of credit-risk measurement models. The Bank has dedicated internal rating models for all asset classes for evaluating the creditworthiness of the counterparties. The rating models are integrated in the credit granting and monitoring processes.

The granular 22-grade rating scale, which is calibrated on a probability of default measure based upon a statistical analysis of historical defaults, enables the Bank to compare the internal ratings between different sub-portfolios of the institution. Risk rating models also serve as a basis for the calculation of the regulatory capital and economic capital that GBI needs to hold to cover possible losses from its lending activities. Ratings are also integral parts of pricing and risk based performance measurement processes.

Credit Committee is responsible for the control of all the credit risks arising from the banking book and the trading book, i.e. counterparty risks (for sovereigns, banks, corporates and specialised lending facilities) and concentration risks (single name, country and sectoral concentrations). Business lines, Corporate Credit Department and Credit FI and Sovereign Department perform separate credit assessment for each counterparty and Credit Committee assigns the final limit based on these assessments together with the internal rating of the customer.

Operational risk

Operational risk includes 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. Such risks are managed through bankwide or business line specific policies and procedures, controls, and monitoring tools. GBI's policy to control operational risk is communicated to and implemented in all business lines. 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, integrity and reputational risk

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 sup-



REPORT OF THE MANAGING BOARD

port the proper understanding and effective compliance of these external and internal requirements. 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.

Basel II

De Nederlandsche Bank N.V. has approved GBI's application to use the Internal Rating Based Foundation (F-IRB) approach in regulatory capital calculation starting from 1 January 2008. The Bank uses Standardized Measurement approach for market risk and Basic Indicator approach for operational risk. Concentration risk, interest rate risk and other Pillar II risks are also taken into account in the regulatory capital calculation within the context of Internal Capital Adequacy Assessment Process (ICAAP), which is based on internal models and methodologies. ICAAP has also been reviewed and approved by the regulatory authorities.

The Basel II project is defined and organized as a part of the current risk management organization. The day-to-day activities within the Basel II project are executed by RMD. During 2007, all rating models have been validated by independent third party experts. The Internal Audit Department has reviewed the use of the models and the data quality. Experts from DNB have reviewed the performance of the models, quality of all related information systems and the components of ICAAP within the scope of Supervisory Review Process. Parallel runs have been successfully completed.

GBI has been benefiting from advanced risk measurement and management practices in day-to-day activities. This provides the Bank with a significant experience and opportunity to enhance the risk management culture within the Bank as well as to promote the use of advanced risk management tools in decision-making and risk monitoring processes. The Bank has decided to leverage the accumulated risk management know-how and the pre-established risk culture to be an IRB compliant bank, which also provides a more risk sensitive and transparent risk management framework for all of its stakeholders. This has led the Bank being one of the first IRB compliant banks in the Netherlands and the first bank among its peers.

The Managing Board would like to thank our clients, shareholder and stakeholders for the trust they have in our esteemed bank and especially our employees for their tireless contribution to the excellent results of 2007.

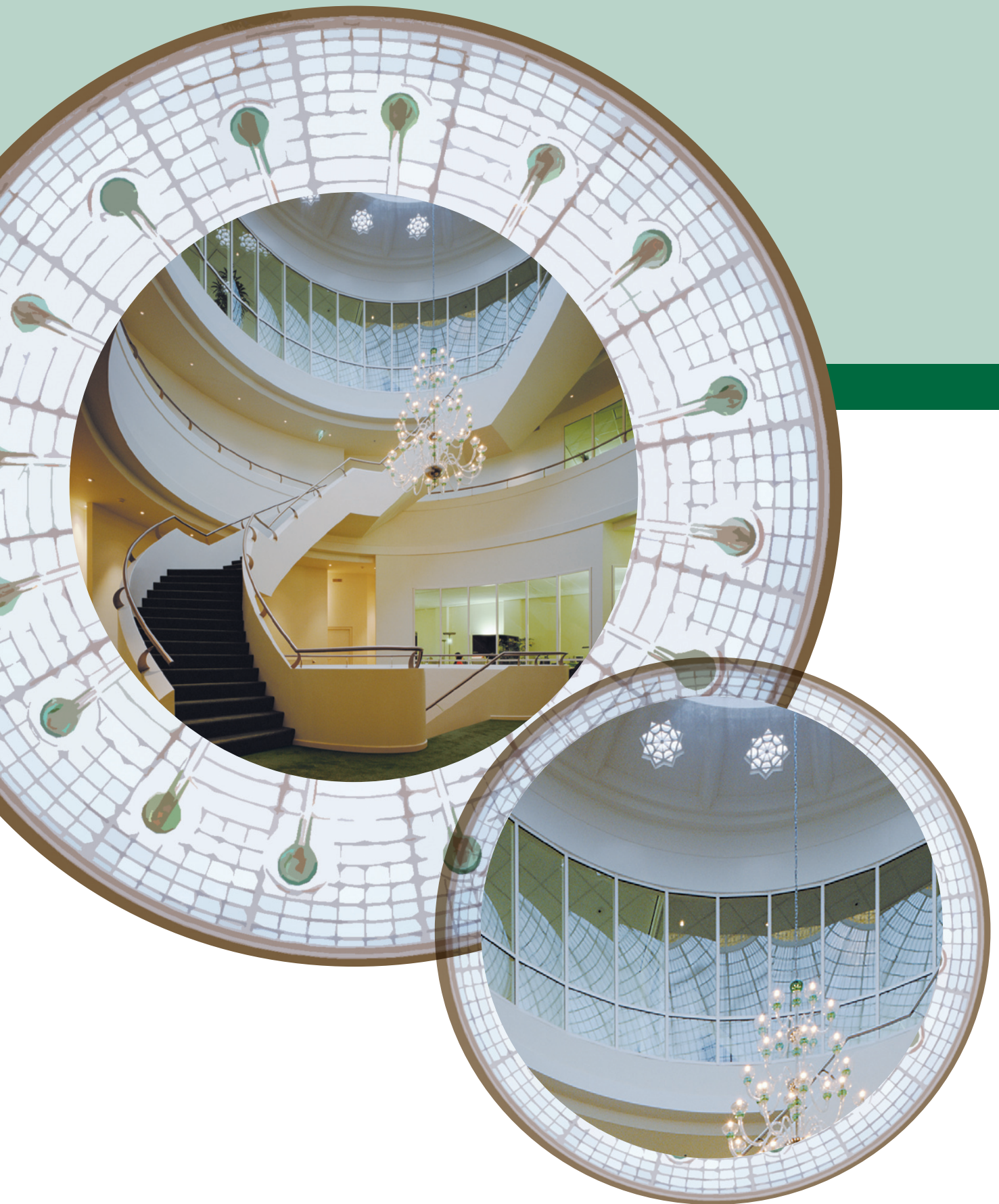
Amsterdam, 28 March 2008

Board of Managing Directors:

Bahadır Ateş

Marc P. Padberg







FINANCIAL STATEMENTS

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BALANCE SHEET AS AT 31 DECEMBER 2007 (BEFORE PROFIT APPROPRIATION)

	2007 EUR 1,000	2006* EUR 1,000
Assets		
Cash	361,201	55,987
Banks	1,195,132	1,253,020
Loans and advances	1,107,733	1,014,838
Interest-bearing securities	568,223	423,552
Shares	6,938	5,675
Participating interests	318	318
Property and equipment	49,309	39,154
Other assets	16,028	2,590
Prepayments and accrued income	89,965	61,049
Total assets	3,394,847	2,856,183
Liabilities		
Banks	892,658	862,803
Funds entrusted	2,025,362	1,689,090
Debt securities	95,849	1,655
Other liabilities	16,211	6,049
Accruals and deferred income	67,309	34,115
Provisions	2,311	2,338
	3,099,700	2,596,050
Subordinated liabilities	78,007	78,004
Paid-in and called-up capital	159,470	134,750
Share premium account	2,086	2,086
Revaluation reserves	4,777	4,777
Other reserves	15,796	17,015
Net profit	35,011	23,501
Shareholders' equity	217,140	182,129
Total liabilities and shareholders' equity	3,394,847	2,856,183
Off-balance sheet liabilities	292,011	271,317

*Restated for reasons of comparison.



PROFIT AND LOSS ACCOUNT FOR THE FINANCIAL YEAR 2007

	2007 EUR 1,000	2006* EUR 1,000
Interest income	249,714	173,585
Interest expense	208,813	136,428
Net interest	40,901	37,157
Income from participating interest	–	(716)
Commission income	24,055	21,354
Commission expense	2,055	1,556
Net commission	22,000	19,798
Result on financial transactions	13,697	10,138
Total income	76,598	66,377
Administrative expenses:		
• Staff costs	20,915	19,227
• Other administrative expenses	7,966	8,544
	28,881	27,771
Depreciation	1,642	1,627
Value adjustments to tangible fixed assets	–	(6)
Value adjustments to receivables	41	2,595
Total expenses	30,564	31,987
Operating result before tax	46,034	34,390
Tax on result on ordinary activities	11,023	10,889
Net result after tax	35,011	23,501

*Restated for reasons of comparison.



CASH FLOW STATEMENT FOR THE YEAR 2007

	2007	2006*
	<i>EUR 1,000</i>	<i>EUR 1,000</i>
Net cash flow out of operational activities		
Net profit	35,011	23,501
Adjustments for depreciation	1,642	1,627
Adjustments for value adjustments to tangible fixed assets	–	(6)
Adjustments for value adjustments to receivables	41	2,595
Due from banks, excluding due from banks demand	65,043	(394,488)
Loans and advances (excluding provisions)	(92,936)	(322,451)
Trading portfolio	(113,046)	2,638
Other assets	(13,438)	286
Prepayments and accrued income	(29,005)	(4,156)
Due to banks, excluding due to banks on demand	28,024	281,673
Funds entrusted	336,272	264,536
Other liabilities	10,162	(1,761)
Accruals and deferred income	33,194	(17,713)
	<hr/>	<hr/>
	261,053	(163,719)
Net cash flow out of investment activities		
Investments in:		
• Fixed assets	(11,797)	(9,939)
• Investment portfolio	(32,888)	–
Divestments in:		
• Fixed assets	–	2
• Participating interests	–	2,327
• Investment portfolio	–	47,668
	<hr/>	<hr/>
	(44,685)	40,058
Net cash flow out of financing activities		
Debt securities	94,194	1,655
Provisions	(27)	537
Subordinated liabilities	3	39,716
Revaluation reserves	–	5,031
Dividends paid from net profit	–	(20,688)
	<hr/>	<hr/>
	94,170	26,251
	<hr/>	<hr/>
Net cash flow	310,538	(97,410)

*Restated for reasons of comparison.



CASH FLOW STATEMENT FOR THE YEAR 2007

	2007 <i>EUR 1,000</i>	2006* <i>EUR 1,000</i>
Cash and cash equivalents as at 1 January	63,310	160,720
Cash and cash equivalents as at 31 December	373,848	63,310
<i>Net cash flow</i>	310,538	(97,410)
 <i>Specification of cash and cash equivalents as at 31 December</i>		
Cash	361,201	55,987
Due from banks on demand	12,647	7,323
	373,848	63,310

* Restated for reasons of comparison



NOTES TO THE 2007 FINANCIAL STATEMENTS

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 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 large extent 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, Guidelines of the Council for Annual Reporting (Raad voor de Jaarverslaggeving - RJ) 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

All branches of GBI are consolidated in these financial statements

2 Change in accounting policies

Derivatives

In 2005, GBI changed its accounting policies for derivatives from cost accounting to fair value accounting. The RJ had at that time published an exposure draft RJ 290 that required fair value accounting for all derivatives and which had significant similarity with the derivatives accounting rules of IFRS as described in IAS39. Over the last years the RJ fine-tuned its ideas about financial instruments accounting. As Dutch law explicitly allows cost accounting, the RJ also recognized that cost accounting could reflect appropriately the financial risk position of a company, in particular there where the company is hedging its risks.

GBI management is of the opinion that cost accounting for hedging derivatives gives a more appropriate reflection of the financial risk position of the Bank than the fair value accounting treatment for all derivatives. In combination with the more recent change of the RJ views on fair value accounting requirements, and referring to RJ 140, that stipulates that a change in accounting policy is required if the new accounting policy gives better or more appropriate insight, GBI has decided to change its accounting policy for derivatives for hedging purposes from fair value accounting back to cost accounting. As a result of the change in the accounting policy, the 2006 comparative figures have been changed as follows: an increase in the revaluation reserves of EUR 254 thousand as at 1 January 2006, a decrease in interest expenses 2006 of EUR 1 million and a decrease in result on financial transactions 2006 of EUR 2.7 million. The impact on the 2006 net results after tax amounts to EUR 1,219 thousand (negative).

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.



NOTES TO THE 2007 FINANCIAL STATEMENTS

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.

Results of participating interests in foreign currencies 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.

The results of the 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.

Where GBI has entered into derivatives to cover its own positions, these are recognized in accordance with the accounting principles applicable to these positions, i.e. derivatives are converted at period end rate (spot rate). The forward points on currency swaps are amortized to profit and loss account on a linear basis.

The other derivatives are recorded 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 accounts as Result on financial transactions.

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 (forfeiting) 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 is amortized over the remaining life of the relevant securities.

Interest-bearing securities included in the trading portfolio are stated at market value. Profits or losses from revaluation or trading of these securities are taken to the profit and loss account as 'Result 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'.



NOTES TO THE 2007 FINANCIAL STATEMENTS

Participating interests

Participating interests in which GBI has a significant influence on the 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 of 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 reliably 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 and execute 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 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 percent of the largest of obligations under the plan or the amount in the profit and loss account in the next financial year over the



NOTES TO THE 2007 FINANCIAL STATEMENTS

members' average remaining years of service. Additions in defined benefit obligations resulting from revised plans regarding past-service periods (past-service cost) are recognized over the period these benefits become vested.

In the case of a 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 they arise or in which the service was provided, with the exception of value differences in respect of trading positions stated at market value. The latter are 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 permanent and timing differences between pre-tax profit and the taxable amount in accordance with tax legislation, are taken into account.

Income tax in the profit or loss account 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 use of the liquid funds over the course of the year. The cash flows are analyzed 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.



NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2007

	2007	2006
4 Cash	361,201	55,987
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.		
5 Banks	1,195,132	1,253,020
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. The 2006 comparative figures have been grossed up with an amount of EUR 234 million due to the gross presentation of a part of the Bank's forfaiting portfolio in 2007.		
6 Loans and advances	1,107,733	1,014,838
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 11.6 million (2006: EUR 12.6 million)).		
7 Interest-bearing securities	568,223	423,552
Included under this item are debt securities with a fixed interest rate or an interest rate dependent on the prevailing interest rate. All interest-bearing securities are listed. The breakdown by issuer is as follows:		
• issued by public bodies	367,837	299,916
• issued by others	200,386	123,636
	568,223	423,552
The breakdown by portfolio is as follows:		
• investment portfolio	434,780	401,892
• trading portfolio	133,443	21,660
	568,223	423,552
Of the interest-bearing securities EUR 186 million will mature in 2008. 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 11.4 million positive (2006: EUR 96 thousand positive).		
Changes in the investment portfolio are as follows:		
Balance sheet value as at 1 January	401,892	449,560
Purchases	189,306	146,804
Redemptions	(143,793)	(141,272)
Foreign exchange rate differences	(12,624)	(53,200)
Balance sheet value as at 31 December	434,780	401,892
The purchase price of the investment portfolio was EUR 18.9 million above the redemption value (2006: EUR 31.6 million).		



NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2007

	2007	2006																								
8 Shares	6,938	5,675																								
<p>This item includes unlisted shares which are not issued by group companies and does not include any options. The shares are part of the trading portfolio.</p> <p>The difference between the acquisition price and the market value of the shares is EUR 786 thousand positive (2006: EUR 116 thousand positive).</p>																										
9 Participating interests	318	318																								
<p>This item comprises the following equity participations:</p> <ul style="list-style-type: none"> • 100 percent Trifoi SRL, Bucharest, the owner of the land where GarantiBank International Bucharest Branch, Romania, previously was located. • 100 percent Trifoi Investment SRL, Bucharest, a financial services company. • 100 percent Golden Clover Stichting Custody, Amsterdam, a custodian company. • 100 percent Stichting 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. <p>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 392 million in 2007 (2006: EUR 217 million).</p> <p>The changes in this item were as follows:</p> <table border="0" style="width: 100%;"> <thead> <tr> <th></th> <th style="text-align: right;">2007</th> <th style="text-align: right;">2006</th> </tr> </thead> <tbody> <tr> <td>Participating interests as at 1 January</td> <td style="text-align: right;">318</td> <td style="text-align: right;">2,645</td> </tr> <tr> <td>Purchases/increases</td> <td style="text-align: right;">-</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Sales</td> <td style="text-align: right;">-</td> <td style="text-align: right;">(1,648)</td> </tr> <tr> <td>Share in result</td> <td style="text-align: right;">-</td> <td style="text-align: right;">(716)</td> </tr> <tr> <td>Foreign exchange rate differences</td> <td style="text-align: right;">-</td> <td style="text-align: right;">37</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>318</u></td> <td style="text-align: right;"><u>318</u></td> </tr> </tbody> </table>				2007	2006	Participating interests as at 1 January	318	2,645	Purchases/increases	-	-	Sales	-	(1,648)	Share in result	-	(716)	Foreign exchange rate differences	-	37		<u>318</u>	<u>318</u>			
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10 Property and equipment	49,309	39,154																								
<p>The changes in this balance sheet item are as follows:</p> <table border="0" style="width: 100%;"> <thead> <tr> <th></th> <th style="text-align: right;">Land and buildings in use by GBI</th> <th style="text-align: right;">Other fixed assets</th> <th style="text-align: right;">Total</th> </tr> </thead> <tbody> <tr> <td>Balance sheet value as at 1 January 2007</td> <td style="text-align: right;">35,511</td> <td style="text-align: right;">3,643</td> <td style="text-align: right;">39,154</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">5,839</td> <td style="text-align: right;">6,550</td> <td style="text-align: right;">12,389</td> </tr> <tr> <td>Depreciation *</td> <td style="text-align: right;">(976)</td> <td style="text-align: right;">(1,258)</td> <td style="text-align: right;">(2,234)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>40,374</u></td> <td style="text-align: right;"><u>8,935</u></td> <td style="text-align: right;"><u>49,309</u></td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;"><u>7,983</u></td> <td style="text-align: right;"><u>5,392</u></td> <td style="text-align: right;"><u>13,375</u></td> </tr> </tbody> </table>				Land and buildings in use by GBI	Other fixed assets	Total	Balance sheet value as at 1 January 2007	35,511	3,643	39,154	Purchases	5,839	6,550	12,389	Depreciation *	(976)	(1,258)	(2,234)		<u>40,374</u>	<u>8,935</u>	<u>49,309</u>	Accumulated depreciation	<u>7,983</u>	<u>5,392</u>	<u>13,375</u>
	Land and buildings in use by GBI	Other fixed assets	Total																							
Balance sheet value as at 1 January 2007	35,511	3,643	39,154																							
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Accumulated depreciation	<u>7,983</u>	<u>5,392</u>	<u>13,375</u>																							

* Depreciation includes EUR 592 thousand of depreciation expenses which is included in the reimbursement right amounting to EUR 11.3 million in Other assets (see notes 11 and 32).



NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2007

	2007	2006
11 Other assets	16,028	2,590
<p>This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified with any other balance sheet asset item. This concerns, for example, balances of payment transactions still to be settled, deferred tax assets of EUR 2.3 million (2006: EUR 2.2 million) and current taxes receivable amounting to EUR 0.3 million (2006: -/- EUR 0.2 million). This item also includes a reimbursement right, amounting to EUR 11.3 million relating to the planned sale of GBI Romania to a consortium of Garanti Bankası A.Ş., Dogus and GE Consumer Finance (see also note 32).</p>		
12 Prepayments and accrued income	89,965	61,049
<p>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 22.1 million (2006: EUR 14.0 million).</p>		
13 Banks	892,658	862,803
<p>This includes the non-subordinated amounts owed to banks insofar as not embodied in debt certificates. The 2006 comparative figures have been grossed up with an amount of EUR 234 million due to the gross presentation of a part of the Bank's forfaiting portfolio in 2007.</p>		
14 Funds entrusted	2,025,362	1,689,090
<p>Included under this item are all non-subordinated debts, insofar as these are not amounts owed to banks or embodied in debt certificates. This item can be specified as follows:</p>		
• savings accounts	1,112,167	980,422
• other funds entrusted	913,195	708,668
	2,025,362	1,689,090
15 Debt securities	95,849	1,655
<p>This item includes issued notes that are fully linked to securities that are kept in the GBI trading portfolio.</p>		
16 Other liabilities	16,211	6,049
<p>This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified under any other balance sheet liability item</p>		
17 Accruals and deferred income	67,309	34,115
<p>This item includes prepayments received in respect of profits attributable to following periods and amounts still to be paid such as accrued interest.</p>		



NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2007

	2007	2006
18 Provisions	2,311	2,338
The following table summarizes the composition of the provisions:		
Provision for deferred tax liabilities (<i>see note 35</i>)	2,055	2,013
Provision for pension obligations	256	325
	<hr/>	<hr/>
Total	2,311	2,338
	<hr/>	<hr/>
<i>Provision for pension obligations</i>	256	325
The changes in this item were as follows:		
Position as at 1 January	325	977
Curtailment due to change in pension plan	–	(1,043)
	<hr/>	<hr/>
New position as at 1 January	325	(66)
Recognized change in pension obligations less investments	(69)	391
	<hr/>	<hr/>
Position as at 31 December	256	325
	<hr/>	<hr/>
The main actuarial assumptions to determine the value of the provision for pension obligations are as follows:		
• Discount rate	5.60%	4.75%
• Expected increment in salaries	3.50%	3.50%
• Expected return on investments	5.60%	4.75%
• Indexation pensions	3.00%	3.00%
• Inflation	1.50%	1.50%
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:		
<i>Projected benefit obligations</i>		
Position as at 1 January	3,223	4,964
Curtailment due to change in pension plan	–	(1,283)
	<hr/>	<hr/>
New position as at 1 January	3,223	3,681
Service cost	404	730
Interest cost	172	187
Actuarial gain	(1,477)	(1,375)
	<hr/>	<hr/>
Position as at 31 December	2,322	3,223
	<hr/>	<hr/>
<i>Plan assets</i>		
Position as at 1 January	3,035	3,059
Actual return on plan assets	173	153
Management expenses	(145)	(134)
Employer's contribution	616	537
Actuarial loss	(1,504)	(580)
	<hr/>	<hr/>
Position as at 31 December	2,175	3,035
	<hr/>	<hr/>



NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2007

	2007	2006
Pension		
Funded deficit	(147)	(188)
Unrecognized net actuarial loss	(109)	(137)
	<hr/>	<hr/>
Accrued benefit costs	(256)	(325)
	<hr/>	<hr/>
19 Subordinated liabilities	78,007	78,004
<p>This item comprises subordinated retail loans and subordinated lower Tier 2 notes issued. The subordinated liabilities are subordinate in respect of the other current and future liabilities of GBI. The subordinated retail loans have a fixed yearly interest payment 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, 6, 8 or 10 years.</p> <p>The subordinated lower Tier 2 notes issued have a quarterly interest payment at a variable rate of EURIBOR plus 1.5 percent. The original maturity of the notes is 10 years.</p> <p>In the financial year the charges paid in respect of the subordinated loans and subordinated notes issued amounted to EUR 4.6 million (2006: EUR 3.0 million).</p>		
20 Shareholders' equity	217,140	182,129
Paid-in and called-up capital	159,470	134,750
<p>The authorized capital amounts to EUR 500 million and is subdivided into 500,000 shares with a nominal value of EUR 1,000 each, of which 159,470 shares have been issued and fully paid up.</p> <p>The changes in this item were as follows:</p>		
Position as at 1 January	134,750	134,750
Issue of new shares	24,720	–
	<hr/>	<hr/>
Position as at 31 December	159,470	134,750
	<hr/>	<hr/>
<p>During the year, the Bank issued 24,720 shares against a nominal value of EUR 1,000 each. As a result of the appropriation of the net profit for the year 2006, the difference between the original 2006 profit and the 2006 profit after this year's change in accounting policy (EUR 1,219 thousand) has been reflected in Other reserves.</p>		



NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2007

	2007	2006
Share premium account	2,086	2,086

The share premium account is fully recognized by the Dutch tax authorities.

Revaluation reserves	4,777	4,777
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This item comprises revaluation reserves for buildings and derivatives.

The changes were as follows:

	As at 31 December 2007			AS AT 31 DECEMBER 2006		
	Buildings	Derivatives	Total	Buildings	Derivatives	Total
Position as at 1 January	4,777	–	4,777	–	(254)	(254)
Impact of change in accounting policy*	–	–	–	–	254	254
Adjusted position as at 1 January	4,777	–	4,777	–	–	–
Revaluations	–	–	–	4,777	–	4,777
Position as at 31 December	<u>4,777</u>	<u>–</u>	<u>4,777</u>	<u>4,777</u>	<u>–</u>	<u>4,777</u>

* See note 2 regarding change in accounting policy

Other reserves	15,796	17,015
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Position as at 1 January	17,015	17,015
Transfer as a result of 2006 profit appropriation	<u>(1,219)</u>	–

Position as at 31 December	<u>15,796</u>	<u>17,015</u>
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Net profit	35,011	23,501
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The changes in this item were as follows:

Net profit according to 2006 financial statements	24,720	
Effect of change in accounting policy	<u>(1,219)</u>	

Adjusted position as at 1 January	23,501	20,688
Profit distribution	<u>(24,720)</u>	(20,688)

Transfer from other reserves	1,219	–
Result after tax	<u>35,011</u>	<u>23,501</u>

Position as at 31 December	<u>35,011</u>	<u>23,501</u>
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NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2007

Capital adequacy

The standards applied by the Dutch Central Bank (DNB) 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 analyzes actual capital and the minimum standard in accordance with international BIS requirements before profit appropriation:

	As at 31 December 2007		As at 31 December 2006	
	REQUIRED	ACTUAL	REQUIRED	ACTUAL
Total capital	128,928	231,780	115,054	216,544
Total capital ratio	8.00%	14.38%	8.00%	15.06%
Tier 1 capital	64,464	177,352	57,527	153,851
Tier 1 capital ratio	4.00%	11.00%	4.00%	10.70%

	2007	2006
21 Off-balance sheet liabilities	292,011	271,317
This includes all liabilities arising from transactions in which GBI has guaranteed the commitments of third parties.		
The off-balance sheet liabilities can be broken down into liabilities in respect of:		
• guarantees	36,221	42,059
• irrevocable letters of credit	203,506	194,513
• other commitments	52,284	34,745
	292,011	271,317



NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR 2007

	2007	2006
22 Interest income	249,714	173,585
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	55,743	41,814
• others	193,971	131,771
	<u>249,714</u>	<u>173,585</u>
23 Interest expense	208,813	136,428
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.		
As a result of the change in accounting policy as explained in note 2, interest expenses in 2006 have decreased from EUR 137.4 million to EUR 136.4 million.		
24 Income from participating interest	–	(716)
This item includes the share in the net result of participating interests on which GBI exercises a significant influence.		
25 Commission income	24,055	21,354
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.		
26 Commission expense	2,055	1,556
This concerns the expenses paid in respect of fees for banking services supplied by third parties insofar as these do not have the characteristics of interest.		
27 Net commission	22,000	19,798
Net commission comprises:		
• trade finance	16,711	15,741
• payment services	1,788	1,216
• security brokerage	1,399	2,404
• private banking services	2,549	925
• other	(447)	(488)
	<u>22,000</u>	<u>19,798</u>



NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR 2007

	2007	2006
28 Result on financial transactions	13,697	10,138
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	2,955	537
• foreign exchange dealing	5,450	5,898
• forfeiting	2,774	3,176
• other	2,518	527
	13,697	10,138*
• As a result of the change in accounting policy as explained in note 2, Result on financial transactions in 2006 has decreased from EUR 12.8 million to EUR 10.1 million.		
29 Segmentation of income	287,466	205,077
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	21,961	13,503
• Turkey	145,355	111,457
• Rest of Europe	96,251	60,423
• Rest of the world	23,899	19,694
	287,466	205,077
30 Staff costs and other administrative expenses		
This includes:		
• staff costs*	20,915	19,227
• other administrative expenses*	7,966	8,544
	28,881	27,771
* EUR 4.8 million of staff costs and EUR 5.9 million of other administrative expenses have been deducted and booked as a reimbursement right under other assets related to the planned sale of GBI Romania (see notes 11 and 32).		
The staff costs comprise:		
• wages and salaries	17,181	16,242
• pension costs	1,785	954
• other social costs	1,186	1,107
• other staff costs	763	924
	20,915	19,227



NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR 2007

	2007	2006
The pension costs for own staff breaks down as follows:		
• service cost	404	730
• interest cost	172	187
• actual return on plan assets	(173)	(153)
• management expenses	145	134
• unrecognized net actuarial loss	–	29
• curtailment due to change in pension plan	–	(1,043)
	<hr/>	<hr/>
• defined benefit plan	548	(116)
• defined contribution plan	1,237	1,070
	<hr/>	<hr/>
	1,785	954
	<hr/>	<hr/>
The number of full-time equivalent employees was 426 (2006: 243), which can be split as follows:		
• in the Netherlands	144	137
• outside the Netherlands	282	106
	<hr/>	<hr/>
	426	243
	<hr/>	<hr/>
31 Depreciation	1,642	1,627
For a breakdown of this item, please see the overview of changes in property and equipment in note 10.		
32 Reimbursement right		
Following the planned takeover of GBI Romania by a consortium of Garanti Bankası A.Ş., Dogus and GE Consumer Finance, GBI has been guaranteed a reimbursement for the expansion costs made by GBI Romania in anticipation of the takeover. As a result, EUR 10.7 million of administrative expenses and EUR 0.6 million of depreciation expenses have been excluded from this year's profit and loss account and have been booked in the balance sheet under Other assets as a reimbursement receivable from the parent company.		
The takeover will take place after receiving the local supervisory approvals which are expected in 2008.		
33 Value adjustments to tangible fixed assets	–	(6)
34 Value adjustments to receivables	41	2,595
This item consists of additions to provisions for loans and advances to credit institutions and customers.		



NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR 2007

	2007	2006
35 Tax on result on ordinary activities	11,023	10,889
The corporate income tax has been calculated using the nominal tax rate of 25.5 percent over the Dutch taxable income and the local applicable tax rates for taxable income in Germany (2007: 40 percent, 2006: 40 percent) and Romania (2007: 16 percent, 2006: 16 percent). The overall effective tax rate decreased from 31.6 percent in 2006 to 23.9 percent in 2007.		
Dutch tax rate	25.5%	29.6%
Effect of deviating tax rate in foreign countries	-2.1%	0.5%
Other	0.5%	1.5%
Effective tax rate on operating income	23.9%	31.6%

The 2007 taxes amounted to EUR 11,023 thousand (2006: EUR 10,889 thousand), including a deferred tax expense of EUR 878 thousand (2006: EUR 283 thousand deferred tax expense).

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:

Foreign branches	–	104
Buildings	2,055	1,909
Total	2,055	2,013

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

Pensions	65	83
Foreign branches	2,221	2,104
Total	2,286	2,187



FURTHER DISCLOSURES

36 Pledged assets

EUR 3.7 million of asset item 'Banks' and EUR 256.0 million of 'Interest-bearing securities' have been pledged as collateral for EUR 220.4 million liability item 'Banks'. These assets are consequently not freely available.

37 Risk management

37.1 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.

37.1.a Breakdown by geographical regions

The geographic breakdown of assets and off-balance sheet liabilities is based on customer domicile as follows:

	As at 31 December 2007			As at 31 December 2006		
	Banks	Loans and advances	Off-balance liabilities	Banks	Loans and advances	Off-balance liabilities
• THE NETHERLANDS	41,299	45,892	5,566	17,334	133,319	5,796
• TURKEY	488,065	296,495	58,811	379,488	293,144	81,544
• Rest of Europe	432,159	582,836	136,126	585,212	462,110	140,794
• REST OF THE WORLD	233,609	182,510	91,508	270,986	126,265	43,183
	<u>1,195,132</u>	<u>1,107,733</u>	<u>292,011</u>	<u>1,253,020</u>	<u>1,014,838</u>	<u>271,317</u>

37.1.b Breakdown by collateral

The loans and advances can be broken down by collateral as follows:

	2007	2006
• Guaranteed by banks	30,666	57,785
• Advances against securities and cash	138,693	78,407
• Advances against other collateral and unsecured	938,374	878,646
	<u>1,107,733</u>	<u>1,014,838</u>



FURTHER DISCLOSURES

	2007	2006
371.c Breakdown by sector and industry		
The loans and advances can be broken down by sector and industry as follows:		
Retail customers	29,756	18,914
Corporate customers:		
• Manufacturing	175,623	224,394
• Construction	–	19,772
• Wholesale and retail trade	444,207	289,055
• Financial services	220,627	324,704
• Other services	233,306	135,239
• Public sector	4,214	2,760
	1,107,733	1,014,838

371.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 foreign 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. However, the notional amounts 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 EUR 1,000	Nominal amounts 1<x<5 years EUR 1,000	Total EUR 1,000	Positive replacement value EUR 1,000
Interest rate contracts					
OTC	Swaps	33,965	16,983	50,948	30
	Forwards	–	–	–	–
Currency contracts					
OTC	Swaps	740,939	13,104	754,043	22,574
	Forwards	21,171	–	21,171	449
	Options	856,202	–	856,202	5,853
Other contracts					
	Options	9,205	–	8,205	2,099
		1,661,482	30,087	1,691,569	31,005



FURTHER DISCLOSURES

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 2007		As at 31 December 2006	
	EUR 1,000 Unweighted	EUR 1,000 Weighted	EUR 1,000 Unweighted	EUR 1,000 Weighted
Interest rate contracts	85	17	1,173	235
OTC currency contracts	48,395	12,525	33,797	7,707
	<u>48,480</u>	<u>12,542</u>	<u>34,970</u>	<u>7,942</u>

37.2 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.

37.2.a Currency risk

The total equivalent of assets in foreign currencies is EUR 2,377 million, while the total equivalent of liabilities in foreign currencies is EUR 1,661 million. The currency position is reduced to manageable levels through off-balance sheet instruments.

Currency	As at 31 December 2007				As at 31 December 2006			
	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	2,354,310	2,356,655	–	2,345	1,824,189	1,832,905	–	8,716
TRY	382,119	380,497	1,622	–	438,833	438,449	384	–
CHF	343	367	–	24	414	400	14	–
RON	126,032	122,746	3,286	–	65,330	61,660	3,670	–
GBP	8,649	8,759	–	110	11,044	10,999	45	–
BRL	2,432	2,431	1	–	–	–	–	–
JPY	13,242	13,279	–	37	5,860	4,447	1,413	–
SEK	1	–	1	–	5,696	5,693	3	–
AUD	45,157	45,227	–	70	26,187	26,198	–	11
RUB	5,725	2	5,723	–	7,556	1,520	6,036	–
CAD	24	3	21	–	144	143	1	–
MXN	3	–	3	–	–	–	–	–
ZAR	7	–	7	–	–	–	–	–
KZT	–	41	–	41	–	–	–	–



FURTHER DISCLOSURES

37.2.b Interest rate risk

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

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 2007 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 2007:

	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	16	1,897	774	487	72	3,246
Liabilities	(753)	(1,458)	(536)	(243)	(8)	(2,998)
Derivatives	–	(2)	–	(2)	–	(4)
Net interest position						
31 Dec. 2007	(737)	437	238	242	64	244
Net interest position						
31 Dec. 2006	(673)	449	275	192	(6)	237

The calculation of the sensitivity analysis as at 31 December 2007 shows that, assuming an unchanged structure of assets, liabilities and off-balance sheet items an interest increase with one percent, taking into account a parallel movement of the yield curves for all currencies as per 1 January 2008, would result in a decrease of the interest margin amounting to approximately EUR 2.8 million in 2008 (2007: EUR 3.5 million).

37.3 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	361,201	–	–	–	–	361,201
Banks	16,034	314,033	611,486	253,579	–	1,195,132
Loans and advances	24,625	490,759	171,487	264,943	155,919	1,107,733
Interest-bearing securities	–	29,448	156,100	336,491	46,184	568,223
Shares	–	–	–	–	6,938	6,938
Participating interests	318	–	–	–	–	318
Property and equipment	–	–	–	–	49,309	49,309
Other assets	16,028	–	–	–	–	16,028
Prepayments and accrued income	89,965	–	–	–	–	89,965
31 Dec. 2007	508,171	834,240	939,073	855,013	258,350	3,394,847
31 Dec. 2006	137,549	1,023,793	898,950	744,310	51,581	2,856,183



FURTHER DISCLOSURES

	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	15,964	515,895	294,898	65,901	–	892,658
Funds entrusted*	829,362	821,405	248,651	125,755	189	2,025,362
Debt securities	–	–	20,641	75,208	–	95,849
Other liabilities	16,211	–	–	–	–	16,211
Accruals and deferred income	67,309	–	–	–	–	67,309
Provisions	–	–	–	–	2,311	2,311
Subordinated liabilities	–	–	–	41,373	36,634	78,007
Shareholders' equity	–	–	–	–	217,140	217,140
31 Dec. 2007	928,846	1,337,300	564,190	308,237	256,004	3,394,847
31 Dec. 2006	839,683	1,036,251	519,685	240,615	219,949	2,856,183

*This includes on demand retail funding which has a longer term characteristic.

38 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 and hedging derivatives.

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 448.7 million (2006: EUR 416.4 million). In the balance sheet, the interest-bearing securities in the investment portfolio are stated at the redemption value of EUR 434.8 million (2006: EUR 401.9 million). The fair value of hedging derivatives as at 31 December 2007 amounts to EUR 8.3 million (negative) on a net basis (2006: EUR 9.0 million positive). The carrying value of these derivatives as at balance sheet date is negligible and is presented under 'Prepayments and accrued income' / 'Accruals and deferred income'.

39 Related parties

Related parties include the 100 percent shareholder Türkiye Garanti Bankası A.Ş., its major shareholders Doğu Holding A.Ş. and GE Capital Corporation (which together have a controlling interest over Türkiye Garanti Bankası A.Ş.), all its subsidiaries and the Supervisory and Managing Board of Directors of GBI and all the entities on which the shareholders have a significant influence. 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.



FURTHER DISCLOSURES

39.1 *Outstanding balances*

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

	As at 31 December 2007		As at 31 December 2006	
	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
Banks (assets)	25,868	375	29,673	18,983
Loans and advances	–	14,680	–	81,622
Shares	–	6,677	–	5,675
Shares	11,300	–	–	–
Banks (liabilities)	6,586	11	2,615	18,988
Funds entrusted	–	34,974	–	288,216
Subordinated liabilities	–	325	–	325
Interest income	2,248	5,647	2,237	8,194
Interest expense	361	12,048	335	7,955
Commission income	352	593	1482	466

39.2 *Remunerations of Managing Board Directors and Supervisory Board Directors*

In accordance with the Articles of Association, the remuneration of the members of the Managing Board is subject for approval by the shareholder at 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 14 April 2008. 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 remuneration of current and former members of the Managing and Supervisory Board amounted to EUR 2,577,296 in 2007 (2006: EUR 2,199,125).

Amsterdam, 28 March 2008

BOARD OF MANAGING DIRECTORS:

Mr. B. Ateş
Mr. M.P. Padberg

BOARD OF SUPERVISORY DIRECTORS:

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



OTHER INFORMATION

Profit appropriation

In the Annual General Shareholders' meeting, it will be proposed to convert the net profit of 2007 (EUR 35,011,000) into nominal share capital by issuing 35,011 shares.

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, 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.
-

To the General Meeting of Shareholders and Supervisory Board of GarantiBank International N.V.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2007 as included on page 22 to page 48 which are part of the annual report 2007 of GarantiBank International N.V., Amsterdam, which comprise the balance sheet as at 31 December 2007, the profit and loss account and the cash flow statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the report of the Managing Board, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



OTHER INFORMATION

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of GarantiBank International N.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Managing Board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 28 March 2008

KPMG ACCOUNTANTS N.V.
E. Bleekrode RA



GARANTIBANK INTERNATIONAL N.V.

Supervisory Board

Mr. S. Sözen

Director since 1998. Chairman of GBI Supervisory Board since 2006. Vice-Chairman of Türkiye Garanti Bankası A.Ş. Supervisory Board.

Mr. A. Acar

Director since 2002. Chairman of Doğu Otomotiv. Holds several Board Member positions in various Doğu 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 Doğu 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 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. F. Şahenk

Director since 2002. Previously held the position of Chairman between 2002 and 2006. Presently Chairman of Türkiye Garanti Bankası A.Ş..

Managing Board

Mr. B. Ateş

CEO, since 24 March 2000.

Mr. M. P. Padberg

Managing Director, since 1 January 1993.



GARANTIBANK INTERNATIONAL N.V.

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

Trade Finance

Mr. C.O. Draman
Executive Director

Private Banking

Mrs. Ö. Etker-Simons
Executive Director

Credits

Mr. S. Kanan
Executive Director

Structured Finance

Mr. E. Zeyneloglu
Executive Director

Operations

Mr. G. Salman
Executive Director

Treasury

Mrs. Ö. Etker-Simons
Executive Director

Information & Communication Technology

Mr. G. Salman
Executive Director

Financial Institutions

Mrs. Ö. Etker-Simons
Executive Director

Financial Control & Reporting

Mrs. M.F.C. Koomen
Manager

Risk Management

Mr. M.Ö. Sisman
Manager

Compliance & Internal Audit Services

Mr. E. Kangal
Manager

Retail Banking

Mr. O. Küpçü
Manager

Human Resources

Mrs. S. Tanriöver-Van Ameide
Manager

Head Office

Keizersgracht 569-575
1017 DR Amsterdam
The Netherlands
Tel: +31-20-553 97 00
Fax: +31-20-624 24 66
Swift: ugbinl2a
Internet: www.garantibank.eu
E-mail: info@garantibank.eu



GARANTIBANK INTERNATIONAL N.V.

Branches

Romania

Mr. B. İçinsel
Executive Director
Country Manager

Main Branch

Str. Banu Antonache 40-44
Floreasca II Business Center
Parter, Sector 1
Bucharest, 011663
Romania
Tel: +40-21-208 92 60
Fax: +40-21-208 92 86
Swift: ugbirobu
Internet: www.garantibank.ro
E-mail: info@garantibank.ro

GBI Romania Operations has 41 additional agencies throughout the country.
Please refer to our internet website www.garantibank.ro.

Germany

Mr. F. Birincioğlu
Executive Director
Country Manager

Heinrich Heine Allee 1
40213 Düsseldorf, Germany
Tel: +49-211-86 22 20
Fax: +49-211-86 22 23 50
Swift: ugbidedd
Internet: www.garantibank.de
Email: info@garantibank.de



GARANTIBANK INTERNATIONAL N.V.

Representative offices

Turkey

Mr. Pusat Zorlu
Representative

Ayazaga Yolu No:4
Iz Plaza Giz Kat:18
34398 Maslak/Sisli Istanbul Turkey
Tel: +90-212-366 43 01
Fax: +90-212-366 43 20

Switzerland

Mr. P.A. Polikar
Representative

Avenue de Rumine 34, CP 135
CH-1000 Lausanne 6
Switzerland
Tel: +41-22-909 12 00
Fax: +41-22-909 12 09

Ukraine

Ms. O. Kovtonyuk
Representative

Saksaganskogo str, 36V
third floor
01033 Kiev
Ukraine
Tel: +38-050-24177 07
Fax: +38-044-492 90 58

Kazakhstan

Mr. Y. Karsi
Representative

Nurly Tau Business Center,
Building B2,
Office 505
Almaty, Kazakhstan
Tel: +7-727-311 05 81
Fax: +7-727-311 05 82



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