Denizbank A.Ş. and Its Subsidiaries

Notes to Consolidated Financial Statements

As of and for the six-month periods ended 30 June 2004 and 2003, as of and for the year ended 31 December 2003

(Currency -- Billions of Turkish Lira)

(As adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29)

Overview of the Bank

Denizbank Anonim Şirketi ("Denizbank"), was established by the Directorate of Privatization of the Turkish Republic on 18 September 1996, pursuant to the Board of Ministers' permission to perform banking activities prescribed by the Turkish Banking Law and related regulations. Denizbank was privatized on 20 March 1997 as a commercial bank and started its operations on 25 August 1997. After privatization, Denizbank realized rapid developments in the banking industry and acquired a number of branches from Savings Deposit Insurance Fund ("SDIF")-controlled banks, as well as several financial institutions including Milli Aydın Bankası T.A.Ş. ("Tarişbank"), which merged into Denizbank by the end of 2002.

In accordance with the Board of Directors' resolution dated 27 April 2004 with the reference number 25/2004, Denizbank will go for a public offering to increase its share capital by cash injection of TL 50,369.

Denizbank currently has 190 branches nationwide and its head office is located in Istanbul. As of 30 June 2004, the number of employees of Denizbank is 3,766. The total number of employees of Denizbank and its subsidiaries is 4,390.

Denizbank is fully owned by Zorlu Holding A.Ş. ("Zorlu Holding"), which is one of the major industrial conglomerates in Turkey. Zorlu Holding has 21 large-scale industrial concerns and three energy plants that provide employment for 22,000 people. In 2003, Zorlu Holding companies realized revenues of USD 2.4 billions and an export volume of USD 1.7 billions.

Denizbank has 99.99% ownership in Denizbank AG, a commercial bank located in Austria. Established in 1996 by the former Esbank A.Ş (a Turkish bank which was taken over by SDIF), Esbank AG in Vienna offered foreign trade finance and payment services to a client base in Europe and Turkey. This was done through four local branches in Austria - three in Vienna and one in Bregenz. Denizbank entered the Eurozone banking market by acquiring Esbank AG in August 2002. Subsequent to the acquisition, the name of Esbank AG was changed to Denizbank AG at the beginning of 2003.

Denizbank acquired 49% of the outstanding shares of İktisat Bank Moscow at the beginning of 2003. The remaining 51% of the shares were acquired by Denizbank AG. Subsequent to the acquisition, the name of İktisat Bank Moscow was changed to Denizbank Moscow. Denizbank Moscow is licensed to undertake all commercial banking transactions.

Denizbank acquired 99.88% of the shares of Eurodeniz Off-shore Bank Limited ("Eurodeniz"), established in the Turkish Republic of Northern Cyprus, from SDIF at the beginning of 2002. Eurodeniz is licensed to undertake all commercial banking transactions.

Denizbank has 99.95% ownership in Deniz Yatırım Menkul Değerler A.Ş. ("Deniz Yatırım"), a brokerage and investment company, located in Istanbul. Deniz Yatırım was established on 29 January 1997 and mainly involved in purchasing, selling and investing in any kind of securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

Denizbank, together with Deniz Yatırım, acquired 78.01% of the shares of Ekspres Yatırım Menkul Değerler A.Ş. ("Ekspres Yatırım") from SDIF at the end of 2002. With subsequent acquisitions, the Bank and Deniz Yatırım's share increased to 99.82% as of 30 June 2004. Ekspres Yatırım, located in Istanbul, is engaged in purchasing, selling and investing in any kind of securities, stocks, treasury bills and government bonds provided from capital markets.

Located in Izmir, Tariş Yatırım Menkul Değerler A.Ş. ("Tariş Yatırım") was originally established as a subsidiary of Tarişbank in 1997 to handle the brokerage activities of its parent bank. With the acquisition of Tarişbank in 2002, Tariş Yatırım became a subsidiary of the Denizbank.

Established in 1976, Anadolu Kredi Kartı Turizm ve Ticaret A.Ş. ("AKK") was the first credit card processing company in Turkey. Shares of AKK were transferred to the SDIF in 1999 following its parent bank's acquisition by the same organization. At the end of 2001, Denizbank purchased 99.98% of AKK shares from the SDIF. AKK accepts domestic and international debit and credit cards (VISA, MasterCard, JCB and Diners) with 14 branches and three cash offices.

Intertech Bilgi İşlem ve Pazarlama Ticaret A.Ş. ("Intertech") was established in 1991 to provide IT services to the finance industry, especially to the banking sector. Denizbank acquired 100% of the shares of Intertech from SDIF in 2002.

Deniz Destek Oto Kiralama ve Temizlik A.Ş. ("Destek"), established in 1997, provides car rental service with a fleet of 187 vehicles.

In May 2003, Deniz Yatırım acquired 98.43% of the shares of Ege Portföy Yönetimi A.Ş. and changed its name to Deniz Portföy Yönetimi A.Ş. ("Deniz Portföy"). Deniz Portföy is engaged in serving domestic mutual funds and investment portfolios.

Significant accounting policies

a) Statement of compliance

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

The accompanying consolidated financial statements have been prepared in accordance with IFRS (International Financial Reporting Standards) and are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. Denizbank and its consolidated subsidiaries adopted all IFRS, which were mandatory as of 30 June 2004.

The Bank has exercised its option to early adopt the revised versions of IAS 32 *Financial Instruments: Disclosure and Presentation* (IAS 32) and IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) in the consolidated financial statements before their effective date of 1 January 2005. The effect on the income statement and equity of these changes in accounting standards are disclosed in Note 24.

b) Basis of preparation

The accompanying consolidated financial statements are presented in Turkish Lira (TL), rounded to the nearest billion as adjusted for the effects of inflation in TL units current at 30 June 2004 pursuant to IAS 29; "Financial Reporting in Hyperinflationary Economies".

The accompanying consolidated financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

Except for the early adoption of IAS 32 and IAS 39 as explained in section (a) above, the accounting policies applied by Denizbank are consistent with those used in previous periods.

c) Basis of consolidation

i) Methodology

The accompanying consolidated financial statements include the accounts of the parent company, Denizbank, and its subsidiaries (together "the Bank") on the basis set out in section below. The financial statements of the subsidiaries included in the consolidation have been prepared as of the date of the consolidated financial statements.

For the purposes of the accompanying consolidated financial statements, the subsidiaries are those companies over which Denizbank has a controlling power on their operating and financial policies through having more than 50% of the ordinary shares held by Denizbank and/or its other subsidiaries.

(Currency-Billions of Turkish Lira)

Significant accounting policies

The major principles of consolidation are as follows:

- The balance sheets and income statements are consolidated on a line-by-line basis.
- All intercompany investments, receivables, payables, dividends received and paid and other intercompany transactions reflected in the balance sheets and income statements are eliminated.
- The results of the subsidiaries are included in or excluded from the consolidation from their effective dates of acquisition or disposal, respectively.
- Minority interests in the shareholders' equity and net income of the consolidated subsidiaries are separately classified in the consolidated balance sheets and consolidated income statements.

ii) Subsidiaries

The subsidiaries included in the consolidation and their ownership percentages are as follows:

			Indirect Ownership (%)		
	Nature of Activities	Country of Incorporation	30 June 2004	31 December 2003	30 June 2003
Denizbank AG	Banking	Austria	99.99	99.99	99.99
Eurodeniz	Banking	Cyprus	99.88	99.88	99.88
Denizbank Moscow	Banking	Russia	99.99	99.99	--
Deniz Yatırım	Securities	Turkey	99.95	99.95	99.95
Ekspres Yatırım	Securities	Turkey	99.81	78.02	78.02
Tariş Yatırım	Securities	Turkey	100.00	100.00	100.00
Deniz Portföy	Investment	Turkey	98.38	98.38	--
AKK	Credit cards	Turkey	99.98	99.98	99.98
Intertech	Technology	Turkey	100.00	100.00	100.00
Destek	Car rental	Turkey	98.40	98.40	98.40

d) *Accounting in hyperinflationary economies*

International Accounting Standard (IAS) 29, which deals with the effects of inflation in the consolidated financial statements, requires that consolidated financial statements prepared in the currency of a high inflation economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

(Currency-Billions of Turkish Lira)

Significant accounting policies

Three years inflation rate in Turkey has been 110% as at 30 June 2004, based on the countrywide wholesale price indices announced by the Turkish State Institute of Statistics (SIS). Accordingly, the consolidated financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 30 June 2004 based on IAS 29.

The restatements were calculated by means of conversion factors derived from the wholesale price indices. Such indices announced by SIS and conversion factors used to restate the consolidated financial statements at 30 June 2004, 31 December 2003 and 30 June 2003 are given below:

Dates	Index	Conversion Factors
30 June 2004	7,982.7	1.000
31 December 2003	7,382.1	1.081
30 June 2003	7,222.2	1.105

The basic principles applied in the restatement of the accompanying consolidated financial statements are summarized in the following paragraphs.

- Monetary assets and liabilities, which are carried at amounts current at the balance sheet date, are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date (30 June 2004).

- Non-monetary assets and liabilities, which are not carried at amounts current at the balance sheet date, and components of shareholders' equity are restated by applying the relevant (monthly, quarterly/yearly average, quarter/year end) conversion factors. Additions to premises and equipment in the year of acquisitions are restated using the relevant conversion factors.

- The inflation adjusted share capital amount has been derived by indexing each capital increase from the date it was contributed except for contributions funded from profit distributions in which case the amount of the capital increase has been limited to the amount of profit available for distribution in the accompanying consolidated financial statements.

- Prior periods' consolidated financial statements are restated using general inflation indices at the currency purchasing power at the balance sheet date (30 June 2004).

- All items in the statements of income are restated by applying the monthly conversion factors except for those amounts deriving from non-monetary items, which are calculated based on the restated values of the related items.

- The effect of general inflation on the Bank's net monetary position is included in the statements of income as monetary gain or loss.

Significant accounting policies

e) Foreign currency

i) Foreign currency transactions

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

ii) Consolidated financial statements of foreign operations

The foreign operations of the Bank are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Turkish Lira at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Turkish Lira at foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in equity.

f) Bank premises, equipment and intangible assets

i) Owned assets

The cost of the bank premises, equipment and intangible assets are restated for the effects of inflation in TL units current at the balance sheet date pursuant to IAS 29. Accordingly, bank premises, equipment and intangible assets are carried at restated costs, less accumulated depreciation and amortization.

ii) Leased assets

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired through finance leases are stated at amounts equal to the lower of present value of minimum lease payments or the fair value of leased assets at the inception of the lease. Capitalized leased assets are depreciated in accordance with depreciation policies noted below, except where there is no reasonable certainty of obtaining ownership by the end of the lease term, in which case the asset is fully depreciated over the shorter of the lease term or its useful life.

iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of bank premises and equipment that is accounted for separately, including major inspection and overhaul costs, is capitalized. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the item of bank premises and equipment. All other expenditures are recognized in the income statement as an expense as incurred.

Significant accounting policies

iv) Depreciation and amortization

Bank premises, equipment and intangible assets are depreciated and amortized over the estimated useful lives of the related assets from the date of purchase or the date of installation, and on a straight line basis. Leasehold improvements are depreciated over the periods of the respective leases on a straight-line basis. Bank premises, equipment and intangible assets purchased since January 2003 are depreciated using the double-declining balance method. The depreciation and amortization periods for bank premises, equipment and intangible assets, which approximate the economic useful lives of such assets, (for leasehold improvements; the periods of respective leases) are as follows:

Buildings	2%
Vehicles	10%-40%
Other equipment, furniture and fixtures	10%-40%
Intangibles	9%-40%

The useful lives and depreciation and amortization methods are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of premises, equipment and intangible assets.

g) ***Goodwill/Negative goodwill***

Positive goodwill arising from the difference between the acquisition costs and the fair values of the Bank's share of the net assets of the acquired companies at the time of acquisition, if any, are amortized on a straight-line basis over 10 years (20 years for goodwill related to Denizbank Moscow acquisition) based on the management's estimation for the realization of future economic benefits. Amortization expense/income of goodwill is reflected in the income statements. The amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount and impairment loss is recognized as an expense in the income statement.

h) ***Financial instruments***

i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

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

Significant accounting policies

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt investments.

The Bank cannot classify any financial asset as held-to-maturity if they have, during the current financial year or during two preceding financial years sold or transferred held-to-maturity investments before maturity.

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

ii) Recognition

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

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

iii) Measurement

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

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

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

iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

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

v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading instruments are recognized in the income statement as net trading income.

Significant accounting policies

Gains and losses arising from a change in the fair value of available-for-sale securities are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of the cumulative gain or loss recognized in equity is transferred to the income statement. Interest earned whilst holding available-for-sale securities is reported as interest income. Interest earned whilst holding held to maturity assets is reported as interest income.

vi) Specific instruments

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, demand deposits at domestic and foreign banks and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the central banks.

- *Investments*

Investments that the Bank holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

- *Loans and advances to banks and customers*

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

i) Derecognition

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

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

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

j) Repurchase transactions

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

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

Significant accounting policies

k) Impairment

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

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

Loans and advances are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. In addition to the allowance for specific loan losses, the Bank also provides general provisions for inherent credit risk on loans and guarantees and commitments. The level of general provision is based on management's evaluation of the loan portfolio, including such factors as the volume and character of loans outstanding, loan loss experience in the past and general economic conditions. The general provision is also presented as a deduction from loans and advances.

The Bank fully reflected all such provisions in the accompanying consolidated financial statements. The expected cash flows for loan portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

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

l) Income and expense recognition

Interest income and expense is recognized as it is accrued taking into account the effective yield of the asset or an applicable floating rate, except for interest income on overdue loans, which are generally recognized only when received. Certain commissions, such as those deriving from letters of guarantee and other banking services are also usually recognized as income when received. Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

m) Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated balance sheets, since such items are not the assets of the Bank.

(Currency-Billions of Turkish Lira)

Significant accounting policies

n) *Reserve for employee severance indemnity*

In accordance with existing social legislation, the Bank is required to make lump-sum termination indemnity payments to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the accompanying consolidated financial statements, the Bank has reflected a liability calculated using actuarial method and discounted by using the current market yield at the balance sheet date on government bonds, in accordance with IAS 19- revised "Employee Benefits".

The principal actuarial assumptions used at 30 June 2004, 31 December 2003 and 30 June 2003 are as follows;

	30 June 2004 %	31 December 2003 %	30 June 2003 %
Discount rate	18	18	35
Expected rate of salary/limit increase	25	25	43
Turnover rate to estimate the probability of retirement	84	84	84

Actuarial gains and losses are recognized in the income statement in the period they occur.

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 30 June 2004 was TL 1,485 million; at 31 December 2003 it was TL 1,390 million and at 30 June 2003, it was TL 1,324 million. The liability is not funded, as there is no funding requirement.

Significant accounting policies

o) Income taxes

Tax expense (income) is the aggregate amount included in the determination of net profit or loss for the period/year in respect of current and deferred tax.

Deferred tax liabilities and assets are recognized for the tax effects attributable to differences between the tax and book bases of assets and liabilities (i.e. future deductible or taxable temporary differences) and tax losses carried forward, using the liability method at currently enacted tax rates. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset at the balance sheet date.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities relating to individual consolidated subsidiaries that report to the same fiscal authority are offset against each other in the accompanying consolidated financial statements.

p) Offsetting

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

r) Provisions

A provision is recognized when, and only when, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

s) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Significant accounting policies

t) Subsequent events

Post balance sheet events that provide additional information about the Bank's position at the balance sheet dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

u) Purchase accounting

Under purchase accounting, the identifiable assets and liabilities of the acquired entity that existed at the date of acquisition, plus certain restructuring provisions, are brought at fair value. The identifiable assets include any intangibles that can be reliably measured. The cost of an acquisition is the amount of cash or cash equivalents paid, or the fair value of the other purchase consideration given, plus any costs directly attributable to the acquisition.

The date of acquisition is the date on which control is effectively transferred to the acquirer.

v) Segment reporting

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

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1 Segment reporting

Segment information is presented in respect of Denizbank's geographical and business segments. The primary format, business segments, is based on Denizbank's activities.

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

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

1.1 Business segments

Denizbank and its subsidiaries operate principally in the financial services segment. As the results of operations of the non-financial services segment are insignificant such business segment information is not presented.

(Currency-Billions of Turkish Lira)

1.2 Geographical segments

Denizbank and its subsidiaries operate principally in Turkey, but also have operations in Austria, Russia and Turkish Republic of Northern Cyprus. The geographical segments as of 30 June 2004, 31 December 2003 and 30 June 2003 are as follows:

30 June 2004	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	433,492	23,290	1,544	33,431	491,757	(9,956)	481,801
Interest expense and similar charges	(299,178)	(11,866)	(304)	(19,581)	(330,929)	9,956	(320,973)
Fee and commission income	75,995	556	177	222	76,950	(7)	76,943
Fee and commission expense	(19,262)	(25)	(37)	-	(19,324)	7	(19,317)
Dividend income	27,400	-	-	-	27,400	(27,400)	-
Net gain on trading and non-trading inst.	11,190	-	(301)	158	11,047	-	11,047
Other operating income	28,347	2,087	-	206	30,640	-	30,640
General and administrative expenses	(117,175)	(4,828)	(1,508)	(328)	(123,839)	(36)	(123,875)
Bad debt expense	(9)	-	(99)	-	(108)	-	(108)
Foreign exchange gain, net	(38,245)	121	1,109	20,058	(16,957)	-	(16,957)
Other operating expenses	(17,545)	(240)	-	(27,751)	(45,536)	27,551	(17,985)
Loss on net monetary position, net	(25,288)	-	-	-	(25,288)	11,089	(14,199)
Income tax benefit / (expense)	(11,366)	(1,352)	(72)	(667)	(13,457)	-	(13,457)
Minority interest	-	-	-	-	-	(5)	(5)
Net profit for the period	48,356	7,743	509	5,748	62,356	11,199	73,555
Segment assets	5,767,270	841,653	25,834	479,002	7,113,759	(309,092)	6,804,667
Investments in equity participations	295,160	6,274	-	-	301,434	(83,094)	218,340
Total assets	6,062,430	847,927	25,834	479,002	7,415,193	(392,186)	7,023,007
Segment liabilities	5,447,190	792,444	13,931	465,646	6,719,211	(311,488)	6,407,723

(Currency-Billions of Turkish Lira)

31 December 2003	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	604,974	30,182	383	59,533	695,072	(454)	694,618
Interest expense and similar charges	(447,977)	(19,464)	(116)	(18,619)	(486,176)	454	(485,722)
Fee and commission income	114,393	2,750	372	423	117,938	(8)	117,930
Fee and commission expense	(28,058)	(324)	(88)	-	(28,470)	8	(28,462)
Dividend income	39,232	-	-	-	39,232	(39,232)	-
Net gain on trading and non-trading inst.	76,521	1,515	300	(1,444)	76,892	198	77,090
Other operating income	50,770	11	-	172	50,953	(834)	50,119
General and administrative expenses	(197,576)	(5,692)	(1,657)	(128)	(205,053)	619	(204,434)
Bad debt expense	(45,548)	-	-	-	(45,548)	-	(45,548)
Foreign exchange gain, net	24,629	209	1,992	7,763	34,593	-	34,593
Other operating expenses	(37,149)	(2,335)	-	-	(39,484)	-	(39,484)
Loss on net monetary position, net	(44,935)	-	-	-	(44,935)	1,023	(43,912)
Income tax expense	(41,468)	(2,606)	(491)	(955)	(45,520)	-	(45,520)
Minority interest	-	-	-	-	-	465	465
Net profit for the year	67,808	4,246	695	46,745	119,494	(37,761)	81,733
Segment assets	5,016,185	642,537	31,970	380,755	6,071,447	(209,365)	5,862,082
Investments in equity participations	311,369	6,617	-	-	317,986	(84,980)	233,006
Total assets	5,327,554	649,154	31,970	380,755	6,389,433	(294,345)	6,095,088
Segment liabilities	4,707,138	605,814	20,416	327,607	5,660,975	(166,123)	5,494,852

(Currency-Billions of Turkish Lira)

30 June 2003	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	345,605	14,901	6	28,698	389,210	(86)	389,124
Interest expense and similar charges	(293,277)	(9,222)	(72)	(8,679)	(311,250)	87	(311,163)
Fee and commission income	44,709	526	70	-	45,305	(634)	44,671
Fee and commission expense	(11,567)	(8)	(51)	-	(11,626)	633	(10,993)
Dividend income	7,268	-	-	-	7,268	(7,268)	-
Net gain on trading and non-trading inst.	17,771	-	-	(1,835)	15,936	-	15,936
Other operating income	32,193	1,383	2	177	33,755	(77)	33,678
General and administrative expenses	(91,232)	(3,117)	(596)	(6,885)	(101,830)	6,848	(94,982)
Bad debt expense	(11,173)	-	(9)	-	(11,182)	-	(11,182)
Foreign exchange gain, net	30,159	75	701	10,657	41,592	-	41,592
Other operating expenses	(11,818)	(86)	-	-	(11,904)	-	(11,904)
Loss on net monetary position, net	(33,210)	-	-	-	(33,210)	(3,504)	(36,714)
Income tax benefit / (expense)	(23,327)	(1,596)	(14)	(442)	(25,379)	-	(25,379)
Minority interest	-	-	-	-	-	134	134
Net profit for the period	2,101	2,856	37	21,691	26,685	(3,867)	22,818
Segment assets	3,358,314	510,724	5,861	247,784	4,122,683	(128,423)	3,994,260
Investments in equity participations	312,465	17	-	-	312,482	(72,195)	240,287
Total assets	3,670,779	510,741	5,861	247,784	4,435,165	(200,618)	4,234,547
Segment liabilities	3,136,877	459,976	3,869	226,998	3,827,720	(116,012)	3,711,708

(Currency-Billions of Turkish Lira)

2 Net interest income

	30 June 2004	30 June 2003	31 December 2003
Interest and similar income			
Interest and similar income arise from:			
Loans	181,603	105,862	267,482
Securities	265,562	215,153	308,115
Deposits in banks	29,059	61,132	116,420
Other	5,577	6,977	2,601
	481,801	389,124	694,618
Interest expense and similar charges			
Interest expense and similar charges arise from:			
Deposits from banks and customers	308,975	302,562	460,750
Funds borrowed	11,206	7,614	16,176
Other	792	987	8,796
	320,973	311,163	485,722
Net interest income	160,828	77,961	208,896

3 Net fee and commission income

	30 June 2004	30 June 2003	31 December 2003
Fee and commission income			
Cash loans	4,268	2,384	43,467
Non-cash loans	11,338	7,619	18,298
Brokerage fees	61,337	34,668	56,165
	76,943	44,671	117,930
Fee and commission expense			
Cash loans	1,497	1	736
Non-cash loans	58	86	23
Brokerage fees	17,762	10,906	27,703
	19,317	10,993	28,462
Net fee and commission income	57,626	33,678	89,468

(Currency-Billions of Turkish Lira)

4 Net gain on trading and non-trading instruments

	30 June 2004	30 June 2003	31 December 2003
Net trading income			
Net trading gain/(loss) arise from:			
Equity instruments	(3,706)	(17,662)	(12,282)
Debt instruments and related derivatives	6,157	20,580	86,477
Foreign exchange rate fluctuations and related derivatives	6,681	11,122	17,024
	9,132	14,040	91,219
Net gain on disposal of non-trading financial instruments			
Net gain/(loss) on disposal	(1,265)	1,896	(14,129)
Net revaluation gain transferred from equity	3,180	-	-
	1,915	1,896	(14,129)
Net gain on trading and non-trading instruments	11,047	15,936	77,090

5 Other operating income

	30 June 2004	30 June 2003	31 December 2003
Credit card income	10,965	5,689	22,089
Other	19,675	27,989	28,030
	30,640	33,678	50,119

6 General and administrative expenses

	30 June 2004	30 June 2003	31 December 2003
Salaries and employee benefits	59,122	40,241	98,426
Administrative expenses	35,465	24,292	42,553
Depreciation and amortization	13,208	11,208	24,145
Rent expense	9,422	9,491	17,866
Taxes other than on income	6,658	9,750	21,444
	123,875	94,982	204,434

(Currency-Billions of Turkish Lira)

7 Other operating expense

	30 June 2004	30 June 2003	31 December 2003
Cost of credit card operations	8,495	7,630	16,662
Premium paid to SDIF	2,335	2,458	4,764
Other	7,155	1,816	18,058
	17,985	11,904	39,484

8 Related parties

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

	30 June 2004	31 December 2003	30 June 2003
Loans	25,959	32,007	154,907
Deposits from customers	116,003	99,510	147,447
Interest income	76	771	3,393
Interest expense	1,505	927	653
Non-cash loans	279,850	282,161	148,826
Derivative transactions	5,369	-	214

Interest and commission rates applicable to these transactions approximate the market rates.

9 Cash and cash equivalents

Cash and cash equivalents include cash, due from banks and securities with original maturity periods of less than three months. Cash and cash equivalents included in the accompanying consolidated cash flow statements are as follows:

	30 June 2004	31 December 2003	30 June 2003
Cash and balances with Central Bank	468,850	608,276	357,183
Deposits at banks	1,360,929	745,599	196,905
Investments	116,229	1,733	7,787
	1,946,008	1,355,608	561,875

(Currency-Billions of Turkish Lira)

10 Cash and balances with Central Bank

	30 June 2004	31 December 2003	30 June 2003
Cash on hand	128,151	149,273	85,307
Balances with Central Bank other than reserve deposits	76,680	87,298	93,413
Interbank money market placements	72,058	178,200	16,812
Reserve deposits at Central Bank	191,961	193,505	161,651
	468,850	608,276	357,183

Reserve deposits represent the minimum cash reserve maintained with the Central Bank of Turkey (the Central Bank), as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. At 30 June 2004, reserve deposit ratios for Turkish Lira and foreign currency deposits are 6% and 11%, (31 December and 30 June 2003: 6% and 11%) respectively. These reserve deposit ratios are applicable to both time and demand deposits. At 30 June 2004, TL funds sold to interbank money market earned interest at the rate of 22% (31 December 2003: 26%; 30 June 2003: 40.25%) with maturities within 1 day (31 December 2003: 1 to 2 days; 30 June 2003: 11 days).

11 Due from banks

	30 June 2004	31 December 2003	30 June 2003
Due from banks-demand	46,641	381,959	37,701
Due from banks-time	1,531,768	583,844	299,141
	1,578,409	965,803	336,842

Due from banks-time represent placements with interest rates ranging from 22% to 22.7% (31 December 2003: 26% to 26.75%; 30 June 2003: 40%) for the Turkish Lira and from 1.4% to 4.6% (31 December 2003: 0.5% to 5%; 30 June 2003: 1% to 4.1%) for the foreign currency placements having maturities ranging from 1 to 7 days (31 December 2003: 2 to 36 days; 30 June 2003: 1 to 30 days).

(Currency-Billions of Turkish Lira)

The following table summarizes the carrying and the fair value amounts of due from banks:

	30 June 2004	**31 December 2003**	**30 June 2003**
Principal amount	1,578,409	965,803	336,842
Accrued interest **(a)**	793	348	25
Carrying amount	1,579,202	966,151	336,867
Fair value **(b)**	1,579,202	966,151	336,867

(a) Accrued interest income is included in "accrued interest, prepaid expenses and other assets" caption in the financial statements.

(b) The interest rates used to determine the fair value of due from banks, applied on the balance sheet date to reflect active market price quotations are as follows:

Currencies	**30 June 2004**	**31 December 2003**	**30 June 2003**
Turkish lira (%)	22.0-22.7	26.0-26.75	37.4-39.25
Foreign currencies (%)	1.4-4.6	1.0-4.0	1.2-3.9

Since market interest rates are very close to the rates used by the Bank, fair value amounts of due from banks are assumed to be same as their carrying amounts.

(Currency-Billions of Turkish Lira)

12 Investments

Investments as of 30 June 2004 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Trading portfolio				
Debt instruments:				
Government bonds	239,821	215,984	20.05-28.82	2006
Treasury bills	20,847	19,208	20.51-26.55	2004
Foreign government eurobonds	29,618	29,576	10.38-11.00	2040
Turkish government eurobonds	8,283	8,522	6.50-11.38	2034
Private sector eurobonds	5,684	6,152	8.00-15.00	2010
	304,253	279,442		
Equity instruments:				
Listed		88,618		
Total trading portfolio		368,060		
Available for sale portfolio				
Debt instruments:				
Government bonds-floating rate	869,520	852,618	25.45-31.25	2006
Turkish government eurobonds	175,773	190,896	6.20-11.87	2034
Private sector eurobonds	3,596	3,636	8.13-9.75	2007
Foreign government eurobonds	12,187	10,544	8.00-10.38	2024
Foreign currency government bonds and treasury bills	242,514	239,894	3.88-6.85	2025
Private sector bonds	48,199	48,322	4.34-15.00	2018
	1,351,789	1,345,910		
Equity instruments:				
Listed		146,633		
Unlisted		3,269		
		149,902		
Total available for sale portfolio		1,495,812		
Held to maturity portfolio				
Turkish government eurobonds	52,111	50,749	9.25-9.875	2011
Government bonds-floating rate	39,960	39,960	31.40	2004
Foreign government eurobonds	2,756	2,756	9.44-11.50	2018
Foreign currency indexed government bonds	24,115	24,115	4.79	2006
Foreign currency private sector bonds	66,410	65,943	2.63-8.72	2008
Total held to maturity portfolio	185,352	183,523		
Total investments		2,047,395		

(Currency-Billions of Turkish Lira)

Investments as of 31 December 2003 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Trading portfolio				
Debt instruments:				
Government bonds	105,683	89,934	19.28-49.00	2004
Treasury bills	98,053	89,645	24.00-49.00	2004
Turkish government eurobonds	5,189	4,979	8.17	2006
	208,925	184,558		
Equity instruments				
Listed		99,682		
Total trading portfolio		284,240		
Available for sale portfolio				
Debt instruments:				
Foreign currency government bonds and treasury bills	721,995	733,758	1.00-6.00	2023
Government bonds-floating rate	530,445	480,075	22.00-25.30	2004
Turkish government eurobonds	188,330	204,899	4.00-12.00	2030
Private sector eurobonds	3,525	3,564	5.00-12.00	2007
	1,444,295	1,422,296		
Equity instruments				
Listed		153,375		
Unlisted		3,249		
		156,624		
Total available for sale portfolio		1,578,920		
Held to maturity portfolio				
Turkish government eurobonds	60,815	58,899	5.77-7.00	2011
Government bonds-floating rate	43,211	43,211	32.00	2004
Foreign government eurobonds	17,150	17,135	2.50-7.12	2007
Foreign currency indexed government bonds	50,003	50,003	4.00	2006
Foreign currency private sector bonds	132,679	133,083	2.20-6.70	2008
Total held to maturity portfolio	303,858	302,331		
Total investments		2,165,491		

(Currency-Billions of Turkish Lira)

Investments as of 30 June 2003 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Trading portfolio				
Debt instruments:				
Government bonds	67,867	61,766	45.24-52.08	2004
Treasury bills	135,534	94,838	36.50-52.06	2004
	203,401	156,604		
Equity instruments				
Listed		94,866		
Unlisted		760		
		95,626		
Total trading portfolio		252,230		
Available for sale portfolio				
Debt instruments:				
Government bonds-floating rate	369,496	294,166	10.35-30.39	2005
Turkish government eurobonds	401,220	423,568	7.00-12.37	2030
Private sector eurobonds	3,112	3,112	11.50-12.75	2005
Foreign currency government bonds and treasury bills	322,508	328,398	1.32-9.00	2031
Private sector bonds	19,903	19,970	4.25-11.5	2018
	1,116,239	1,069,214		
Equity instruments				
Listed		161,848		
Unlisted		3,375		
		165,223		
Total available for sale portfolio		1,234,437		
Held to maturity portfolio				
Turkish government eurobonds	39,138	38,074	9.50-11.50	2011
Government bonds-floating rate	141,220	141,220	41.40-44.60	2004
Foreign government eurobonds	2,729	2,729	7.50	2007
Foreign currency indexed government bonds	51,110	51,110	3.96	2006
Foreign currency private sector bonds	37,140	37,031	4.25-7.50	2008
Total held to maturity portfolio	271,337	270,164		
Total investments		1,756,831		

(Currency-Billions of Turkish Lira)

The following table summarizes the carrying and the fair value amounts of held to maturity portfolio:

	30 June 2004	31 December 2003	30 June 2003
Principal amount	183,523	302,331	270,164
Accrued interest **(a)**	13,111	18,579	19,063
Carrying amount	196,634	320,910	289,227
Fair value	199,112	328,206	286,421

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

	30 June 2004		31 December 2003		30 June 2003	
	Nominal value	Book value	Nominal value	Book value	Nominal value	Book value
Deposited at Central Bank	180,893	178,662	197,963	197,961	199,941	197,475
Deposited at ISE **(b)**	24,300	24,300	2,811	2,890	26,859	26,859
Deposited at IGE **(c)**	525	525	-	-	580	580
Deposited at CH **(d)**	79,250	79,250	126,816	92,562	87,595	87,595
Deposited at foreign banks	111,936	111,771	-	-	112,807	111,561
Others	30,107	30,063	789	683	442	430
	427,011	424,571	328,379	294,096	428,224	424,500

(a) Accrued interest is included in "accrued interest, prepaid expenses and other assets" caption in the financial statements.

(b) Istanbul Stock Exchange

(c) Istanbul Gold Exchange

(d) Clearing House (IMKB Takas Saklama Bankası A.S.)

The listed available-for-sale and trading securities include investment in Zorlu Enerji Elektrik Üretimi Otoprodüktör Grubu A.S. (Zorlu Enerji), as disclosed in the following table reflecting the amount of and the ownership interest in the investee company:

	30 June 2004		31 December 2003		30 June 2003	
	Amount	%	Amount	%	Amount	%
Available-for-sale securities	146,584	34.5	153,375	34.5	161,775	34.5
Trading securities	71,756	16.9	79,631	17.9	78,512	16.7
	218,340	51.4	233,006	52.4	240,287	51.2

(Currency-Billions of Turkish Lira)

The Bank does not have any significant influence or control on Zorlu Enerji due to the non-existence of the following conditions that determine significant influence or control:

(a) Representation on the board of directors or equivalent governing body of Zorlu Enerji;
(b) Participation in policy making processes;
(c) Material transactions between the Bank and Zorlu Enerji;
(d) Interchange of managerial personnel; or
(e) Provision of essential technical information.

At 30 June 2004, the Bank has 41,110,919,000 Class (B) Zorlu Enerji shares (31 December 2003: 41,929,588,000; 30 June 2003: 40,994,788,000 Class (B) shares). These shares are ordinary and do not have any privileges. Under the relevant provisions of the Articles of Association of Zorlu Enerji, only Class (A) shares have various privileges, especially electing the Board of Directors and internal auditors, and the voting right on the General Assembly.

Therefore, neither the equity method of accounting for this investee nor the consolidation of its financial statements with those of the Bank is deemed necessary under these circumstances.

13 Loans and advances to customers, less allowance for possible losses

Outstanding loans and advances to customers are presented based on economic sectors as follows:

	30 June 2004	31 December 2003	30 June 2003
Consumer durables	370,493	114,622	121,742
Construction, glass and mining	335,988	425,772	241,056
Textile and leather	289,179	273,185	203,714
Food	218,837	172,373	155,290
Finance	265,010	141,651	115,063
Metal and machinery	206,330	169,156	77,265
Tourism and transportation	192,681	124,138	115,822
Electronics and IT	75,271	87,138	117,340
Press and other public media	84,041	57,501	27,172
Others	588,147	458,962	342,321
Total performing loans	2,625,977	2,024,498	1,516,785
Non-performing loans	85,760	100,735	82,795
Total gross loans	2,711,737	2,125,233	1,599,580
Allowance for possible losses	(77,609)	(91,102)	(65,340)
Net loans and discounts	2,634,128	2,034,131	1,534,240

The Bank generally seeks collateral security comprising real estate and other mortgages of varying ranking, cheques and bills, cash collaterals, personal guarantee of shareholders, and similar items.

(Currency-Billions of Turkish Lira)

The allowance for possible losses includes specifically identified loans and discounts and general provision as explained below.

The specific allowance for possible losses is comprised of amounts for specifically identified problem and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

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

Movement in the allowance for specific and general loan losses during the periods/year is as follows:

	30 June 2004	31 December 2003	30 June 2003
Balances, beginning of the period/year	91,102	59,110	59,110
Reversal of the provision	(30,818)	(5,578)	(757)
Restatement of the beginning balance and of the current period/year provision for the effect of inflation	(6,854)	(7,709)	(6,084)
Provision for the period/year	24,179	45,279	13,071
Balances, end of the period/year	77,609	91,102	65,340

The following table summarizes the carrying and the fair value amounts of loans and advances to customers:

	30 June 2004	31 December 2003	30 June 2003
Principal amount	2,634,128	2,034,131	1,534,240
Accrued interest **(a)**	45,080	23,005	36,148
Carrying amount	2,679,208	2,057,136	1,570,388
Fair value	2,680,478	2,060,684	1,573,312

(a) Accrued interest is included in "accrued interest, prepaid expenses and other assets" caption in the financial statements.

The interest rates applied to determine the fair value of loans, at the balance sheet date reflecting the active market price quotations are as follows:

Currencies	30 June 2004	31 December 2003	30 June 2003
Turkish lira	26.4%-47.4%	28.0%	47.40%-60.0%
Foreign currencies	3.25%-8.5%	4.75%	5.0%-8.5%

(Currency-Billions of Turkish Lira)

The source of bad debt expense is as follows:

	30 June 2004	30 June 2003	31 December 2003
Specific and general provision on non-performing loans	(6,639)	12,314	39,701
Provision for non-cash loans (Note 21)	6,747	(1,132)	5,847
Bad debt expenses	108	11,182	45,548

14 Accrued interest, prepaid expenses and other assets

Accrued interest, prepaid expenses and other assets comprised the following items:

	30 June 2004	31 December 2003	30 June 2003
Accrued interest on loans	45,080	23,005	36,148
Accrued interest on securities	43,024	114,749	59,220
Accrued interest and foreign exchange gain on derivatives	14,360	18,466	4,023
Accrued interest on due from banks and similar items	8,413	13,402	4,262
Assets held for sale	1,871	2,588	989
Other	48,606	32,171	29,184
	161,354	204,381	133,826

(Currency-Billions of Turkish Lira)

15 Bank premises and equipment

Movement in bank premises and equipment is as follows:

	Building	Motor Vehicles	Furniture Fixture	Leased Assets	Leasehold Improvement	Accumulated Depreciation	Carrying Amount
As of 1 January 2003	43,533	12,499	41,093	39,438	13,058	(55,363)	94,258
Additions	5	713	7,981	3,992	1,872		14,563
Transfers and disposals	-	(164)	(1,126)	(1,119)	(202)	2,468	(143)
Depreciation expense						(8,991)	(8,991)
As of 30 June 2003	43,538	13,048	47,948	42,311	14,728	(61,886)	99,687
As of 1 July 2003	43,538	13,048	47,948	42,311	14,728	(61,886)	99,687
Additions	526	2,204	2,061	3,613	6,353		14,757
Transfers and disposals	-	(479)	(1,581)	(1,823)	(1,769)	1,482	(4,170)
Depreciation expense						(10,324)	(10,324)
As of 31 December 2003	44,064	14,773	48,428	44,101	19,312	(70,728)	99,950
As of 1 January 2004	44,064	14,773	48,428	44,101	19,312	(70,728)	99,950
Additions	2,881	8,763	1,391	3,766	5,607		22,408
Transfers and disposals	(13)	(3,272)	(1,237)	(2,633)	-	5,825	(1,330)
Depreciation expense						(10,830)	(10,830)
As of 30 June 2004	46,932	20,264	48,582	45,234	24,919	(75,733)	110,198

Depreciation is calculated on the restated cost amounts. Such depreciation expenses for the six-month periods ended 30 June 2004 and 2003, and for the year ended 31 December 2003 amounted TL 10,830, TL 8,991 and TL 19,315, respectively.

(Currency-Billions of Turkish Lira)

16 Intangible assets

Movement in intangible assets is as follows:

	Rights	Goodwill/ (Negative Goodwill	Other	Accumulated Amortization	Carrying Amount
As of 1 January 2003	21,620	(533)	6,640	(15,033)	12,694
Additions	2,326	3,025	14		5,365
Transfers and disposals	(1)	-	-	1	-
Amortization expense				(2,217)	(2,217)
As of 30 June 2003	23,945	2,492	6,654	(17,249)	15,842
As of 1 July 2003	23,945	2,492	6,654	(17,249)	15,842
Additions	4,611	29	80		4,720
Transfers and disposals	(894)	-	(4,443)	4,444	(893)
Amortization expense				(2,613)	(2,613)
As of 31 December 2003	27,662	2,521	2,291	(15,418)	17,056
As of 1 January 2004	27,662	2,521	2,291	(15,418)	17,056
Additions	1,130	238	39		1,407
Transfers and disposals	(1,647)	-	-	1,421	(226)
Amortization expense				(2,378)	(2,378)
As of 30 June 2004	27,145	2,759	2,330	(16,375)	15,859

Amortization for intangible assets is calculated on the restated cost amounts. Such amortization expenses for the six-month periods ended 30 June 2004 and 2003, and for the year ended 31 December 2003 amounted TL 2,378, TL 2,217 and TL 4,830, respectively.

(Currency-Billions of Turkish Lira)

17 Deposits from banks

Deposits from banks comprised the following:

	30 June 2004	31 December 2003	30 June 2003
Payable on demand	49,509	192,702	23,077
Term deposits	201,912	208,932	130,950
Obligations under repurchase agreements	599,927	560,707	79,206
	851,348	962,341	233,233

The following table summarizes the carrying and the fair value amounts of deposits from banks:

	30 June 2004	31 December 2003	30 June 2003
Principal amount	851,348	962,341	233,233
Accrued interest **(a)**	469	188	185
Carrying amount	851,817	962,529	233,418
Fair value **(b)**	851,817	962,529	233,418

(a) Accrued interest is included in "accrued interest and other liabilities" caption in the financial statements.

(b) The interest rates applied to determine the fair value of time deposits, at the balance sheet date, reflecting the active market price quotations are as follows:

Currencies	30 June 2004	31 December 2003	30 June 2003
Turkish lira	22.00%	23.0%-29.0%	37.40%-39.25%
Foreign currencies	1.4%-4.6%	1.1%-5.5%	1.20%-3.90%

Since market interest rates are very close to rates used by the Bank, fair value amounts of deposits from banks are assumed to be same as their carrying amounts.

(Currency-Billions of Turkish Lira)

18 Deposits from customers

Deposits from customers comprised the following:

	30 June 2004	31 December 2003	30 June 2003
Payable on demand:			
Foreign currency	1,082,436	551,455	381,386
Savings	83,124	57,061	36,281
Commercial	241,203	158,528	126,082
	1,406,763	767,044	543,749
Term deposits:			
Foreign currency	2,040,912	1,921,818	1,647,822
Savings	734,118	693,993	650,074
Commercial	337,424	427,240	195,727
Obligations under repurchase agreements	110,644	76,638	4,757
	3,223,098	3,119,689	2,498,380
	4,629,861	3,886,733	3,042,129

The proceeds from the sale of securities that are the subject of repurchase agreements are treated as liabilities and recorded as obligations for repurchase agreements. As of 30 June 2004, the maturities of the deposits from customers are within 30 days with interest rates ranging between 22% and 25% (31 December 2003: 23% and 28%; 30 June 2003: 38% and 48%) for Turkish Lira deposits and within 60 days for foreign currency deposits with interest rates ranging between 2.25% and 4.25% (31 December 2003: 1.5% and 4.5%; 30 June 2003: 2.25% and 4.25%).

The following table summarizes the carrying and the fair value amounts of deposits from customers:

	30 June 2004	31 December 2003	30 June 2003
Principal amount	4,629,861	3,886,733	3,042,129
Accrued interest **(a)**	36,206	35,780	27,364
Carrying amount	4,666,067	3,922,513	3,069,493
Fair value	4,665,159	3,925,786	3,068,464

(a) Accrued interest is included in "accrued interest and other liabilities" caption in the financial statements.

(Currency-Billions of Turkish Lira)

The interest rates applied to determine the fair value of term deposits at the balance sheet date, reflecting the active market price quotations are as follows:

Currencies	**30 June 2004**	**31 December 2003**	**30 June 2003**
Turkish lira	21.5%-24.5%	27.0%	38.5%-43.0%
Foreign currencies	3.75%-5.0%	3.25%-3.30%	3.25%-3.75%

19 Funds borrowed

Funds borrowed comprised the following:

	Effective interest range (%)	**30 June 2004**	**31 December 2003**	**30 June 2003**
Foreign currency borrowings from foreign banks	1.32-4.68	541,270	314,987	177,155
Turkish Lira borrowings from domestic banks	21.2-21.7	42,777	37,412	24,150
Foreign currency borrowings from domestic banks	1.45-2.5	42,683	32,311	21,483
		626,730	384,710	222,788

The following table summarizes the carrying and the fair value amounts of funds borrowed:

	30 June 2004	**31 December 2003**	**30 June 2003**
Principal amount	626,730	384,710	222,788
Accrued interest **(a)**	3,492	994	210
Carrying amount	630,222	385,704	222,998
Fair value **(b)**	630,222	385,704	222,998

(a) Accrued interest is included in "accrued interest and other liabilities" caption in the financial statements.

(b) The interest rates applied to determine the fair value of funds borrowed, at the balance sheet date reflecting active market price quotations are as follows;

Currencies	**30 June 2004**	**31 December 2003**	**30 June 2003**
US$	1.32%-4.68%	2.24%	1.15%-3.77%
Euro	3.7%	4.39%	3.72%
Turkish lira	21.2%-21.7%	28%	37.4%-37.5%

Since market interest rates are very close to rates used by the Bank, fair value amounts of funds borrowed are assumed to be same as their carrying amounts.

20 Taxation

The Bank is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and in those countries where its subsidiaries are established. In Turkey, corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code.

In Turkey, the corporation tax rate for the fiscal year ended 31 December 2002 was 30% plus an additional 10% fund levy, giving an effective tax rate of 33%.

In Turkey, Law No. 4842, effective 24 April 2003, abolished the 10% fund levy. Beginning with 2003, the effective corporation tax rate reverts to 30%.

In Turkey, as per the Temporary Tax Law 5035, enacted on 2 January 2004, the corporate tax rate applicable only for the fiscal year 2004 was determined as 33 %. The corporate tax rate applicable for fiscal year 2005 and onwards will be 30 % as stated in the law No. 4842.

Turkish tax legislation provides for a temporary tax to be calculated and paid based on earnings generated for each quarter. The temporary tax rate is calculated at the same rate stipulated for income of related year. The amounts thus calculated and paid are offset against the final tax liability for the year. The final corporation tax, after deducting the quarterly payments, becomes due and paid in one installment by 30 April.

In Turkey, tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred.

In Turkey, tax returns are required to be filed within the fourth month following the balance sheet date. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

In Turkey, according to the Act No. 5024 which is effective as of 1 January 2004 as published in the Official Gazette number 25332 dated 30 December 2003, tax based financial statements are required to reflect the effects of inflation. Therefore, such financial statements are to be restated in terms of the measuring unit current at the balance sheet date. All inflation adjustments to be computed as of 1 January 2004 (for balance sheet of 31 December 2003) will be non-taxable.

As of 30 June 2004, the Bank has computed its tax provision for the second quarter of 2004 on its tax financial statements that were adjusted for the effects of inflation during the first half of 2004. All inflation adjustments computed as of 30 June 2004 will be taxable or tax deductible, taking into consideration the explanation below.

According to the Act No. 5228 which is effective as of 1 January 2004 as published in the Official Gazette number 25539 dated 31 July 2004, the purchase cost of share certificates (denominated in TL) should be restated in accordance with the inflation adjustment coefficient regardless of their market value. This is different than the original wording of the Act which allowed their valuation according to the fair market value.

The restated value of balance sheet items is taken as the new cost and/or base for depreciation. However, according to the change made by Act No. 5228, loss on sale of the restated assets other than assets subject to depreciation, is not tax deductible to the extent of the restated amount.

(Currency-Billions of Turkish Lira)

According to the Provisional Article 29 of Corporate Income Tax Code; the profit resulting from the sale of the equity investments is exempt from corporate income tax provided that, the sale transaction should be concluded by 31 December 2004 (it should be noted that, the tax holiday has been extended for several times before) and the gain on sale of such investments should be reflected in equity to be transferred to share capital later on. Accordingly, as of 30 June 2004, the unrealised gain of TL 105,500 arising from equity investments have been treated as permanent difference by the Bank.

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

	30 June 2004	%	30 June 2003	%	31 December 2003	%
Taxes on income per statutory tax rate	28,715	33.00	14,419	30.00	38,036	30.00
Permanent differences related to the restatement of equity items per IAS 29	7,918	9.10	7,892	16.42	29,859	23.55
Effect of different tax rates in foreign entities	(10,217)	(11.74)	(6,806)	(14.16)	(13,142)	(10.36)
Early adoption of revised IAS 39	(9,190)	(10.56)	8,281	17.23	5,507	4.34
Disallowable expenses	(4,222)	(4.85)	2,211	4.60	(12,037)	(9.50)
Change in effective tax rate from 33% in 2002 to 30% in 2003	-	-	181	0.37	(1,216)	(0.96)
Other	453	0.52	(799)	(1.66)	(1,487)	(1.17)
Provision for taxes on income	13,457	15.47	25,379	52.80	45,520	35.90

(Currency-Billions of Turkish Lira)

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

	30 June 2004	31 December 2003	30 June 2003
Deferred tax assets			
Valuation difference between tax base and reported base of investments	2,615	-	-
Allowance for loan losses	1,278	1,987	595
Reserve for employee severance indemnity	1,019	405	531
Accrued interest on derivatives	110	433	-
Statutory tax losses	27	-	1,974
Other provisions	1,909	302	1,980
Total deferred tax assets	6,958	3,127	5,080
Deferred tax liabilities			
Valuation difference between tax base and reported base of investments	-	24,042	15,315
Accrued foreign exchange gains and interest on derivatives	-	2,198	2,033
Effect of change in leasing regulation	-	2,429	1,061
Others	243	500	62
Total deferred tax liabilities	243	29,169	18,471
Net deferred tax (liabilities)/assets	6,715	(26,042)	(13,391)

(Currency-Billions of Turkish Lira)

21 Accrued interest and other liabilities

The principal components of this caption are as follows:

	30 June 2004	31 December 2003	30 June 2003
Remittances payable	71,503	54,958	74,760
Payable to merchants	67,898	23,662	20,284
Accrued interest on deposits	36,675	35,968	27,549
Allowance for losses on non-cash loans	27,441	22,374	16,247
Taxes withheld and duties payable	12,308	15,063	12,123
Cash guarantees and collaterals received	11,422	3,650	3,003
Obligations under financial leases	11,057	13,201	13,904
Accrued interest and foreign exchange loss on derivatives	8,939	21,987	3,872
Reserve for severance pay	3,885	1,910	1,804
Accrued interest on funds borrowed	3,492	994	210
Others	38,078	29,401	23,940
	292,698	223,168	197,696

Movement in allowance for losses on non-cash loans during the periods/year is as follows:

	30 June 2004	31 December 2003	30 June 2003
Balances, beginning of the period/year	22,374	19,373	19,373
Reversal of the provision	(1,173)	(7,538)	(8,190)
Restatement of the beginning balance and of the current period/year provision for the effect of inflation	(1,680)	(2,846)	(1,994)
Provision for the period/year	7,920	13,385	7,058
Balances, end of the period/year	27,441	22,374	16,247

22 Share capital

The authorized nominal share capital of Denizbank amounted to TL 202,000 comprising 202 millions registered shares of one million Turkish liras each. The portion of share capital arising from the amounts paid in by the shareholders was restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements. However, the transfers from revaluation surplus on fixed assets for statutory purposes and transfers from statutory retained earnings have been eliminated. Accordingly, the share capital is reflected as TL 458,660 in the accompanying consolidated financial statements.

(Currency-Billions of Turkish Lira)

23 Correction of errors

Under IAS 16 "Property, Plant and Equipment", the depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. When an asset is either acquired or disposed of during the year, the full year depreciation calculation should be prorated between the accounting periods involved. In prior years, the Bank had not applied pro-rata depreciation method, and recorded depreciation expense for whole year on bank premises and equipment, which is either acquired or disposed of during the year.

In the prior years/periods, the financial statements of AKK, Intertech, Deniz Portföy and Destek were not consolidated. Under IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", a parent company which issues consolidated financial statements should consolidate all of its subsidiaries, foreign and domestic, unless the control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. The Bank has had full control over these subsidiaries during the prior years/periods.

These changes have been accounted for by adjusting the opening balance of retained earnings as of 1 January 2003 as follows;

		Retained Earnings
Retained earnings as of 1 January 2003 prior to the correction		34,458
Impact of the correction of an error on depreciation	8,267	
Impact of the consolidation of the subsidiaries that were not consolidated in the prior year/period	(2,660)	
Total tax effect of the corrections	(2,730)	
Total effect of the correction of errors		2,877
Restated opening balance as of 1 January 2003 before changes in accounting policy (Note 24)		37,335

(Currency-Billions of Turkish Lira)

24 Change in accounting policy

During the year the Bank adopted revised versions of IAS 32 and IAS 39.

In December 2003 the IASB issued revised versions of IAS 32 and IAS 39, effective for reporting periods beginning on or after 1 January 2005. Accordingly, the option to recognize fair value changes on available-for-sale financial assets in income is consequently removed. Such fair value changes are now recognized in equity. The Bank has early adopted IAS 32 and IAS 39 as permitted by these revised standards. The standards are applied retrospectively by adjusting the opening balance of retained earnings in the earliest period presented, and other comparative amounts as necessary.

The change in accounting policy had the following impact on equity;

	Unrealized gains on AFS securities	Retained Earnings
Restated opening balance as of 1 January 2003 after correction of errors (Note 24)		37,335
Effect of early adoption of revised IAS 32 and IAS 39	(116,504)	
Total tax effect of the changes in accounting policy	466	
Total effect of the changes in accounting policy		(116,038)
Restated opening balance as of 1 January 2003		(78,703)

The change in accounting policy had the following impact on the consolidated income statements;

	30 June 2003	31 December 2003
Net profit before change in accounting policy	44,679	107,793
Early adoption of revised IAS 32 and IAS 39	(21,861)	(26,060)
Net profit after change in accounting policy	22,818	81,733

(Currency-Billions of Turkish Lira)

25 Commitments and contingent liabilities

Commitments and contingent liabilities arising in the ordinary course of business comprised the following principal items:

	30 June 2004	31 December 2003	30 June 2003
Letters of guarantee	1,197,427	1,052,601	817,937
Letters of credit	764,569	711,815	446,094
Acceptance credits	259,168	198,524	90,451
Other guarantees and endorsements	151,384	173,056	150,149
	2,372,548	2,135,996	1,504,631

25.1 *Letters of guarantee*

Letters of guarantee are mainly issued to the construction companies to be used as performance bonds. As of 30 June 2004, these letters approximate TL 333,292 in total (31 December 2003: TL 184,206; 30 June 2003: TL 245,061).

25.2 *Letters of credit, acceptances and other*

There are payment commitments mainly arising from the transactions of textile companies. As of 30 June 2004, these commitments approximate TL 162,723 in total (31 December 2003: TL 210,698; 30 June 2003: TL 94,699).

25.3 *Forward contracts*

As of 30 June 2004, commitments for purchase and sale of foreign currencies under forward agreements, swap and future contracts amounted to TL 2,256,306 (31 December 2003: TL 2,443,110; 30 June 2003: TL 1,572,273). The breakdown of such commitments outstanding, by types is as follows:

	30 June 2004		31 December 2003		30 June 2003	
	Purchase	Sale	Purchase	Sale	Purchase	Sale
Forward agreements for customer dealing activities	579,107	556,969	756,534	779,040	208,713	192,248
Forward agreements for trading purposes	489,935	504,371	299,038	269,823	487,982	503,827
Options	48,083	47,627	160,116	144,189	90,130	89,373
Interest rate swap contracts	15,107	15,107	736	732	-	-
Interest rate future contracts	-	-	16,451	16,451	-	-
	1,132,232	1,124,074	1,232,875	1,210,235	786,825	785,448

26 Risk management disclosures

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

26.1 Derivative financial instruments

The Bank enters into a variety of derivative financial instruments for trading and risk management purposes. This note describes the derivatives used by the Bank. Further details of the Bank's objectives and strategies in the use of derivatives are set out in the sections of this note on trading and non-trading activities.

Derivative financial instruments used by the Bank include swaps, futures and forwards whose value changes in response to changes in interest rates, foreign exchange rates, security prices, commodity prices or price indices. Derivatives are either standardized contracts transacted through regulated exchanges (referred to as exchange-traded products) or individually negotiated over-the-counter contracts (referred to as OTC-products). A description of the main types of derivative instruments used by the Bank is set out below.

(i) Swaps

Swaps are over-the-counter agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Cross-currency interest rate swaps require an exchange of interest payment flows and capital amounts in different currencies. The Bank is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates of the contract.

(ii) Futures and forwards

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

(iii) Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

26.2 Trading activities

The Bank maintains active trading positions in a variety of derivative and non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank carries an inventory of capital market instruments and maintains access to market liquidity by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt, equity, and commodity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income.

The Bank manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

The Bank's credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet. Notional amounts disclosed in the notes to the consolidated financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the Bank's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives. The risk that counter parties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank deals with counter parties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counter party in the event of default.

(ii) Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions. The "Risk measurement and control" section at the end of this note describes the approaches used to manage market risk and provides a quantitative measure of the market risk of the Bank's position at the balance sheet date.

26.3 Non-trading activities

Below is a discussion of the various risks the Bank is exposed to as a result of its non-trading activities and the approach taken to manage those risks. Further details of the steps taken to measure and control risk are set out in the "Risk measurement and control" section.

(Currency-Billions of Turkish Lira)

(i) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The following table provides an analysis of assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

<u>Maturities of assets and liabilities</u>

As of 30 June 2004:

	Less than one month	Between one and three months	Between three and twelve months	Between one and five years	More than five years	Unidentified maturity	Total
Assets							
Cash and balances with Central Bank	443,415	20,528	2,577	2,330	-	-	468,850
Due from banks	1,450,051	24,713	84,285	19,360	-	-	1,578,409
Investments	110,078	79,473	423,053	925,918	276,408	232,465	2,047,395
Loans and advances to customers	896,680	349,237	835,709	552,364	138	-	2,634,128
Other assets	61,148	16,631	36,321	28,853	3,093	148,179	294,225
	2,961,372	490,582	1,381,945	1,528,825	279,639	380,644	7,023,007
Liabilities							
Deposits from banks	682,318	55,551	100,056	13,423	-	-	851,348
Deposits from customers	3,444,984	460,842	578,110	145,925	-	-	4,629,861
Funds borrowed	100,877	58,942	461,432	-	5,479	-	626,730
Other liabilities	250,794	6,565	17,501	5,070	-	19,854	299,784
	4,478,973	581,900	1,157,099	164,418	5,479	19,854	6,407,723

(Currency-Billions of Turkish Lira)

As of 31 December 2003:

	Less than one month	Between one and three months	Between three and twelve months	Between one and five years	More than five years	Unidentified maturity	Total
Assets							
Cash and balances with Central Bank	229,048	379,228	-	-	-	-	608,276
Due from banks	824,594	33,835	57,856	49,518	-	-	965,803
Investments	357,087	141,346	443,544	623,483	343,724	256,307	2,165,491
Loans and advances to customers	599,951	223,431	650,560	542,488	-	17,701	2,034,131
Other assets	41,301	37,898	14,610	113,076	-	114,502	321,387
	2,051,981	815,738	1,166,570	1,328,565	343,724	388,510	6,095,088
Liabilities							
Deposits from banks	827,488	8,505	112,957	13,391	-	-	962,341
Deposits from customers	2,825,528	447,872	372,998	240,335	-	-	3,886,733
Funds borrowed	64,957	39,477	280,276	-	-	-	384,710
Other liabilities	68,518	16,025	5,006	146,886	-	24,633	261,068
	3,786,491	511,879	771,237	400,612	-	24,633	5,494,852

As of 30 June 2003:

	Less than one month	Between one and three months	Between three and twelve months	Between one and five years	More than five years	Unidentified Maturity	Total
Assets							
Cash and balances with Central Bank	195,534	31,153	130,496	-	-	-	357,183
Due from banks	235,631	10,270	56,921	34,020	-	-	336,842
Investments	12,713	38,782	448,676	581,594	416,172	258,894	1,756,831
Loans and advances to customers	598,113	167,814	457,952	310,361	-	-	1,534,240
Other assets	62,664	12,062	30,847	28,252	-	115,626	249,451
	1,104,655	260,081	1,124,892	954,227	416,172	374,520	4,234,547
Liabilities							
Deposits from banks	106,911	84,622	35,629	6,071	-	-	233,233
Deposits from customers	2,204,129	430,372	267,114	140,514	-	-	3,042,129
Funds borrowed	52,169	5,287	162,794	1,449	1,089	-	222,788
Other liabilities	169,958	6,719	14,466	7,373	-	15,042	213,558
	2,533,167	527,000	480,003	155,407	1,089	15,042	3,711,708

(ii) Market risk

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is liability sensitive because its interest-earning assets have a longer duration and reprice less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

To achieve its risk management objectives, the Bank uses a combination of derivative financial instruments, particularly futures as well as other contracts.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have indefinite maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded by liability pools based on the assets' estimated maturities and repricing characteristics. For example, domestic floating-rate loans are generally funded by short-term liabilities that reprice frequently, while fixed-rate credit card loans are funded by longer-term liabilities that reprice less frequently.

Part of the Bank's returns on financial instruments are obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarizes repricing mismatches on the Bank's non-trading books at the reporting dates. The carrying amounts of interest-rate-sensitive assets and liabilities and the notional amounts of swaps and other derivative financial instruments are presented in the periods in which they next reprice to market rates or mature, and are summed to show the interest rate sensitivity gap. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the expected maturity date.

(Currency-Billions of Turkish Lira)

Interest rate gap analysis

The following table indicates the periods in which financial assets and liabilities reprice as of 30 June 2004:

			fixed rate instruments				
	total	floating rate instruments	less than three months	between three months and one year	between one and two years	between two and five years	more than five years
Financial assets							
Cash and balances with Central Bank	468,850	158,127	310,698	25	-	-	-
Due from banks	1,578,409	19,366	1,470,255	69,427	14,013	5,348	-
Investments	1,824,637	1,161,350	117,754	184,543	57,055	61,197	242,738
Loans and advances to customers	2,634,128	932,337	820,886	459,211	410,891	10,803	-
Financial liabilities							
Deposits from banks	851,348	1,978	735,891	100,056	13,423	-	-
Deposits from customers	4,629,861	51,524	3,862,891	570,443	110,816	34,187	-
Funds borrowed	626,730	4,442	159,819	461,432	-	-	1,037

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2003:

			fixed rate instruments				
	total	floating rate instruments	less than three months	between three months and one year	between one and two years	between two and five years	more than five years
Financial assets							
Cash and balances with Central Bank	608,276	-	608,276	-	-	-	-
Due from banks	965,803	-	867,659	57,854	40,290	-	-
Investments	1,909,184	523,285	394,735	388,782	259,871	27,450	315,061
Loans and advances to customers	2,034,131	575,030	555,977	403,018	386,654	75,202	38,250
Financial liabilities							
Deposits from banks	962,341	-	835,993	112,956	13,392	-	-
Deposits from customers	3,886,733	-	3,273,398	372,999	240,336	-	-
Funds borrowed	384,710	-	104,843	279,867	-	-	-

(Currency-Billions of Turkish Lira)

The following table indicates the periods in which financial assets and liabilities reprice as of 30 June 2003:

			fixed rate instruments				
	total	floating rate instruments	less than three months	between three months and one year	between one and two years	between two and five years	more than five years
Financial assets							
Cash and balances with Central Bank	357,183	3,368	353,815	-	-	-	-
Due from banks	336,842	3,180	242,720	56,922	25,275	8,745	-
Investments	1,501,352	734,390	297,833	306,887	43,581	45,703	72,958
Loans and advances to customers	1,534,240	588,416	468,067	274,323	184,976	18,458	-
Financial liabilities							
Deposits from banks	233,233	2,790	188,742	25,110	16,591	-	-
Deposits from customers	3,042,129	43,313	2,610,756	294,096	48,963	45,001	-
Funds borrowed	222,788	-	57,456	162,794	-	1,449	1,089

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The primary exposure to equity prices arises from trading activities, although the Bank holds certain non-trading equity investments that are subject to equity price risk.

The Bank manages its use of non-trading equity investments in response to changing market conditions and limits the risk by maintaining a diversified portfolio. Exposure to market risk is formally managed in accordance with risk limits. The "Risk measurement and control" section at the end of this note describes in detail the approaches used to manage equity price risk and provides a quantitative measure of the equity price risk of the Bank's position at the balance sheet date.

Currency risk

The Bank is exposed to currency risk since substantial volumes of business are conducted in foreign currencies. Assets denominated in foreign currencies are funded by foreign currency customer deposits and by deposits or loans taken from foreign banks. The Bank' transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. The currency exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank, i.e., any currency other than Turkish Lira.

(Currency-Billions of Turkish Lira)

As of 30 June 2004 the Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	USD	EUR	JPY	Others	Total
Foreign currency denominated assets					
Cash and due from banks	1,075,938	281,746	836	27,771	1,386,291
Investments	410,914	276,842	-	5,482	693,238
Cash at Central Bank	58,033	5	-	152	58,190
Loans and advances to customers	1,114,805	362,925	-	7,298	1,485,028
Other assets	197,107	58,162	-	2,242	257,511
	2,856,797	979,680	836	42,945	3,880,258
Foreign currency denominated liabilities					
Deposits	2,174,936	1,075,786	583	52,370	3,303,675
Funds borrowed	555,517	10,406	-	735	566,658
Other liabilities	93,977	29,150	470	1,382	124,979
	2,824,430	1,115,342	1,053	54,487	3,995,312
(Short) / long position before forward contracts	32,367	(135,662)	(217)	(11,542)	(115,054)
Forward contracts hedging the short position	27,852	41,116	1,452	25,959	96,379
Net (short) / long position	**60,219**	**(94,546)**	**1,235**	**14,417**	**(18,675)**

As of 31 December 2003 the Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	USD	EUR	JPY	Others	Total
Foreign currency denominated assets					
Cash and due from banks	410,945	328,614	1,629	21,161	762,349
Investments	933,931	265,727	-	7,787	1,207,445
Cash at Central Bank	289,466	33,280	-	2,402	325,148
Loans and advances to customers	917,253	314,481	9,724	5,402	1,246,860
Other assets	69,100	26,241	1,725	3,241	100,307
	2,620,695	968,343	13,078	39,993	3,642,109
Foreign currency denominated liabilities					
Deposits	2,259,845	935,435	11,683	47,671	3,254,634
Funds borrowed	329,323	17,169	-	806	347,298
Other liabilities	36,512	18,426	4,080	11,897	70,915
	2,625,680	971,030	15,763	60,374	3,672,847
Short position before forward contracts	(4,985)	(2,687)	(2,685)	(20,381)	(30,738)
Forward contracts hedging the short position	87,020	(61,922)	877	31,172	57,147
Net (short) / long position	**82,035**	**(64,609)**	**(1,808)**	**10,791**	**26,409**

(Currency-Billions of Turkish Lira)

As of 30 June 2003 the Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	USD	EUR	JPY	Others	Total
Foreign currency denominated assets					
Cash and due from banks	213,304	155,577	338	16,304	385,523
Investments	649,340	278,718	-	1,155	929,213
Cash at Central Bank	118,672	72,704	-	-	191,376
Loans and advances to customers	683,962	153,398	8,952	135	846,447
Other assets	54,421	13,587	59	1,227	69,294
	1,719,699	673,984	9,349	18,821	2,421,853
Foreign currency denominated liabilities					
Deposits	1,433,259	708,669	662	22,633	2,165,223
Funds borrowed	187,457	11,181	-	-	198,638
Other liabilities	43,379	21,761	403	672	66,215
	1,664,095	741,611	1,065	23,305	2,430,076
Short position before forward contracts	55,604	(67,627)	8,284	(4,484)	(8,223)
Forward contracts hedging the short position	(49,816)	17,952	626	17,930	(13,308)
Net (short) / long position	**5,788**	**(49,675)**	**8,910**	**13,446**	**(21,531)**

(iii) Credit risk

The Bank is subject to credit risk through its trading, lending, hedging and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank is exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Bank has no significant exposure to any individual customer or counterparty.

26.4 Hedging

Due to the Bank's overall interest rate risk position and funding structure, its risk management policies require that it should manage its exposure to changes in foreign currency rates, interest rate, credit risk and market price risk exposure within certain guidelines. The Bank uses derivative financial instruments to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, financial futures, forward contracts and other derivatives. The purpose of the Bank's hedging activities are to protect itself from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank enters into transactions to ensure that it is economically hedged in accordance with risk management policies.

The Bank's risk management activities concentrate on hedging the net exposure based on its asset and liability positions. Therefore, the Bank monitors its interest rate risk exposure by reviewing the net asset or liability gaps within repricing bands.

26.5 Risk measurement and control

Interest rate, currency, equity price, credit, liquidity, and other risks are actively managed by independent risk control groups at both corporate and subsidiary levels to ensure compliance with the Bank's risk limits. The risk limits are assessed regularly to ensure their appropriateness given the Bank's objectives and strategies and current market conditions. A variety of techniques are used by the Bank in measuring the risks inherent in its trading and non-trading positions, including both derivative and non-derivative instruments. The various risk measurements presented below offer differing views of the same risks and should not be aggregated.

(i) Interest rate sensitivity

The Bank measures its exposure to changes in interest rates by calculating the approximate changes in net interest income for changes in interest rates. Duration-gap analysis, which measures the average days-to-repricing of all assets, liabilities and off-balance sheet items on a currency basis is performed daily. By this method, interest sensitivity of the balance sheet to movements on interest rates of each currency is determined. The management uses this information to assess the major risks that may arise by the change in interest rates. The profit or loss arising from 1 percentage point movement in interest rates (basis point value) is used as the proxy of interest rate risk of the balance sheet and is limited by the management according to market expectations and the maximum loss that may be tolerated by the Bank.

(ii) Value at risk

The market risk of the Bank's financial asset and liability trading positions are closely monitored, using Value at Risk analysis and other methods. Value at Risk represents the potential losses from adverse changes in market factors for a specified time period and confidence level. The Bank estimates Value at Risk using simulations of a large number of possible market scenarios. The overall market risk that any business unit can assume is approved by a senior risk management committee through a Value at Risk limit.

The Value at Risk of the Bank's financial instruments is measured on a 99% confidence level for 10-day holding period. The methodology contains widely acknowledged limitations including assumption of normal distribution of changes in risk factors, assumption that all positions can be closed out within 20 days and assumption that historical data is satisfactory proxy for estimating future events.

Value at Risk methodology forms the basis of the Bank's risk management system. Despite its drawbacks, it still gives a very important indication of risk levels of the bank in relatively stable market conditions. By comparing Value at Risk level with the profitability of each risk category, the management is able to determine the risk-adjusted income derived from taking market risk and also the potential loss that may occur under an adverse market movement. The management imposes strict Value at Risk limits for each major risk category.

iii) Historical Stress-testing

Because of the higher volatility levels in the developing markets, Value at Risk methodology does not give very satisfactory results under severe crisis conditions. Therefore, the management relies on Historical Stress-testing analysis to calculate its economic capital and for limiting the maximum risk it carries. In this method, the market movements that occurred during the last major (and most severe) financial crises (2000-2001 crises in Turkey) are applied to the current risk positions of the Bank. The resulting loss that is calculated is considered as the economic capital needed to take the current risks. The Bank limits the economic capital to a maximum of 50% of total shareholder's equity of the Bank and takes all necessary precautions to comply with this condition. The Bank also has a requirement that the management ensures that under any market condition, the Bank will achieve at least 9% capital adequacy level without any need for fresh capital injection. Therefore, Historical Stress-testing method guarantees that the risk positions of the Bank will never result in a financial loss that will jeopardize its capital adequacy limitation. The compliance with these two criteria is checked every day by means of reporting system of Risk Management Department.