Denizbank A.Ş.
And Its Subsidiaries

Consolidated Financial Statements

31 March 2004

With Independent Auditor's Report Thereon

Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik
Anonim Şirketi

11 May 2004

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Independent Auditor's Report

To the Board of Directors of Denizbank A.Ş.

We have audited the accompanying consolidated balance sheet of Denizbank Anonim Şirketi and its subsidiaries ("the Bank") as of 31 March 2004 and 2003, and 31 December 2003; and the related consolidated statements of income, changes in equity and cash flows for the three-month periods ended 31 March 2004 and 31 March 2003; and the year ended 31 December 2003. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain consolidated companies as of 31 March 2004 and 2003, and 31 December 2003, which statements reflect total assets constituting 17 percent, 14 percent and 14 percent; and total interest and commission income constituting 17 percent, 14 percent and 9 percent, after elimination of intercompany balances and transactions, respectively, as of 31 March 2004 and 2003, and 31 December 2003 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those companies is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements present fairly the financial position of the Bank as of 31 March 2004 and 2003, and 31 December 2003; and of the results of its operations and its cash flows for the three-month periods ended 31 March 2004 and 31 March 2003 and the year ended 31 December 2003 in accordance with International Financial Reporting Standards.

Istanbul
11 May 2004

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.

Denizbank currently has 170 branches nationwide and its head office is located in Istanbul. As of 31 March 2004, the number of personnel of Denizbank is 3,512. As of 31 March 2004, the number of personnel of Denizbank and its subsidiaries is 4,125.

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 in 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 to engage mainly in purchasing, selling and investing in any kind of securities, stocks, treasury bills and government bonds provided from capital markets; to manage mutual funds and to make transactions as an intermediary.

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 31 March 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 of 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. Under acquiring services, 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 31 December 2003. No standards were adopted before their effective date.

b) Basis of preparation

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

The accounting policies have been consistently 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**	**31 March 2004**	**31 December 2003**	**31 March 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 159% as at 31 March 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 31 March 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 31 March 2004, 31 December 2003 and 31 March 2003 are given below:

Dates	Index	Conversion Factors
31 March 2004	7,862.2	1.000
31 December 2003	7,382.1	1.065
31 March 2003	7,281.8	1.080

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 (31 March 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 (31 March 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 assets are recognized in the income statement. Interest earned whilst holding available for sale securities is reported as interest income. All related realized and unrealized gains and losses are included in net trading 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 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 (Note 21). The general provision is not presented as a deduction from loans and advances but reflected as a liability in the balance sheet.

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 severance pay

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" which became effective for financial years starting on or after 1 January 1999.

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

	31 March 2004 %	31 December 2003 %	31 March 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

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

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 31 March 2004 was TL 1,485 million; at 31 December 2003 it was TL 1,390 million and at 31 March 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. In accordance with revised IAS 12, deferred taxation has been provided on the temporary differences that originated by the restatement of non-monetary assets through the application of IAS 29 until 31 December 2003. After the introduction of a new tax law, as explained in Note 20, such differences, starting from 1 January 2004 became non-taxable as the new law also adopted the inflation accounting for tax purposes during any year when the economy becomes highly inflationary.

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 31 March 2004, 31 December 2003 and 31 March 2003 are as follows:

31 March 2004	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	174,620	7,377	415	20,149	202,561	(1,257)	201,304
Interest expense and similar charges	(107,232)	(4,814)	(157)	(7,151)	(119,354)	1,207	(118,147)
Fee and commission income	37,078	711	87	258	38,134	-	38,134
Fee and commission expense	(14,205)	(52)	(22)	-	(14,279)	-	(14,279)
Dividend income	19,669	-	-	-	19,669	(19,669)	-
Net trading income / (loss)	18,579	1,728	1,216	(2,690)	18,833	-	18,833
Other operating income	10,896	6	-	16	10,918	(133)	10,785
General and administrative expenses	(57,982)	(1,515)	(668)	(42)	(60,207)	163	(60,044)
Bad debt expense	(14,636)	-	(475)	-	(15,111)	-	(15,111)
Foreign exchange gain, net	3,309	60	492	13,214	17,075	-	17,075
Other operating expenses	(7,863)	(674)	-	-	(8,537)	-	(8,537)
Loss on net monetary position, net	(30,431)	-	-	-	(30,431)	437	(29,994)
Income tax benefit / (expense)	1,316	(953)	59	(475)	(53)	-	(53)
Minority interest	-	-	-	-	-	-	-
Net profit for the period	33,118	1,874	947	23,279	59,218	(19,252)	39,966

(Currency-Billions of Turkish Lira)

Segment assets	4,550,871	622,722	42,328	451,282	5,667,203	(293,694)	5,373,509
Investments in equity participations	315,454	5,594	-	67,677	388,725	(77,058)	311,667
Total assets	4,866,325	628,316	42,328	518,959	6,055,928	(370,752)	5,685,176
Segment liabilities	4,221,371	589,693	31,344	489,587	5,331,995	(276,871)	5,055,124

(Currency-Billions of Turkish Lira)

31 December 2003	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	634,750	30,623	377	58,634	724,384	(447)	723,937
Interest expense and similar charges	(441,214)	(19,171)	(114)	(18,338)	(478,837)	447	(478,390)
Fee and commission income	99,315	2,708	366	416	102,806	(7)	102,798
Fee and commission expense	(27,634)	(320)	(86)	-	(28,040)	7	(28,033)
Dividend income	38,639	-	-	-	38,639	(38,639)	-
Net trading income / (loss)	91,106	1,492	295	(1,422)	91,472	195	91,667
Other operating income	50,003	11	-	169	50,183	(821)	49,362
General and administrative expenses	(194,594)	(5,606)	(1,632)	(126)	(201,957)	609	(201,348)
Bad debt expense	(44,860)	-	-	-	(44,860)	-	(44,860)
Foreign exchange gain, net	31,842	206	1,962	7,646	41,656	-	41,656
Other operating expenses	(36,588)	(2,299)	-	-	(38,888)	-	(38,888)
Loss on net monetary position, net	(58,241)	-	-	-	(58,241)	1,102	(57,139)
Income tax expense	(51,063)	(2,567)	(484)	(940)	(55,054)	-	(55,054)
Minority interest	-	-	-	-	-	458	458
Net profit for the year	91,461	5,077	684	46,040	143,262	(37,096)	106,166
Segment assets	4,925,467	632,838	31,488	375,008	5,964,801	(206,205)	5,758,596

(Currency-Billions of Turkish Lira)

Investments in equity participations	329,617	6,517	-	-	336,134	(83,697)	252,437
Total assets	5,255,084	639,355	31,488	375,008	6,300,935	(289,902)	6,011,033
Segment liabilities	4,642,949	596,365	20,108	322,662	5,582,084	(163,616)	5,418,468

(Currency-Billions of Turkish Lira)

31 March 2003	**Turkey**	**Austria**	**Cyprus**	**Combined**	**Eliminations**	**Total**
Interest and similar income	162,846	7,587	13,123	183,556	-	183,556
Interest expense and similar charges	(119,786)	(4,667)	(4,263)	(128,716)	-	(128,716)
Fee and commission income	18,245	453	-	18,698	(253)	18,446
Fee and commission expense	(5,637)	(13)	-	(5,650)	253	(5,397)
Dividend income	7,158	-	-	7,158	(7,158)	-
Net trading income / (loss)	(43,650)	695	(1,130)	(44,085)	-	(44,085)
Other operating income	11,932	24	1	11,957	(45)	11,911
General and administrative expenses	(41,650)	(1,287)	(56)	(42,993)	52	(42,941)
Bad debt expense	(2,351)	-	-	(2,351)	-	(2,351)
Foreign currency exchange gain / (loss), net	(10,063)	21	(488)	(10,530)	-	(10,530)
Other operating expenses	(8,928)	(252)	-	(9,180)	-	(9,180)
Loss on net monetary position, net	(49,377)	-	-	(49,377)	5,793	(43,584)
Income tax benefit / (expense)	6,762	(426)	(144)	6,192	-	6,192
Minority interest	-	-	-	-	408	408
Net (loss)/profit for the period	(74,499)	2,135	7,043	(65,321)	(950)	(66,271)
Segment assets	3,154,772	424,075	155,464	3,734,311	(72,528)	3,661,783

(Currency-Billions of Turkish Lira)

Investments in equity participations	261,417	19	-	261,436	(67,838)	193,598
Total assets	3,416,189	424,094	155,464	3,995,747	(140,366)	3,855,381
Segment liabilities	2,975,471	381,612	131,118	3,488,201	(56,631)	3,431,570

(Currency-Billions of Turkish Lira)

2 Net interest income

	31 March 2004	31 March 2003	31 December 2003
Interest and similar income			
Interest and similar income arise from:			
Loans	80,534	76,937	263,444
Trading securities	90,871	73,308	343,267
Deposits in banks	27,592	32,723	114,664
Other	2,307	588	2,562
	201,304	183,556	723,937
Interest expense and similar charges			
Interest expense and similar charges arise from:			
Deposits from banks and customers	110,713	123,270	453,795
Funds borrowed	5,386	3,428	15,932
Other	2,048	2,018	8,663
	118,147	128,716	478,390
Net interest income	83,157	54,840	245,547

3 Net fee and commission income

	31 March 2004	31 March 2003	31 December 2003
Fee and commission income			
Cash loans	22,629	6,389	42,811
Non-cash loans	5,031	3,927	18,021
Brokerage fees	10,474	8,130	41,966
	38,134	18,446	102,798
Fee and commission expense			
Cash loans	788	1	725
Non-cash loans	5	5	23
Brokerage fees	13,486	5,391	27,285
	14,279	5,397	28,033
Net fee and commission income	23,855	13,049	74,765

4 Net trading income/(loss)

31	**31**	**■**	**3**
March	**March**	**1**	

(Currency-Billions of Turkish Lira)

	2004	2003	December 2003
Net trading income/(loss) arise from:			
Equity instruments	11,563	(24,478)	17,312
Debt instruments and related derivatives	7,270	(19,607)	74,355
	18,833	(44,085)	91,667

The Turkish Parliament's refusal to send troops to Iraq on 1 March 2003 and the subsequent war in Iraq had an adverse impact on the financial markets. The expiration of the USD 8 billion fund promised by the United States of America led to a serious decline in all financial markets starting from 18 March 2003. As a consequence of the decline in the markets, the value of the securities held by Denizbank went down in the last 10 days of March 2003, as was the case for most of the other financial institutions. However, since the market conditions stabilized and some good progress was recorded in the Iraqi war, the loss was recovered on 12 April 2003.

5 Other operating income

	31 March 2004	31 March 2003	31 December 2003
Credit card income	4,763	3,922	21,755
Stamp duty income	18	2,500	12,038
Other	6,004	5,489	15,569
	10,785	11,911	49,362

6 General and administrative expenses

	31 March 2004	31 March 2003	31 December 2003
Salaries and employee benefits	25,547	20,579	96,941
Administrative expenses	20,721	7,358	41,907
Depreciation and amortization	5,905	5,751	23,782
Rent expense	4,276	4,650	17,597
Taxes other than on income	3,595	4,603	21,121
	60,044	42,941	201,348

(Currency-Billions of Turkish Lira)

7 Other operating expense

	31 March 2004	31 March 2003	31 December 2003
Cost of credit card operations	3,899	3,599	16,410
Insurance fund premiums	1,164	2,307	4,692
Other	3,474	3,274	17,786
	8,537	9,180	38,888

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 Bank had the following balances outstanding from related parties and incurred the following transactions with related parties:

	31 March 2004	31 December 2003	31 March 2003
Loans	26,152	31,524	101,600
Deposits from customers	72,573	98,008	23,580
Interest income	226	759	374
Interest expense	580	913	323
Non-cash loans	239,636	277,902	180,586
Derivative transactions	2,592	-	-

Interest and commission rates applicable to the above balances approximate 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:

	■ 3 1 ■ M arch 2004	31 December 2003	31 March 2003
Cash and balances with Central Bank	516,841	599,094	509,651
Deposits at banks	592,789	734,344	331,882
Investments	91,499	1,707	947
	1,201,129	1,335,14 5	842,480

(Currency-Billions of Turkish Lira)

10 Cash and balances with Central Bank

	31 March 2004	31 December 2003	31 March 2003
Cash on hand	68,306	146,697	58,913
Balances with Central Bank other than reserve deposits	91,863	86,312	128,274
Interbank money market placements	168,991	175,510	150,756
Reserve deposits at Central Bank	187,681	190,575	171,708
	516,841	599,094	509,651

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 31 March 2004, reserve deposit ratios for Turkish Lira and foreign currency deposits are 6% and 11%, (31 December and 31 March 2003: 6% and 11%) respectively. These reserve deposit ratios are applicable to both time and demand deposits. At 31 March 2004, TL funds sold to interbank money market earned interest at the rate of 22% (31 December 2003: 26%; 31 March 2003: 44% and 45.25%) and with maturities ranging from 1 to 2 days (31 December 2003: 1 to 2 days; 31 March 2003: 2 to 11 days).

11 Due from banks

	■ 1 March 2004	31 December 2003	31 March 2003
Due from banks-demand	98,148	376,193	25,552
Due from banks-time	726,880	575,031	319,710
	825,028	951,224	345,262

Due from banks-time represent placements with interest rates ranging from 22.15% to 25% (31 December 2003: 26% to 26.75%; 31 March 2003: 44% to 51.7%) for the Turkish Lira and from 0.5% to 22.25% (31 December 2003: 0.5% to 5%; 31 March 2003: 1.25% to 7.88%) for the foreign currency placements having maturities ranging from 1 to 57 days (31 December 2003: 2 to 36 days; 31 March 2003: 1 to 85 days).

(Currency-Billions of Turkish Lira)

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

	31 March 2004	31 December 2003	31 March 2003
Principal amount	825,028	951,224	345,262
Accrued interest **(a)**	153	343	43
Carrying amount	825,181	951,567	345,305
Fair value	825,181	951,567	345,305

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

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	31 March 2004	31 December 2003	31 March 2003
Turkish lira (%)	22.0-22.25	26.00-26.75	44.25-51.70
Foreign currencies (%)	1.20-3.50	1.00-4.00	4.20-6.25

(Currency-Billions of Turkish Lira)

12 Investments

Investments as of 31 March 2004 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Trading portfolio				
Debt instruments:				
Government bonds	47,544	41,684	22.85-25.90	2005
Treasury bills	59,284	55,734	23.00-26.51	2004
Foreign government eurobonds	32,591	33,435	4.625-5.18	2040
Turkish government eurobonds	4,187	4,017	4.00-9.875	2034
Private sector eurobonds	7,669	7,669	10.79-12.75	2007
	151,275	142,539		
Equity instruments:				
Listed		160,682		
Total trading portfolio		303,221		
Available for sale portfolio				
Debt instruments:				
Government bonds-floating rate	856,898	678,493	21.00-26.77	2005
Turkish government eurobonds	126,112	152,303	4.00-9.875	2034
Private sector eurobonds	3,181	3,217	10.79-12.75	2007
Foreign government eurobonds	17,756	19,850	4.625-5.18	2034
Foreign currency government bonds and treasury bills	380,381	390,097	6.50-10.50	2020
Private sector bonds	43,888	43,888	11.50	2013
	1,428,216	1,287,848		
Equity instruments:				
Listed		147,785		
Unlisted		3,200		
		150,985		
Total available for sale portfolio		1,438,833		
Held to maturity portfolio				
Government bonds-floating rate	39,960	39,960	31.41	2004
Foreign currency government bonds	47,709	47,709	8.00-9.875	2011
Foreign currency indexed government bonds	46,241	46,241	4.13	2006
Foreign currency private sector bonds	49,510	49,510	4.60-7.50	2007

Total held to maturity portfolio	183,420	183,420
Total investments		1,925,474

(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	104,088	88,576	19.28-49.00	2004
Treasury bills	96,573	88,292	24.00-49.00	2004
Turkish government eurobonds	5,111	4,904	8.17	2006
	205,772	181,772		
Equity instruments				
Listed		98,177		
Total trading portfolio		279,949		
Available for sale portfolio				
Debt instruments:				
Foreign currency government bonds and treasury bills	711,096	722,682	1.00-6.00	2023
Government bonds-floating rate	522,438	472,828	22.00-25.30	2004
Turkish government eurobonds	185,487	201,806	4.00-12.00	2030
Private sector eurobonds	3,472	3,510	5.00-12.00	2007
	1,422,493	1,400,826		
Equity instruments				
Listed		151,060		
Unlisted		3,200		
		154,260		
Total available for sale portfolio		1,555,086		
Held to maturity portfolio				
Turkish government eurobonds	59,897	58,010	5.77-7.00	2011
Government bonds-floating rate	42,559	42,559	32.00	2004
Foreign currency indexed government bonds	49,248	49,248	4.00	2006
Foreign government eurobonds	16,891	16,876	2.50-7.12	2013
Foreign currency private sector bonds	130,676	131,074	2.20-6.70	2009
Total held to maturity portfolio	299,271	297,767		
Total investments		2,132,802		

(Currency-Billions of Turkish Lira)

Investments as of 31 March 2003 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Trading portfolio				
Debt instruments:				
Government bonds	104,778	77,534	45.36-70.95	2004
Treasury bills	16,252	13,901	40.45-53.20	2003
Turkish government eurobonds	12,164	11,733	3.60-13.90	2030
Foreign currency indexed bonds	19,237	18,682	100.27	2003
	152,431	121,850		
Equity instruments				
Listed		71,258		
Total trading portfolio		193,108		
Available for sale portfolio				
Debt instruments:				
Government bonds-floating rate	340,838	253,830	45.36-56.88	2005
Turkish government eurobonds	304,386	284,641	3.60-13.90	2030
Private sector eurobonds	7,342	7,342	12.75	2005
Foreign currency government bonds and treasury bills	316,935	308,869	1.60-5.00	2004
	969,501	854,682		
Equity instruments				
Listed		119,140		
Unlisted		3,200		
		122,340		
Total available for sale portfolio		977,022		
Held to maturity portfolio				
Government bonds-floating rate	137,950	137,950	45.36-48.57	2004
Foreign currency indexed government bonds	49,927	49,927	4.33	2006
Foreign currency government bonds and treasury bills	47,023	47,023	8.50-9.75	2010
Foreign currency private sector bonds	57,184	57,184	7.50-11.50	2018
Total held to maturity portfolio	292,084	292,084		
Total investments		1,462,214		

(Currency-Billions of Turkish Lira)

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

	31 March 2004	31 December 2003	31 March 2003
Principal amount	183,420	297,767	292,084
Accrued interest **(a)**	11,393	18,299	33,589
Carrying amount	194,813	316,066	325,673
Fair value	201,478	323,252	322,720

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

	31 March 2004		31 December 2003		31 March 2003	
	Nominal value	Book value	Nominal value	Book value	Nominal value	Book value
Deposited at Central Bank	194,191	194,491	194,975	194,973	223,955	221,694
Deposited at ISE **(b)**	18,800	18,905	2,769	2,846	5,049	5,023
Deposited at IGE **(c)**	525	545	-	-	-	-
Deposited at CH **(d)**	79,650	80,975	124,902	91,165	45,453	45,453
Deposited at foreign banks	-	-	-	-	165,202	155,133
Others	4,510	4,514	777	673	18,661	14,779
	297,676	299,430	323,423	289,657	458,320	442,082

(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:

	31 March 2004		31 December 2003		31 March 2003	
	Amount	%	Amount	%	Amount	%
Available-for-sale securities	147,770	34.5	151,060	34.5	119,140	34.5
Trading securities	70,959	16.6	78,429	17.9	55,877	16.2
	218,729	51.1	229,489	52.4	175,017	50.7

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:

(Currency-Billions of Turkish Lira)

(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 31 March 2004, the Bank has 40,853,468,000 Class (B) Zorlu Enerji shares (31 December 2003: 41,929,588,000; 31 March 2003: 40,544,532,000 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:

	31 March 2004	31 December 2003	31 March 2003
Construction, glass and mining	421,850	419,345	162,483
Textile and leather	267,365	269,061	139,164
Food	215,173	169,771	43,483
Consumer durables	202,067	112,891	89,921
Finance	198,347	139,513	169,286
Metal and machine	162,392	166,603	101,575
Tourism and transportation	135,523	122,264	80,735
Electronics and IT	82,503	85,823	55,785
Printing and publicity	53,787	56,633	34,714
Chemicals	45,819	56,775	82,251
Others	332,694	396,140	286,371
Total performing loans	2,117,520	1,994,819	1,245,768
Non-performing loans	104,173	99,217	81,117
Total gross loans	2,221,693	2,094,036	1,326,885
Allowance for possible losses	(90,481)	(82,660)	(55,417)
Net loans and discounts	2,131,212	2,011,376	1,271,468

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.

The allowance for possible losses includes specifically identified loans and discounts.

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.

(Currency-Billions of Turkish Lira)

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 (Note 21).

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

	■ 3 1 March 2004	31 December 2003	31 March 2003
Balances, beginning of the period/year	82,660	58,218	58,218
Transfer from general provision (Note 21)	984	-	-
Reversal of the provision	(2,282)	(9,650)	(2,058)
Restatement of the beginning balance and current period/year provision for the effect of inflation	(4,589)	(3,312)	(4,100)
Provision for the period/year	13,708	37,404	3,357
Balances, end of the period/year	90,481	82,660	55,417

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

	■ 3 1 March 2004	31 December 2003	31 March 2003
Principal amount	2,131,212	2,011,376	1,271,468
Accrued interest **(a)**	26,691	22,658	31,771
Carrying amount	2,157,903	2,034,034	1,303,239
Fair value	2,164,550	2,037,528	1,305,990

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	■ 3 1 March 2004	31 December 2003	31 March 2003
Turkish lira (%)	25.50	28.00	48.00
Foreign currencies (%)	4.50	4.75	5.50-5.75

The source of bad debt expense is as follows:

	■ 3 1 March 2004	31 March 2003	31 December 2003
Specific provision on non-performing loans	11,426	1,299	27,754
General provision (Note 21)	1,575	610	5,930

(Currency-Billions of Turkish Lira)

Provision for non-cash loans (Note 21)	2,110	442	11,176
Bad debt expenses	15,111	2,351	44,860

14 Accrued interest, prepaid expenses and other assets

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

	31 March 2004	31 December 2003	31 March 2003
Accrued interest on securities	80,863	113,017	52,130
Accrued interest on loans	26,691	22,658	31,771
Accrued foreign exchange gain on derivatives	21,551	18,188	4,939
Accrued interest on due from banks and similar items	9,387	13,200	5,068
Assets held for sale	1,986	2,549	1,202
Prepaid taxes	3	3	3,335
Other	29,280	31,681	40,803
	169,761	201,296	139,248

(Currency-Billions of Turkish Lira)

15 Bank premises and equipment

Movement in bank premises and equipment is as follows:

	Building	Motor Vehicles	■ Fu rniture Fixture	Leasehold Improvement	Accumulated Depreciation	Carryin g Amount
As of 1 January 2003	42,876	12,310	79,315	12,861	(54,527)	92,835
Additions	24	376	4,164	1,388	(4,229)	1,723
Transfers and disposals	-	(15)	(344)	-	188	(171)
As of 31 March 2003	42,900	12,671	83,135	14,249	(58,568)	94,387
As of 1 April 2003	42,900	12,671	83,135	14,249	(58,568)	94,387
Additions	499	2,497	12,680	6,522	(14,796)	7,402
Transfers and disposals	-	(618)	(4,680)	(1,752)	3,702	(3,348)
As of 31 December 2003	43,399	14,550	91,135	19,019	(69,662)	98,441
As of 1 January 2004	43,399	14,550	91,135	19,019	(69,662)	98,441
Additions	20	5,075	991	1,716	(4,505)	3,297
Transfers and disposals	-	(1,713)	(1,516)	(126)	1,719	(1,636)
As of 31 March 2004	43,419	17,912	90,610	20,609	(72,448)	100,102

Depreciation is calculated on the restated cost amounts. Such depreciation expenses in the three-month periods ended 31 March 2004 and 2003, and in the year ended 31 December 2003 amounted TL 4,505, TL 4,229 and TL 19,025, 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	21,294	(525)	6,540	(14,806)	12,503
Additions	2,424	-	-	(1,522)	902
Transfers and disposals	-	-	-	-	-
As of 31 March 2003	23,718	(525)	6,540	(16,328)	13,405
As of 1 April 2003	23,718	(525)	6,540	(16,328)	13,405
Additions	3,532	3,008	93	(3,235)	3,398
Transfers and disposals	(4)	-	(4,376)	4,376	(4)
As of 31 December 2003	27,246	2,483	2,257	(15,187)	16,799
As of 1 January 2004	27,246	2,483	2,257	(15,187)	16,799
Additions	709	386	21	(1,400)	(284)
Transfers and disposals	-	-	-	-	-
As of 31 March 2004	27,955	2,869	2,278	(16,587)	16,515

Amortization for intangible assets is calculated on the restated cost amounts. Such amortization expenses in the three-month periods ended 31 March 2004 and 2003, and in the year ended 31 December 2003 amounted TL 1,400, TL 1,522 and TL 4,757, respectively.

(Currency-Billions of Turkish Lira)

17 Deposits from banks

Deposits from banks comprised the following:

	31 March 2004	**31 December 2003**	**31 March 2003**
Payable on demand	69,925	189,794	57,354
Term deposits	222,148	205,778	112,374
Obligations under repurchase agreements	225,174	552,243	3,386
	517,247	947,815	173,114

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

	■ 31 March 2004	**31 December 2003**	**31 March 2003**
Principal amount	517,247	947,815	173,114
Accrued interest **(a)**	27	185	175
Carrying amount	517,274	948,000	173,289
Fair value	517,274	948,000	173,289

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	**■ 31 ■ March 2004**	**31 December 2003**	**31 March 2003**
Turkish lira	22.0%-23.0%	23.0%-29.0%	41.50%-45.25%
Foreign currencies	2.25%-5.56%	1.1%-5.5%	3.75%-5.50%

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

(Currency-Billions of Turkish Lira)

18 Deposits from customers

Deposits from customers comprised the following:

	■ 31 March 2004	■ 31 December 2003	31 March 2003
Foreign currency	2,390,962	2,435,939	1,940,418
Savings	820,329	739,717	701,676
Commercial	507,997	576,925	214,823
Obligations under repurchase agreements	111,459	75,481	38,104
	3,830,747	3,828,062	2,895,021

The proceeds from the sale securities are treated as liabilities and recorded as obligations for repurchase agreements. As of 31 March 2004, the maturities of the obligations are within 7 days with interest rates ranging between 15% and 17% (31 December 2003: 26%; 31 March 2003: 34%).

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

	■ 31 March 2004	31 December 2003	31 March 2003
Principal amount	3,830,747	3,828,062	2,895,021
Accrued interest **(a)**	26,571	35,250	16,744
Carrying amount	3,857,318	3,863,312	2,911,765
Fair value	3,854,913	3,866,526	2,912,108

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	■ ■ 31 March 2004	31 December 2003	31 March 2003
Turkish lira	23.0%	27.0%	46.0%
Foreign currencies	3.00%-3.25%	3.25%-3.30%	4.0%-4.25%

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

(Currency-Billions of Turkish Lira)

19 Funds borrowed

Amounts due to banks comprised the following:

	Effective interest range (%)	31 March 2004	31 December 2003	31 March 2003
Foreign currency borrowings from foreign banks	1.16-4.10	381,989	310,232	138,366
Turkish Lira borrowings from domestic banks	15.00-22.00	41,878	36,847	24,967
Foreign currency borrowings from domestic banks	1.69-3.20	31,440	31,823	18,193
Turkish Lira borrowings from foreign banks	23.00	-	-	12,108
		455,307	378,902	193,634

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

	31 March 2004	31 December 2003	31 March 2003
Principal amount	455,307	378,902	193,634
Accrued interest **(a)**	174	979	4,887
Carrying amount	455,481	379,881	198,521
Fair value	455,481	379,881	198,521

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	31 March 2004	31 December 2003	31 March 2003
US$	1.3%-4.1%	2.24%	3.06%
Euro	3.7%	4.39%	3.72%

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

(Currency-Billions of Turkish Lira)

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. Corporate taxes paid in Turkey are based on the taxable income. Corporation tax is computed on the statutory income tax base determined in accordance with the Procedural Tax Code.

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%.

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

In accordance with 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.

The tax legislation provides for a temporary tax of 30% (25% before 24 April 2003) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final tax liability for the year. The final corporation tax due, after deducting the quarterly payments, will be due in one installment by 15 April.

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

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.

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:

	31 March 2004	%	31 March 2003	%	31 December 2003	%
Taxes on income per statutory tax rate	(12,980)	33.00	21,878	30.00	(48,113)	30.00
Permanent differences related to the restatement of non-monetary items per IAS 29	(76)	0.19	(17,667)	(24.22)	(29,408)	18.33
Reversal of temporary differences related to the restatement of non-monetary items per IAS 29	-	-	-	-	1,570	(0.98)
Change in effective tax rate	-	-	2,369	3.24	(4,224)	2.63
Disallowable expenses	6,192	(15.74)	(2,175)	(2.98)	12,285	(7.65)
Effect of different tax rates in foreign entities	7,197	(18.30)	2,027	2.78	12,944	(8.07)
Other	(386)	0.98	(240)	(0.32)	(108)	0.06
Provision for taxes on income	(53)	0.13	6,192	8.50	(55,054)	34.32

(Currency-Billions of Turkish Lira)

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

	31 March 2004	31 December 2003	31 March 2003
Deferred tax assets			
Accrued interest on derivatives	2,062	433	-
Impairment in the value of equity participations	397	-	-
Valuation difference on investments	492	-	12,290
Allowance for loan losses	531	1,987	410
Reserve for severance pay	664	405	380
Statutory tax losses	-	-	8,082
Accrued expenses	-	-	439
Other provisions	764	302	933
Total deferred tax assets	4,910	3,127	22,534
Deferred tax liabilities			
Valuation difference on investments	6,386	22,261	2,008
Reversal of loan provision	1,182	-	-
Accrued foreign exchange gains and interest	1,890	2,198	74
Effect of change in leasing regulation	9	2,429	299
Others	1,534	500	407
Total deferred tax liabilities	11,001	27,388	2,788
Net deferred tax (liabilities)/assets	(6,091)	(24,261)	19,746

According to the Act No. 5035 as published in the Official Gazette number 25334 dated 2 January 2004, peculiar to taxation of 2004 earnings the corporation tax rate will be applied as 33%. Starting from 2005 corporation tax rate will be 30%.

According to the recent articles that are published in the Official Gazette, as mentioned above, deferred taxes are calculated with the corporation tax rate (33% for 2004 and 30% for the following years) considering the realization and settlement dates of the temporary differences.

According to the Act No. 5024 which is effective after 1 January 2004 as published in the Official Gazette number 25332 dated 30 December 2003, statutory financial statements base for tax purpose are required to reflect the effects of inflation. Therefore the tax purpose financial statements will be restated in terms of the measuring unit current at the balance sheet date starting from 1 January 2004. All inflation adjustments to be computed as of 1 January 2004 will be non-taxable.

As of 31 March 2004, the Bank has computed its tax provision for the first quarter of 2004 on its tax financial statements that were not adjusted for the effects of inflation during the first quarter 2004, as the Bank management expects that the annual inflation rate for the year 2004 will be below 10%. That would allow the Bank not to apply inflation accounting for tax purposes for the fiscal year ended 31 December 2004.

(Currency-Billions of Turkish Lira)

21 Accrued interest and other liabilities

The principal components of this caption are as follows:

	31 March 2004	31 December 2003	31 March 2003
Remittances payable	42,420	54,128	43,448
Accrued interest on deposits	26,598	35,425	16,919
Accrued foreign exchange loss on derivatives	25,364	21,655	15,077
Allowance for non-cash loans	16,473	14,792	5,980
General provision	13,660	15,195	14,004
Non-income related taxes and duties	11,296	14,836	10,580
Payables to suppliers relating to financial leasing activities	7,229	13,002	11,321
Payable to merchants	5,870	5,984	3,538
Reserve for severance pay	2,466	1,881	1,478
Accrued interest on funds borrowed	174	979	4,887
Others	77,063	49,872	40,852
	228,613	227,749	168,084

Movement in general provision and allowance for non-cash loans during the periods/year is as follows:

	■ 3 1 March 2004	31 December 2003	31 March 2003
Balances, beginning of the period/year	29,987	19,081	19,081
Transfer to specific loan provision (Note 13)	(984)	-	-
Restatement of the beginning balance and current period/year provision for the effect of inflation	(2,555)	(6,200)	(149)
Provision for the period/year (general provision)	1,575	5,930	610
Provision for the period/year (allowance for non-cash loans)	2,110	11,176	442
Balances, end of the period/year	30,133	29,987	19,984

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 was reflected as TL 451,736 in the accompanying consolidated financial statements.

23 Retained earnings

As of 31 March 2004, the reserves include legal reserves amounting to TL 5,273 (31 December 2003 and 31 March 2003: TL 1,192) in total which were established by annual appropriations amounting to 5% of income disclosed in the Bank's and its local subsidiaries' statutory accounts until it reaches

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20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital are to be appropriated to increase legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends.

24 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		(33,396)
Impact of the correction of an error on depreciation	8,142	
Impact of the consolidation of the subsidiaries that were not consolidated in the prior year/period	(2,620)	
Total tax effect of the corrections	(2,688)	
Total effect of the correction of errors		2,834
Restated opening balance as of 1 January 2003		(30,562)

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25 Commitments and contingencies

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

	31 March 2004	31 December 2003	31 March 2003
Letters of guarantee	1,010,576	1,036,712	772,774
Letters of credit	662,211	701,070	483,572
Acceptance credits	159,116	195,527	82,048
Other guarantees and endorsements	142,347	170,444	199,611
	1,974,250	2,103,753	1,538,005

25.1 Letters of guarantee

Letters of guarantee are mainly issued to the construction companies to be used as performance bonds. As of 31 March 2004, these letters approximate TL 176,850 in total (31 December 2003: TL 181,425; 31 March 2003: TL 135,235).

25.2 Letters of credit, acceptances and other

There are payment commitments mainly arising from the transactions of textile companies. As of 31 March 2004, these commitments approximate TL 196,015 in total (31 December 2003: TL 207,517; 31 March 2003: TL 143,137).

25.3 Forward contracts

As of 31 March 2004, commitments for purchase and sale of foreign currencies under forward agreements, swap and future contracts amounted to TL 2,854,965 (31 December 2003: TL 2,406,231; 31 March 2003: TL 1,331,435). The breakdown of such commitments outstanding, by types is as follows:

	31 March 2004		31 December 2003		31 March 2003	
	Purchase	Sale	Purchase	Sale	Purchase	Sale
Forward agreements for customer dealing activities	805,518	778,703	745,114	767,280	523,528	454,085
Forward agreements for trading purposes	358,774	351,655	294,524	265,750	172,191	172,454
Options	200,601	199,146	157,699	142,012	-	9,177
Interest rate swap contracts	25,199	25,179	725	721	-	-
Interest rate future contracts	55,095	55,095	16,203	16,203	-	-
	1,445,187	1,409,778	1,214,265	1,191,966	695,719	635,716

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.

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(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.

Maturities of assets and liabilities

As of 31 March 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	329,504	187,337	-	-	-	-	516,841
Due from banks	633,130	134,114	43,622	14,162	-	-	825,028
Investments	44,871	116,365	235,433	806,007	411,129	311,669	1,925,474
Loans and advances to customers	421,271	574,157	645,190	476,504	-	14,090	2,131,212
Other assets	30,953	50,311	10,776	78,793	2,479	113,066	286,378
	1,459,729	1,062,284	935,021	1,375,466	413,608	438,825	5,684,933
Liabilities							
Deposits from banks	386,462	82,246	36,482	12,057	-	-	517,247
Deposits from customers	2,560,444	686,848	435,060	148,395	-	-	3,830,747
Funds borrowed	14,838	41,157	399,312	-	-	-	455,307
Other liabilities	39,257	22,167	5,315	178,751	-	6,091	251,581
	3,001,001	832,418	876,169	339,203	-	6,091	5,054,882

As of 31 December 2003:

Less than	Between one and three	Between three and twelve	Between one and five	More than	Unidentified

	one month	months	months	years	five years	maturity	Total
Assets							
Cash and balances with Central Bank	225,590	373,504	-	-	-	-	599,094
Due from banks	812,147	33,323	56,983	48,771	-	-	951,224
Investments	351,697	139,212	436,849	614,071	338,535	252,438	2,132,802
Loans and advances to customers	598,845	220,058	640,740	534,299	-	17,434	2,011,376
Other assets	40,678	37,326	14,389	111,369	-	112,774	316,536
	2,028,957	803,423	1,148,961	1,308,510	338,535	382,646	6,011,032
Liabilities							
Deposits from banks	814,997	8,377	111,252	13,189	-	-	947,815
Deposits from customers	2,782,876	441,111	367,368	236,707	-	-	3,828,062
Funds borrowed	63,976	38,881	276,045	-	-	-	378,902
Other liabilities	74,046	15,783	4,930	144,669	-	24,261	263,689
	3,735,895	504,152	759,595	394,565	-	24,261	5,418,468

As of 31 March 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	337,943	171,708	-	-	-	-	509,651
Due from banks	262,780	57,731	24,751	-	-	-	345,262
Investments	24,072	60,386	460,124	543,685	183,417	190,530	1,462,214
Loans and advances to customers	263,464	323,032	351,009	307,350	-	26,613	1,271,468
Other assets	38,149	5,534	93,207	-	-	129,896	266,786
	926,408	618,391	929,091	851,035	183,417	347,039	3,855,381
Liabilities							
Deposits from banks	36,674	106,867	29,573	-	-	-	173,114
Deposits from customers	2,048,035	522,010	200,036	124,940	-	-	2,895,021
Funds borrowed	-	136,152	57,382	100	-	-	193,634
Other liabilities	159,579	4,376	2,318	3,528	-	-	169,801
	2,244,288	769,405	289,309	128,568	-	-	3,431,570

(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.

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Interest rate gap analysis

The following table indicates the periods in which financial assets and liabilities reprice as of 31 March 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	516,841	-	516,841	-	-	-	-
Due from banks	825,028	-	763,527	57,372	4,129	-	-
Investments	1,613,807	764,892	77,165	136,536	230,230	21,725	383,259
Loans and advances to customers	2,131,213	646,205	661,936	382,643	440,429	-	-
Financial liabilities							
Deposits from banks	517,247	-	405,935	88,245	23,067	-	-
Deposits from customers	3,830,747	-	3,227,160	375,494	228,093	-	-
Funds borrowed	455,307	-	55,995	399,312	-	-	-

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	599,094	-	599,094	-	-	-	-
Due from banks	951,224	-	854,561	56,981	39,682	-	-
Investments	1,880,365	515,387	388,776	382,913	255,948	27,036	310,305
Loans and advances to customers	2,011,376	566,350	555,535	396,934	380,817	74,067	37,673
Financial liabilities							
Deposits from banks	947,815	-	823,374	111,251	13,190	-	-
Deposits from customers	3,828,062	-	3,223,985	367,369	236,708	-	-
Funds borrowed	378,902	-	103,260	275,642	-	-	-

(Currency-Billions of Turkish Lira)

The following table indicates the periods in which financial assets and liabilities reprice as of 31 March 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	509,651	-	485,729	23,922	-	-	-
Due from banks	345,262	-	241,954	103,308	-	-	-
Investments	1,268,615	620,286	56,741	219,229	13,887	174,570	183,902
Loans and advances to customers	1,271,468	466,723	384,619	209,634	120,926	89,566	-
Financial liabilities							
Deposits from banks	173,114	-	113,809	59,305	-	-	-
Deposits from customers	2,895,021	-	2,499,093	233,370	162,558	-	-
Funds borrowed	193,634	-	148,614	43,308	1,712	-	-

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)

The Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	■ 3 1 March 2004	**31 December 2003**	**31 March 2003**
Foreign currency denominated assets:			
Cash and due from banks	597,921	750,841	296,407
Investments	808,696	1,189,214	798,674
Cash at Central Bank	242,447	320,240	227,769
Loans	1,289,792	1,228,039	856,684
Other assets	91,217	98,796	80,141
	3,030,073	3,587,130	2,259,675
Foreign currency denominated liabilities:			
Deposits	2,595,614	3,205,505	2,038,932
Funds borrowed	418,727	342,055	168,667
Other liabilities	91,911	69,845	78,012
	3,106,252	3,617,405	2,285,611
Short position before forward contracts	76,179	30,275	25,936
Forward contracts hedging the short position	(41,646)	(56,285)	125
Net short/(long) position	34,533	(26,010)	26,061

The major currencies included above are US Dollars and Euro.

(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 crisis (2000-2001 crisis 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. Also, the Bank has an internal condition that further states. The bank 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.

27 Subsequent events

In accordance with the Board of Directors' resolution dated 27 April 2004 with the reference number 25/2004, the share capital of Denizbank will be increased from TL 202,000 to TL 290,000 (representing the statutory amounts unadjusted for inflation) by a public offering. The increase in the number of shares will be 88.000.000.000. Of the total number of 88.000.000.000 shares being offered, the Bank will offer 50.368.526.000 shares and Zorlu Holding A.S. (the selling shareholder) will offer 37.631.474.000 shares.

As of 11 May 2004, the Bank has opened 13 new branches after 31 March 2004. As of 11 May 2004, total number of branches of Denizbank has reached 183.