Denizbank A.Ş.
And Its Subsidiaries

Consolidated Financial Statements

31 December 2004

With Independent Auditor's Report Thereon

Cevdet Suner Denetim ve
Yeminli Mali Müşavirlik
Anonim Şirketi

16 February 2005

This report contains 54 pages.

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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 December 2004 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. 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 December 2004, which statements reflect total assets constituting 17 percent; and total interest and commission income constituting 14 percent after elimination of intercompany balances and transactions as of and for the year ended 31 December 2004 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 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

As discussed in Note 25 to the consolidated financial statements, the Bank early adopted revised versions of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" in 2004.

Istanbul
16 February 2005

Denizbank A.Ş. and Its Subsidiaries

Notes to Consolidated Financial Statements

As of and for the year ended 31 December 2004

(Currency -- Billions of Turkish Lira)

(As adjusted for the effects of inflation in TL units current at 31 December 2004 pursuant to IAS 29)

Overview of the Bank

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

In September 2004, a total number of 72,500,000,000 shares of Denizbank were sold in domestic and international offerings. Of the total number of shares sold, 27,500,000,000 shares were sold in domestic public offering and 45,000,000,000 shares were sold in an international offering outside of Turkey in the form of Shares and Global Depositary Shares. The domestically held shares commenced trading on 1 October 2004 in the Istanbul Stock Exchange.

Denizbank currently has 199 branches and its head office is located in Istanbul. As of 31 December 2004, Denizbank has a total number of 4,344 employees. The total number of employees of Denizbank and its subsidiaries is 4,912.

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 to 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. 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. As of 31 December 2004, Denizbank AG has seven branches and its head office is located in Vienna.

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

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

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

Denizbank, together with Deniz Yatırım, acquired 78.01% of the shares of Ekspres Yatırım Menkul Değerler A.Ş. ("Ekspres Yatırım") from SDIF at the end of 2002. With subsequent acquisitions, the Bank and Deniz Yatırım's share increased to 99.82% as of 31 December 2004. Ekspres Yatırım, located in Istanbul, is engaged in trading of and investing in 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 Denizbank.

Established in 1976, Anadolu Kredi Kartı Turizm ve Ticaret A.Ş. ("AKK") was the first credit card processing company in Turkey. Shares of AKK were transferred to the SDIF in 1999 following its parent bank's acquisition by the same organization. At the end of 2001, Denizbank purchased 99.98% of AKK shares from the SDIF. AKK accepts domestic and international debit and credit cards (VISA, MasterCard, JCB and Diners) with 14 branches and three cash offices. Denizbank has sold its shares in AKK in December 2004.

Intertech Bilgi İşlem ve Pazarlama Ticaret A.Ş. ("Intertech") was established in 1991 to provide IT services to the financial sector and mainly 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. Denizbank has sold its shares in Destek in November 2004 to Zorlu Holding.

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.

In December 2004, Denizbank has established Deniz Kültür Sanat Yayıncılık Ticaret ve Sanayi A.Ş. ("Deniz Kültür Sanat") for the purpose of supporting cultural and art activities.

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 (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 2004.

The Bank has exercised its option to early adopt the revised versions of IAS 32 *Financial Instruments: Disclosure and Presentation* (IAS 32) and IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) in the consolidated financial statements before their effective date of 1 January 2005. The effect on the income statement and equity of the change in accounting policy to early adopt these standards are disclosed in Note 25.

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 December 2004 pursuant to IAS 29; "Financial Reporting in Hyperinflationary Economies".

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

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

c) Basis of consolidation

i) Methodology

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

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

(Currency-Billions of Turkish Lira)

Significant accounting policies

The major principles of consolidation are as follows:

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

ii) Subsidiaries

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

			Indirect Ownership (%)	
	Nature of Activities	**Country of Incorporation**	**2004**	**2003**
Denizbank AG	Banking	Austria	99.99	99.99
Eurodeniz	Banking	Cyprus	99.88	99.88
Denizbank Moscow	Banking	Russia	99.99	99.99
Deniz Yatırım	Securities	Turkey	99.95	99.95
Ekspres Yatırım	Securities	Turkey	99.81	78.02
Tariş Yatırım	Securities	Turkey	100.00	100.00
Deniz Portföy	Investment	Turkey	98.38	98.38
Intertech	Technology	Turkey	100.00	100.00
Deniz Kültür Sanat	Art	Turkey	100.00	100.00
AKK (sold in 2004)	Credit cards	Turkey	-	99.98
Destek (sold in 2004)	Car rental	Turkey	-	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 highly inflationary 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

As of 31 December 2004 the cumulative three-year inflation rate in Turkey has been 69.72%, based on the countrywide wholesale price indices announced by the Turkish State Institute of Statistics (SIS), not meeting the 100% criterion in IAS 29. However there are other indicators of high inflation in IAS 29, such as preference of people to keep their savings in foreign currency, prices of various services and goods being in foreign currency; correlation of interest rates, wages and prices to general price index level, application of interest on accounts even for short term maturity to offset the decrease in purchasing power. 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 December 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 December 2004, 2003 and 2002 are given below:

Dates	Index	Conversion Factors
31 December 2004	8,403.8	1.000
31 December 2003	7,382.1	1.138
31 December 2002	6,478.8	1.297

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 December 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.
- Prior periods' consolidated financial statements are restated using general inflation indices at the currency purchasing power at the balance sheet date (31 December 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 year.

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 rates 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.

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

iv) Fair value measurement principles

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

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

v) Gains and losses on subsequent measurement

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

Significant accounting policies

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

vi) Specific instruments

- *Cash and cash equivalents*

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

- *Investments*

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

- *Loans and advances to banks and customers*

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

i) Derecognition

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

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

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

j) Repurchase transactions

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

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

Significant accounting policies

k) Impairment

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

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

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

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

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

l) Income and expense recognition

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

m) Items held in trust

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

(Currency-Billions of Turkish Lira)

Significant accounting policies

n) ***Reserve for employee severance indemnity***

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

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

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

	2004	2003
	%	%
Discount rate	10	18
Expected rate of salary/limit increase	16	25
Turnover rate to estimate the probability of retirement	85	84

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

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2004 is TL 1,574 million; at 31 December 2003 it was TL 1,583 million. The liability is not funded, as there is no funding requirement.

o) ***Income taxes***

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

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

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

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

p) ***Offsetting***

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

Significant accounting policies

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.

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.

(Currency-Billions of Turkish Lira)

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1 Segment reporting

Segment information is presented in respect of Denizbank's geographical and business segments. The primary format, geographical 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 December 2004 and 2003 are as follows:

2004	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	731,520	41,997	3,324	80,582	857,423	(27,256)	830,167
Interest expense and similar charges	(415,065)	(28,138)	(725)	(41,956)	(485,884)	27,256	(458,628)
Fee and commission income	172,874	4,295	517	454	178,140	(9)	178,131
Fee and commission expense	(61,960)	(1,189)	(149)		(63,298)	9	(63,289)
Dividend income	90,783				90,783	(90,783)	
Net gain on trading and non-trading inst.	10,911	299	875	(347)	11,738		11,738
Other operating income	67,134	191		56	67,381	(693)	66,688
General and administrative expenses	(279,635)	(11,173)	(3,429)	(97)	(294,334)	618	(293,716)
Impairment losses on loans and advances	(40,061)		(425)		(40,486)		(40,486)
Foreign exchange gain, net	(55,029)	2,818	2,263	54,932	4,984	2,908	7,892
Other operating expenses	(36,331)	(164)		(13)	(36,508)		(36,508)
Loss on net monetary position, net	(56,034)				(56,034)	(397)	(56,431)
Income tax benefit / (expense)	(2,744)	(2,999)	(401)	(1,863)	(8,007)		(8,007)
Minority interest	-					(6)	(6)
Net profit for the year	126,363	5,937	1,850	91,748	225,898	(88,353)	137,545
Segment assets	6,626,813	1,068,131	75,581	430,965	8,201,490	(338,133)	7,863,357
Investments in equity participations	195,212	-	-	-	195,212	-	195,212
Total assets	6,822,025	1,068,131	75,581	430,965	8,396,702	(338,133)	8,058,569
Segment liabilities	5,920,135	984,721	63,640	423,662	7,392,158	(225,174)	7,166,984

(Currency-Billions of Turkish Lira)

2003	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	636,888	31,774	403	62,674	731,739	(478)	731,261
Interest expense and similar charges	(471,608)	(20,491)	(122)	(19,601)	(511,822)	478	(511,344)
Fee and commission income	120,427	2,895	392	445	124,159	(8)	124,151
Fee and commission expense	(29,538)	(342)	(92)	-	(29,972)	8	(29,964)
Dividend income	41,301	-	-	-	41,301	(41,301)	-
Net gain on trading and non-trading inst.	80,559	1,595	315	(1,520)	80,949	208	81,157
Other operating income	53,448	11	-	181	53,640	(878)	52,762
General and administrative expenses	(207,998)	(5,993)	(1,744)	(134)	(215,869)	651	(215,218)
Impairment losses on loans and advances	(47,951)	-	-	-	(47,951)	-	(47,951)
Foreign exchange gain, net	25,927	220	2,097	8,173	36,417	-	36,417
Other operating expenses	(39,109)	(2,458)	-	-	(41,567)	-	(41,567)
Loss on net monetary position, net	(47,305)	-	-	-	(47,305)	1,077	(46,228)
Income tax expense	(43,655)	(2,744)	(517)	(1,005)	(47,921)	-	(47,921)
Minority interest	-	-	-	-	-	490	490
Net profit for the year	71,386	4,467	732	49,213	125,798	(39,753)	86,045
Segment assets	5,256,268	676,432	33,657	400,841	6,367,198	(220,410)	6,146,788
Investments in equity participations	352,323	6,966	-	-	359,289	(89,463)	269,826
Total assets	5,608,591	683,398	33,657	400,841	6,726,487	(309,873)	6,416,614
Segment liabilities	4,955,447	637,772	21,493	344,889	5,959,601	(174,886)	5,784,715

2 Net interest income

	2004	2003
Interest and similar income		
Interest and similar income arise from:		
Loans	419,576	281,592
Securities	344,994	324,368
Deposits in banks	52,174	122,562
Other	13,423	2,739
	830,167	731,261
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from banks and customers	427,069	485,055
Funds borrowed	29,801	17,029
Other	1,758	9,260
	458,628	511,344
Net interest income	371,539	219,917

3 Net fee and commission income

	2004	2003
Fee and commission income		
Cash loans	10,583	7,095
Non-cash loans	30,057	27,239
Credit card commissions	37,774	25,252
Brokerage fees and other banking service income	99,717	64,565
	178,131	124,151
Fee and commission expense		
Cash loans	4,012	775
Non-cash loans	107	24
Brokerage fees and other banking service expense	59,170	29,165
	63,289	29,964
Net fee and commission income	114,842	94,187

(Currency-Billions of Turkish Lira)

4 Net gain on trading and investment securities

	2004	2003
Net trading income		
Net trading gain/(loss) arise from:		
Equity instruments	5,875	(12,930)
Debt instruments and related derivatives	(7,179)	57,581
Foreign exchange rate fluctuations and related derivatives	101	17,922
	(1,203)	62,573
Net gain on disposal of investment securities		
Net gain/(loss) on disposal	(2,556)	18,584
Transfer from unrealized gains (equity)	15,497	-
	12,941	18,584
Net gain on trading and investment securities	11,738	81,157

5 Other operating income

	2004	2003
Credit card income from AKK	22,621	23,254
Other	44,067	29,508
	66,688	52,762

6 General and administrative expenses

	2004	2003
Salaries and employee benefits	143,665	103,618
Administrative expenses	86,254	44,798
Depreciation and amortization	28,781	25,419
Rent expense	18,967	18,808
Taxes other than on income	16,049	22,575
	293,716	215,218

7 Other operating expenses

	2004	2003
Cost of credit card operations of AKK	17,816	17,541
Premium paid to SDIF	4,690	5,016
Other	14,002	19,010
	36,508	41,567

(Currency-Billions of Turkish Lira)

8 Related parties

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

	2004	2003
Loans	23,139	33,696
Deposits from customers	585,944	104,759
Interest income	3,928	811
Interest expense	4,528	976
Non-cash loans	230,373	297,046
Derivative transactions	10,596	-

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

9 Cash and cash equivalents

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

	2004	2003
Cash and balances with Central Bank	788,661	640,364
Deposits at banks	1,443,431	784,930
Trading securities	192,410	1,825
	2,424,502	1,427,119

10 Cash and balances with Central Bank

	2004	2003
Cash on hand	233,958	157,147
Balances with Central Bank other than reserve deposits	166,477	91,903
Interbank money market placements	93,543	187,601
Reserve deposits at Central Bank	294,683	203,713
	788,661	640,364

(Currency-Billions of Turkish Lira)

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 December 2004, reserve deposit ratios for Turkish Lira and foreign currency deposits are 6% and 11%, (31 December 2003: 6% and 11%) respectively. These reserve deposit ratios are applicable to both time and demand deposits. At 31 December 2004, TL funds sold to interbank money market earned interest at the rate of 18% (31 December 2003: 26%) with maturities within 3 days (31 December 2003: 1 to 2 days).

11 Due from banks

	2004	2003
Due from banks-demand	47,868	402,108
Due from banks-time	1,619,488	614,642
	1,667,356	1,016,750

Due from banks-time represent placements with interest rates ranging from 16% to 23.6% (31 December 2003: 26% to 26.75%) for the Turkish Lira denominated placements having maturities ranging from 3 to 365 days; and from 2.02% to 7.01% (31 December 2003: 0.5% to 5%) for the foreign currency denominated placements having maturities ranging from 3 to 182 days (31 December 2003: 2 to 36 days).

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

	2004	2003
Principal amount	1,667,356	1,016,750
Accrued interest **(a)**	1,754	367
Carrying amount	1,669,110	1,017,117
Fair value **(b)**	1,669,166	1,017,117

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

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

Currencies	2004	2003
Turkish lira (%)	18.0-27.0	26.0-26.75
Foreign currencies (%)	1.0-7.0	1.0-4.0

As of 31 December 2003, since market interest rates are very close to the rates used by the Bank, fair value amounts of due from banks are assumed to be same as their carrying amounts.

(Currency-Billions of Turkish Lira)

12 Trading securities

Trading securities as of 31 December 2004 and 2003 comprise:

2004	Face value	Book value	Interest range (%)	Latest maturity
Trading portfolio				
Debt instruments:				
Government bonds	259,433	243,408	17.66-24.15	2007
Private sector bonds	23,104	23,716	10.00-15.00	2010
Foreign government eurobonds	20,818	23,807	5.00-15.00	2030
Turkish government eurobonds	9,408	10,616	4.00-9.50	2034
Foreign currency government bonds	9,068	8,785	3.00-3.96	2007
Treasury bills	6,959	6,281	16.46-19.31	2005
Private sector eurobonds	4,477	5,259	8.00-12.75	2010
Foreign government bonds	2,639	2,876	4.50-5.50	2008
	335,906	324,748		
Equity instruments:				
Listed		89,920		
Total trading securities		414,668		

2003	Face value	Book value	Interest range (%)	Latest maturity
Trading portfolio				
Debt instruments:				
Government bonds	111,258	94,678	19.28-49.00	2004
Treasury bills	103,226	94,374	24.00-49.00	2004
Turkish government eurobonds	5,463	5,242	8.17	2006
	219,947	194,294		
Equity instruments				
Listed		104,940		
Total trading securities		299,234		

(Currency-Billions of Turkish Lira)

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:

	2004	2003
Consumer loans and credit cards	538,218	217,423
Construction, glass and mining	360,595	448,232
Finance	319,628	149,124
Textile and leather	286,185	287,596
Food	268,660	181,466
Consumer durables	267,028	120,668
Metal and machinery	230,031	178,080
Tourism and transportation	211,657	130,686
Electronics and IT	182,287	91,735
Press and other public media	145,666	60,534
Chemicals	74,549	60,686
Others	316,118	205,064
Total performing loans	3,200,622	2,131,294
Non-performing loans	116,259	106,049
Total gross loans	3,316,881	2,237,343
Allowance for possible losses	(115,859)	(95,908)
Net loans and discounts	3,201,022	2,141,435

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 and general provision as explained below.

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

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

(Currency-Billions of Turkish Lira)

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

	2004	2003
Balances, beginning of the year	95,908	62,228
Reversal of the provision	(31,612)	(5,872)
Restatement of the beginning balance and of the current year provision for the effect of inflation	(11,660)	(8,116)
Provision for the year	63,223	47,668
Balances, end of the year	115,859	95,908

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

	2004	2003
Principal amount	3,201,022	2,141,435
Accrued interest **(a)**	43,030	24,218
Carrying amount	3,244,052	2,165,653
Fair value	3,248,210	2,169,388

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

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

Currencies	2004	2003
Turkish lira	20.2%-22.0%	28.0%
Foreign currencies	4.75%-6.25%	4.75%

The source of impairment losses on loans and advances is as follows:

	2004	2003
Specific and general provision on non-performing loans	31,611	41,796
Provision for non-cash loans (Note 22)	8,875	6,155
Impairment losses on loans and advances	40,486	47,951

(Currency-Billions of Turkish Lira)

14 Investment securities

Investment securities as of 31 December 2004 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Available for sale portfolio				
Debt instruments:				
Government bonds-floating rate	836,346	730,268	24.96-27.60	2006
Foreign currency government bonds and treasury bills	320,099	308,450	3.88-6.92	2025
Turkish government eurobonds	138,609	148,867	2.14-11.90	2034
Private sector eurobonds	121,897	125,187	2.40-12.75	2018
Foreign government eurobonds	15,296	16,057	7.43-9.49	2040
	1,432,247	1,328,829		
Equity instruments:				
Listed		124,562		
Unlisted		6,516		
		131,078		
Total available for sale portfolio		1,459,907		
Held to maturity portfolio				
Foreign currency private sector bonds	85,617	85,465	4.10-4.80	2014
Turkish government eurobonds	56,891	55,510	2.32-9.88	2011
Foreign currency indexed government bonds	24,115	24,115	5.60	2006
Foreign government eurobonds	2,797	2,797	8.00	2007
Total held to maturity portfolio	169,420	167,887		
Total investment securities		1,627,794		

(Currency-Billions of Turkish Lira)

Investment securities as of 31 December 2003 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Available for sale portfolio				
Debt instruments:				
Foreign currency government bonds and treasury bills	760,081	772,465	1.00-6.00	2023
Government bonds-floating rate	558,427	505,399	22.00-25.30	2004
Turkish government eurobonds	198,265	215,708	4.00-12.00	2030
Private sector eurobonds	3,711	3,752	5.00-12.00	2007
	1,520,484	1,497,324		
Equity instruments				
Listed		161,466		
Unlisted		3,420		
		164,886		
Total available for sale portfolio		1,662,210		
Held to maturity portfolio				
Turkish government eurobonds	64,023	62,006	5.77-7.00	2011
Government bonds-floating rate	45,491	45,491	32.00	2004
Foreign government eurobonds	18,055	18,039	2.50-7.12	2007
Foreign currency indexed government bonds	52,641	52,641	4.00	2006
Foreign currency private sector bonds	139,678	140,103	2.20-6.70	2008
Total held to maturity portfolio	319,888	318,280		
Total investments		1,980,490		

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

	2004	2003
Principal amount	167,887	318,280
Accrued interest **(a)**	9,914	19,560
Carrying amount	177,801	337,840
Fair value	189,637	345,520

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

(Currency-Billions of Turkish Lira)

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

	2004		2003	
	Nominal value	**Book value**	**Nominal value**	**Book value**
Deposited at Central Bank	233,436	227,657	208,406	208,404
Deposited at ISE **(a)**	21,900	21,900	2,960	3,042
Deposited at IGE **(b)**	525	525	-	-
Deposited at CH **(c)**	94,700	94,700	133,506	97,445
Others	800	613	831	719
	351,361	345,395	345,703	309,610

(a) Istanbul Stock Exchange
(b) Istanbul Gold Exchange
(c) 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:

	2004		2003	
	Amount	**%**	**Amount**	**%**
Available-for-sale securities	124,504	29.5	161,466	34.5
Trading securities	70,708	16.8	83,832	17.9
	195,212	46.3	245,298	52.4

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

(a) Representation on the board of directors or equivalent governing body of Zorlu Enerji;

(b) Participation in policy making processes;

(c) Material transactions between the Bank and Zorlu Enerji;

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

At 31 December 2004, the Bank has 37,773,155,000 Class (B) Zorlu Enerji shares (31 December 2003: 41,929,588,000). 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.

(Currency-Billions of Turkish Lira)

15 Accrued interest, prepaid expenses and other assets

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

	2004	2003
Accrued interest on loans	43,030	24,218
Accrued interest on securities	68,898	120,803
Accrued interest and foreign exchange gain on derivatives	17,061	19,440
Accrued interest on due from banks and similar items	4,989	14,109
Assets held for sale	18,177	2,724
Other	53,783	33,868
	205,938	215,162

16 Bank premises and equipment

Movement in bank premises and equipment is as follows:

	Building	Motor Vehicles	Furniture Fixture	Leased Assets	Leasehold Improvement	Carrying Amount
As of 1 January 2003						
Cost	45,829	13,158	43,261	41,518	13,748	157,514
Accumulated depreciation	(16,958)	(4,869)	(16,008)	(15,362)	(5,087)	(58,284)
Opening net book amount	28,871	8,289	27,253	26,156	8,661	99,230
Additions	559	3,071	10,572	8,006	8,659	30,867
Transfers and disposals	-	(353)	(1,486)	(1,614)	(1,087)	(4,540)
Depreciation expense	(5,916)	(1,699)	(5,584)	(5,360)	(1,775)	(20,334)
As of 31 December 2003	23,514	9,308	30,755	27,188	14,458	105,223
As of 1 January 2004						
Cost	46,388	15,876	52,347	47,910	21,320	183,841
Accumulated depreciation	(22,874)	(6,568)	(21,592)	(20,722)	(6,862)	(78,618)
Opening net book amount	23,514	9,308	30,755	27,188	14,458	105,223
Additions	4,671	2,053	4,239	20,532	13,684	45,179
Transfers and disposals	-	(1,491)	(2,947)	(59)	-	(4,497)
Depreciation expense	(974)	(2,182)	(4,491)	(11,309)	(4,376)	(23,332)
As of 31 December 2004	27,211	7,688	27,556	36,352	23,766	122,573

Depreciation is calculated on the restated cost amounts.

(Currency-Billions of Turkish Lira)

17 Intangible assets

Movement in intangible assets is as follows:

	Rights	Goodwill / (Negative Goodwill)	Other	Carrying Amount
As of 1 January 2003				
Cost	22,761	(561)	6,990	29,190
Accumulated amortization	(11,732)	(304)	(3,790)	(15,826)
Opening net book amount	11,029	(865)	3,200	13,364
Additions	7,416	3,102	101	10,619
Transfers and disposals	(942)	-	-	(942)
Amortization expense	(3,641)	(498)	(946)	(5,085)
As of 31 December 2003	13,862	1,739	2,355	17,956
As of 1 January 2004				
Cost	29,235	2,541	7,091	38,867
Accumulated amortization (-)	(15,373)	(802)	(4,736)	(20,911)
Opening net book amount	13,862	1,739	2,355	17,956
Additions	3,012	171	1,210	4,393
Transfers and disposals	(157)	-	(114)	(271)
Amortization expense	(4,311)	(162)	(976)	(5,449)
As of 31 December 2004	12,406	1,748	2,475	16,629

Amortization for intangible assets is calculated on the restated cost amounts.

(Currency-Billions of Turkish Lira)

18 Deposits from banks

Deposits from banks comprised the following:

	2004	2003
Payable on demand	37,146	202,867
Term deposits	251,907	219,953
Obligations under repurchase agreements	327,886	590,286
	616,939	1,013,106

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

	2004	2003
Principal amount	616,939	1,013,106
Accrued interest **(a)**	977	198
Carrying amount	617,916	1,013,304
Fair value **(b)**	618,251	1,013,304

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

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

Currencies	2004	2003
Turkish lira	16.0%-18.0%	23.0%-29.0%
Foreign currencies	2.25%-4.5%	1.1%-5.5%

As of 31 December 2003, since market interest rates are very close to the rates used by the Bank, fair value amounts of deposits from banks are assumed to be same as their carrying amounts.

(Currency-Billions of Turkish Lira)

19 Deposits from customers

Deposits from customers comprised the following:

	2004	2003
Payable on demand:		
Foreign currency	676,232	580,545
Savings	133,565	60,071
Commercial	225,186	166,890
	1,034,983	807,506
Term deposits:		
Foreign currency	2,156,902	2,023,197
Savings	1,043,348	730,603
Commercial	873,795	449,777
Obligations under repurchase agreements	28,205	80,681
	4,102,250	3,284,258
	5,137,233	4,091,764

The proceeds from the sale of securities that are the subject of repurchase agreements are treated as liabilities and recorded as obligations for repurchase agreements. As of 31 December 2004, the maturities of the deposits from customers are within 30 days with interest rates ranging between 14% and 24% (31 December 2003: 23% and 28%) for Turkish Lira denominated deposits; and within 60 days for foreign currency denominated deposits with interest rates ranging between 0.75% and 5.25% (31 December 2003: 1.5% and 4.5%).

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

	2004	2003
Principal amount	5,137,233	4,091,764
Accrued interest **(a)**	32,017	37,678
Carrying amount	5,169,250	4,129,442
Fair value	5,170,325	4,132,878

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

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

Currencies	2004	2003
Turkish lira	19.0%20.75%	27.0%
Foreign currencies	1.0%-3.75%	3.25%-3.30%

(Currency-Billions of Turkish Lira)

20 Funds borrowed

Funds borrowed comprised the following:

	2004	2003
Foreign currency borrowings from foreign banks	955,162	331,604
Turkish Lira borrowings from domestic banks	47,767	39,385
Foreign currency borrowings from domestic banks	24,792	34,015
	1,027,721	405,004

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

	2004	2003
Principal amount	1,027,721	405,004
Accrued interest **(a)**	9,648	1,046
Carrying amount	1,037,369	406,050
Fair value **(b)**	1,037,369	406,050

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

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

Currencies	2004	2003
US$	1.35%-5.47%	2.24%
Euro	1.60%-4.39%	4.39%
Turkish lira	19%	28%

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

21 Taxation

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

In Turkey, Law No. 4842, enacted on 24 April 2003, reduced the effective corporate tax rate from 33% to 30% from 1 January 2003.

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

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

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

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

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

As of 31 December 2004, the Bank has computed its tax provision for 2004 on its tax financial statements that were adjusted for the effects of inflation. All inflation adjustments computed as of 31 December 2004 will be taxable or tax deductible, by also taking into consideration the facts explained in the following paragraphs.

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

In accordance with the Act No. 5281 which became effective as of 30 December 2004 as published in the Official Gazette number 25687 dated 31 December 2004; the profit resulting from the sale of equity investments is exempt from corporate income tax provided that the gain on sale of such investments are reflected in equity to be transferred to share capital later on.

(Currency-Billions of Turkish Lira)

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:

	2004	%	2003	%
Taxes on income per statutory tax rate	48,034	33.00	40,042	30.00
Permanent differences related to the restatement of equity items per IAS 29	1,541	1.06	31,434	23.55
Effect of different tax rates applicable for foreign entities	(29,160)	(20.03)	(13,835)	(10.36)
Early adoption of revised IAS 39	(1,192)	(0.82)	5,798	4.34
Tax disallowable items	(15,957)	(10.96)	(12,672)	(9.5)
Change in effective tax rates in 2004 and 2003	1,753	1.20	(1,280)	(0.96)
Other	2,988	2.05	(1,566)	(1.17)
Provision for taxes on income	8,007	5.5	47,921	35.90

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

	2004	2003
Deferred tax assets		
Allowance for loan losses	12,040	2,092
Reserve for employee severance indemnity	1,022	426
Accrued interest on derivatives	5,700	456
Statutory tax losses	88	-
Other	810	318
Total deferred tax assets	19,660	3,292
Deferred tax liabilities		
Effect of corrections to fixed assets	5,734	2,875
Valuation difference between tax base and reported base of investments	31	22,435
Accrued foreign exchange gains and interest on derivatives	23	2,314
Effect of change in leasing regulation	-	2,557
Others	396	527
Total deferred tax liabilities	6,184	30,708
Net deferred tax assets / (liabilities)	13,476	(27,416)

(Currency-Billions of Turkish Lira)

22 Accrued interest and other liabilities

The principal components of this caption are as follows:

	2004	2003
Payables related to credit cards	102,528	24,911
Remittances payable	69,064	57,857
Accrued interest on deposits	32,994	37,866
Allowance for losses on non-cash loans	29,566	23,554
Accrued interest and foreign exchange loss on derivatives	27,748	23,147
Taxes withheld and duties payable	19,261	15,858
Obligations under financial leases	16,943	13,898
Cash guarantees and collaterals received	10,785	3,842
Accrued interest on funds borrowed	9,648	1,046
Reserve for severance pay	3,682	2,010
Others	61,174	30,952
	383,393	234,941

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

	2004	2003
Balances, beginning of the year	23,554	20,395
Reversal of the provision	(2,358)	(7,936)
Restatement of the beginning balance and of the current year provision for the effect of inflation	(2,863)	(2,996)
Provision for the year	11,233	14,091
Balances, end of the year	29,566	23,554

23 Share capital

The authorized nominal share capital of Denizbank amounted to TL 316,100 comprising 316.1 millions registered shares of one million Turkish liras each. The portion of share capital arising from the amounts paid in by the shareholders was restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements. However, the transfers from revaluation surplus on fixed assets for statutory purposes and transfers from statutory retained earnings have been eliminated. Accordingly, the share capital is reflected as TL 549,221 (2003: TL 482,854) in the accompanying consolidated financial statements.

(Currency-Billions of Turkish Lira)

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 the whole year on items purchased during the year.

In the prior years, 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.

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		36,275
Impact of the correction of an error on depreciation	8,704	
Impact of the consolidation of the subsidiaries that were not consolidated in the prior year	(2,800)	
Total tax effect of the corrections	(2,875)	
Total effect of the correction of errors		3,029
Restated opening balance as of 1 January 2003 before changes in accounting policy (Note 25)		39,304

(Currency-Billions of Turkish Lira)

25 Change in accounting policy

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

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

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

	Unrealized gains on AFS securities	Retained Earnings
Restated opening balance as of 1 January 2003 after correction of errors (Note 24)		39,304
Effect of early adoption of revised IAS 32 and IAS 39	(122,650)	
Total tax effect of the changes in accounting policy	491	
Total effect of the changes in accounting policy		(122,159)
Restated opening balance as of 1 January 2003		(82,855)

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

	2003
Net profit before change in accounting policy	113,479
Early adoption of revised IAS 32 and IAS 39	(27,434)
Net profit after change in accounting policy	86,045

(Currency-Billions of Turkish Lira)

26 Commitments and contingent liabilities

26.1 Letters of guarantee, letters of credit, acceptances and other credit related commitments

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

	2004	2003
Letters of guarantee	1,412,564	1,108,128
Letters of credit	706,614	749,364
Acceptance credits	252,119	208,996
Other guarantees and endorsements	124,632	182,185
	2,495,929	2,248,673

Outstanding credit related commitments of the bank are presented based on economic sectors as follows:

	2004	2003
Construction, glass and mining	474,713	444,660
Metal and machinery	313,365	268,708
Textile and leather	234,796	278,112
Electronics and IT	201,246	264,405
Finance	183,464	139,773
Tourism and transportation	172,267	124,632
Consumer durables	167,051	218,505
Food	136,131	163,998
Chemicals	118,675	102,798
Press and other public media	51,529	101,682
Others	442,692	141,400
	2,495,929	2,248,673

(Currency-Billions of Turkish Lira)

26.2 Forward contracts

As of 31 December 2004, commitments for purchase and sale of foreign currencies under forward agreements, swap, option and future contracts amounted to TL 3,250,218 (31 December 2003: TL 2,571,988). The breakdown of such commitments outstanding, by types is as follows:

	2004		2003	
	Purchase	Sale	Purchase	Sale
Forward agreements for trading purposes	841,427	846,378	314,814	284,056
Currency swap contracts	268,789	317,280	-	-
Forward agreements for customer dealing activities	253,701	238,955	796,442	820,135
Options	221,863	220,361	168,562	151,795
Interest rate swap contracts	12,268	12,268	775	771
Forward agreements on gold	8,014	8,014	-	-
Currency future contracts	450	450	-	-
Interest rate future contracts	-	-	17,319	17,319
	1,606,512	1,643,706	1,297,912	1,274,076

27 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.

27.1 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.

27.2 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.

27.3 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.

(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.

(Currency-Billions of Turkish Lira)

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 December 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	755,351	25,577	7,510	152	71	-	788,661
Due from banks	219,337	1,353,144	77,452	17,423	-	-	1,667,356
Trading securities	6,175	2,959	53,909	233,484	31,075	87,066	414,668
Loans and advances to customers	92,474	1,229,399	1,136,692	669,630	72,827	-	3,201,022
Investment securities	8,048	15,226	441,163	740,669	209,979	212,709	1,627,794
Other assets	38,991	10,737	43,240	38,900	2,698	224,502	359,068
	1,120,376	2,637,042	1,759,966	1,700,258	316,650	524,277	8,058,569
Liabilities							
Deposits from banks	475,335	95,816	34,622	6,334	4,832	-	616,939
Deposits from customers	4,087,406	508,813	483,709	57,305	-	-	5,137,233
Funds borrowed	100,197	168,540	758,984	-	-	-	1,027,721
Other liabilities	347,572	4,691	22,832	3,456	-	6,540	385,091
	5,010,510	777,860	1,300,147	67,095	4,832	6,540	7,166,984

(Currency-Billions of Turkish Lira)

As of 31 December 2003:

	Less than one month	Between one and three months	Between three and twelve Months	Between one and five years	More than five years	Unidentified maturity	Total
Assets							
Cash and balances with Central Bank	241,131	399,233	-	-	-	-	640,364
Due from banks	868,092	35,619	60,908	52,131	-	-	1,016,750
Trading securities	289	4,076	165,771	24,158	-	104,940	299,234
Loans and advances to customers	631,600	235,217	684,878	571,105	-	18,635	2,141,435
Investment securities	375,635	144,726	301,171	632,214	361,856	164,888	1,980,490
Other assets	43,480	39,897	15,380	119,041	-	120,543	338,341
	2,160,227	858,768	1,228,108	1,398,649	361,856	409,006	6,416,614
Liabilities							
Deposits from banks	871,138	8,954	118,916	14,098	-	-	1,013,106
Deposits from customers	2,974,578	471,498	392,675	253,013	-	-	4,091,764
Funds borrowed	68,384	41,559	295,061		-	-	405,004
Other liabilities	72,134	16,870	5,270	154,635	-	25,932	274,841
	3,986,234	538,881	811,922	421,746	-	25,932	5,784,715

(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.

(Currency-Billions of Turkish Lira)

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.

<u>Interest rate gap analysis</u>

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2004:

		fixed rate instruments						
	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	Non-interest bearing	Total
Financial assets								
Cash and balances with Central Bank	262,551	178,743	313	71	-	-	346,983	788,661
Due from banks	1,323,836	153,202	124,135	15,137	3,118	-	47,928	1,667,356
Trading securities	58,922	100,097	55,744	70,155	9,222	30,608	89,920	414,668
Loans and advances to customers	1,023,837	906,824	757,984	251,004	240,843	837	19,693	3,201,022
Investment securities	940,710	-	241,435	64,189	100,082	150,300	131,078	1,627,794
Financial Liabilities								
Deposits from banks	13,469	533,771	29,281	2,418	935	-	37,065	616,939
Deposits from customers	68,887	3,315,211	604,965	62,644	50,409	134	1,034,983	5,137,233
Funds borrowed	467,762	242,029	317,930	-	-	-	-	1,027,721

(Currency-Billions of Turkish Lira)

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

		fixed rate instruments						
	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	Non-interest bearing	Total
Financial assets								
Cash and balances with Central Bank	-	640,364	-	-	-	-	-	640,364
Due from banks	-	913,428	60,906	42,416	-	-	-	1,016,750
Trading securities	-	4,365	165,771	24,158	-	-	104,940	299,234
Loans and advances to customers	605,364	585,306	424,277	407,051	79,169	40,268	-	2,141,435
Investment securities	550,890	411,193	243,520	249,422	28,898	331,681	164,886	1,980,490
Financial Liabilities								
Deposits from banks	-	880,092	118,915	14,099	-	-	-	1,013,106
Deposits from customers	-	3,446,074	392,676	253,014	-	-	-	4,091,764
Funds borrowed	-	110,374	294,630	-	-	-	-	405,004

Equity price risk

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

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

Currency risk

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

(Currency-Billions of Turkish Lira)

As of 31 December 2004 the Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	USD	**EUR**	**JPY**	**Others**	**Total**
Foreign currency denominated assets					
Cash and balances with Central Bank	430,592	99,810	148	13,380	543,930
Due from banks	1,007,200	441,877	2,313	27,791	1,479,181
Trading securities	22,514	25,344	-	26,593	74,451
Loans and advances to customers	1,225,145	501,126	-	4,724	1,730,995
Investment securities	426,183	330,304	-	-	756,487
Other assets	49,146	40,486	-	2,420	92,052
	3,160,780	1,438,947	2,461	74,908	4,677,096
Foreign currency denominated liabilities					
Deposits from banks	131,035	102,402	12	3,405	236,854
Deposits from customers	2,217,243	1,253,974	2,637	37,981	3,511,835
Funds borrowed	951,884	24,624	-	3,447	979,955
Other liabilities	104,936	25,494	-	651	131,081
	3,405,098	1,406,494	2,649	45,484	4,859,725
(Short) / long position before forward contracts	(244,318)	32,453	(188)	29,424	(182,629)
Forward contracts hedging the short position	163,797	(48,873)	-	5,546	120,470
Net (short) / long position	**(80,521)**	**(16,420)**	**(188)**	**34,970**	**(62,159)**

(Currency-Billions of Turkish Lira)

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

	USD	EUR	JPY	Others	Total
Foreign currency denominated assets					
Cash and balances with Central Bank	378,150	88,675	1,057	12,158	480,040
Due from banks	359,209	292,310	658	12,647	664,824
Trading securities	5,242				5,242
Loans and advances to customers	965,640	331,071	10,237	5,687	1,312,635
Investment securities	977,956	279,745		8,198	1,265,899
Other assets	72,745	27,625	1,816	3,412	105,598
	2,758,942	1,019,426	13,768	42,102	3,834,238
Foreign currency denominated liabilities					
Deposits from banks	662,987	133,486	10,621	8,462	815,556
Deposits from customers	1,716,069	851,295	1,678	41,723	2,610,765
Funds borrowed	346,695	18,075		848	365,618
Other liabilities	38,438	19,398	4,295	12,525	74,656
	2,764,189	1,022,254	16,594	63,558	3,866,595
(Short) / long position before forward contracts	(5,247)	(2,828)	(2,826)	(21,456)	(32,357)
Forward contracts hedging the short position	91,611	(65,188)	923	32,817	60,163
Net (short) / long position	**86,364**	**(68,016)**	**(1,903)**	**11,361**	**27,806**

(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.

27.4 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.

27.5 Risk measurement and control

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

(i) Interest rate sensitivity

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

(ii) Value at risk

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

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

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

iii) Historical Stress-testing

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

28 Subsequent events

28.1 Removal of six digits in the national currency

According to the law numbered 5083 enacted on 31 January 2004 for the currency unit of the republic of Turkey, the name of the national currency has changed from TL to YTL deleting the six digits from the TL. The circulation of YTL started on 1 January 2005.

Both TL and YTL banknotes and coins will be in physical circulation in 2005, for one year. "Old" TL banknotes will be withdrawn from circulation as of 1 January 2006 (after this date Central Bank will convert them to new banknotes for a period of 10 years.

All documents have been prepared in TL and accounting records have been kept in TL until 31 December 2004. These records and documents will be kept as they are. Accounting data was converted to YTL on 1 January 2005, and from 1 January 2005 onwards, all documents and accounting data is in YTL, regardless of the fact that both TL and YTL will be in circulation during 2005.

28.2 Lawsuits against the Tax Office

Pursuant to the transitory Article 4, appended to the Banking Law numbered 4389 with the decree numbered 4743, losses incurred due to the inflation adjustment of the legal and general reserves, would be considered tax deductible according to the Clause numbered 14/7 of the Corporate Tax Law. However, the mentioned losses were not deducted from the tax base in 2001, 2002 and 2003, complying to the recommendation of the Ministry of Finance. There were no tax revenue base (taxable income) occurred for 2001 and 2002, while the tax losses that occurred in 2003 were reported with a reservation clause in the tax return for year 2003. Upon the refusal of the reservation clause by the local Tax Office, the Bank obtained a court ruling approving the incurred losses of TL 26,064. The Bank is expecting another ruling by the court for an additional amount of TL 467. Local Tax Office reserves the right to appeal for the earlier court decisions.

28.3 Acquisitions of Deniz Factoring and Deniz Leasing shares

The Undersecretariat of Treasury approved the acquisitions of Deniz Faktoring Hizmetleri A.Ş. and Deniz Finansal Kiralama A.Ş shares by Denizbank.