Denizbank Anonim Şirketi
and Its Subsidiaries

Consolidated Financial Statements

31 December 2005

With Independent Auditor's Report Thereon

kpmg Akis Serbest Mubasebeci
Mali Müşavirlik Anonim Şirketi

16 February 2006

This report includes 60 pages in total.

Table of Contents | ***Page no***

KPMG

Akis Serbest Muhasebeci Mali Müşavirlik A.Ş.
Yapı Kredi Plaza C Blok Kat 17
Büyükdere Caddesi
Levent 34330 İstanbul

Telephone +90 (212) 317 74 00
Fax +90 (212) 317 73 00
Internet www.kpmg.com.tr

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 2005 and the related consolidated statements of income, changes in equity and cash flows for the year 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 2005, which statements reflect total assets constituting 17 percent; and total interest and commission income constituting 11 percent after elimination of intercompany balances and transactions as of and for the year ended 31 December 2005 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 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Istanbul
16 February 2006

KPMG Akis Serbest Muhasebeci
Mali Müşavirlik A.Ş.

Denizbank A.Ş. And Its Subsidiaries

Consolidated Income Statement

For the Year Ended 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Note	2005	2004
Interest and similar income	2	1,017,995	852,257
Interest expense and similar charges	2	(504,000)	(470,832)
Net interest income		513,995	381,425
Fee and commission income	3	207,164	169,692
Fee and commission expense	3	(59,831)	(51,794)
Net fee and commission income		147,333	117,898
Net gain on trading and investment securities	4	57,555	12,050
Other operating income	5	63,826	68,463
Operating income		782,709	579,836
General and administrative expenses	6	(370,067)	(301,532)
Impairment losses on loans and advances	13	(39,673)	(41,563)
Foreign currency exchange gain / (loss), net		(33,145)	8,102
Other operating expenses	7	(24,097)	(37,479)
Operating expenses		(466,982)	(372,472)
Profit from operations		315,727	207,364
Loss on monetary position, net		(18,937)	(57,933)
Profit before tax		296,790	149,431
Income tax expense	22	(74,502)	(8,220)
Net profit for the yeaı		222,288	141,211
Net profit for the year attributable to:			
Equity holders of the Bank		222,307	141,217
Minority interest		(19)	(6)
		222,288	141,211
Weighted average number of shares with a face value of YTL 1 each		316.1 million	316.1 million
Basic and diluted earnings per share (full YTL amount per YTL 1 face value each)		0.703	0.447

Denizbank A.Ş. And Its Subsidiaries

Consolidated Balance Sheet

As of 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Note	2005	2004
Assets			
Cash and balances with Central Bank	10	1,007,746	812,968
Due from banks	11	2,430,484	1,713,524
Financial assets at fair value through profit or loss	12	311,749	443,217
Loans and advances to customers	13	6,234,874	3,330,375
Investment securities	15	1,653,205	1,741,840
Other assets	16	126,488	73,875
Deferred tax assets	22	6,435	14,299
Bank premises and equipment	17	133,635	125,835
Intangible assets	18	13,669	17,071
Total assets		11,918,285	8,273,004
Liabilities			
Deposits from banks	19	769,034	634,183
Deposits from customers	20	7,040,066	5,306,977
Funds borrowed	21	2,625,032	1,064,972
Deferred tax liabilities	22	571	464
Current tax liabilities		3,862	1,279
Other liabilities	23	356,157	349,819
Total liabilities		10,794,722	7,357,694
Equity			
Share capital	24	563,836	563,836
Share premium		100,896	100,896
Unrealized gains on available-for-sale securities	25	129,095	142,916
Translation reserves		(6,456)	(6,199)
Retained earnings	25	336,100	113,793
Total equity attributable to equity holders of the parent		1,123,471	915,242
Minority interest		92	68
Total equity		1,123,563	915,310
Total liabilities and equity		11,918,285	8,273,004
Commitments and contingencies	26		

Denizbank A.Ş. And Its Subsidiaries

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Note	Share capital	Share premium	Unrealized gains/losses on AFS securities	Translation reserves	Retained earnings	Minority interest	Total
Balances at 1 January 2004		495,703	-	151,946	(3,507)	2,525	2,046	648,713
Correction of an error	25	-	-	29,967	-	(29,967)	-	-
Restated balances at 1 January 2004		495,703	-	181,913	(3,507)	(27,442)	2,046	648,713
Issue of share capital		68,133	100,896	-	-	-	-	169,029
Net gains on available-for-sale assets transferred to the income statement on disposal	4	-	-	(15,910)	-	-	-	(15,910)
Loss from change in fair value of available-for-sale securities (AFS)		-	-	(23,087)	-	-	-	(23,087)
Foreign exchange differences arising from translation of the financial statements of foreign operations		-	-	-	(2,692)	-	-	(2,692)
Purchase from minority		-	-	-	-	18	(1,972)	(1,954)
Net profit for the year		-	-	-	-	141,217	(6)	141,211
Balances at 31 December 2004		563,836	100,896	142,916	(6,199)	113,793	68	915,310
Balances at 1 January 2005		563,836	100,896	142,916	(6,199)	113,793	68	915,310
Net gains on available-for-sale assets transferred to the income statement on disposal	4	-	-	(37,062)	-	-	-	(37,062)
Gain from change in fair value of available-for-sale securities (AFS)		-	-	23,241	-	-	-	23,241
Foreign exchange differences arising from translation of the financial statements of foreign operations		-	-	-	(257)	-	-	(257)
Minority interest		-	-	-	-	-	43	43
Net profit for the year		-	-	-	-	222,307	(19)	222,288
Balances at 31 December 2005		563,836	100,896	129,095	(6,456)	336,100	92	1,123,563

Denizbank A.Ş. and Its Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 31 December 2005 pursuant to IAS 29)

	Note	2005	2004
Cash flows from operating activities:			
Interest and commission receipts		901,080	667,383
Interest payments		(531,782)	(531,986)
Recoveries on loans previously written off	13, 23	59,511	34,874
Cash payments to employees and suppliers		(190,951)	(147,488)
Other operating activities, net		(166,921)	(137,843)
		70,937	(115,060)
(Increase) / decrease in operating assets:			
Balances with Central Banks		(5,079)	14,484
Loans and advances to banks		(34,610)	9,529
Loans and advances to customers		(2,958,621)	(1,086,276)
Financial assets at fair value through profit or loss		157,174	181,088
Other assets		92,794	(170,636)
Increase / (decrease) in operating liabilities:			
Deposits from banks		134,000	(407,712)
Deposits from customers		1,760,016	1,040,420
Other liabilities		(16,406)	148,239
Income taxes paid		(33,836)	(46,055)
Net cash used in operating activities		**(833,631)**	**(431,979)**
Cash flows from investing activities:			
Purchase of non-dealing securities, net		(32,841)	392,275
Proceeds from sale of subsidiaries		3,362	8,401
Purchase of subsidiaries	15	(101)	(3,258)
Interest received		310,465	299,921
Dividends received	5	1,884	-
Proceeds from sale of bank premises and equipment		5,364	4,617
Purchase of bank premises and equipment	17	(44,100)	(46,381)
Proceeds from sale of intangible assets		2,844	278
Purchase of intangible assets	18	(7,235)	(4,510)
Net cash from investing activities		**239,642**	**651,343**
Cash flows from financing activities:			
Increase in funds borrowed, net		1,545,711	629,383
Issue of share capital		-	169,029
Purchase from minority		43	(1,955)
Net cash from financing activities		**1,545,754**	**796,457**
Effect of exchange rate changes on cash and cash equivalents		**(33,145)**	**8,102**
Net (decrease) / increase in cash and cash equivalents		**918,619**	**1,023,923**
Cash and cash equivalents at beginning of the year		2,489,017	1,465,094
Cash and cash equivalents at the end of the year	9	**3,407,636**	**2,489,017**

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 is incorporated and domiciled in Turkey. 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 common shares and Global Depositary Shares. The domestically held shares commenced trading on 1 October 2004 in Istanbul Stock Exchange.

Denizbank currently has 236 branches and its head office is located in the following address: Büyükdere Caddesi No: 106 34394 Esentepe - Istanbul.

Zorlu Holding A.Ş. ("Zorlu Holding"), which is one of the major industrial conglomerates in Turkey, has a 75% ownership in Denizbank. Zorlu Holding reports that it has 65 industrial concerns and three energy plants, which it reports employ approximately 30,000 people. In 2005, Zorlu Holding companies realized revenues of (unaudited) USD 4.25 billions and an export volume of (unaudited) USD 2.5 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 the 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 2005, Denizbank AG has nine 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.

Overview of the Bank (continued)

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

Denizbank has 99.95% ownership in Deniz Yatırım Menkul Kıymetler 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 the SDIF at the end of 2002. With subsequent acquisitions, Denizbank and Deniz Yatırım's share increased to 99.80%. Ekspres Yatırım, located in Istanbul, is engaged in providing brokerage services for international investors via trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets.

Located in Istanbul, Deniz Türev Menkul Değerler A.Ş. ("Deniz Türev"), formerly known as Tariş Menkul Değerler A.Ş. until 25 October 2005, 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, Deniz Türev became a subsidiary of Denizbank.

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 the SDIF in 2002.

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 established Deniz Kültür Sanat Yayıncılık Ticaret ve Sanayi A.Ş. ("Deniz Kültür Sanat") for the purpose of supporting cultural and art activities.

In February 2005, Denizbank acquired 100% of the outstanding shares of Deniz Faktoring A.Ş. ("Deniz Factoring"), a Zorlu Group company which is engaged in factoring transactions, established in 1998.

Deniz Finansal Kiralama A.Ş. ("Deniz Leasing"), established in 1997, is engaged in leasing activities. Denizbank acquired 11% of the outstanding shares of Deniz Leasing in February 2005. The remaining 89% of the shares of Deniz Leasing are owned by Deniz Factoring.

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 sold its shares in AKK in December 2004.

Deniz Destek Oto Kiralama ve Temizlik A.Ş. ("Destek"), established in 1997, provides car rental service with a fleet of 187 vehicles. Denizbank sold its shares in Destek in November 2004 to Zorlu Holding.

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 New Turkish Lira ("YTL") 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 International Financial Reporting Standards ("IFRS") 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 2005. The accompanying consolidated financial statements are authorized for issue by the directors on 16 February 2006.

b) Basis of preparation

Starting from 1 January 2005, the currency unit is set as the YTL per the Law on the currency unit of the Republic of Turkey no. 5083 dated 31 January 2004. Six digits have been removed from the Turkish Lira (TL) and one million TL became one YTL.

The accompanying consolidated financial statements are presented in YTL, rounded to the nearest thousand as adjusted for the effects of inflation in YTL units current at 31 December 2005 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. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

The accounting policies applied by Denizbank and its subsidiaries are consistent with those used in the previous year ended 31 December 2004.

c) Changes in accounting policies

Presentation of Minority Interests

With the adoption of revised IAS 1 "*Presentation of Financial Statements*" at 1 January 2005, Net profit and Equity are presented including minority interests. Net profit is allocated to net profit attributable to Denizbank shareholders and attributable to minority interests. Minority interest is presented on the face of the income statement.

Significant accounting policies (continued)

Reclassification of prior year figures

The Bank has reclassified the accrued interest income and expense items previously presented under other assets and other liabilities on to the relevant balance sheet items. Accordingly, accrued interest income on banks (including reserve deposits) amounting YTL 5,217, on loans amounting YTL 45,009, and on investment securities amounting YTL 72,067 of, as of 31 December 2004; and accrued interest expense on deposits from banks amounting YTL 842, on deposits from customers amounting YTL 33,669 and on funds borrowed amounting YTL 10,092, as of 31 December 2004, have all been reclassified on to these balance sheet items.

The Bank has reclassified the accrued interest and foreign exchange gain on derivatives previously presented under other assets, as financial assets at fair value through profit or loss. Accordingly, accrued interest and foreign exchange gain on derivatives amounting YTL 17,515 as of 31 December 2004, were reclassified as financial assets at fair value through profit or loss.

The Bank also changed the presentation of the brokerage fees in net fee and commission income; resulting in a netting between income and expense lines of brokerage fees by YTL 13,179 for the year ended 31 December 2004.

d) 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.

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.

(Currency-Thousands of YTL)

Significant accounting policies (continued)

ii) Subsidiaries

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

			Indirect Ownership %	
Description	**Nature of Activities**	**Country of Incorporation**	**2005**	**2004**
Denizbank AG	Banking	Austria	99.99	99.99
Eurodeniz	Banking	Cyprus	99.88	99.88
Denizbank Moscow	Banking	Russia	100.00	100.00
Deniz Yatırım	Securities	Turkey	99.95	99.95
Ekspres Yatırım	Securities	Turkey	99.80	99.80
Deniz Türev	Securities	Turkey	100.00	100.00
Deniz Portföy	Investment	Turkey	99.95	98.38
Deniz Factoring	Factoring	Turkey	100.00	--
Deniz Leasing	Leasing	Turkey	100.00	--
Intertech	Technology	Turkey	100.00	100.00
Deniz Kültür Sanat	Art	Turkey	100.00	100.00
DFS Funding Corp. **(a)**	SPE	Cayman Isl.	--	--

(a) Explained below in *(iii) Special purpose entities*

iii) Special purpose entities

Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

DFS Funding Corp. is a special purpose entity established for the Denizbank's securitization transactions explained in note 21. Denizbank or any of its subsidiaries does not have any shareholding interest in this company.

(Currency-Thousands of YTL)

Significant accounting policies (continued)

e) Accounting in hyperinflationary economies

International Accounting Standard ("IAS") 29, which deals with the effects of inflation in the 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%.

As of 31 December 2005, the cumulative three-year inflation rate in Turkey has been 33.16%, based on the countrywide producer price indices announced by the Turkish State Institute of Statistics (SIS), which is below 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 YTL as of 31 December 2005 based on IAS 29.

The restatements were calculated by means of conversion factors derived from the producer price indices, effective from 1 January 2005, carried over wholesale price indices until 31 December 2004. Such indices announced by SIS and conversion factors used to restate the consolidated financial statements at 31 December 2005, 2004 and 2003 are given below:

Dates	Index	Conversion Factors
31 December 2005	8,627.4	1.000
31 December 2004	8,403.8	1.027
31 December 2003	7,382.1	1.169

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 2005).

- 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 bank 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 2005).

Significant accounting policies (continued)

- All items in the income statement 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 income statement as "Loss on monetary position, net".

f) Foreign currency

i) Foreign currency transactions

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

ii) Consolidated financial statements of foreign operations

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

g) 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 YTL 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 expense as incurred.

Significant accounting policies (continued)

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.

h) Goodwill/Negative goodwill

Goodwill consists of the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of net assets of the acquired companies at the dates of acquisitions. Goodwill is reflected in 'intangible assets' in the accompanying consolidated balance sheets, and assessed annually by using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments, carrying value of net assets, whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the income statement.

IFRS 3 "*Business Combinations*" requires the acquirer to reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination if, at the acquisition date, the acquirer's interest in the net fair value of those items exceeds the cost of the combination. Any excess remaining (negative goodwill) after that reassessment must be recognized by the acquirer immediately in the income statement.

i) Financial instruments

i) Classification

Financial instruments at fair value through profit or loss are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and accruals of derivative contracts that are not designated as effective hedging instruments. Accruals of all trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. Accruals of all trading derivatives in a net payable position (negative fair value) are reported as other liabilities.

Significant accounting policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its affiliates provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise due from banks and loans and advances to customers.

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 at fair value through profit or loss 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.

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 financial instruments at fair value through profit or loss 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.

Significant accounting policies (continued)

v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets at fair value through profit or loss are recognized in the income statement as net gain / (loss) on trading and investment securities.

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 or 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 fair value through profit or loss. 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 are classified as either loans and advances to customers or as due from banks, based on the type of the transaction, and are reported net of allowances to reflect the estimated recoverable amounts.

- *Finance lease receivables*

Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

j) 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 financial assets at fair value through profit or loss 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.

Significant accounting policies (continued)

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

k) 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 financial assets at fair value through profit or loss or financial assets 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 income.

l) 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 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.

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in the income statement.

(Currency-Thousands of YTL)

Significant accounting policies (continued)

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

m) Income and expense recognition

Interest income and expense is recognized as they are accrued taking into account the effective yield of the asset and liability or an applicable floating rate, except for interest income on overdue loans, which are generally recognized only when received.

Fee and commission income arising on financial services provided, including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services is recognized when the corresponding service is provided. Certain commissions, such as those deriving from letters of guarantee and other banking services are also usually recognized as income when received.

Net gain on trading and investment securities includes gains and losses arising from disposals and changes in the fair value of financial assets at fair value through profit or loss and financial assets available-for-sale.

n) 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.

o) 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 2005 and 2004 are as follows;

	2005	2004
	%	%
Discount rate	6.1	10
Expected rate of salary/limit increase	12	16
Turnover rate to estimate the probability of retirement	15	15

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 2005 is YTL 1.727; at 31 December 2004 it was YTL 1.574. The liability is not funded, as there is no funding requirement.

Significant accounting policies (continued)

p) 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 asset and liability method. The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it 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.

Deferred taxes directly related to equity items are recognized and offset in related equity accounts.

q) Offsetting

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

r) Earnings per share

Earnings per share disclosed in the accompanying consolidated income statement are determined by dividing net income / (loss) by the weighted average number of shares that have been outstanding during the period concerned. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

Additionally, considering the fact that the total number of issued shares through bonus share issuances is increased without an increase in resources contributed by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

Significant accounting policies (continued)

s) 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.

t) 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.

u) 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.

v) 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.

x) 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.

Index for the notes to consolidated financial statements

1 Segment reporting

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

(Currency-Thousands of YTL)

1 Segment reporting (continued)

1.1 Business segments

The business segments as of 31 December 2005 and 2004 are as follows:

31 December 2005	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other Operations	Consolidated
Segment revenue					
Operating income - external	414,700	191,108	48,296	8,124	662,228
Operating income - inter-segment	56,342	14,340	-	16,654	87,336
	471,042	205,448	48,296	24,778	749,564
Segment result *	159,592	100,737	39,779	15,619	315,727
Unallocated expenses					-
Operating profit					315,727
Loss on monetary position, net					(18,937)
Income taxes					(74,502)
Minority interest					19
Net profit					222,307
Other information					
Segment assets	1,347,233	3,734,786	3,626,503	2,926,938	11,635,460
Investments in equity participations					129,086
Unallocated assets					153,739
Consolidated total assets					11,918,285
Segment liabilities	3,448,769	3,192,545	167,641	3,981,334	10,790,289
Unallocated liabilities					4,433
Consolidated total liabilities					10,794,722
Capital expenditure					51,335
Depreciation and amortization					38,729
Other non-cash expenses					73,023

* Segment result includes operating income, foreign currency exchange gain/(loss), net, less dividend income and operating expenses.

(Currency-Thousands of YTL)

1 Segment reporting (continued)

31 December 2004	Retail Banking	Corporate Banking	Treasury and Investment Banking	Other Operations	Consolidated
Segment revenue					
Operating income – external	170,533	191,883	153,750	11,816	527,982
Operating income - inter-segment	17,574	42,382	-	-	59,956
	188,107	234,265	153,750	11,816	587,938
Segment result *	83,153	20,463	99,659	4,089	207,364
Unallocated expenses					-
Operating profit					207,364
Loss on monetary position, net					(57,933)
Income taxes					(8,220)
Minority interest					6
Net profit					141,217
Other information					
Segment assets	653,209	2,879,651	2,071,219	2,377,154	7,981,233
Investment in equity participations					134,566
Unallocated assets					157,205
Consolidated total assets					8,273,004
Segment liabilities	2,892,227	1,763,281	337,721	2,362,722	7,355,951
Unallocated liabilities					1,743
Consolidated total liabilities					7,357,694
Capital expenditure					50,891
Depreciation and amortization					29,547
Other non-cash expenses					42,087

* Segment result includes operating income, foreign currency exchange gain/(loss), net, less dividend income and operating expenses.

(Currency-Thousands of YTL)

1 Segment reporting (continued)

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 2005 and 2004 are as follows:

31 December 2005	**Turkey**	**Austria**	**Russia**	**Cyprus**	**Eliminations**	**Consolidated**
Operating income	708,084	25,821	6,368	33,157	(23,866)	749,564
Segment assets	10,069,857	1,378,316	156,125	974,954	(660,967)	11,918,285
Segment liabilities	8,887,115	1,307,946	128,512	938,040	(466,891)	10,794,722
Capital expenditure	50,908	426	-	1	-	51,335

31 December 2004	**Turkey**	**Austria**	**Russia**	**Cyprus**	**Eliminations**	**Consolidated**
Operating income	618,741	17,919	3,944	39,821	(92,487)	587,938
Segment assets	7,003,556	1,096,554	77,592	442,433	(347,131)	8,273,004
Segment liabilities	6,077,667	1,010,924	65,333	434,935	(231,165)	7,357,694
Capital expenditure	48,828	1,185	878	-	-	50,891

(Currency-Thousands of YTL)

2 Net interest income

	2005	2004
Interest and similar income		
Interest and similar income arise from:		
Loans and advances to customers	626,337	430,741
Trading and investment securities	276,801	354,174
Due from banks	56,343	53,562
Factoring services	26,143	-
Leasing business	17,100	-
Other	15,271	13,780
	1,017,995	852,257
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from banks and customers	408,422	438,433
Funds borrowed	95,029	30,594
Other	549	1,805
	504,000	470,832
Net interest income	513,995	381,425

3 Net fee and commission income

	2005	2004
Fee and commission income		
Cash loans	10,634	10,865
Non-cash loans	34,157	30,857
Credit card commissions	60,544	38,779
Brokerage fees	78,231	77,448
Fees for banking services	21,228	11,743
Factoring service income	2,370	-
	207,164	169,692
Fee and commission expense		
Cash loans	4,639	4,119
Credit card commission expense	28,724	18,409
Brokerage fees	15,796	19,750
Banking service expense	10,672	9,516
	59,831	51,794
Net fee and commission income	147,333	117,898

(Currency-Thousands of YTL)

4 Net gain on trading and investment securities

	2005	2004
Net trading gain / (loss)		
Net trading gain / (loss) arise from:		
Equity instruments	18,004	6,031
Debt instruments and related derivatives	(1,658)	(7,370)
Foreign exchange rate fluctuations and related derivatives	3,162	104
	19,508	(1,235)
Net gain on disposal of investment securities		
Net gain / (loss) on disposal	985	(2,625)
Transfer from unrealized gains (equity)	37,062	15,910
	38,047	13,285
Net gain on trading and investment securities	57,555	12,050

5 Other operating income

	2005	2004
Gain from lawsuit against Tax Office	27,062	-
Income from customers for banking services	9,973	7,308
Technical service income of Intertech	4,242	3,737
Negative goodwill on purchase of subsidiaries	4,157	-
Dividend income	1,884	-
Credit card income of AKK	-	23,223
Other	16,508	34,195
	63,826	68,463

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, in compliance with 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 filed a lawsuit concerning the prepaid taxes for 2003 and 2004 amounting YTL 27,062. The Tax Court's decision ruled in favor of the Bank. Local tax office appealed to the Council of State to stop the court ruling. The Council of State refused the demand of the Local Tax Office and the Bank recorded the amount as other operating income.

(Currency-Thousands of YTL)

6 General and administrative expenses

	2005	2004
Salaries and employee benefits	200,983	147,488
Depreciation and amortization	38,729	29,547
Rent expense	26,544	19,472
Advertising and promotion expenses	24,765	22,496
Taxes other than on income	14,002	16,476
Communication expenses	12,430	16,254
Repair and maintenance expenses	8,446	5,676
Stationery expenses	7,531	4,723
Transportation expenses	5,172	4,393
IT materials and usage expenses	5,171	2,655
Heating and electricity expenses	4,437	3,438
Insurance expenses	3,441	1,464
Representation expenses	3,004	2,100
Cleaning expenses	1,750	1,319
Other administrative expenses	13,662	24,031
	370,067	301,532

7 Other operating expenses

	2005	2004
Premium paid to SDIF	7,793	4,815
Audit and consultancy fees	3,368	2,491
Expenses related to BRSA	1,693	1,540
Loss on sale of bank premises and equipment	1,326	1,816
Cost of credit card operations of AKK	-	18,290
Other	9,917	8,527
	24,097	37,479

(Currency-Thousands of YTL)

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:

	2005	2004
Outstanding balances		
Loans	87,607	23,755
Non-cash loans	190,322	236,503
Factoring receivables (net)	13,783	-
Finance lease receivables (net)	6,906	-
Deposits from customers	657,281	601,536
Derivative transactions	-	10,878
Transactions		
Interest income	4,322	4,033
Interest expense	4,802	4,648

Key management costs for the year ended 31 December 2005 amount to YTL 12,751 on a consolidated basis. Within this total, individual key management costs of Denizbank and its subsidiaries amount to YTL 9,197 and YTL 3,554, respectively.

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 financial assets at fair value through profit or loss with original maturity periods of less than three months. Cash and cash equivalents included in the accompanying consolidated cash flow statements are as follows:

	2005	2004
Cash and balances with Central Bank	1,002,667	809,646
Due from banks	2,164,217	1,481,840
Financial assets at fair value through profit or loss	240,752	197,531
	3,407,636	2,489,017

(Currency-Thousands of YTL)

10 Cash and balances with Central Bank

	2005	2004
Cash on hand	186,108	240,184
Balances with Central Bank other than reserve deposits	264,646	170,907
Reserve deposits at Central Bank	325,113	302,525
Interbank money market placements	226,800	96,030
	1,002,667	809,646
Accrued interest on reserve deposits	5,079	3,322
	1,007,746	812,968

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 2005, reserve deposit rates for YTL and foreign currency deposits are 6% and 11%, (2004: 6% and 11%) respectively. These reserve deposit rates are applicable to both time and demand deposits. At 31 December 2005, YTL funds sold to interbank money market earned interest at the rate of 14% (2004: 18%) with maturities within 3 days (2004: 3 days).

11 Due from banks

	2005	2004
Due from banks-demand	89,944	49,142
Due from banks-time	2,336,967	1,662,581
	2,426,911	1,711,723
Accrued interest on due from banks	3,573	1,801
	2,430,484	1,713,524

Due from banks-time represent short-term placements, maturing within one year, with interest rates ranging from 13.5% to 15.5% (2004: 16.0% to 23.6%) for the YTL denominated placements and from 2.1 % to 8.7% (2004: 2.0% to 7.0%) for the foreign currency denominated placements.

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

	2005	2004
Carrying amount	2,430,484	1,713,524
Fair value	2,430,373	1,713,582

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

Currencies	2005	2004
YTL	15.0%-15.5%	18.0%-27.0%
Foreign currencies	1.0%-6.0%	1.0%-7.0%

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-Thousands of YTL)

12 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as of 31 December 2005 and 2004 comprise:

31 December 2005	**Face value**	**Book value**	**Interest range (%)**	**Latest maturity**
Debt instruments:				
Government bonds	91,339	92,447	12.42-16.46	2010
Private sector bonds	64,557	67,102	5.00-15.00	2013
Treasury bills	6,842	6,275	13.75-16.36	2006
Foreign currency government bonds	15,132	15,983	3.62-5.92	2010
Turkish government Eurobonds	14,818	16,929	3.19-7.38	2034
Foreign government Eurobonds	656	766	4.95-6.88	2015
Private sector Eurobonds	8,420	9,498	3.63-7.82	2014
Others	114	115		
	201,878	209,115		
Equity instruments:				
Listed		92,721		
Derivatives:				
Accrued interest and foreign exchange gain on derivatives		9,913		
Total financial assets at fair value through profit or loss		**311,749**		

31 December 2004	**Face value**	**Book value**	**Interest range (%)**	**Latest maturity**
Debt instruments:				
Government bonds	266,336	249,885	17.66-24.15	2007
Private sector bonds	23,719	24,347	10.00-15.00	2010
Treasury bills	7,144	6,448	16.46-19.31	2005
Turkish government Eurobonds	9,658	10,898	4.00-9.50	2034
Foreign government Eurobonds	21,372	24,440	5.00-15.00	2030
Private sector Eurobonds	4,596	5,399	8.00-12.75	2010
Foreign currency government bonds	9,309	9,019	3.00-3.96	2007
Foreign government bonds	2,709	2,953	4.50-5.50	2008
	344,843	333,389		
Equity instruments:				
Listed		92,313		
Derivatives:				
Accrued interest and foreign exchange gain on derivatives		17,515		
Total financial assets at fair value through profit or loss		**443,217**		

(Currency-Thousands of YTL)

12 Financial assets at fair value through profit or loss (continued)

Income from debt instruments held at fair value is reflected in the consolidated income statement as interest income on securities. Gain and losses arising on derivative financial instruments and changes in fair value of other trading instruments are reflected in "net gain on trading and investment securities" account.

All gains and losses on foreign currency contracts are recognized in the consolidated income statement. As of 31 December 2005, 95% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (2004: 66%).

The following table summarizes the contractual amounts of the forward exchange, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the balance sheet date. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts.

31 December 2005	Notional amount with remaining life of					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	over 1 year	Total
Interest Rate Derivatives						
Interest rate swaps						
Purchases	-	-	-	-	9,581	9,581
Sales	-	-	-	-	9,581	9,581
Currency Derivatives						
Forward exchange contracts						
Purchases	1,065,341	35,006	7,524	20,895	-	1,128,766
Sales	1,063,772	34,842	7,700	21,841	-	1,128,155
Currency/cross currency swaps						
Purchases	80,521	3,180	3,169	47,635	26,836	161,341
Sales	81,232	3,179	3,169	47,332	33,260	168,172
Options						
Purchases	737,225	222,046	--	293	-	959,564
Sales	737,243	221,885	-	293	-	959,421
Foreign currency futures						
Purchases	-	82,191	-	-	-	82,191
Sales	-	75,482	-	-	-	75,482
Subtotal Purchases	1,883,088	342,422	10,693	68,823	36,417	2,341,443
Subtotal Sales	1,882,247	335,388	10,869	69,466	42,841	2,340,811
Total of Transactions	3,765,334	677,810	21,562	138,289	79,258	4,682,254

(Currency-Thousands of YTL)

12 Financial assets at fair value through profit or loss (continued)

31 December 2004	Notional amount with remaining life of					
	Up to 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**over 1 year**	**Total**
Interest Rate Derivatives						
Interest rate swaps						
Purchases	-	-	-	12,595	-	12,595
Sales	-	-	-	12,595	-	12,595
Currency Derivatives						
Forward exchange contracts						
Purchases	1,049,826	50,456	1,016	22,972	-	1,124,270
Sales	1,040,329	49,717	1,090	23,077	-	1,114,213
Currency/cross currency swaps						
Purchases	19,571	-	-	256,371	-	275,942
Sales	19,538	-	-	306,184	-	325,722
Options						
Purchases	227,766	-	-	-	-	227,766
Sales	226,227	-	-	-	-	226,227
Foreign currency futures						
Purchases	461	-	-	-	-	461
Sales	461	-	-	-	-	461
Forward agreements on gold						
Purchases	8,227	-	-	-	-	8,227
Sales	8,227	-	-	-	-	8,227
Subtotal Purchases	1,305,851	50,456	1,016	291,938	-	1,649,261
Subtotal Sales	1,294,782	49,717	1,090	341,856	-	1,687,445
Total of Transactions	2,600,633	100,173	2,106	633,794	-	3,336,706

(Currency-Thousands of YTL)

13 Loans and advances to customers

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

	2005	2004
Consumer loans and credit cards	1,160,644	552,539
Chemicals	710,418	76,533
Wholesale and retail trade	508,706	279,719
Food	489,114	275,809
Tourism and transportation	472,070	217,290
Metal and machinery	467,837	236,152
Construction, glass and mining	440,443	370,191
Finance	394,044	328,133
Textile and leather	302,628	293,800
Others	783,366	655,623
Total performing loans	5,729,270	3,285,789
Non-performing loans	135,070	119,353
Total gross loans	5,864,340	3,405,142
Accrued interest income on loans	73,901	44,175
Finance lease receivables, net of unearned income (Note 14)	243,302	-
Factoring receivables	197,085	-
Specific allowance for possible losses	(122,400)	(105,964)
General allowance for possible losses	(21,354)	(12,978)
Loans and advances to customers	6,234,874	3,330,375

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 allowance for inherent credit risk on loans and guarantees and commitments. The level of general allowance 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-Thousands of YTL)

13 Loans and advances to customers (continued)

A joint venture that was established as a potential buyer of certain state enterprises that are to be privatized in Turkey, deposited a total of USD 355.8 million (YTL 477,412) at Denizbank and Eurodeniz in 2004 to be used in the acquisition process. As a result of negative outcome of privatization activities and continuance of liquidation process of the joint venture, the foreign partner of the joint venture subsequently obtained loans from Eurodeniz at an equivalent amount deposited and collateralized the loan with the deposits. The latest maturity date of both the loans and deposits is 9 August 2006. Deposit and loan accounts will be closed prior to their maturities after the completion of liquidation process.

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

	2005	2004
Balances, beginning of the year	118,942	98,460
Write-off *	(10,845)	-
Reversal of the provision	(50,008)	(32,453)
Addition to provision by way of newly acquired subsidiaries	350	-
Restatement of the beginning balance and of the current year provision for the effect of inflation	(3,083)	(11,970)
Provision for the year	88,398	64,905
Balances, end of the year	143,754	118,942

* This amount represents write-off of a specific bad debt of YTL 10,845 based on the management's decision that it would be uncollectible.

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

	2005	2004
Carrying amount	6,234,874	3,330,375
Fair value	6,237,633	3,334,644

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

Currencies	2005	2004
YTL	17.0%-19.0%	20.2%-22.0%
Foreign currencies	5.0%-5.8%	4.75%-6.25%

(Currency-Thousands of YTL)

13 Loans and advances to customers (continued)

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

	2005	2004
Specific and general provision on non-performing loans	38,390	32,452
Provision for non-cash loans (Note 23)	1,283	9,111
Impairment losses on loans and advances	39,673	41,563

14 Finance lease receivables

The finance leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates.

The receivables are secured through the underlying assets. Loans and advances to customers include the following finance lease receivables:

	2005	2004
Finance lease receivables, net of unearned income (Note 13)	243,302	-
Less: allowance for possible losses from lease receivables	(229)	-
	243,073	-
Analysis of net finance lease receivables		
Due within 1 year	98,714	-
Due between 1 and 5 years	197,116	-
Finance lease receivables, gross	295,830	-
Unearned income	(52,757)	-
Finance lease receivables, net	243,073	-
Analysis of net finance lease receivables, net		
Due within 1 year	75,122	-
Due between 1 and 5 years	167,951	-
Finance lease receivables, net	243,073	-

(Currency-Thousands of YTL)

15 Investment securities

Investment securities as of 31 December 2005 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Available for sale portfolio				
Debt instruments:				
Government bonds	775,653	753,207	12.42-16.46	2010
Foreign currency government bonds and treasury bills	112,867	112,490	3.62-6.08	2010
Turkish government Eurobonds	173,395	189,740	2.84-7.15	2034
Private sector bonds	90,190	91,017	2.34-7.82	2018
Foreign government Eurobonds	62,178	72,769	5.03-7.78	2034
Treasury bills	71,151	69,187	14.60-14.71	2006
	1,285,435	1,288,410		
Equity instruments:				
Listed		122,261		
Unlisted		6,825		
		129,086		
Total available for sale portfolio		1,417,496		
Held to maturity portfolio				
Foreign currency private sector bonds	129,826	129,609	2.28-8.29	2020
Turkish government Eurobonds	38,962	38,292	6.64-9.88	2011
Foreign currency indexed government bonds	24,115	24,115	7.58	2006
Foreign government Eurobonds	34,185	33,916	5.00-8.00	2020
	227,088	225,932		
Accrued interest on held to maturity portfolio		9,777		
Total held to maturity portfolio		235,709		
Total investment securities		**1,653,205**		

(Currency-Thousands of YTL)

15 Investment securities (continued)

Investment securities as of 31 December 2004 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Available for sale portfolio				
Debt instruments:				
Government bonds	858,601	786,655	7.60-24.96	2006
Foreign currency government bonds and treasury bills	328,617	323,658	3.88-6.92	2025
Turkish government Eurobonds	142,297	164,662	2.14-11.90	2034
Private sector bonds	125,140	133,349	2.40-12.75	2018
Foreign government Eurobonds	15,703	16,420	7.43-9.49	2040
	1,470,358	1,424,744		
Equity instruments:				
Listed		127,877		
Unlisted		6,689		
		134,566		
Total available for sale portfolio		1,559,310		
Held to maturity portfolio				
Foreign currency private sector bonds	87,895	87,739	4.10-4.80	2014
Turkish government Eurobonds	58,404	56,987	2.32-9.88	2011
Foreign currency indexed government bonds	24,756	24,756	5.60	2006
Foreign government Eurobonds	2,872	2,872	8.00	2007
	173,927	172,354		
Accrued interest on held to maturity portfolio		10,176		
Total held to maturity portfolio		182,530		
Total investment securities		**1,741,840**		

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

	2005	2004
Carrying amount	235,709	182,530
Fair value	242,294	194,684

(Currency-Thousands of YTL)

15 **Investment securities** (continued)

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

	2005		2004	
	Nominal value	**Book value**	**Nominal value**	**Book value**
Deposited at Central Bank	87,570	87,737	239,648	233,715
Deposited at ISE **(a)**	71,600	73,648	22,483	22,483
Deposited at IGE **(b)**	700	717	539	539
Deposited at CH **(c)**	144,536	148,916	97,220	97,220
Others	33,785	33,542	821	630
	338,191	344,560	360,711	354,587

(a) Istanbul Stock Exchange

(b) Istanbul Gold Exchange

(c) Clearing House (IMKB Takas Saklama Bankası A.Ş.)

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

	2005		2004	
	Amount	**%**	**Amount**	**%**
Available-for-sale securities	121,478	25.4	127,816	29.5
Trading securities	74,445	15.6	72,589	16.8
	195,923	41.0	200,405	46.3

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 2005, the Bank has 33,395,000,000 Class (B) Zorlu Enerji shares (2004: 37,773,155,000). 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-Thousands of YTL)

16 Other assets

Other assets comprised the following items:

	2005	2004
Receivables related to credit cards	57,091	17,561
Prepaid expenses	20,689	9,970
Assets held for sale	16,671	18,660
Other	32,037	27,684
	126,488	73,875

17 Bank premises and equipment

Movement in bank premises and equipment is as follows:

	Building	Motor Vehicles	Furniture Fixture	Leased Assets	Leasehold Imprv.	Carrying Amount
As of 1 January 2005:						
Cost	51,062	10,822	35,868	63,841	32,833	194,426
Accumulated depreciation (-)	(4,528)	(4,726)	(22,222)	(26,648)	(10,467)	(68,591)
	46,534	6,096	13,646	37,193	22,366	125,835
Additions to cost	609	691	4,913	20,605	17,282	44,100
Transfers and disposals from cost (-)	(434)	(6,069)	(4,308)	(9,318)	(793)	(20,922)
Cost, as of 31 December 2005	51,237	5,444	36,473	75,128	49,322	217,604
Transfers and disposals from accumulated depreciation	7	2,609	4,198	8,474	270	15,558
Depreciation charge	(1,018)	(1,239)	(4,919)	(16,677)	(7,083)	(30,936)
Accumulated depreciation as of 31 December 2005	(5,539)	(3,356)	(22,943)	(34,851)	(17,280)	(83,969)
Net value as of 31 December 2005	45,698	2,088	13,530	40,277	32,042	133,635

Depreciation is calculated on the restated cost amounts. Such depreciation expenses for 2005 and 2004 amount to YTL 30,936 and YTL 23,953, respectively.

(Currency-Thousands of YTL)

18 Intangible assets

Movement in intangible assets is as follows:

	Rights	Goodwill	Others	Carrying Amount
As of 1 January 2005:				
Cost	34,432	2,784	2,721	39,937
Accumulated amortization (-)	(20,421)	(990)	(1,455)	(22,866)
	14,011	1,794	1,266	17,071
Additions to cost	7,235	-	-	7,235
Transfers and disposals from cost (-)	(1,212)	(2,784)	-	(3,996)
Cost, as of 31 December 2005	40,455	-	2,721	43,176
Transfers and disposals from accumulated amortization	162	990	-	1,152
Amortization charge (-)	(7,306)	-	(487)	(7,793)
Accumulated amortization, as of 31 December 2005	(27,565)	-	(1,942)	(29,507)
Net value as of 31 December 2005	12,890	-	779	13,669

Amortization for intangible assets is calculated on the restated cost amounts. Such amortization expenses for 2005 and 2004 amount to YTL 7,793 and YTL 5,594, respectively.

Impairment losses are provided for decreases in the value of consolidated entities by way of assessing their internal and external sources. As of 31 December 2005, goodwill on consolidated entities has been fully impaired.

19 Deposits from banks

Deposits from banks comprised the following:

	2005	2004
Payable on demand	27,030	38,135
Term deposits	375,104	258,610
Obligations under repurchase agreements	364,218	336,611
	766,352	633,356
Accrued interest on deposits from banks	2,682	827
	769,034	634,183

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

	2005	2004
Carrying amount	769,034	634,183
Fair value	769,087	634,703

(Currency-Thousands of YTL)

19 Deposits from banks (continued)

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	2005	2004
YTL	14.0%-15.5%	16.0%-18.0%
Foreign currencies	4.5%-5.3%	2.25%-4.5%

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.

20 Deposits from customers

Deposits from customers comprised the following:

	2005	2004
Payable on demand:		
Foreign currency	864,456	694,226
Savings	199,509	137,119
Commercial	528,730	231,178
	1,592,695	1,062,523
Term deposits:		
Foreign currency	3,471,291	2,906,579
Savings	1,455,569	839,431
Commercial	457,889	436,444
Obligations under repurchase agreements	23,636	28,956
	5,408,385	4,211,410
	7,001,080	5,273,933
Accrued interest on deposits from customers	38,986	33,044
	7,040,066	5,306,977

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 2005, the maturities of the deposits from customers are within 30 days with interest rates ranging between 15% and 17% (2004: 14% and 24%) for YTL denominated deposits; and within 60 days for foreign currency denominated deposits with interest rates ranging between 1% and 3.75% (2004: 0.75% and 5.25%).

As disclosed in Note 13, the Bank has extended a loan to a joint venture to the exact amount of deposits made by the joint venture. Such deposits made in 2004 amounted USD 355.8 million (YTL 477,412). These deposits are collateralized against the loan from the Bank. The latest maturity date of both the loans and deposits is 9 August 2006. Deposit and loan accounts will be closed prior to their maturities.

(Currency-Thousands of YTL)

20 **Deposits from customers** (continued)

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

	2005	2004
Carrying amount	7,040,066	5,306,977
Fair value	7,042,274	5,307,906

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

Currencies	2005	2004
YTL	15.0%-18.0%	19.0%20.75%
Foreign currencies	1.0%-4.3%	1.0%-3.75%

21 **Funds borrowed**

Funds borrowed comprised the following:

	2005	2004
Foreign currency borrowings from foreign banks	2,352,646	980,578
Turkish Lira borrowings from domestic banks	88,453	49,038
Turkish Lira borrowings from foreign banks	115,065	-
Foreign currency borrowings from domestic banks	34,710	25,451
	2,590,874	1,055,067
Accrued interest on funds borrowed	34,158	9,905
	2,625,032	1,064,972

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

	2005	2004
Carrying amount	2,625,032	1,064,972
Fair value	2,624,896	1,064,972

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

Currencies	2005	2004
USD	4.5%-5.3%	1.35%-5.47%
EUR	3.0%-3.5%	1.60%-4.39%
YTL	14.0%	19.0%

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.

(Currency-Thousands of YTL)

21 Funds borrowed (continued)

Short-term and long-term portions of funds borrowed are as follows:

	2005	2004
Short-term	1,571,563	1,055,067
Long-term	1,019,311	-
Short-term portion of long-term debt	*25,761*	-
Medium and long-term portion of long-term debt	*993,550*	-
	2,590,874	1,055,067
Accrued interest on funds borrowed	34,158	9,905
	2,625,032	1,064,972

As of 31 December 2005, long-term debts comprise the following:

	Interest rate %	Latest Maturity	Currency	Amount in original currency	Short-term portion	Medium and long-term portion
DPR Securitization-Series A	5.49*	2010	USD	150,000,000	-	201,270
DPR Securitization-Series B	6.04	2012	USD	80,000,000	-	107,344
DPR Securitization-Series C	6.37	2010	USD	70,000,000	-	93,926
Syndicated Term Loan Facility	L+0.8	2007	USD	350,000,000	-	469,630
Others					25,761	121,380
					25,761	993,550

(*) Floating interest at the rate of Three-Month Libor + 2.00% per annum

In June 2005, the Bank completed a securitization (the "DPR Securitization") transaction by issuance of three tranches of series: USD 150 millions Series 2005-A Floating Rate Notes Due 2010; USD 80 millions Series 2005-B Fixed Rate Notes Due 2012; and USD 70 millions Series 2005-C Fixed Rate Notes Due 2010. The Bank securitizes its SWIFT MT 100 category payment orders received primarily through foreign depository banks in EUR, USD and GBP currencies. These Diversified Payment Rights ("DPR") have been sold to DFS Funding Corporation and thus are not the assets of the Bank.

On 25 October 2005, the Bank signed a USD 650 million syndicated term loan facility agreement arranged by 25 banks. The loan comprised of a USD 300 million portion with 1 year maturity and a USD 350 million portion with 2 years maturity. The interest rates are Libor+0.45% for the 1 year portion, and Libor+0.80% for the 2 years portion.

22 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 is 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 used in determining the temporary tax is 30% (2004: 33%). The temporary taxes paid quarterly 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, until 31 December 2004, the corporation tax was calculated considering the effects of inflation. Therefore, tax base of balance sheet items were restated in terms of the measuring unit current at the 31 December 2004. All inflation adjustments carried forward from 31 December 2003 were treated as non-taxable in the determination of taxable income for the year ended 31 December 2004.

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 were taxable or tax deductible, by also taking into consideration the facts explained in the following paragraphs.

The restated values of balance sheet items were 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, were 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.

In accordance with the Tax Procedural Law Circular No. 18 dated 19 April 2005 of the Ministry of Finance General Directorate of Revenues, inflation accounting was not applied for tax purposes in 2005 because of the decrease in inflation rates below the rates specified in the law.

(Currency-Thousands of YTL)

22 Taxation (continued)

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:

	2005	%	2004	%
Taxes on income per statutory tax rate	89,037	30.00	49,312	33.00
Permanent differences related to the restatement of equity items per IAS 29	8,311	2.80	1,582	1.06
Effect of different tax rates in foreign entities	(10,493)	(3.54)	(29,936)	(20.03)
Effect of valuation of investments	(7,317)	(2.47)	(23,000)	(15.39)
Tax disallowable items	4,573	1.54	7,195	4.81
Gain from lawsuit against Tax Office (Note 5)	(7,960)	(2.68)	-	-
Investment incentives	(2,247)	(0.76)	-	-
Other	598	0.20	3,067	2.05
Provision for taxes on income	74,502	25.09	8,220	5.50

Income tax expense comprised the following:

	2005	2004
Current taxes	69,354	30,940
Deferred taxes	5,148	(22,720)
Income tax expense	74,502	8,220

(Currency-Thousands of YTL)

22 **Taxation** (continued)

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

	2005	2004
Deferred tax assets		
Allowance for loan losses	10,639	12,360
Reserve for employee severance indemnity	1,159	1,049
Accrued interest on derivatives	640	5,852
Statutory tax losses	452	91
Others	96	830
Total deferred tax assets	12,986	20,182
Deferred tax liabilities		
Depreciation	3,981	3,804
Bank equipment under finance lease	2,503	2,083
Valuation difference between tax base and reported base of investments	451	-
Restatement effect on non-monetary assets per IAS 29	182	-
Others	5	460
Total deferred tax liabilities	7,122	6,347
Net deferred tax assets	5,864	13,835

Deferred tax assets and liabilities are reflected to consolidated financial statements as follows:

	2005	2004
Deferred tax assets	6,435	14,299
Deferred tax liabilities	(571)	(464)
Net deferred tax assets	5,864	13,835

(Currency-Thousands of YTL)

23 Other liabilities

The principal components of this caption are as follows:

	2005	2004
Payables related to credit cards	112,464	105,256
Remittances payable	47,686	70,901
Allowance for losses on non-cash loans	28,502	27,947
Taxes withheld and duties payable	24,719	19,774
Factoring payables	15,522	-
Accrued interest and foreign exchange loss on derivatives	12,707	28,486
Forfaiting payables	5,494	4,463
Reserve for employee severance indemnity	4,430	3,780
Other allowances	3,852	2,405
Cash guarantees and collaterals received	555	11,072
Obligations under finance leases	-	17,394
Others	100,226	58,341
	356,157	349,819

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

	2005	2004
Balances, beginning of the year	27,947	21,781
Reversal of the provision	(9,503)	(2,421)
Restatement of the beginning balance and of the current year provision for the effect of inflation	(728)	(2,945)
Provision for the year	10,786	11,532
Balances, end of the year	28,502	27,947

Movement in reserve for employee severance indemnity during the year is as follows:

	2005	2004
Balances, beginning of the year	3,780	2,063
Reversal of the provision	(2,072)	-
Restatement of the beginning balance and of the current year provision for the effect of inflation	(98)	(109)
Provision for the year	2,591	1,826
Addition to provision by way of newly acquired subsidiaries	229	-
Balances, end of the year	4,430	3,780

(Currency-Thousands of YTL)

24 Share capital

As of 31 December 2005, the authorized nominal share capital of Denizbank amounted to YTL 316,100 (2004: YTL 316,100), comprising 316.1 millions registered shares of one YTL each. The portion of share capital arising from the amounts paid in by the shareholders has been 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, a component of shareholders' equity in statutory financial statements and transfers from statutory retained earnings have been eliminated. Accordingly, as of 31 December 2005, the share capital is reflected as YTL 563,836 (2004: YTL 563,836) in the accompanying consolidated financial statements.

In compliance with the revised standards of IFRS effective from 1 January 2005, minority interest is classified as a component of shareholders' equity. As of 31 December 2005, net minority interest amounts to YTL 92 (2004: YTL 68).

25 Correction of an error

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. The Bank has early adopted IAS 32 and IAS 39 as permitted by these revised standards for the year ended 31 December 2003. During the transfer of fair value changes of available for sale securities from the income statement to the shareholders' equity, an error has been made which has resulted in a transition between unrealized gains / (losses) on available for sale securities and retained earnings. The correction does not have any effect on net profit of the Bank for the year ended 31 December 2004.

This change has been accounted for by adjusting the opening balance of retained earnings and unrealized gains / (losses) on AFS securities as of 1 January 2004 as follows;

	Unrealized gains/losses on AFS securities	Retained earnings
Balances as of 1 January 2004 prior to the correction	151,946	2,525
Impact of the correction of an error	29,967	(29,967)
Restated opening balances as of 1 January 2004	181,913	(27,442)

(Currency-Thousands of YTL)

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:

	2005	2004
Letters of guarantee	2,168,524	1,450,152
Letters of credit	758,533	725,417
Acceptance credits	197,318	258,828
Other guarantees and endorsements	86,635	127,948
	3,211,010	2,562,345

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

	2005	2004
Construction, glass and mining	839,488	487,345
Wholesale and retail trade	630,859	645,306
Metal and machinery	500,862	321,704
Tourism and transportation	371,006	176,851
Finance	178,928	188,346
Chemicals	175,564	121,832
Textile and leather	174,836	241,044
Food	103,627	139,753
Others	235,840	240,164
	3,211,010	2,562,345

(Currency-Thousands of YTL)

26 Commitments and contingent liabilities (continued)

26.2 Derivative contracts

As of 31 December 2005, commitments for purchase and sale of foreign currencies under forward agreements, swap, options and futures contracts amounted to YTL 4,682,254 (2004: YTL 3,336,706). The breakdown of such commitments outstanding, by types is as follows:

	31 December 2005		31 December 2004	
	Purchase	**Sale**	**Purchase**	**Sale**
Forward agreements for customer dealing activities	179,284	178,958	260,452	245,314
Forward agreements for trading purposes	949,482	949,197	863,818	868,899
Currency swap contracts	161,341	168,172	275,942	325,722
Options	959,564	959,421	227,766	226,227
Forward agreements on gold	-	-	8,227	8,227
Currency futures contracts	82,191	75,482	461	461
Interest rate swap contracts	9,581	9,581	12,595	12,595
	2,341,443	2,340,811	1,649,261	1,687,445

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 forwards, swaps, futures and options 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.

27 Risk management disclosures (continued)

(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 futures 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.

27 Risk management disclosures (continued)

(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-Thousands of YTL)

27 Risk management disclosures (continued)

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 2005:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Unidentified maturity	Total
Assets							
Cash and balances with Central Bank	954,252	34,459	18,653	382	-	-	1,007,746
Due from banks	2,118,410	115,685	141,139	46,980	8,270	-	2,430,484
Financial assets at fair value through profit or loss	8,970	2,415	106,785	85,131	15,618	92,830	311,749
Loans and advances to customers	1,391,103	1,288,073	1,643,059	1,695,600	217,039	-	6,234,874
Investment securities	9,979	172,979	660,465	406,001	274,695	129,086	1,653,205
Other assets	3,222	7,583	15,245	2,574	-	251,603	280,227
	4,485,936	1,621,194	2,585,346	2,236,668	515,622	473,519	11,918,285
Liabilities							
Deposits from banks	601,885	68,800	93,384	-	4,965	-	769,034
Deposits from customers	4,902,121	1,099,598	724,872	312,772	703	-	7,040,066
Funds borrowed	138,528	236,794	1,323,582	800,966	125,162	-	2,625,032
Other liabilities	240,370	5,639	4,076	13,394	-	97,111	360,590
	5,882,904	1,410,831	2,145,914	1,127,132	130,830	97,111	10,794,722

(Currency-Thousands of YTL)

27 Risk management disclosures (continued)

As of 31 December 2004:

	Up to 1 month	1 to 3 Months	3 to 12 months	1 to 5 years	Over 5 years	Unidentified maturity	Total
Assets							
Cash and balances with Central Bank	778,632	26,364	7,741	157	74	-	812,968
Due from banks	225,410	1,390,611	79,597	17,906	-	-	1,713,524
Financial assets at fair value through profit or loss	23,799	3,012	54,861	237,609	31,624	92,312	443,217
Loans and advances to customers	96,254	1,269,764	1,191,150	696,994	75,802	411	3,330,375
Investment securities	8,418	19,016	492,235	855,516	232,089	134,566	1,741,840
Other assets	17,777	301	10,697	5,074	7,468	189,763	231,595
	1,150,290	2,709,068	1,836,281	1,813,256	347,057	417,052	8,273,004
Liabilities							
Deposits from banks	488,627	98,495	35,590	6,511	4,960	-	634,183
Deposits from customers	4,222,462	525,625	499,692	59,198	-	-	5,306,977
Funds borrowed	104,487	173,990	786,495	-	-	-	1,064,972
Other liabilities	328,260	448	12,967	3,171	-	6,716	351,562
	5,143,836	798,558	1,334,744	68,880	4,960	6,716	7,357,694

(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.

(Currency-Thousands of YTL)

27 Risk management disclosures (continued)

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

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

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

Interest rate gap analysis

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2005:

	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Non-interest bearing	Total
Monetary assets							
Cash and balances with Central Bank	555,310	-	-	-	-	452,436	1,007,746
Due from banks	2,158,522	151,673	27,289	3,056	-	89,944	2,430,484
Financial assets at fair value through profit or loss	76,491	59,844	17,532	50,403	14,649	92,830	311,749
Loans and advances to customers	3,095,888	1,454,726	822,411	667,363	194,486	-	6,234,874
Investment securities	1,013,525	280,638	55,448	66,293	108,215	129,086	1,653,205
	6,899,736	1,946,881	922,680	787,115	317,350	764,296	11,638,058
Monetary liabilities							
Deposits from banks	643,656	93,384	4,025	-	939	27,030	769,034
Deposits from customers	4,409,024	724,872	186,298	126,474	703	1,592,695	7,040,066
Funds borrowed	1,543,285	808,033	80,274	86,097	107,343	-	2,625,032
	6,595,965	1,626,289	270,597	212,571	108,985	1,619,725	10,434,132

(Currency-Thousands of YTL)

27 Risk management disclosures (continued)

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

	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Non-interest bearing	Total
Monetary assets							
Cash and balances with Central Bank	456,757	-	-	-	-	356,211	812,968
Due from banks	1,485,711	159,910	15,556	3,205	-	49,142	1,713,524
Financial assets at fair value through profit or loss	180,239	57,661	72,116	9,467	31,422	92,312	443,217
Loans and advances to customers	1,645,267	1,005,292	336,480	322,413	874	20,049	3,330,375
Investment securities	802,784	277,538	112,365	167,065	247,522	134,566	1,741,840
	4,570,758	1,500,401	536,517	502,150	279,818	652,280	8,041,924
Monetary liabilities							
Deposits from banks	571,423	17,057	5,458	2,110	-	38,135	634,183
Deposits from customers	3,498,077	627,933	65,443	52,852	148	1,062,524	5,306,977
Funds borrowed	285,478	779,494	-	-	-	-	1,064,972
	4,354,978	1,424,484	70,901	54,962	148	1,100,659	7,006,132

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 YTL.

(Currency-Thousands of YTL)

27 Risk management disclosures (continued)

As of 31 December 2005 the Bank's foreign currency assets and liabilities may be analyzed as follows (YTL equivalents):

	USD	EUR	JPY	Other Currencies	Total
Foreign currency denominated assets					
Cash and balances with Central Bank	504,041	93,015	136	9,561	606,753
Due from banks	1,557,971	571,935	392	40,934	2,171,232
Financial assets at fair value through profit or loss	23,501	10,972	-	75,672	110,145
Loans and advances to customers	2,591,045	922,352	-	12,857	3,526,254
Investment securities	358,373	341,642	-	-	700,015
Other assets	4,613	2,352	-	1,717	8,682
	5,039,544	1,942,268	528	140,741	7,123,081
Deposits from banks	170,584	82,370	145	2,018	255,117
Deposits from customers	2,463,880	1,835,046	3,495	54,668	4,357,089
Funds borrowed	2,231,899	176,773	-	571	2,409,243
Other liabilities	27,136	26,405	-	1,913	55,454
	4,893,499	2,120,594	3,640	59,170	7,076,903
Net on-balance sheet position	146,045	(178,326)	(3,112)	81,571	46,178
Net off-balance sheet position	(165,550)	152,217	14,336	(44,947)	(43,944)
Net (short) / long position	**(19,505)**	**(26,109)**	**11,224**	**36,624**	**2,234**

(Currency-Thousands of YTL)

27 Risk management disclosures (continued)

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

	USD	EUR	JPY	Other Currencies	Total
Foreign currency denominated assets					
Cash and balances with Central Bank	442,050	102,466	152	13,735	558,403
Due from banks	1,034,826	453,997	2,375	28,558	1,519,756
Financial assets at fair value through profit or loss	23,682	26,654	-	27,962	78,298
Loans and advances to customers	1,272,485	520,490	-	4,906	1,797,881
Investment securities	457,573	339,309	-	-	796,882
Other assets	14,269	34,320	-	1,739	50,328
	3,244,885	1,477,236	2,527	76,900	4,801,548
Foreign currency denominated liabilities					
Deposits from banks	135,785	106,154	12	3,527	245,478
Deposits from customers	2,286,365	1,292,755	2,707	39,170	3,620,997
Funds borrowed	986,937	25,531	-	3,574	1,016,042
Other liabilities	86,619	19,481	-	425	106,525
	3,495,706	1,443,921	2,719	46,696	4,989,042
Net on-balance sheet position	(250,821)	33,315	(192)	30,204	(187,494)
Net off-balance sheet position	168,156	(50,173)	-	5,694	123,677
Net (short) / long position	**(82,665)**	**(16,858)**	**(192)**	**35,898**	**(63,817)**

(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.

27 Risk management disclosures (continued)

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.

27 Risk management disclosures (continued)

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

For the year ended 31 December 2005, the corporate tax rate on income is 30%. As stated in "Preliminary Draft of Corporate Tax Law" announced by Ministry of Finance, it has been planned to reduce the corporate tax rate from 30% to 20% to be applied to the taxable periods beginning from 1 January 2006 when it becomes a law after being approved by the parliament and also by the president.

By the Board of Directors' resolution number 2006/2 dated 15 February 2006, Zorlu Holding A.Ş. has exclusively mandated JP Morgan regarding its subsidiary Denizbank A.Ş., in order to explore and evaluate various strategic alternatives including a possible partnership, cooperation, joint venture or equity offering.