

annual report 1998



new frontiers

Sailing full steam ahead to reach new frontiers in banking.

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With roots reaching back to the early days of modern Turkey, DenizBank is now exploring a new direction in banking. En route to creating an excellent bank, DenizBank has already reached new frontiers.

- On June 1, 1998, it became the first bank in the world to receive the ISO 9001 Quality Assurance Certificate in its first year of operations.
- Preparation for Y2K has been completed.
- It created a paperless office environment in the true sense through a LAN/WAN and Intranet set-up, each employee communicates and handles their work via their own workstations.
- In the early part of the year, DenizLeasing and DenizFactoring were set up in addition to DenizYatırım Securities, already in existence since late 1997, to provide all conceivable banking and financial services within a supermarket-style approach.
- It has designed an internal workflow based on the segregation of duties principle for maximum operational security.
- It has become one of the few banks in Turkey to prepare inflation adjusted financial statements and have them audited.
- It has become the first bank in Turkey to communicate with customers through SAP interface.
- It has become the first bank in Turkey to offer checks drawn on mutual fund shares.
- During 1998, it organized three in-house management trainee programs tailored to train its own recruits.
- It opened 28 branches within a time span of only a year and a half.
- It sponsored fine arts and education.

And, at year's end, it has become a bank with;

- 580 young, talented employees with an average age of 37 and 14 years of banking experience at the management level,
- a technology-based MIS system that outperforms all other existing banking software and produces the daily balance sheet covering minute details of branch operations. This software operates all internal and external reporting requirements automatically,
- 180 top-notch correspondents cover the globe wherever Turkish entrepreneurs may have business contacts,
- six mutual funds catering to the needs of a diverse investor base with respect to risk-return expectations and,
- 28 branches dealing with all major areas of economic activity throughout the country.





DenizBank in brief

DenizBank was established in 1938 as a state-owned bank to assist in the development of the long neglected Turkish maritime industry. After fulfilling its original mission soon after its establishment, DenizBank became a highly reputable name in the banking sector.

In its first year of operations, DenizBank followed a business strategy that capitalized on the unique strengths of its financially strong shareholder and on the capabilities of its team of experienced banking professionals.

The Bank is staying on course with regard to its targets. It increased its paid-in capital by US\$ 20 million as part of the shareholders' commitment to the Bank to increase capital by that total each year up to and including 2001.

DenizBank was established in 1938 as a state-owned bank to assist in the development of the long neglected Turkish maritime industry. After fulfilling its original mission soon after its establishment, DenizBank became a highly reputable name in the banking sector. In 1992, following the decision by the government to merge with Emlak Bank, another state-owned bank, DenizBank ceased operations. In 1997, the Bank was placed under the privatization program and sold to Zorlu Holding. When it was privatized, DenizBank

possessed no assets of significance with the exception of a few non-operational branch office buildings. Zorlu Holding saw this merely as an acquisition of a well-reputed name with a long involvement in domestic and international banking environments. In September 1997, with an opening balance sheet footing of TL 1 trillion (US\$ 5.9 million), made up of TL 510 billion (US\$ 3 million) worth of fixed assets and TL 490 billion (US\$ 2.9 million) worth of marketable securities, DenizBank set sail for new horizons in banking.



In its first year of operations, DenizBank followed a business strategy that capitalized on the unique strengths of its financially strong shareholder and on the capabilities of its team of experienced banking professionals. To this end, dealers, wholesalers and distributors of Zorlu Holding companies were selected as initial target markets and world-class corporate and retail banking services were provided to them. This strategy created a valuable synergy with long-established markets and opened the way for other business possibilities.



At the end of 1998, the assets of DenizBank stood at US\$ 361 million, representing a 250% increase over US\$ 103 million at the end of 1997. The networth at the end of 1998 was USD 49.5 million, representing a 100% increase over US\$ 22.3 million levels at the end of 1997.

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financial highlights

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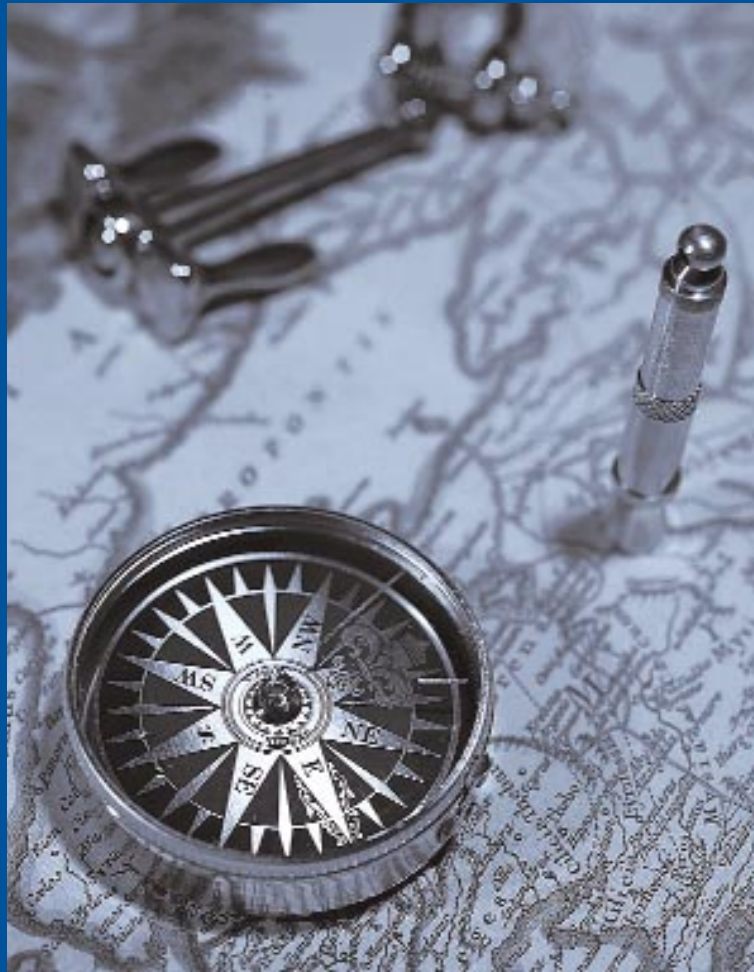
Financial Highlights

	1997		1998	
	TL billion	US\$ million	TL billion	US\$ million
Assets:				
Investment securities	6,661	32.4	29,001	92.3
Loans, net	5,139	25.0	31,809	101.2
Equity participation	77	0.4	327	1.0
Fixed assets, net	1,325	6.5	3,605	11.5
Total assets	21,094	103.0	113,482	361.1
Liabilities:				
Deposits	10,210	50.0	66,173	210.6
Funds borrowed from banks	5,602	27.3	26,898	85.6
Networth	4,661	22.7	15,553	49.5
L/Cs and L/Gs	5,252	26.0	44,733	142.3
Interest income	1,745	8.5	27,005	85.9
Interest expense	(204)	(0.9)	(6,867)	(21.8)
Net interest income	1,542	7.5	20,137	64.1
Income before taxation	661	3.2	4,944	15.7
Net income	573	2.8	3,560	11.3
Capital Adequacy Ratio	37%		20%	

Medium-Term Plans

(US\$ million)

	Realized 1998	Planned		
		1999	2000	2001
Total Assets	361	550	700	1,000
Capital Increase	20	20	20	20
Networth	50	75	104	137
ROE %	25	10.5	11.7	12.1



the Zorlu Holding

It has been 44 years since Zorlu Holding came into existence as a small retail outlet for home textiles. Over the years, it has developed from home-based production into 14 separate plants that make up the largest vertically integrated curtain manufacturing operation in the world.

With modern, computer-controlled manufacturing facilities and continuous production lines, the home-textile companies of Zorlu Holding account for a significant percentage of the world's curtain fabric production.

The Vestel Group had already been a major industrial player in Turkey since 1984 and after its acquisition by Zorlu Holding, it further strengthened its position in domestic and export markets.

It has been 44 years since Zorlu Holding came into existence as a small retail outlet for home textiles. Over the years, it has developed from home-based production into 14 separate plants that make up the largest vertically integrated curtain and cotton-based home textile goods manufacturing operation in the world. With modern, computer-controlled manufacturing facilities and continuous production lines, the home-textile companies of Zorlu Holding account for a significant percentage of the world's curtain fabric production.

Zorlu Holding has four core business lines grouped within separate divisions:

- Home textiles
- Consumer durables and electronics
- Energy production and distribution
- Financial services



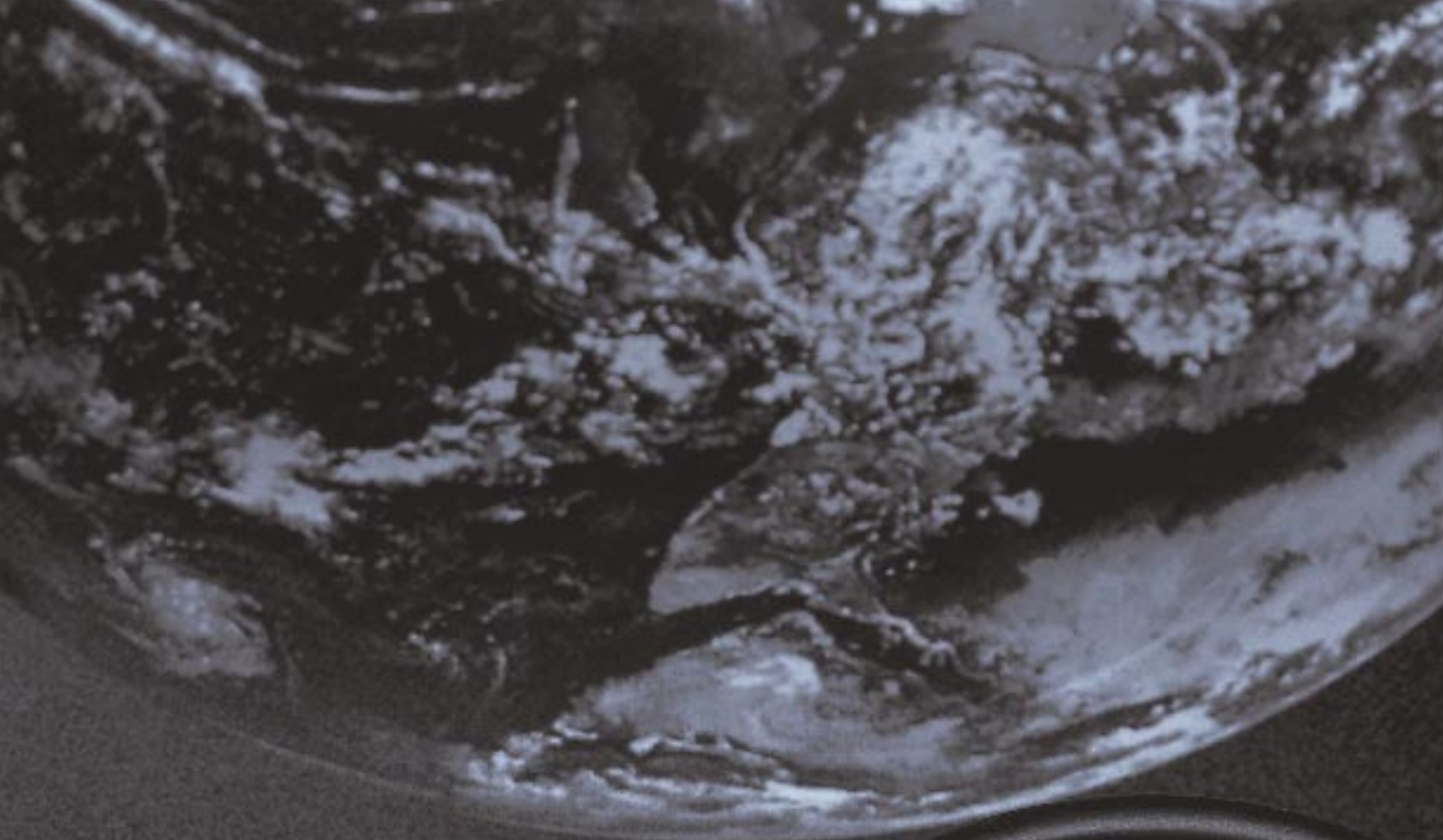
The Home Textiles Division is made up of five companies:

- Korteks Polyester with an annual production capacity of 147,000 tons of polyester textured yarn,
- Korteks Knitting with an annual production capacity of 190 million square meters of curtain fabrics,
- Zorlu Embroidery with an annual production capacity of 18 million square meters of embroidered fabrics and 14 million meters of guipure,
- Zorluteks with an annual production capacity of 120 million square meters of dyed and finished curtain fabrics,
- Zorlulinen with a daily production capacity of 500,000 square meters of bed linen, making it the largest integrated cotton-based producer in Europe and third in the world.



Zorlu Holding entered the electronics and consumer durables industry with the acquisition of Vestel and its group companies in 1994. The Vestel Group had already been a major industrial player in Turkey since 1984 and after its acquisition by Zorlu Holding, it further strengthened its position in domestic and export markets.

The Vestel Group is made up of five domestic and nine overseas companies in three major business categories; electronics, household appliances and information technology. Overseas companies are located mainly in EU countries including Germany, France, Spain, Italy, the Netherlands, and the USA with facilities in the Silicon Valley. Vestel Electronics is Turkey's first and largest television and personal computer manufacturer, ranking 3rd among the top 500 companies in the country with regard to total exports. Vestel Electronics is also a leading exporter of television sets to more than 40 countries around the world. The Company devotes special attention to research and development activities with Vestel television sets representing the highest state-of-the-art technology. It is the first electronics



manufacturer to produce 100Hz television sets and the first and so far the only producer of Internet-TVs in Turkey. It is worth mentioning that there are only three Internet TV set manufacturers in existence in the world today.

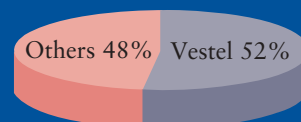
A new consumer durables plant is currently under construction in Manisa which will begin manufacturing refrigerators in 1999, under a licensing agreement with Sanyo of Japan. Total cost of this investment will reach US\$ 40 million upon completion.

Another major company in the Vestel Group is Vestelkom, the leading producer of television tuners, remote control devices and satellite receivers in Turkey. This Company has the largest component surface-mounted assembly operation in the country and ranks among the top four producers of chip-tuners in Europe.

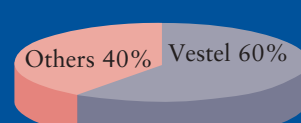
The Energy Group is composed of two electric power plants, in Bursa and Lüleburgaz, currently generating 50 megawatts of electricity in total. This output will increase to 150 megawatts in 1999 when on-going investments are completed. The value of these investments is US\$ 70 million and half of it has been financed by the US Eximbank. In addition to energy production, Zorlu Holding has also acquired energy distribution rights for part of the Aegean Region, which includes major cities like İzmir, Manisa, Denizli, Muğla and Aydın.

Other Zorlu Holding companies include: Zorlu Air, which provides air transportation for the executives of the organization; Zorlu Grand Hotel in Trabzon, the only luxury resort in the eastern Black Sea Region; and Zorlu Sigorta, an insurance broker acting as an agent of Anadolu Sigorta, one of the leading insurance companies in Turkey.

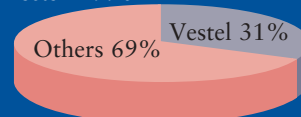
Total TV production - 1998



Total TV exports - 1998



Domestic market share for TV sets - 1998



Financial and Operational Highlights of Zorlu Holding

Total employment	13,000
Total covered production area	700,000 m2
Total foreign trade volume in 1998	US\$ 1.2 billion
Total exports in 1998	US\$ 570 million

Key Financial Figures

US\$ million

	1995	1996	1997	1998
Home Textiles Division				
Total assets	156	282	743	952
Net sales	111	138	224	320
Exports	35	43	87	100
Imports	62	73	75	200
Total foreign trade volume	97	116	162	300

Electronics and Consumer Durables Division

Total assets	164	365	440	550
Net sales	209	353	520	820
Exports	88	154	255	470
Imports	103	170	360	450
Total foreign trade volume	191	327	615	920

mission

It is the mission of DenizBank to ensure mutual satisfaction among the shareholders, employees and clients of the Bank while maintaining constant and continual interaction. In this framework, sustaining a high level of asset quality, productivity and profitability, the Bank intends to serve a large but select clientele, composed of corporate and individual customers, with a wide array of financial products utilizing a supermarket approach. DenizBank plans to position itself among the top five medium-size banks in Turkey by the year 2001 and to maintain that status for years to come.

collective wisdom

DenizBank is committed to the fulfillment of its mission by an ever-increasing level of service and product quality to continually meet the demanding requirements of its customers. Within all organizational levels in the Bank, "collective wisdom" is the method utilized to achieve these goals.

In this framework, DenizBank constantly reviews operational systems and enhances them before the need arises. The Bank also maintains a workforce capable of assuring high levels of service quality at all times.



DenizBank values

Each DenizBank employee conducts his or her daily duties in full compliance with the corporate values that form the basis of the banking culture at DenizBank.

Personnel at all levels, fully dedicated and highly motivated to accomplish the mission of the Bank, make up one harmonious body, which:

- in strict compliance, abides by general banking principles as well as by national and international rules and regulations,
- always offers products and services that satisfy the requirements of its customers,
- emphasizes his or her training and career development with the belief that the most valuable asset at DenizBank is its human resources,
- believes operational systems are the source of errors and shortcomings and tries to remedy this situation before such events occur,
- strives to be a leader in the banking industry for product and service development and closely follows all new progress,
- believes that sharing will increase information dissemination within the organization and emphasizes in-house communications,
- believes that anything that cannot be measured cannot be managed or improved, so all targets are quantified,
- makes fast decisions and implements them without wasting time,
- with an inquisitive approach, tries to improve even the most simple operation believing that there is always room for improvement,
- with a constant eye on operational details, always aims at enhancing productivity and doing things correctly the first time around,
- maintains the best possible working conditions and environments for all personnel as well as for customers.

All DenizBank employees commit themselves to maintaining the quality policies, procedures and corporate values of the Bank.



board of directors

ENVER GÜNEY
Member

Mr. Güney is currently the
Foreign Relations
Coordinator of Vestel
Group of Companies.

M. TINAZ TİTİZ
Member

Mr. Titiz is currently
the System and
Organization
Coordinator of Vestel
Group of Companies.

DR. METİN ÇAĞLAR
Chairman

Since 1995, Dr. Çağlar is
the Chief Executive Officer
and a Board Member of
Vestel Group of Companies
as well as Zorlu Holding.



HAKAN ATEŞ
*Member, President and
CEO*

Mr. Ateş is the President and Chief Executive officer of DenizBank since June 1997.

DR. VEYSİ SEViĖ
Member

Dr. SeviĖ currently lectures finance at Istanbul University and B.R.A. in Brussels.

CEM BODUR
Vice Chairman

Mr. Bodur is currently the Chief Financial Officer of Vestel Group of Companies as well as Zorlu Holding.



board of directors report

While this is only our second Annual Report, we are firmly convinced that if we hold true to course, we can expect similar good news in the future as well.

We have developed a strong corporate identity that rests on the corporate values of DenizBank. Additionally, our shareholder, Zorlu Holding, has been a dynamic and stable bulwark to build upon and has helped us as we proceed towards our target to become one of the leading medium-size banks in the country within a very short period of time. We have successfully transferred marketing information and know-how from the Holding, giving us an additional advantage in our fast leap into the marketplace.

With great pride and pleasure, we announce that last year's promise to create an 'excellent bank' has been actualized. We are certain that the strategies and decisions we pursued over the past two years have been the correct ones, as demonstrated by the solid footing on which we now stand.

We are, in some ways, very fortunate that when we first set out to build this Bank, we did so with a clean slate, without the burdens of the past. We did not inherit any of the adversities left behind from either the Gulf crisis or the 1994 economic crisis that affected Turkish industry and finance adversely. The highly motivated and experienced professionals within managerial levels of the Bank have been able to make swift decisions enabling us to move steadfastly ahead this past year. They were quick to start operations to build a state-of-the-art infrastructure with the latest technology not found in many of our peers in Turkey or abroad. In spite of our heavy involvement in technology, we have neglected neither the human touch in our business dealings nor our responsibilities as good corporate citizens.



With these strengths, we were able to surmount much of the crises in global markets. With the number of branches reaching 28 at the end of the year, we are capable of raising low cost funding. Throughout the year, credits were 35 to 40% of our total assets, which is an indication of our strong standing in the corporate and retail lending markets. A portfolio of 1,000 corporate clients, 7,000 actively used credit cards and 35,000 customer accounts represent only a few of the many examples of successful market penetration.

Zorlu Holding with 13,000 employees, representing the same number of potential customers, has been the focal point for DenizBank's retail products. At the same time, we have targeted the suppliers and distributors of the Holding and have been able to cross sell our products. The Vestel Group has benefited from two campaigns we organized to sell their quality products with the help of DenizBank consumer loans. Soon to hit the market will be the Vestel Card, a co-branded credit card that will entitle the holder to discounts for Vestel products.



As the volatility in the financial markets heightened parallel to the crisis conditions, DenizBank was able to successfully decrease the balance sheet size in a short period of time, placing much emphasis on liquidity and asset quality. For this reason, the size of the balance sheet was intentionally kept at the US\$ 361 million level at the end of the year, in spite of the previously anticipated level of US\$ 498 million. The share of loans in total assets was 28%, whereas the volume of liquid assets increased to 61%, demonstrating a mobile and sound portfolio. At this point, we are proud to state that capital adequacy and return on equity ratios were realized at 20% and 25% in real terms, respectively, evidencing the strong financial position of the Bank.

Our interest in supporting the cultural activities of Turkey have led us to sponsor the 200-seat Afife Jale Theater in Istanbul, which opened at the end of March 1998. This theater honors the memory of the 'first lady' of the Turkish stage. During the past year, we sponsored an Awards Ceremony for theater artists, an international chorus competition and the publication of a highly praised new textbook for schools that was distributed nationally to all primary schools and libraries.

We wish to extend our gratitude to our shareholders for the support they have given us, to our correspondents and customers for their trust and last but certainly not least, to our employees for all the dedication and long hours they have given to build a bank of excellent standing. For without all of these, our goals and objectives would not have been realized.

Hakan Ateş
President and CEO

Dr. Metin Çağlar
Chairman



review of operations

The credit portfolio of the Bank focuses on financially sound small- and medium-size companies without concentrating specifically on particular industries.

The benefits drawn from targeting this segment of the corporate market and offering a full range of banking services under a supermarket approach were soon obtained with higher margins, diversified risks and access to low cost funding.

Corporate Banking

Credit allocation decisions at DenizBank rest on rather prudent and selective policies. As a newcomer to the corporate lending market, DenizBank chose to develop a synergistic relationship with Zorlu Holding companies with regard to building the customer portfolio. The presence of Zorlu Holding's strong network of dealers, wholesalers and distributors provided an easy access to the marketplace without compromising on price and service quality.

This financially sound distribution network composed of 3,500 dealers and 700 wholesalers have had long relationships with Zorlu Holding companies and have created a large, diversified database of potential customers for DenizBank.

The benefits drawn from targeting this segment of the corporate market and offering a full range of banking services under a supermarket approach were soon obtained with higher margins, diversified risks and access to low cost funding. Because of the availability of ample credit information about these companies accumulated through long standing relationships, DenizBank faced virtually no bad debts on its commercial credits even though, due to the general slowdown in economic activity, the ratio of bad debts increased in the banking industry during 1998.

The credit portfolio of the Bank focuses on financially sound small- and medium-size companies without concentrating specifically on particular industries. To this end, close relationships have been maintained with suppliers and distribution networks of Zorlu Holding, again largely made up of small and medium-size companies and other similar companies with good growth potential. This helped establish sound relationships that will later create long-lasting and mutually beneficial associations as they grow and will create a loyal corporate customer base for the Bank.



Composition of loans by business sectors: (TL billion)

Sectors	1997	%	1998	%
Textiles	326	7	10,495	37
Manufacturing	1,891	38	7,128	25
Construction	465	9	4,875	17
Domestic trade	1,675	34	1,940	7
Others	574	12	4,245	14
Total loans	4,931	100	28,682	100

The Credits Department has completed development of a comprehensive company database, which utilizes sophisticated computer software. All credit evaluation reports are prepared on computer with related documentation scanned and stored for future use. This computerization at all levels of the credit decision process also provides hands-on data input for the company database. Currently, credit allocation and monitoring functions are kept in one department for the sake of simplicity although different credit officers are designated for the two functions.



Throughout 1998, DenizBank has emphasized the development of its retail banking products with new projects based on intensive investments in technology.

DenizBank chose to invest in technology that would lead to expansion rather than in a costly widespread branch network. At the end of 1998, the number of branches totaled 28.

A comprehensive process is followed to assess history, morality, financial position and credibility of companies applying to DenizBank for credit lines. A credit scoring model has been developed to assist in granting new credit limits as well as monitoring the existing ones. This model also enables the follow-up of the customers' other transactions with the Bank. Customer profitability is regularly reported to higher levels of management through an elaborate reporting system. The corporate customer portfolio, benefiting from DenizBank's cash management products as well as its credit lines, has reached about 1,000 customers from diverse industries. The share of small to medium size companies in the portfolio is about 30%.

Retail Banking

Throughout 1998, DenizBank has emphasized the development of its retail banking products with new projects based on intensive investments in technology. In addition to its own strengths, the synergy that has been created between DenizBank and Zorlu Holding companies helped the Bank to expand its customer base. The relationship established between the Bank and the suppliers and distributors of Zorlu Holding were not confined to corporate banking products alone but were enlarged to encompass their partners and managers with a wide array of technologically-advanced retail banking products and services. These include various types of consumer, car, mortgage and small business loans, credit cards, overdraft facilities, mutual funds, repos, checking accounts and deposit services, all with simplified and customer-friendly procedures taking less than a couple of minutes and only one signature of the customer.



DenizBank chose to invest in technology that would lead to expansion rather than in a costly widespread branch network. At the end of 1998, the number of branches totaled 28. This number will increase to 50 by the end of 2001. To increase efficiency, ten of these branches are devoted to retail operations only and 18 are full-service branches. With this number of branches, DenizBank takes its place among the medium-size banks in Turkey.

Consumer Loans

DenizBank offers various types of consumer, car, mortgage and small business loans as well as overdraft facilities.

During the year, a successful nationwide campaign to sell Vestel's Asteo PCs through consumer loans from DenizBank was undertaken jointly with Vestel Electronics. The campaign lasted four months during which time 2,068 PCs were sold generating additional sales revenue of US\$ 2,500,356 for Vestel and gaining 2,068 new customers for DenizBank.

Consumer loans

(TL billion)

	1998
Vestel loans	795
House loans	430
Car Loans	1,788
General Purpose Loans	1,104
Overdraft Facilities	182
Small Business Loans	520
Total	4,819

Deposits

DenizBank offers all types of deposit accounts to its corporate and retail customers in many convertible currencies including the euro. DenizBank also offers automatic payment and collection services that include social security insurance premiums, utility bills and standing instructions.

Wage payments are one of the major products of DenizBank; a powerful tool to acquire new customers yielding cross-selling benefits for the Bank. Through wage payment agreements made with corporate customers, DenizBank has so far acquired 10,000 additional customers.

Internet Banking

An Internet-banking package has been prepared and will be ready for distribution in the first quarter of 1999. Through this distribution channel, not only the existing customers will enjoy the comfort of accessing their accounts seamlessly, but prospective customers will have the chance to open their first accounts at DenizBank via Internet without the need to visit a branch office. Both the web site and Internet banking software have been prepared in collaboration with Vestel and will enable customers to use a regular television equipped with a special Internet peripheral device to connect directly to their DenizBank accounts. They will then be able to conduct all primary non-cash banking transactions on their accounts remotely.

Deposits

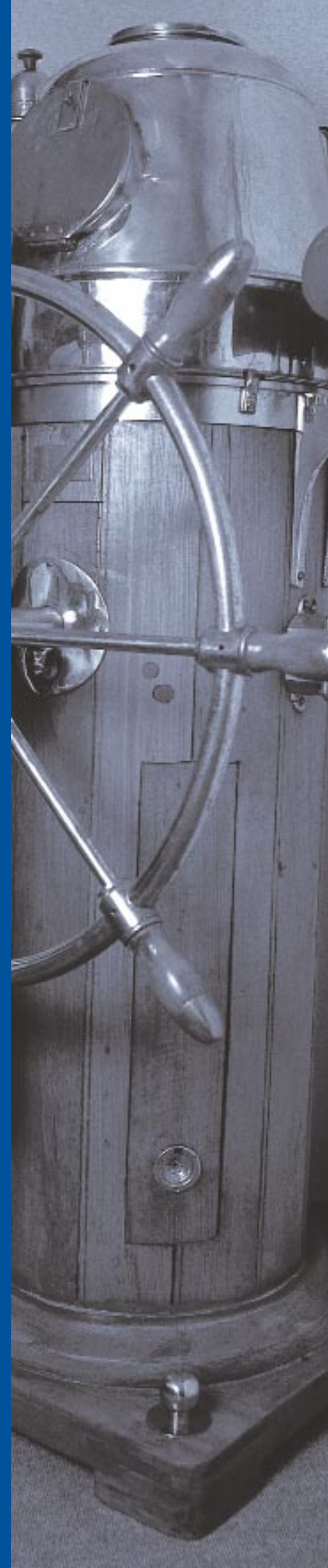
(TL billion)

	1997		1998	
	Demand	Time	Demand	Time
Savings and commercial deposits	2,072	2,061	4,444	1,817
Foreign currency deposits	1,104	4,804	6,723	52,490
Interbank deposits	170	-	700	-
Total deposits	3,345	6,865	11,867	54,307
Turkish lira deposits	2,241	2,061	4,444	1,817
Foreign currency deposits	1,104	4,804	6,723	52,490

Credit and Debit Cards

At the end of 1997, the Bank became an affiliate member of Europay as an issuer bank and a member of BKM-Interbank Card Processing Center. Further to this, an agreement was signed in December with AKK-Anadolu Credit Card Company for the processing of the Bank's credit cards. The debit card complies with Europay-Maestro standards and is operational internationally. A Vestel co-branded card is on the way as part of the cooperation carried out with Europay.

At the end of 1998, 31 ATMs are in operation at DenizBank branches and at off-site locations. An ATM Sharing Agreement (Common Point)



DenizBank with its own strength has built a well-trusted image through its performance in the international arena. In its effort to become an internationally recognized institution, DenizBank has benefited much from the already strong presence of its shareholder, Zorlu Holding, within international markets.

At the end of its first year of operations, DenizBank established 180 correspondent relationships globally where Turkish entrepreneurs were conducting business.

has been signed with 20 banks that share their ATM networks with other banks. In addition, another agreement has been made with a local bank to give DenizBank customers access to over 800 ATMs nationwide.

All targets with regard to DenizBank MasterCard were realized in the first six months of its introduction in the marketplace. The success attained so far has demonstrated that the card processing business should be carried out as an in-house running business. Foundations for an agreement with a vendor to handle the in-house card processing operations in the second half of 1999 have already been laid. With the synergy that has been created with Zorlu Holding companies and nearly 3,500 Vestel dealers and approximately 500 Taç distributors as potential acquiring merchants, DenizBank is destined to succeed in the acquiring business as well.



DenizBank's credit and debit cards

	1998	1999 Budget
Number of credit cards issued	6,613	40,000
Number of debit cards issued	10,396	55,000
Average spending per credit cardholder (US\$)	720	325



Financial Institutions

It has been a year when the result of intensive introduction and marketing efforts, which began in the last quarter of 1997, started to payoff. DenizBank with its own strength has built a well-trusted image through its performance in the international arena. In its effort to become an internationally recognized institution, DenizBank has benefited much from the already strong presence of its shareholder, Zorlu Holding, within international markets.

At the end of its first year of operations, DenizBank established 180 correspondent relationships globally where Turkish entrepreneurs were conducting business. The foreign trade volume that was a mere US\$ 95 million last year, amounted to US\$ 800 million in 1998. Lines were obtained from leading international credit institutions in the form of pre- and post-financing, which were allotted to customers as alternative sources of trade finance. Limits under GSM 102-103 credits allocated to DenizBank by the Ministry of Agriculture in the USA have been fully utilized and additional limits have been obtained.

Work is underway to have DenizBank rated by an internationally recognized rating institution. A positive rating will confirm the strong position of DenizBank in the international banking community.

During the year, numerous correspondent visits were made to banks in France, Belgium, England, the USA, Israel, Germany, the Netherlands and Switzerland; countries that are Turkey's foremost trading partners. Correspondents were continuously updated with the audited interim financials of DenizBank and warm relationships were maintained at a special New Year's dinner that was organized for correspondent bankers in Istanbul in late December.

A set of policies was determined to confront the euro that will be in circulation from day one in the coming year. A questionnaire has been distributed to correspondents to evaluate the level of compliance they have achieved so far in the face of the "Y2K" problem that is approaching rapidly.

Paralleling the increases in the number of corporate customers and the expansion of the branch network, the Financial Institutions Department will broaden its services to meet the requirements of its international customers. To this end, both the range and the magnitude of worldwide relationships will be augmented. In pursuant with this goal, the volume of cash and non-cash banking limits will be widened developing a diverse range of services and international financial products.



Treasury

Under certain guidelines set forth by the Board of Directors, the Treasury Department is responsible to manage mainly liquidity and market risks. Operations of the Department involve other types of risks that are managed according to specific measures.

Liquidity Risk

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of DenizBank's financial

commitments while capitalizing on opportunities for expansion. Liquidity management is designed to ensure that the Bank is able at all times to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to fund new loans and investments as opportunities arise.



Customer accounts are the primary source of liquidity for banking operations at Denizbank. Borrowing from international financial institutions is an additional source of funds, which at the same time helps to improve the average maturity of DenizBank's funding base. Occasionally, funding in the domestic interbank market is also utilized for short periods of time, to bridge certain cash flows.

Liquidity of the Bank is maintained by holding liquid assets in the form of short-term bank placements and a portfolio of marketable securities including mainly Turkish government bills and bonds. The very nature of customer deposits in Turkey being relatively short-term, on the average three months of maturity, necessitates the Bank to hold 50% of its assets as liquid assets. Rising

concerns about a global economic crisis led DenizBank to increase this ratio to 60% in the second half of 1998.

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DenizBank uses the value-at-risk (VAR) method as its primary mechanism for the management and daily monitoring of trading-related market risks. The positions captured by DenizBank's VAR calculations include both derivative and cash positions.



Market Risk

Market risk is the uncertainty concerning the extent to which changes in the financial markets in which the Bank operates may affect its financial position and future earnings.

DenizBank uses the value-at-risk (VAR) method as its primary mechanism for the management and daily monitoring of trading-related market risks. The VAR is an estimate, with a confidence level of 99%, of the loss that could arise from adverse market movements if trading positions are held unchanged during a trading day. On the basis of historical data, the measurement is calibrated so that a loss exceeding the VAR figure may on average only occur once every 100 days. The positions captured by DenizBank's VAR calculations include both derivative and cash positions.

Interest Rate Risk

One of the objectives of asset and liability management is to manage and control the sensitivity of the Bank's net interest revenue to changes in market interest rates. The Asset and Liability Committee seeks to ensure that the risk of earnings being affected by adverse interest rate movements is kept within specified limits determined by the Board of Directors.

A number of measures are used to monitor and measure the interest rate risk. These methods include interest rate gap analysis and scenario analysis. Sensitivity tests are applied to estimate the impact of market rate movements on net interest revenue.

The sensitivity of net interest revenue to market circumstances, and interest rate conditions in particular, has been tested on the basis of an increase and decline of 500 basis points in Turkish lira interest rates, with the movement for all points of the yield curve evenly spread over the year. A 500 basis point change in Turkish lira interest rates would change net interest revenue by only 0.1%, as of the end of 1998.

Currency Risk

DenizBank is an active participant in local foreign exchange markets. The major foreign currencies in which the Bank conducts transactions are US dollars and German marks. The difference between foreign currency assets and liabilities constitute only 1.2% of the total balance sheet size as of the end of 1998.

Exposure to exchange rate movements in trading portfolios is included in the VAR analysis. Exchange rate risks from branch activities are also included in the Treasury's book, as the branches of the Bank are required to inform the Treasury immediately of all transactions that involve currency risks. Any short or long position is monitored to ensure compliance with the limits established by the Asset and Liability Committee.

Credit Risk

Credit risk encompasses all forms of counterparty exposure (i.e., where counterparties may default on their obligations to the Bank in relation to lending, trading, hedging, settlement and other financial activities). The Credit Committee of the Bank, in its policy-making capacity is responsible for laying down credit policies and mechanisms. The Committee, in its approving capacity, authorizes counterparty exposures subject to limits set by the Board of Directors.



All quality system documentation is kept in the electronic environment, Intranet, supporting the paperless office approach.

As the year 2000 rapidly approaches, it is a requirement for the Bank and all parties related to it, whether supplier or customer, to be "Y2K" compliant. For this purpose, a special team has been designated from different units in the Bank to examine all possible scenarios and make tests accordingly.

Operations

Right at the start of operations, in the second half of last year, DenizBank wanted to create for itself a competitive edge by heavily investing in state-of-the-art technology to create a paperless office environment in the true sense of the word. To this extent, each employee of the Bank has become a member of the LAN-WAN environment and receives daily, weekly and monthly reports downloaded into their PCs with the option of printing if necessary.

The banking system has been clustered and a remote disaster recovery center has been established. From the branch offices communication is conducted on a 64-KB fiber-optic line and on a 128-KB line within the units at the Head Office. This setting increases the data transfer speed tremendously allowing remote branches to conduct business as fast as it is normally conducted at the Head Office.

As a major accomplishment, on June 1, 1998, DenizBank became the first bank in the world to have received the ISO 9001 Quality Assurance Certificate in its first year of operations. AOQC Moody International, UK, has granted this certificate after a thorough examination of the internal systems and procedures of the Bank to assure quality at all levels and in all banking activities. All quality system documentation is kept in the electronic environment, Intranet, supporting the paperless office approach.

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Operations at DenizBank are centralized at the Head Office, where necessary, strengthening procedures and expediting processes with optimum efficiency. With this approach, all customers benefit from the excellent services provided by the experienced personnel at the Head Office while the Bank is able to economize on operational costs and speed up routine transactions. As a striking example of this approach, two campaigns aimed at promoting the sale of Vestel products to about 5,000 consumers were successfully organized. The heavy workload of these campaigns was undertaken by the Central Operations Department at the Head Office.



During 1998, the Information Technology Department concentrated on developing its Internet Banking Program, which will promote consumer-oriented services at the Bank. The Internet branch of DenizBank will open in the first quarter of 1999.

Financial Affairs

Throughout 1998, financial reporting and financial control systems continued to be upgraded to meet the increasing information needs of a growing bank. Automation of MIS and reporting systems were completed and the quality and scope of the reports, both internal and external, have been enhanced. Reports relating to performance evaluation of major activity lines and profit centers were developed. For this purpose, all procedures and their related costs were defined and measured and their standards established. In 1999, a similar study will be conducted on marketing activities in which marketing times and associated costs will be calculated for evaluation purposes.

Other completed projects under the MIS system include: a sophisticated risk management system, financial performance evaluation system for the branches, internal pricing system, a system for analyzing budget variances and a product profitability assessment system.

Reports which assist the top management in monitoring the financial position of the Bank in detail are produced daily or, when necessary, more often. The Financial Control Department ensures that budgeted targets are met and that any discrepancies are reported on an exceptional reporting basis. A pioneering concept has been developed in MIS reporting where every operational unit within a profit center has access to the reports of other units. It is believed that this will increase competitiveness within the organization and units will be able to benefit from the experiences of others.

Many control functions have been built into the banking software so that neither erroneously nor intentionally will transactions be executed that will create risks for the Bank, distort the true financials or deteriorate the balance sheet quality. The Financial Control Department conducts regular audits to ensure that all banking operations are carried out in a problem-free environment with minimal human interference.

Internal Audit and Control Unit

Throughout the year, the audits of 23 branches were completed covering all aspects of commercial banking. The Internal Audit and Control Unit continued to monitor and control all banking activities with emphasis on treasury transactions, reported to the top management on exceptional cases and advised the necessary action when required.



In the beginning, DenizBank hired experienced bankers from other banks. Although at the time this was the correct strategy to follow, DenizBank has no intention of maintaining this as a long-term policy. Through a series of training programs within the organization, DenizBank started to develop its own human resources.

Broad media coverage was used to promote the new corporate identity of the Bank with visibility being enhanced through the use of new design elements on the facade of branch offices.

Human Resources and Training

Currently, DenizBank employs a staff of 580 personnel with an average age of 30 years. Although the Bank possesses a relatively young team of banking professionals, banking experience averages approximately 14 years at the managerial level.

Management levels are well organized with career opportunities clearly set between levels. The wage system is linked to an open performance appraisal system, which boosts both self-esteem and motivation within the Bank.

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Advertising and Public Relations

The advertising and publicity campaign to revitalize the DenizBank name was implemented as planned throughout 1998. Broad media coverage was used to promote the new corporate identity of the Bank with visibility being enhanced through the use of new design elements on the facade of branch offices. Conscientious management of the new identity system helped attain strong recognition in the marketplace.



contribution to arts and education

As part of its duties as a responsible corporate citizen, DenizBank has sponsored the "Afife Jale Sahnesi," a 200-seat theater. Named after Afife Jale (1902-1941) a motivated young woman, who, despite opposition and restrictions, became the first Muslim actress in the Turkish Theater in 1918. DenizBank has also sponsored the Annual Awards Ceremony of Theater artists.

In an effort to promote opera artists and create a broad-based interest in opera, DenizBank, in collaboration with TOBAV (State Theater, Opera and Ballet Employees Foundation), has hosted the Achievement Awards Ceremony for Opera and Ballet on February 24, 1998.

DenizBank has sponsored the Second Ankara Chorus Festival and Contest organized by Ankara Multi-Vocal Music Association on November 4 - 8, 1998. The award presentation ceremony was held in the presence of the President of Turkey who personally handed-out the awards.

DenizBank has contributed to five concerts by the Hacettepe University's State Conservatory Symphony Orchestra that were held in Belgium, Holland and Luxembourg between January 16 - January 23, 1998.

As part of the 75th anniversary celebration of the Turkish Republic, DenizBank sponsored a textbook entitled "Uygulamalı Türkçe Eğitimi" (Applied Turkish Language Education) which has been distributed to all primary schools and major libraries around the country. Scholars have assessed this book as the most comprehensive educational book ever published in the Turkish language.



SUBSIDIARIES

To achieve integration in financial services, DenizBank has invested in both a factoring and a leasing company during 1998. This is in addition to an investment and brokerage house, which was established in September of the previous year. All of these financial institutions function under the unifying umbrella of DenizBank with similar operational philosophies. As part of cost saving strategies, both DenizLeasing and DenizFactoring are managed by the same management team until the time when these companies achieve larger volumes. When this is achieved, it is envisaged that two separate managing bodies will be formed.

DenizYatırım Securities

DenizYatırım Securities was established in late 1997 with the objective of becoming a leading player in the domestic asset management market. From the very start, DenizYatırım took ethical business conduct as a tool to set itself apart from the crowd. Complying with DenizBank's quality policies, DenizYatırım operates according to written procedures and will apply for ISO certification in due course.

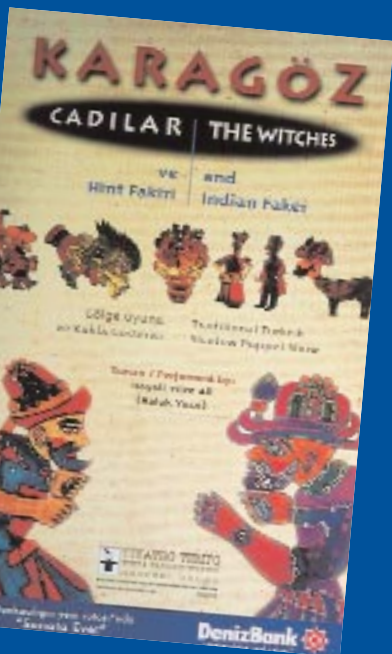
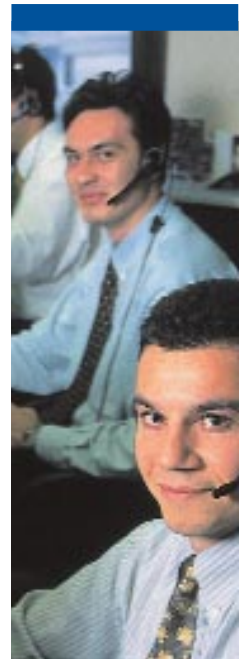
DenizYatırım and DenizBank strive to maximize the synergy with joint efforts. DenizYatırım is located within the Bank's headquarters, and all branches are DenizYatırım agents. Furthermore, the Bank has built equity trading rooms in 11 out of 28 branches for individual investors.

DenizYatırım's Internet web site, currently under development, will be launched in the first quarter of 1999, first for information purposes then for conducting brokerage transactions.

DenizYatırım believes the main opportunity lies in the untapped Turkish asset management market. Currently, DenizYatırım manages five mutual funds that cater to the requirements of a diverse group of investors with different risk expectations. The introduction of checks drawn on mutual fund shares, in late 1998, was an indication of the innovative approach DenizYatırım is following to reach the top ranks of its sector. Discretionary portfolio management was also launched in mid-1998 for strategies exactly tailored to investors' risk-return profiles. In the future, DenizYatırım plans to organize the asset management business as a separate entity with the partnership of a leading international company.

The backbone of any investment banking and securities firm, the Research Department, was established in early 1998 and started publishing a set of comprehensive reports and bulletins both in English and Turkish. The Department recommends short- and long-term equity portfolios revised weekly and monthly and has outperformed the ISE-100 Index with double digits in 1998. This performance is naturally reflected in the returns achieved by the mutual funds under management.

Domestic brokerage services started in early 1998. After completing the necessary licenses and permissions, the first transaction was handled on June 1, 1998 and continued with a rapidly increasing market share. At





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Both DenizLeasing and DenizFactoring are currently managed by the same management teams. Since both companies started to operate in a stagnant economic environment, prudent policies are followed. In spite of the expectations that uncertainties will continue into 1999, both companies will grow cautiously thanks to their dynamic and experienced management staff and a solid customer base.

the end of the year, DenizYatırım ranked halfway among all Istanbul brokers, a success with an operating history of merely six months.

The Corporate Finance Department was launched in early 1998 with the purpose of undertaking quality deals with little importance placed on market share. The Department has the distinct advantage of belonging to an industrial group that is both developing its presence in its existing businesses and expanding into new industries. In 1998, DenizYatırım advised mainly Zorlu Holding and DenizBank on a series of financing and acquisition deals. It did not participate in any IPO syndication during the year due to the shrinkage of the IPO market in the midst of economic stagnation.

DenizYatırım wants to build a balanced portfolio in terms of domestic and international reach. Unfortunately, the bleak outlook for emerging markets in 1998 in the shadow of the Asian and Russian crises combined with national elections pending in 1999 led foreign investors to flee the Istanbul market, especially in the second half of the year. Due to these reasons an ICM department was not opened. Following the successful launch of the Research Department, the ICM Department is scheduled to start operations in the first half of next year.

DenizLeasing

DenizLeasing was established in December 1997 with a start-up capital of TL 75 billion and became operational in July 1998. DenizLeasing has already completed the selection of its staff from among the best candidates in the Turkish leasing sector and formed its management team. It has become a member of the Turkish Leasing Association and targeting Total Quality management principles, DenizLeasing has started the preparations to apply for the ISO certification. It expects to receive the ISO 9002 Quality Assurance Certificate in the first half of 1999. Due to the negative circumstances affecting the economy in general, DenizLeasing made a cautious start and limited its portfolio to TL 900 billion at the end of the year.

DenizFactoring

DenizFactoring was established in July 1998 with a start-up capital of TL 200 billion and became operational in September the same year. When international business starts next year, application will be made to become a member of an international factoring chain. With domestic and international factoring transactions, DenizFactoring complements the short-term trade financing credits of DenizBank. At the end of 1998, the Company reached a total factoring turnover of TL 1,161 billion with an outstanding factoring receivables figure of TL 577 billion.

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executive management

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HAKAN ATEŞ
President and CEO

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NECMETTİN KAVUŞTURAN
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